

Statement of accounts 2019/20



SOUTH
KESTEVEN
DISTRICT
COUNCIL

C O N T E N T S

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Narrative Report

Introduction

The Statement of Accounts for the year ended 31 March 2020 has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Statement of Accounts provides information to enable members of the public, Councillors, partners, stakeholders and other interested parties to:

- Understand the financial position and outturn for 2019/20
- Have confidence that public money has been accounted for in an appropriate manner
- Be assured that the financial position of the Council is sound and secure

The Narrative report provides information about the district, including issues and challenges affecting the Council and its accounts, 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 of our residents, businesses and visitors.

An Introduction to South Kesteven District Council

South Kesteven is a largely rural district located in the south-west corner of Lincolnshire incorporating the four distinctive market towns of Grantham, Stamford, Bourne and The Deepings and over 80 rural villages covering over 365 square miles of stunning countryside.

The district has excellent transport infrastructure as the road network provides multiple access points to the A1 and residents can board the East Coast mainline trains which provide quick access to London which is only an hour away.

Information about the Council

Political Structure

During the financial year of reporting the Council had 30 Wards represented by 56 Members. The political composition of the Council was as follows: there were 40 Conservatives, 12 Independents (including 2 Liberal Democrats who aligned with the Independent Group), 3 Labour, and 1 Unaligned. During the year, one Member left the Conservative Group and became unaligned.

The Council operates with a Cabinet structure, four Overview and Scrutiny Committees and a Governance and Audit Committee responsible for corporate governance and approval of the Statement of Accounts. There is also an Alcohol, Entertainment and Late Night Refreshment Licensing Committee, Constitution Committee, Employment Committee, Licensing Committee, Planning Committee and a Companies Committee.

The Cabinet is chaired by the Leader of the Council with each member of the Cabinet being allocated a portfolio, or area of the Council's business, through the Leader's Scheme of Delegation. The Cabinet has executive decision making powers and meets on a monthly basis.

In line with legislation and the Constitution, a number of areas of decision making are the responsibility of the Cabinet and senior officers, with Council retaining ultimate responsibility for the Policy and Budgetary Framework of the Council.

Services Provided by the Council

SKDC is an increasingly outward looking Council that is keen to engage and partner with external organisations. It provides a range of services to the population of approximately 140,200 residents which includes:

- Collecting waste and recycling
- Collecting Council tax and business rates
- Administering housing benefit and council tax support claims
- Landlord services for approximately 6,078 social rented properties which includes the provision of a repairs and maintenance service for all the Council properties
- Providing homelessness support
- Approving Planning and Building Control applications
- Managing car parks and public toilets
- Compiling and maintaining the electoral register and administering elections

The Council also provides a number of services which support these operational functions including Customer Services, Human Resources, Financial Services, Legal Services, Democratic Services and Communications.

THE COUNCIL'S PRIORITIES AND OUTCOMES

Financial Environment

Financial planning remains challenging with continued uncertainty surrounding future funding arrangements. Government has confirmed the long-awaited Fair Funding review and Business Rates review has been postponed until April 2022 although the financial framework for the financial year 2021/22 is uncertain at the present time. The current budget framework that was approved by Council on 2 March 2020 set out a three year position and showed funding challenges. However with the postponement of the national funding review, the extent and timing of funding challenges are unclear. However notwithstanding the national review, it is clear that there will be a Covid-19 ongoing impact in terms of income recovery, recession impact and the ongoing challenges with income collection from our residents and businesses.

Governance and Risk

In accordance with the Local Code of Corporate Governance and best practice, the Council's Annual Governance Statement (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 AGS explains how the Council has complied with the Local Code of Corporate Governance, the core governance principles and builds on the work of previous years.

The Council commissioned a corporate governance review during the summer of 2019 in order to provide a thorough independent assessment. This review was undertaken by an external consultant who possessed a strong professional background in local government. The review findings and associated action plan is a key deliverable of the emerging Corporate Plan and will provide the Council with improved governance, transparency and decision making procedures.

The Council has an effective risk and performance management framework which is embedded across all areas of business activity. Risk registers are maintained at a corporate and service area level. Corporate risks are reported to the Corporate Management Team and to the Governance and Audit Committee biannually. We have focussed performance management arrangements which enables effective monitoring, control and reporting across

the programmes of activity and also supports managers and leading officers with training and project management tools, techniques and performance management advice. 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 have regard to issues important to local people.

The Council's internal auditors completed a review of Corporate Governance during the year and concluded that "the organisation has an adequate and effective framework for risk management, governance and internal control". However, enhancements are being introduced to further improve and strengthen governance and the Council's overall control framework.

Key Outcomes for 2019/20

Growth

- Securing 900k of Heritage Action Zone Funding.
- Securing Single Local Growth Funding for the Grantham Southern Relief Road
- Delivery of the Georgian Festival that was held in Stamford.
- Completion of multiplex cinema and retail units in Grantham Ton Centre in order to stimulate the night time economy.

Housing

- Began our programme of building high quality new homes of different tenures, including the completion of a housing development at Wherrys Lane Bourne and modular housing in Grantham.
- Adoption of new local plan.
- Worked with Ministry of Housing, Communities and Local Government to develop best practice in supporting private tenants and Council house repairs reporting model.

Communities

- Establishment of the SK Community Hub, supporting over 2200 people in the COVID response.
- Established LotterySK, with £85k funding being directed into our local communities, supported 109 local groups to register providing a funding benefit from ticket sales of £70k and £64k awarded in prize money.
- Financial awards made through the SK Community Fund have levered a further £2.6m of funding for voluntary and community groups across South Kesteven equating to a 756% return on the Council's investment in these projects.

Environment

- Declaration of Climate Emergency, with the establishment and publication of the Council's carbon footprint for the first time and creation of an action plan to improve
- Continuation of improved street standards following the success of the of the Big Clean initiative.
- Queen Elizabeth Park project to refurbish the site completed during 2019 and Management Plan developed to support application for Green Flag status during 2021.

Other Key Corporate Performance Measures

- The amounts collected from Council Tax 98.56% (2018/19 98.77%), Non-Domestic Rates 99.15% (2018/19 99.18%) and Housing Rent 97.31% (2018/19 96.78%) during the year remained at a high level.
- With the processing of planning applications, performance has of the number of applications approved has remained consistent in 2019/20 with 93% (2018/19 94%) of applications being approved.

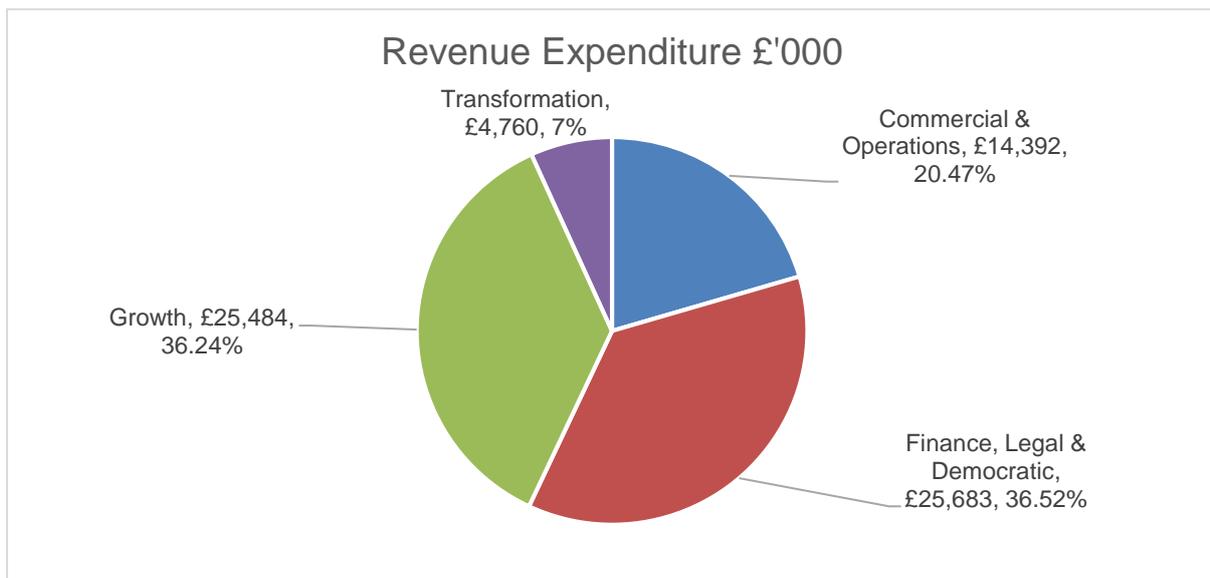
- During the year, occupancy rates for retail premises continued achieving 98% against a target of 90% and this trend is expected to continue going forward. However, the position in Grantham remains challenging.
- House build performance has exceeded the Local Plan as 729 dwellings have been completed against a target of 650 dwellings.
- The number of complaints has reduced by 18% from 578 in 2018/19 to 472 in 2019/20
- Levels of recycling have improved across the district, 40.8% compared with 37% in 2018/19, but we are working with our Lincolnshire Waste Partnership authorities to improve this position. A countywide campaign seeks to reduce the proportion of non-recyclable materials collected.

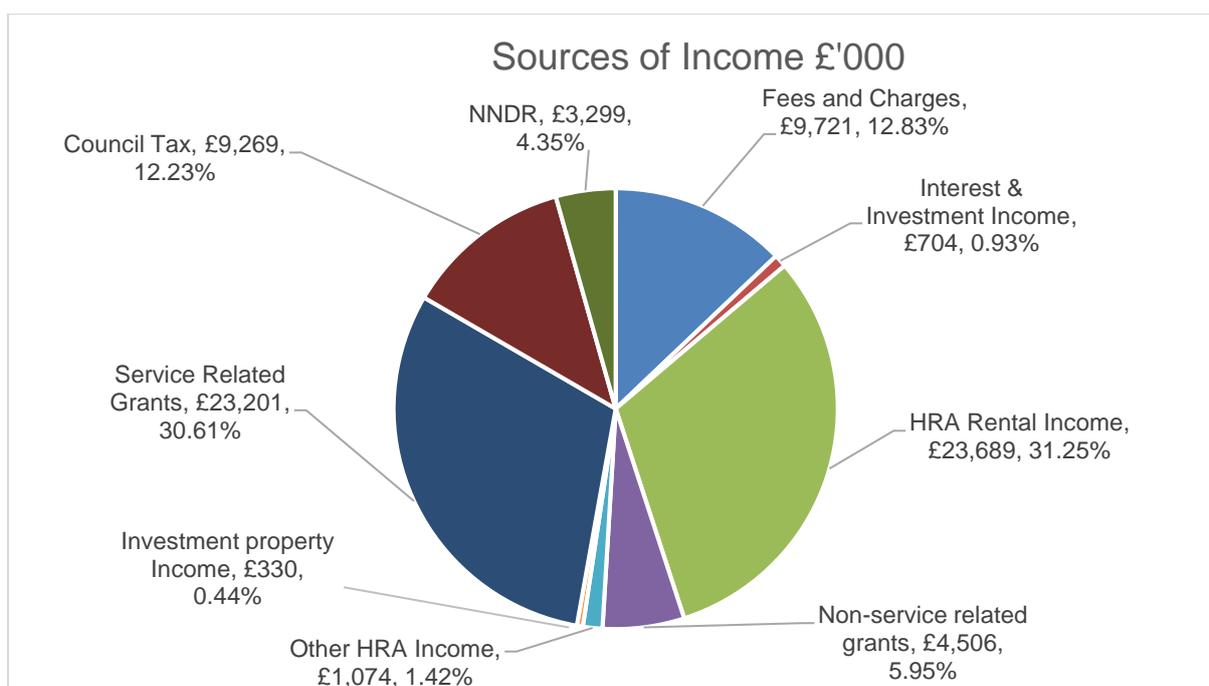
2019/20 FINANCIAL PERFORMANCE

Revenue Expenditure and Income

Revenue expenditure is generally on items that are consumed within a year and is financed by Council Tax, Government Grants, National Domestic Rates and other income. Gross Revenue expenditure in 2019/20 totalled £70.319m compared with £74.881m in 2018/19. The decrease in expenditure in 2019/20 is mainly due to a reduction of £3m of housing benefit expenditure which is offset by a reduction in the housing benefit subsidy funding received.

The following charts show the spend in each directorate during 2019/20 and the sources of funding which the Council received:





Revenue Budget

Each year the Council produces a 3 year budget which is approved by Full Council each March, this budget is then monitored and adjusted throughout the year to reflect where expenditure is expected to be incurred and as new priorities are approved. Table 1 shows the adjusted revenue budget compared with the actual net expenditure by directorate at 31 March 2020:

Table 1 - Revenue Outturn Position

Directorate	2019/20 Original Budget £'000	2019/20 Adjusted Budget £'000	2019/20 Outturn £'000	2019/20 Variance £'000
Commercial and Operations	5,457	7,240	8,405	1,165
Growth	7,108	6,893	9,016	2,123
Finance, Legal & Democratic	7,822	4,789	4,698	(91)
Transformation & Change	0	3,859	4,384	525
Housing Revenue Account Recharge	(2,470)	(2,470)	(2,517)	(47)
Sub-total	17,917	20,311	23,986	3,675
Housing Revenue Account	(8,225)	(8,225)	(11,046)	(2,821)
Net Cost of Services	9,692	12,086	12,940	854
Internal Drainage Board*			(692)	
Investment Property*			312	
Adjusted Net Cost of Services Total			12,560	

*The net cost of service is adjusted at year end to transfer these items below the line as per accounting regulations

General Fund Outturn

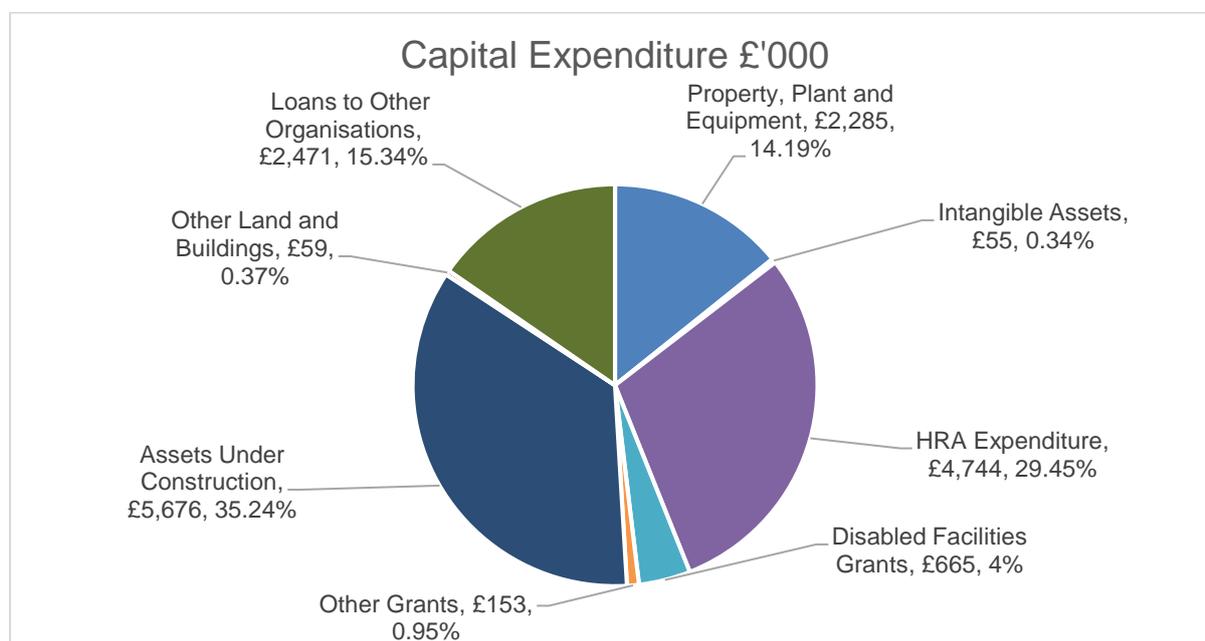
The outturn position shown at table 1 details a net overspend of £3.675m when compared with the adjusted budget. This overspend includes a number of statutory accounting adjustments which are reversed out to ensure there is no impact on the tax payer. The outturn position following the removal of the accounting adjustments and budget carry forwards results in an overspend of £0.242m. There are a number of under and over spends which account for this variance which are detailed in the 2019/20 Capital and Revenue Outturn report.

Housing Revenue Account Outturn

The outturn position for the HRA shown at table 1 details an in year surplus of £2.821m (2018/19 £3.161m deficit) when compared with the adjusted budget. The difference between 2018/19 and 2019/20 mainly relates to a revaluation gain in 2019/20 of £9.056m compared with a reduced gain of only £2.5m in 2019/20, these gains are reversed using statutory accounting adjustments so there is no impact on Council resources. There are a number of under and over spends which account for this variance which are detailed in the 2019/20 Capital and Revenue Outturn report.

Capital Expenditure

Capital expenditure is defined as expenditure incurred on assets which have a life exceeding one year. The Council incurred expenditure totalling £16.108m in 2019/20 compared with £20.998m in 2018/19. This difference mainly relates to the investment in a strategic land acquisition in Stamford in 2018/19 and loans to other organisations in 2019/20. The following chart details the capital expenditure incurred in 2019/20.



It can be seen from the chart that 35% of the capital expenditure was assets under construction. This expenditure primarily relates £2.905m to the development of the Savoy cinema and the associated public realm works and £2.299m has been invested in developing new homes in the HRA.

Expenditure on the HRA accounts for 29% of the total capital expenditure, of the £4.744m incurred, £4.566m related to enhancing Council dwellings, for example replacing kitchens and bathrooms and £178k related to the purchase of an HRA dwelling.

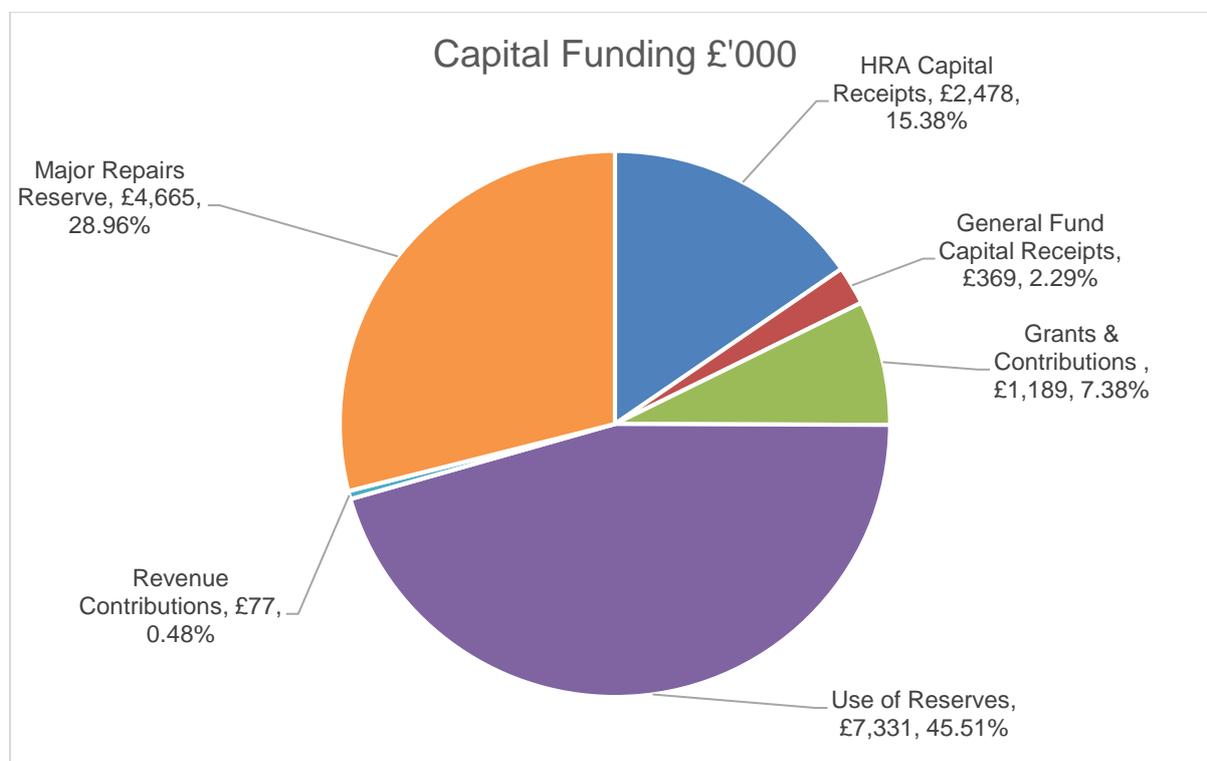
Vehicle, Plant and Equipment accounts for 14% of the expenditure incurred. This expenditure includes £1.070m on vehicles, £0.971m relates to the General Fund which includes £50k of vehicles which were purchased and then sold to EnvironmentSK and £99k to the HRA. £1.215m was invested in new equipment which includes £0.688m on the fit-out of the University which is located in the Savoy cinema building.

Loans to Other Organisations accounts for 15% of the expenditure, this relates to loans to the Local Authority Controlled Companies, Gravitas and EnvironmentSK.

The other forms of capital expenditure relate to capital grants released to finance capital assets owned by third parties and intangible assets. £665k was incurred on Disabled Facilities Grants and £153k on Shop Front Grants which are both financed by Governments Grants.

Capital Financing

The Council has funded the 2019/20 Capital Programme from Capital Receipts, Government Grants, the Major Repairs Reserve, Other Grants and Contributions and Use of Reserves. The following charts details the financing of the capital expenditure:



Note - £3.222m of HRA loan repayment and £0.148m Minimum Revenue Provision were also financed from working balances.

The Non-Enhancing Capital and replacement vehicles expenditure incurred by the HRA has been financed by the Major Repairs Reserve which is ring-fenced to finance HRA capital expenditure and HRA debt repayment. The assets that are currently being constructed and the purchase of an additional dwelling were financed using the HRA capital receipts received from the disposal of HRA assets.

The Council released £7.331m of reserves to finance 45.51% of the remaining expenditure. The main use of these reserves was the construction of the Savoy Cinema and associated public realm works and the cinema fit-out at St Peter's Hill, Grantham, loans to Gravitas and EnvironmentSK and replacement vehicles.

The council utilised £1.189m of government grants of which £0.665m was used to finance the disabled facilities grants and £0.341m was towards the cost of the university fit-out.

At 31 March 2020 the balance on the ring-fenced Major Repairs Reserve was £14.292m which will be invested in continuing to enhance Council dwellings and other HRA assets. The balance of £7.260m on the HRA capital receipts reserve will be used to increase Council housing stock. The General Fund capital receipts reserve had a balance of £2.317m. The Council continues to generate its own resources through the disposal of assets deemed to be surplus. During 2019/20 £0.100m of General Fund capital receipts were received from the disposal of vehicles and £3.880m of HRA capital receipts which mainly relate to the sale of Council dwellings.

Capital and Revenue Budget Monitoring

The Council monitors its capital and revenue budgets on a monthly basis and produces quarterly monitoring reports which during the year were presented to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee. These reports highlight significant under and overspends so that members are aware of any potential financial pressures that may arise from these variances. Any financial pressures which are expected to impact on future years are incorporated into the Medium Term Financial Strategy and the budget report for the following year. The 2019/20 Revenue and Capital Outturn report which will be submitted to Governance and Audit Committee on 13 August 2020 provides further detail on the variances between the adjusted budget and actual spend.

LOOKING FORWARD

Strategic Direction - Vision

The Council is embarking on a fundamental review of its strategic priorities and will be approving a three-year Corporate Plan in September 2020. The Plan will be at the core of the Council's overarching strategic planning framework which includes the Medium-Term Financial Strategy, Local Plan and arrangements for delivering good governance.

At the time of compiling the draft statement of accounts, the Council's Corporate Plan has not been approved and therefore the narrative will be updated further if the Plan is been approved on 1 October 2020.

Sustainable Financial Autonomy

Sustainable financial autonomy is the Council's core strategic goal and this represents a significant challenge when considered alongside the Council's ambitious plans to grow the economy and transform the way it does business. There is uncertainty surrounding the future funding from key income streams, including business rates and new homes bonus. Therefore, success in meeting this challenge is dependent on securing a favourable financial position over the medium term by delivering the outcomes of its approach to becoming self-financing. Accordingly, the Council is committed to:

- An ongoing, robust and detailed review of the assumptions that underpin the Medium Term Financial Strategy. In particular, the careful management of any potential shortfall in funding from 2021/22 onwards
- Ensuring a balanced budget position is achieved through the transformation, modernisation and service review programme which is designed to reduce costs, drive efficiencies and ensure that resources are deployed effectively and directed to where they are most needed
- Delivering in full, budget reductions and savings included within annual budgets

- Maximising key income streams, including business rates, new homes bonus, fees and charges, investment income, etc.
- The prudent use of reserves and balances, as these can only be used once.
- Assessing the impact of changes in funding mechanisms, particularly in relation to business rates retention and new homes bonus. Also the impact of any changes arising from the outcome of the Government's Fair Funding Review that are likely to come into effect in 2021/22.
- Ensuring that the Capital Strategy is used as the governing framework for developing and delivering the Council's capital programme that includes details of the capital cost and financing of many of its growth plans
- Delivering growth and investment in directorates and expanding the programme of commercial activities
- Commissioning services that are relevant to the community and valued by those who use them
- Delivering services that are commercially competitive, high quality, good value and contribute positively to the daily lives of residents
- Reviewing the costs and performance of operating assets
- Keeping under review the likely impact of Brexit on project funding bids and on the local economy generally

The Housing Revenue Account has continued its track record of delivering savings and efficiencies whilst accommodating additional items of expenditure and ensuring that additional resources are allocated to front line services. The position will be closely monitored, having regard to any significant changes in the approach to social housing.

COVID-19 PANDEMIC

The Covid-19 pandemic has had a considerable impact on the Council. The Government's lockdown, announced on 20th March 2020, has had a significant impact on communities, businesses, the local economy, residents and our employees.

Financial Impact

There has been a significant financial impact on the Council due to the additional costs that have been incurred and the expected loss of income have not had a dramatic impact on the financial outturn for 2019/20 as the pandemic only started to make a notable impact on the public's and businesses' behaviour in the last two weeks of March. However, the true scale of its impact on the Council's finances will be felt during 2020/21. The Council is expecting substantial losses across many of its largest streams of commercial income. These include parking, arts and leisure, licensing fees and planning fees. Investment income is anticipated to reduce which will create further pressures on the Council's finances. On the expenditure front some of the key areas of additional pressure included financially supporting our leisure provider, procurement of PPE for our front line workers and providing accommodation and support for rough sleepers.

It is difficult to quantify the impact of Covid-19 at this stage with any certainty, but the financial pressure on the Council could be significant – even after the Government's emergency Covid-19 funding for local authorities is taken into account. Due to sound financial planning by the Council, there are a number of reserves that can be called upon if necessary including the budget stabilisation reserve. This will provide financial resilience in the short term whilst the Council adjusts its spending plans accordingly. The Council is therefore in a position to draw upon its general revenue reserves if required in order to balance in 2020/21.

Moving forward, the Council will review its Medium Term Financial Plan (MTFP) in recognition of the impact of the pandemic and the Council's strategic objectives. The Covid-19 crisis has meant that the Council has had to review what its most critical services are and which are required to still be operational even during a global pandemic. The changing environment and

“new normal” in which we are likely to find ourselves will require the Council to review the services it provides, its delivery models and the outcomes that are of the highest priority. This will also require the Council to review the structural position of its budget and how that needs to change going forward.

Summary

The coronavirus pandemic has had a profound impact on all aspects of life in South Kesteven. Through 2020/21 the Council will adopt a pro-active evidence-led approach to ensure that it responds to the emerging needs of residents and businesses.

EXPLANATION OF THE FINANCIAL STATEMENTS

The 2019/20 Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting 2019/20, issued by the Chartered Institute of Public Finance and Accountancy and the Accounts and Audit Regulations 2020. The Code requires that core and supplementary statements are produced together with disclosure notes and the style and format of the accounts complies with the local authority accounting standards. As recommended by CIPFA and our external auditors the Council continues to ‘de-clutter’ the accounts by annually reviewing the content and removing unnecessary detail.

The accounts give a true and fair view of South Kesteven’s financial position for the financial year 2019/20. The accounting policies are outlined on pages 79 to 90 and have been fairly and consistently applied. Proper and up-to-date accounting records are maintained and all reasonable steps are taken to prevent and detect fraud and other irregularities.

The Director of Finance 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). They are required by law to confirm that the Council’s system of internal controls can be relied upon to produce an accurate statement of accounts. The statement of assurance for 2019/20 (known as the Statement of Responsibilities) appears on page 1 of this document.

The Core Financial Statements are:

- **Comprehensive Income and Expenditure Statement (Page 2)** - this shows the accounting cost in the year of providing services in accordance with IFRS rather than the amount to be funded from taxation.

The Net Cost of Service has increased from £11.973m in 2018/19 to £12.560m in 2019/20. There has also been a reduction in the amount of income received in Finance, Legal & Democratic which primarily relates to a reduction in the amount of Housing Benefit Subsidy received but this is offset by the amount of Housing Benefit expenditure incurred.

The movement in Financing and Investment Income and Expenditure is technical in nature. The increase of £1.080m consists of reduction in revaluation loss of £0.329m due to the movement in the fair value of investment properties and the £0.300m movement in the value of the property fund investment.

There has been a reduction of £2.255m in the income received from taxation and non-specific grants. There was a decrease of £2.546m in NNDR which was due to the council piloting the 100% business rates retention scheme for one year in 2018/19. There was an increase in Council tax of £0.392m and a reduction in New Homes Bonus of £0.129m.

The combination of these variances means there has been a reduction of £4.378m in the surplus on the ‘Provision of Services’. Non-current assets have been revalued during the year and this has resulted in a surplus of £8.263m (Surplus of £6.431m in

18/19) being recognised in the CIES. This relates mostly to the upward revaluation of leisure centres of £3m and the arts centre of £1m. Changes in actuarial assumptions in the pension fund have resulted in a surplus of £10.325m (18/19 loss of £5.797m) mostly resulting from a change in methodology for estimating the discount rate and inflation forecasts.

- **Movement in Reserves Statement (Page 3)** – this shows the movement in the year of the different reserves held by the Council, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure) and ‘unusable reserves’ (those that an authority is not able to utilise to provide services).
- **Balance Sheet (Page 4)** – The Balance Sheet shows the Council’s assets and liabilities at 31 March each year, in accordance with the Council’s Accounting Policies. There is an inverse relationship between the Council’s net worth and in particular pension liabilities i.e. as pension liabilities increase the Council’s net worth reduces and vice versa. The net assets have increased by £17.483m largely due to:
 - an increase of £13.490m in Property, Plant and Equipment which relates to revaluation gains and the acquisition of new assets;
 - an increase of £2.287m in long term debtors which relates to loans to Gravitas Housing Ltd and Environment SK Ltd
 - a reduction in current borrowing (loans repayable within one year) of £25m which is offset by an increase of £22m in non-current borrowing as the council repays £3m of PWLB borrowing annually. A £25m loan matured in 2019/20 and was replaced with a 15 year £25m maturity loan;
 - a decrease of £6.170m in other long term liabilities which relates to a decrease in the pension liabilities.
- **Cash-flow Statement (Page 5)** – this shows the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Notes (pages 6)** – these provide supporting context to the above Statements.

Supplementary Financial Statements

- **Housing Revenue Account (pages 64)** - This reflects a statutory obligation to account separately for the Council’s housing landlord function. It details the major elements of housing revenue expenditure – maintenance, administration and capital financing costs and how these are met by rents and other income. It is noted that the surplus was £8.886m in 2019/20 (£4.279m in 2018/19) this increase is mainly due to the revaluation gain of £2.5m in 2018/19 compared with £9m in 2019/20.
- **Collection Fund (pages 71)** – this reflects the statutory requirement for the Council to maintain a separate account providing details of receipts of Council Tax and Business Rates and any associated payments to precepting authorities and central government. It is noted that there is now a surplus of £0.322m on the Business Rates section of the Collection Fund compared with £2.590m in 2018/19. There are a number of variables that affect this including valuation appeals by businesses to the Valuation Office and collection rates.
- **Statement of Group Accounts (page 74)** – according to statutory requirements the Council is required to produce Group Accounts where it has subsidiaries, joint ventures or associates. The Council has three subsidiaries (EnvironmentSK, Gravitas and InvestSK) whose accounts require consolidation. However, the transactions relating to EnvironmentSK and InvestSK are not material as they receive the majority of their funding

from the Council. Therefore only the company accounts of Gravitax Ltd have been consolidated with the Council's.

- **Glossary of Terms (page 101)** – This explains key terms used throughout the document further.

Further Information

Further information about the Statement of Accounts is available from accountancy@southkesteven.gov.uk or Finance Team, The Council Offices, St Peter's Hill, Grantham, Lincolnshire, NG31 6PZ. In addition, 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 on our website at <http://www.southkesteven.gov.uk/CHttpHandler.ashx?id=25080&p=0>

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 Director of Finance (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 2020.



Richard Wyles CPFA, ACMA, FCMA
CHIEF FINANCE OFFICER
30 November 2020



Councillor Ian Stokes
Chairman of Governance & Audit Committee
30 November 2020

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2018/19				2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000	Note	£'000	£'000	£'000
12,858	(6,112)	6,746		14,392	(5,987)	8,405
36,086	(49,309)	(13,223)		25,683	(45,996)	(20,313)
21,841	(7,633)	14,208		25,411	(5,547)	19,864
4,398	(156)	4,242		4,760	(156)	4,604
75,183	(63,210)	11,973		70,246	(57,686)	12,560
Cost Of Services						
Other Operating Expenditure						
0	(1,675)	(1,675)		0	(1,328)	(1,328)
2,335	0	2,335	9	2,410	0	2,410
803	0	803	HRA6	802	0	802
(20)	0	(20)		0	0	0
3,118	(1,675)	1,443		3,212	(1,328)	1,884
Financing and Investment Income and Expenditure						
2,814	0	2,814		2,731	0	2,731
1,332	0	1,332	35	1,411	0	1,411
0	(712)	(712)		0	(703)	(703)
0	(780)	(780)	10	0	(4)	(4)
0	0	0		300	0	300
4,146	(1,492)	2,654		4,442	(707)	3,735
Taxation and Non-Specific Grant Income						
0	(8,877)	(8,877)		0	(9,269)	(9,269)
0	(5,845)	(5,845)		0	(3,299)	(3,299)
0	(4,607)	(4,607)	11	0	(4,506)	(4,506)
0	(19,329)	(19,329)		0	(17,074)	(17,074)
(3,259) (Surplus) or Deficit on Provision of Services						1,105
(6,431) (Surplus) or deficit on revaluation of non-current assets						(8,263)
5,797 Remeasurement of Defined Pension Liability						35 (10,325)
(634) Other Comprehensive Income and Expenditure						(18,588)
(3,893) TOTAL COMPREHENSIVE INCOME & EXPENDITURE						(17,483)

2018/19 Service area income and expenditure has been restated to reflect the current reporting directorates. The overall cost of services remains the same as reported 31 March 2019.

MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance (including Earmarked Reserves)	Housing Revenue Accounts (including Earmarked Reserves)	Capital Receipts Reserve	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2019 carried forward		(25,492)	(19,401)	(9,246)	(12,659)	(66,798)	(158,234)	(225,032)
Movement in reserves during 2019/20								
Total Comprehensive Income & Expenditure		10,064	(8,959)	0	0	1,105	(18,588)	(17,483)
Transfers between Reserves	18	0	2,883	(3)	(2,883)	(3)	3	0
Adjustments between accounting basis & funding basis under regulations	17	(3,270)	6,898	(328)	1,250	4,550	(4,550)	0
(Increase) or decrease in 2019/20		6,794	822	(331)	(1,633)	5,652	(23,135)	(17,483)
Balance at 31 March 2020 carried forward		(18,698)	(18,579)	(9,577)	(14,292)	(61,146)	(181,369)	(242,515)

	Note	General Fund Balance (including Earmarked Reserves)	Housing Revenue Accounts (including Earmarked Reserves)	Capital Receipts Reserve	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Restated Balance at 31 March 2018 carried forward		(26,880)	(20,285)	(7,125)	(10,328)	(64,618)	(156,521)	(221,139)
Movement in reserves during 2018/19								
Total Comprehensive Income & Expenditure		1,078	(4,337)	0	0	(3,259)	(634)	(3,893)
Transfers between Reserves	18	(1,893)	3,232	865	(3,234)	(1,030)	1,030	0
Adjustments between accounting basis & funding basis under regulations	17	2,203	1,989	(2,986)	903	2,109	(2,109)	0
(Increase) or decrease in 2018/19		1,388	884	(2,121)	(2,331)	(2,180)	(1,713)	(3,893)
Balance at 31 March 2019 carried forward		(25,492)	(19,401)	(9,246)	(12,659)	(66,798)	(158,234)	(225,032)

For details of reserves see notes 35 and 36

BALANCE SHEET

Restated At 1 April 2018 £'000	Restated At 31 March 2019 £'000		Note	At 31st March 2020 £'000
307,311	320,285	Property Plant & Equipment	19	333,775
522	522	Heritage Assets	22	522
5,701	5,912	Investment Property	23	5,583
286	335	Intangible Assets	24	278
6,000	5,120	Long Term Investments	26	3,907
24	24	Long Term Debtors	28	2,311
319,844	332,198	Long Term Assets		346,376
667	532	Current Assets Held for Sale	29	132
49,190	45,847	Short Term Investments	26	27,368
14	19	Inventories		23
5,552	6,552	Short Term Debtors	28	6,294
9,623	11,694	Cash and Cash Equivalents	30	25,583
65,046	64,644	Current Assets		59,400
(3,245)	(28,244)	Short Term Borrowing	26	(3,246)
(7,523)	(11,318)	Short Term Creditors	32	(11,981)
(1,013)	(944)	Provisions	34	(767)
(11,781)	(40,506)	Current Liabilities		(15,994)
(803)	(1,079)	Provisions	34	(1,211)
(99,100)	(70,878)	Long Term Borrowing	26	(92,656)
(48,563)	(57,328)	Other Long Term Liabilities	37	(51,158)
(3,504)	(2,019)	Capital Grants Receipts in Advance	12	(2,242)
(151,970)	(131,304)	Long Term Liabilities		(147,267)
221,139	225,032	Net Assets		242,515
£'000	£'000			£'000
64,618	66,798	Usable Reserves	36	61,146
156,521	158,234	Unusable Reserves	37	181,369
221,139	225,032	Total Reserves		242,515

CASH FLOW STATEMENT

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.

2018/19 £'000		Notes	2019/20 £'000
	Operating Activities		
3,259	Net surplus or (deficit) on the provision of services		(1,105)
17,433	Adjustments to net surplus or deficit on the provision of services for non-cash movements	38	12,966
(8,530)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(5,013)
2,102	Reversal of operating activity items included in the net (surplus) or deficit on the provision of services that are shown separately below		1,967
	Net cash flows from Operating Activities includes		
(2,814)	Interest paid		(2,729)
712	Interest received		762
12,162	Net cash flows from Operating Activities		6,848
	Investing Activities		
(19,286)	Purchase of property, plant and equipment, investment property and intangible assets		(12,669)
(89,760)	Purchase of short-term and long-term investments		(87,200)
(1,718)	Other payments for investing activities		(2,473)
5,443	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		3,980
94,000	Proceeds from short-term and long-term investments		106,640
4,348	Other receipts from investing activities		1,262
(6,973)	Net cash flows from Investing Activities		9,540
	Financing Activities		
0	Cash receipts of short and long-term borrowing		25,000
(3,222)	Repayments of short and long-term borrowing		(28,222)
104	Other payments for financing activities		723
(3,118)	Net cash flows from Financing Activities		(2,499)
2,071	Net increase or (decrease) in cash and cash equivalents		13,889
9,623	Cash and cash equivalents at the beginning of the reporting period		11,694
11,694	Cash and cash equivalents at the end of the reporting period	30	25,583
2,071			13,889

NOTES TO THE CORE FINANCIAL STATEMENTS

1. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) requires the disclosure of information relating to the expected impact on the accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. This applies to the adoption of the following new or amended standards within the 2020/21 code:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures. The amendments clarify that IFRS 9 Financial Instruments applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. There is no anticipated impact for the Council.
- Annual Improvements to IFRS Standards 2015–2017 Cycle.
 - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements concerns how an increase in an interest in another entity is treated in the accounts. There is no anticipated impact for the Council
 - IAS 12 Income Taxes. Clarification that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits. There is no anticipated impact for the Council.
 - IAS 23 Borrowing Costs clarifies which borrowing costs are eligible for capitalisation. There is no anticipated impact for the Council.
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement. Updated actuarial assumptions must be used to determine pension expenses following changes to a defined benefit pension plan. The Council's pension fund is administered by Lincolnshire County Council and West Yorkshire Pension Fund, any required amendments will be assessed by these bodies on behalf of South Kesteven District Council.
- IFRS 16 Leases requires lessees to recognise nearly all leases on the balance sheet which will reflect their right of use for a period of time and the associated liability to pay rentals. It is anticipated that the Council's balance sheet non-current assets will increase by £4m largely due to the inclusion of Bourne Leisure Centre. It is estimated that non-current liabilities will increase by £10K and additional depreciation costs of £166K will be included in the net cost of services. Depreciation is an accounting entry which is subsequently reversed out and does not require any additional funding from taxpayers.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies (see page 79), 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.
- e. Following a recent ruling by the Court of Appeal relating to public sector pension liabilities (McCloud Judgement) there will be an increase to the Council's future pension liability. The level of the Council's liability has been estimated by Hymans Robertson LLP (the Council's Actuaries) and is reflected in the accounts.

3. 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 account of 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 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Consequences of difference from Assumption
Valuation of Property	<p>The Council's external valuers provided valuations as at 31 March 2020.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p>	<p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and a loss recorded in the Comprehensive Income and Expenditure Statement. If the value of the Council's property assets were to reduce by 10% this would result in a charge of approximately £32m to the Comprehensive Income and Expenditure Statement and the Revaluation Reserve.</p>
Pension Liability	<p>Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and</p>	<p>A 0.5% decrease in the discount rate will increase the net pension liability by £13.7m;</p> <ul style="list-style-type: none"> • A 0.5% increase in the assumed level of pension increases will increase the net pension liability by £12.3m

	<p>expected returns on Pension Fund investments.</p> <p>The Council has engaged Hymans Robertson to provide expert advice about the assumptions applied. The ongoing impact of the Covid 19 pandemic has created uncertainty around illiquid asset values such as Real Estate within the pension asset portfolio.</p> <p>The pension fund auditor as part of their report stated that they are anticipating including Emphasis of Matter paragraph in their opinion in respect of the valuation of the Pension Fund's Pooled Property Unit Trust Investment Assets, where the associated valuation report includes a material uncertainty disclosure as a result of the impact of COVID-19 on the market at 31 March 2020.</p>	
Net Cost of Services	<p>The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a Global Pandemic on 11 March 2020 has impacted on global financial markets and market activity is being impacted in many sectors. On the 23 March 2020 the UK was placed in lockdown to try and reduce the impact of the virus. This has significantly impacted the Council's ability to generate income. The Council has had to perform additional duties due to the demands placed on Local Government to deliver Community Hubs and Business Rate Grant Support. This has resulted in additional costs, which in turn could have an adverse affect on the Council's reserves.</p>	<p>It is anticipated that the overall financial impact of the pandemic on the Council will be approximately £3.6M in 2020/21 taking into account projected income losses, spending pressures and anticipated reductions in expenditure.</p>
Business Rates	<p>Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2019/20 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses may have been overcharged up to March 2020. The estimate has been calculated using analysis of</p>	

	successful appeals to date against the 2010 and 2017 rating lists.	
Investments	The Council has placed an investment with the CCLA Property Fund which invests in assets. COVID-19 has impacted on property valuations which has impacted on the value of this investment. The fund has currently suspended transactions on the fund until a level of certainty is re-established.	

4. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Finance on 3 August 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing as at 31 March 2020, the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The decision to leave the European Union (EU) was made in 2016/17 and the UK left the EU on 31 January 2020. This began a transition period that is set to end on 31st December 2020, during which the UK and EU will negotiate their future relationship. It is still unclear what the implications of withdrawal from the EU might be for the Council.

The outbreak of the Novel Coronavirus (COVID-19) declared by the World Health Organisation as a Global Pandemic on 11th March 2020 has impacted on global financial markets and market activity in many sectors. The impact of the virus presents uncertainty for the UK economy and Local Government. The Government has provided the council with £1.68M grant funding to meet the costs of dealing with the crisis. A further £20.58m is due to the Council in respect of NNDR reliefs.

These events are non-adjusting, no estimate of their financial effect is included within the reported figures other than in respect of the values of the Council's assets and liabilities at 31 March 2020 which are based on conditions which existed on that date.

5. PRIOR PERIOD ADJUSTMENT

Two prior period adjustments have been processed in the accounts due a change in accounting treatment.

The balance sheet has been restated from 1 April 2018 to reverse the in-year depreciation charge which ensure that the Net Book Value of the Councils property assets is consistent with the external valuers report. This change has arisen as the council property assets are valued annually at 31 March.

The 2018/19 Comprehensive Income and Expenditure Statement has been restated to reflect the change to the internal reporting structure in 2019/20 and to reverse the 2018/19 central support costs back to the service area that they were incurred. This change ensures that this statement is consistent with the in-year financial reporting structure and should assist the reader of the accounts with making comparisons between quarterly monitoring reports and the statement of accounts. The statement has also been amended to reflect the costs associated with the reversal of the in-year depreciation charge.

NOTES TO THE COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

6. 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.

	2019/20		
	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
Commercial & Operations	4,919	(3,486)	8,405
Finance, Legal & Democratic	(23,310)	(2,997)	(20,313)
Growth	19,492	(372)	19,864
Transformation	2,497	(2,107)	4,604
Net Cost of Services	3,598	(8,962)	12,560
Other Income & Expenditure	1,136	12,591	(11,455)
(Surplus) or Deficit on Provision of Services	4,734	3,629	1,105
	Total £'000	General Fund £'000	HRA £'000
Opening General Fund and HRA Balance	(44,892)	(25,491)	(19,401)
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	4,732	6,793	(2,061)
Transfers to/ from reserves	2,883	0	2,883
Closing General Fund and HRA Balance	(37,277)	(18,698)	(18,579)

**Adjustments between Funding and Accounting Basis 2018/19 Restated
to reflect the current directorate reporting structure**

	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
Commercial & Operations	4,145	(2,601)	6,746
Finance, Legal & Democratic	(12,502)	721	(13,223)
Growth	6,633	(7,575)	14,208
Transformation	2,156	(2,086)	4,242
Net Cost of Services	432	(11,541)	11,973
Other Income & Expenditure	501	15,733	(15,232)
(Surplus) or Deficit on Provision of Services	933	4,192	(3,259)
	Total £'000	General Fund £'000	HRA £'000
Opening General Fund and HRA Balance	(47,165)	(26,880)	(20,285)
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	934	3,282	(2,348)
Transfers to/ from reserves	1,339	(1,893)	3,232
Closing General Fund and HRA Balance	(44,892)	(25,491)	(19,401)

	2018/19		
	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
Commercial	4,955	(1,947)	6,902
Growth	14,042	(5,058)	19,100
Resources	(18,327)	(4,536)	(13,791)
Net Cost of Services	670	(11,541)	12,211
Other Income & Expenditure	263	15,733	(15,470)
(Surplus) or Deficit on Provision of Services	933	4,192	(3,259)
	Total £'000	General Fund £'000	HRA £'000
Opening General Fund and HRA Balance	(47,165)	(26,880)	(20,285)
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	934	3,282	(2,348)
Transfers to/ from reserves	1,339	(1,893)	3,232
Closing General Fund and HRA Balance	(44,892)	(25,491)	(19,401)

7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

Adjustments between Funding and Accounting Basis 2019/20

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
Commercial & Operations	(2,148)	(1,338)	0	(3,486)
Democratic	(3,668)	671	0	(2,997)
Growth	1,207	(1,579)	0	(372)
Transformation	(1,608)	(499)	0	(2,107)
Net Cost of Services	(6,217)	(2,745)	0	(8,962)
Other Income and expenditure from the Expenditure and Funding Analysis	15,174	(1,411)	(1,172)	12,591
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	8,957	(4,156)	(1,172)	3,629

Adjustments between Funding and Accounting Basis 2018/19
Restated to reflect the current directorate reporting structure

Adjustments from General

Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Differences (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Commercial & Operations	(1,590)	(1,011)	0	(2,601)
Democratic	(52)	773	0	721
Growth	(7,063)	(512)	0	(7,575)
Transformation	(1,200)	(886)	0	(2,086)
Net Cost of Services	(9,905)	(1,636)	0	(11,541)
Other Income and expenditure from the Expenditure and Funding Analysis	15,101	(1,332)	1,964	15,733
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	5,196	(2,968)	1,964	4,192

Adjustments between Funding and Accounting Basis 2018/19

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
Commercial	(1,045)	(902)	0	(1,947)
Growth	(3,729)	(1,329)	0	(5,058)
Resources	(5,131)	595	0	(4,536)
Net Cost of Services	(9,905)	(1,636)	0	(11,541)
Other Income and expenditure from the Expenditure and Funding Analysis	15,101	(1,332)	1,964	15,733
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	5,196	(2,968)	1,964	4,192

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 i.e. 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.
- a) **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).

- b) **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

Restated 2018/19 £'000	Expenditure/Income	2019/20 £'000
	Expenditure	
22,674	Employee benefits expenses	23,955
42,603	Other services expenses	40,074
9,905	Depreciation, amortisation, impairment	6,217
75,182	Total expenditure	70,246
	Income	
(9,385)	Fees, charges and other service income	(9,721)
(6)	Interest and investment income	(1)
(28,470)	Government grants and contributions	(23,201)
(24,200)	Dwelling Rents	(23,689)
(1,148)	Non- Dwelling rents	(1,074)
(63,209)	Total income	(57,686)
11,973	Net cost of services	12,560

9. PRECEPTS AND LEVIES

2018/19 £'000		2019/20 £'000
1,659	Parish Council Precepts	1,718
676	Drainage Board Levies	692
2,335		2,410

10. INCOME AND EXPENDITURE AND MOVEMENT IN FAIR VALUE OF INVESTMENT PROPERTIES

2018/19 £'000		2019/20 £'000
(319)	Income & Expenditure from investment properties	(333)
(461)	Movements in relation to changes in the fair value of investment properties	329
(780)		(4)

11. NON SERVICE RELATED GOVERNMENT GRANTS

2018/19 £'000		2019/20 £'000
(2,086)	New Homes Bonus	(1,957)
(2,511)	S31 Grant	(2,527)
(10)	S106 Contribution	(22)
(4,607)		(4,506)

12. GRANT INCOME

The Council credited the following grants and contributions to the Cost of Services in the Comprehensive Income and Expenditure Statement in 2019/20

2018/19 £'000		2019/20 £'000
22,834	Benefits Subsidy	19,847
454	Local Council Tax Admin Subsidy	409
325	Housing Benefits Admin Grant	261
78	Discretionary Housing Payment	68
377	Welfare Reform	465
27	IER Funding	26
169	Neighbourhood Planning Grant	20
890	Disabled Facilities Grant	861
254	Homelessness	261
50	Rogue Landlord Enforcement Grant	0
10	Refugee Funding	3
12	LGA Cyber Resilience Programme	0
1,800	Greater Lincolnshire Local Enterprise Partnership	7
883	Arts and Recreation Grants	441
60	Other Grants	56
28,223		22,725

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:

2018/19	Capital Grants	2019/20
£'000	Receipts in Advance	£'000
<u>2,019</u>	S106 Contributions	<u>2,242</u>

13. 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:

2018/19		2019/20
No. of officers	Remuneration Band	No. of officers
6	£50,000 - £54,999	3
5	£55,000 - £59,999	7
2	£60,000 - £64,999	4
0	£65,000 - £69,999	0
0	£70,000 - £74,999	0
2	£75,000 - £79,999	1
0	£80,000 - £84,999	1
<u>15</u>		<u>16</u>

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

	Note	Salary, Fees & Allowances	Bonuses & Expenses Allowances	Compensation for Loss of Employment	Employers Pension contribution	Any other emolument	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive (1)	2019/20	43	12	84	7	0	146
	2018/19	125	0	0	21	0	146
Chief Executive (2)	2019/20	74	3	0	12	0	89
	2018/19	0	0	0	0	0	0
Chief Executive (3)	2019/20	11	0	0	2	0	13
	2018/19	0	0	0	0	0	0
Strategic Director	2019/20	0	0	0	0	0	0
	2018/19	76	0	30	204	3	313
Strategic Director	2019/20	0	0	0	0	0	0
	2018/19	88	0	11	237	0	336
Strategic Director	2019/20	41	0	0	7	0	48
	2018/19	98	0	0	16	0	114
Strategic Director	2019/20	97	2	0	16	0	115
	2018/19	22	0	0	4	0	26
Strategic Director	2019/20	10	0	0	2	0	12
	2018/19	0	0	0	0	0	0
Strategic Director	2019/20	24	1	0	4	0	29
	2018/19	0	0	0	0	0	0
Strategic Director (S151 Officer) (1)	2019/20	24	6	0	4	0	34
	2018/19	68	0	0	11	0	79
Strategic Director (S151 Officer) (2)	2019/20	73	1	0	12	0	86
	2018/19	0	0	0	0	0	0
Assistant Chief Executive	2019/20	79	1	0	13	0	93
	2018/19	15	0	0	3	0	18
Strategic Director	2019/20	73	0	0	12	0	85
	2018/19	0	0	0	0	0	0
Monitoring Officer (1)	2019/20	0	0	0	0	0	0
	2018/19	50	0	57	79	0	186
Monitoring Officer (2)	2019/20	19	1	0	3	0	23
	2018/19	0	0	0	0	0	0
Assistant Chief Executive (Monitoring Officer)	2019/20	22	2	0	4	0	28
	2018/19	78	0	0	13	0	91

1. Aidan Rave left the Council's employment on 31st July 2019
2. Paul Thomas appointed as Interim Chief Executive on 1st August 2019
3. Karen Bradford appointed as Chief Executive on 1st March 2020
4. Paul Thomas returns to substantive post of Strategic Director 1st March 2020
5. Ken Lyon appointed Interim Strategic Director Growth on 1st August 2019 – 20th October 2019
6. Harry Rai appointed Interim Strategic Director Growth 21st October 2019 – 29th February 2020
7. Debbie Muddimer left the Council's employment as Director of Finance (S151 Officer) on 27th June 2019
8. Richard Wyles was appointed Interim Director on Finance (S151 Officer) on 27th June 2019
9. Ken Lyon returned to substantive post of Assistant Chief Executive on 21st October 2019
10. Lee Sirdifield was appointed Strategic Director Transformation & Change on 27th June 2019
11. Shahin Ismail was appointed Director of Law and Governance (Monitoring Officer) on 1st January 2020

14. 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	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
	No.	No.	No.	No.	£'000	£'000
£0-£20,000	0	0	10	11	59	103
£20,001 - £40,000	1	0	3	3	80	85
£40,001 - £60,000	0	0	0	1	0	42
£60,001 - £80,000	0	0	0	1	0	76
£80,001 - £100,000	0	0	0	1	0	84
£100,001 - £150,000	0	0	1	0	126	0
£150,000 and above	0	0	3	0	640	0
Total Cost included in bandings	1	0	17	17	905	390
Amounts provided for in CIES not included in bandings					0	0
Total Cost included in CIES					905	390

15. 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 31st March 2020.

Members' allowances and expenses paid during the year amounted to £531,873 (2018/19 £515,724). The figure includes basic allowance, special responsibility, and other related allowances

16. JOINT OPERATIONS

South Kesteven District Council are members with Newark and Sherwood District Council and Rushcliffe Borough Council of the Building Control Partnership. The partnership's net expenditure in 2019/20 is £218,506 of which £72,835 is attributable to South Kesteven District Council which has been accounted for within the Council's Comprehensive Income and Expenditure Statement.

South Kesteven District Council have a collaboration agreement with Burghley Land Ltd. The joint agreement's net expenditure in 2019/20 is £364,146 of which £182,073 is attributable to South Kesteven District Council and accounted for within the Council's Comprehensive Income and Expenditure Statement.

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

17.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.

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

2019/20	General Fund £'000	HRA £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account						
Depreciation of non-current assets	(4,437)	(353)	0	(3,415)	(8,205)	8,205
Amortisation of intangible assets	(108)	(4)	0	0	(112)	112
Revaluation gains/losses on PPE	(1,644)	9,128	0	0	7,484	(7,484)
Impairments charged to CIES	0	(4,567)	0	0	(4,567)	4,567
Movements in market value of investment properties	(336)	7	0	0	(329)	329
Revenue expenditure funded from capital under statute (REFCUS)	(818)	0	0	0	(818)	818
Financing of REFCUS	818				818	(818)
Capital expenditure	7,779	3,222	2,847	4,665	18,513	(18,513)
Statutory provision for financing of capital investment	148	0	0	0	148	(148)
Profit/Loss on disposal of non-current assets	(30)	1,358	(3,977)	0	(2,649)	2,649
Adjustments primarily involving the Collection Fund Adjustment Account						
Adjustment to council tax income	4	0	0	0	4	(4)
Adjustment to NNDR income	(1,176)	0	0	0	(1,176)	1,176
Adjustments primarily involving the Pension Fund						
Adjustment of IAS 19 retirement entries for actual contributions	(3,064)	(1,091)	0	0	(4,155)	4,155
Adjustments relating to the value of Financial Instruments						
Financial Instruments	(406)	0	0	0	(406)	406
Adjustments between Usable Reserves						
Payments to Housing Capital Receipts Pool	0	(802)	802	0	0	0
Total Adjustments	(3,270)	6,898	(328)	1,250	4,550	(4,550)

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

Restated 2018/19	General Fund	HRA	Capital Receipts Reserve	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account						
Depreciation of non-current assets	(3,999)	(339)	0	(3,299)	(7,637)	7,637
Amortisation of intangible assets	(100)	(4)	0	0	(104)	104
Revaluation gains/losses on PPE	(352)	2,607	0	0	2,255	(2,255)
Impairments charged to CIES	-	(4,018)	0	0	(4,018)	4,018
Movements in market value of investment properties	427	34	0	0	461	(461)
Revenue expenditure funded from capital under statute (REFCUS)	(401)	0	0	0	(401)	401
Financing of REFCUS	401	0	0	0	401	(401)
Capital expenditure	6,416	3,499	1,650	4,202	15,767	(15,767)
Statutory provision for financing of capital investment	154	0	0	0	154	(154)
Profit/Loss on disposal of non-current assets	(53)	1,728	(5,439)	0	(3,764)	3,764
Adjustments primarily involving the Collection Fund Adjustment Account						
Adjustment to council tax income	19	0	0	0	19	(19)
Adjustment to NNDR income	1,945	0	0	0	1,945	(1,945)
Adjustments primarily involving the Pension Fund						
Adjustment of IAS 19 retirement entries for actual contributions	(2,254)	(715)	0	0	(2,969)	2,969
Adjustments between Usable Reserves						
Payments to Housing Capital Receipts Pool	0	(803)	803	0	0	0
Total Adjustments	2,203	1,989	(2,986)	903	2,109	(2,109)

18. Transfers to/from Earmarked Reserves

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

	General Fund	Housing Revenue Account	Usable Capital Receipts	Earmarked General Fund Reserves	HRA Revenue Reserves	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2019/20									
Amounts set aside to provide for future expenditure									
Insurance provision		(200)			200		0	0	0
SEA provision	83			(83)			0	0	0
Transfer Surplus to reserves	1,622	2,708		(1,622)	175	(2,883)	0	0	0
Repaid mortgages	0	0	(3)	0	0	0	(3)	3	0
Other Long-Term Debtors	0	0	0	0	0	0	0	0	0
Amounts transferred from reserves to support in year expenditure									
Finance Building Control deficit	3	0	0	(3)	0	0	0	0	0
Total Transfers To/(From) Earmarked Reserves	1,708	2,508	(3)	(1,708)	375	(2,883)	(3)	3	0
2018/19									
Amounts set aside to provide for future expenditure									
Insurance provision	(28)	0	0	28	0	0	0	0	0
SEA provision	39	0	0	(39)	0	0	0	0	0
Transfer Surplus to reserves	1,279	3,108	893	(2,172)	125	(3,234)	(1)	1	0
Repaid mortgages	0	0	(25)	0	0	0	(25)	25	0
Other Long-Term Debtors	0	(1)	(3)	(1,000)	0	0	(1,004)	1,004	0
Amounts transferred from reserves to support in year expenditure									
Finance Building Control deficit	37	0	0	(37)	0	0	0	0	0
Total Transfers To/(From) Earmarked Reserves	1,327	3,107	865	(3,220)	125	(3,234)	(1,030)	1,030	0

NOTES TO THE BALANCE SHEET

19. PROPERTY PLANT AND EQUIPMENT (PPE)

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

Restated Movement in 2018/19						Movement in 2019/20							
Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE £'000	Movement on Balances		Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE £'000
						Cost or Valuation							
						at 1 April 2018	at 1 April 2019						
236,604	65,523	15,658	210	845	318,840			234,572	75,354	15,906	211	6,026	332,069
4,304	8,052	1,787	0	5,181	19,324	Additions		4,745	59	2,285	0	5,676	12,765
496	2,068	0	1	0	2,565	Revaluation increases/(decreases) recognised in the Revaluation Reserve		3,452	372	0	5	0	3,829
(4,178)	(289)	0	0	0	(4,467)	Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services		2,223	(1,744)				479
(2,512)	0	(1,539)	0	0	(4,051)	Derecognition - Disposals		(2,135)	0	(817)	0	0	(2,952)
(142)	0	0	0	0	(142)	Assets reclassified (to)/from Held for Sale (see Note 29)		37					37
						Assets reclassified (to)/from Assets Under Construction		0	1,989	0	0	(1,989)	0
234,572	75,354	15,906	211	6,026	332,069	at 31 March 2019	at 31 March 2020	242,894	76,030	17,374	216	9,713	346,227
						Accumulated Depreciation & Impairment							
						at 1 April 2018	at 1 April 2019						
(76)	(69)	(11,384)	0	0	(11,529)	Depreciation charge		(9)	(147)	(11,628)	0	0	(11,784)
(3,299)	(3,268)	(1,057)	(13)	0	(7,637)	Depreciation written out to the Revaluation Reserve		(3,415)	(3,563)	(1,213)	(14)	0	(8,205)
716	3,060	0	13	0	3,789	Depreciation written out to the Comprehensive Income & Expenditure Statement		1,151	3,270	0	14	0	4,435
6,668	130	0	0	0	6,798	Derecognition of Non Enhancing Capital Expenditure		6,836	169	0	0	0	7,005
(4,018)	0	0	0	0	(4,018)	Derecognition - Disposals		(4,567)	0	0	0	0	(4,567)
0	0	813	0	0	813			0	0	664	0	0	664
(9)	(147)	(11,628)	0	0	(11,784)	at 31 March 2019	at 31 March 2020	(4)	(271)	(12,177)	0	0	(12,452)
						Net Book Value							
						at 31 March 2019	at 31 March 2020						
234,563	75,207	4,278	211	6,026	320,285			242,890	75,759	5,197	216	9,713	333,775
236,528	65,454	4,274	210	845	307,311	at 1 April 2018	at 1 April 2019	234,563	75,207	4,278	211	6,026	320,285

Property, Plant & Equipment (Continued)

Valuation Assumptions

The significant assumptions applied in estimating the current 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 outgoings 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.
- The Covid 19 pandemic has raised economic uncertainty and difficulties in attaching weight to previous market evidence. The Council's valuers have reported on the basis of 'material valuation uncertainty'. The valuations should therefore be viewed with a higher degree of caution than would normally be the case.

20. 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.

2018/19 £'000		2019/20 £'000
109,926	Opening Capital Finance Requirement	114,602
	Capital Investment	
286	Council Dwellings	178
8,052	Other land & buildings	59
1,787	Vehicles, plant & equipment	2,285
0	Investment properties	0
5,181	Assets under construction	5,676
4,018	Capital expenditure	4,566
153	Intangible Assets	55
0	Loans to Other Organisations	2,471
1,120	Long Term Investment	0
401	Revenue expenditure charged to capital under statute	818
	Sources of Finance	
(1,650)	Capital receipts	(2,847)
(1,768)	Capital grants & contributions	(1,189)
(12,904)	Sums set aside from revenue	(15,442)
114,602	Closing Capital Financing Requirement	111,232
	Explanation of movements in year	
4,676	Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	(3,370)
4,676	Increase/ (Decrease) in Capital Financing Requirement	(3,370)

21. CAPITAL COMMITMENTS

At 31 March 2020, the authority has entered into 2 contracts for the construction or enhancement of property, plant and equipment in 2020/21.

	Contractor	£'000
Modular Housing	G F Tomlinson	32
Modular Housing	G F Tomlinson	41
Contract commitments at 31 March 2020		73

22. HERITAGE ASSETS

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

	Assets held at value		Assets held	Total
	Antiques	Miscellaneous	at cost	Assets
	£'000	Artefacts £'000	Orrery £'000	£'000
Cost or Valuation				
1st April 2018	238	264	20	522
Revaluations	0	0	0	0
Disposals in Year	0	0	0	0
31st March 2019	238	264	20	522
Revaluations	0	0	0	0
Additions in year	0	0	0	0
Disposals in Year	0	0	0	0
31st March 2020	238	264	20	522

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 February 2018 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.

23. 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:

2018/19		2019/20
£'000		£'000
(349)	Rental income from investment property	(352)
30	Direct operating expenses arising from investment property	19
<u>(319)</u>		<u>(333)</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:

2018/19		2019/20
£'000		£'000
5,701	Balance at start of year	5,912
0	Additions - Purchases	0
461	Net gains/losses from fair value adjustments	(329)
(250)	Disposals	0
<u>5,912</u>	Balance at end of year	<u>5,583</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.

24. 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:

2018/19 £'000		2019/20 £'000
	Balance at start of year:	
879	Gross carrying amount	945
(593)	Accumulated amortisation	(610)
<u>286</u>	Net carrying amount at start of year	<u>335</u>
153	Additions	55
(104)	Amortisation for the period	(112)
<u>49</u>		<u>(57)</u>
(87)	Disposals	0
87	Amortisation written back	0
<u>0</u>		<u>0</u>
335	Net carrying amount at end of year	278
Comprising		
945	Gross carrying amount	1,000
(610)	Accumulated amortisation	(722)
<u>335</u>		<u>278</u>

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

25. IMPAIRMENT LOSSES

The Council recognised no impairment losses during 2019/20

26. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instruments of another entity. Non exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

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

Financial Assets

	Non Current				Current			
	Investments		Debtors		Investments		Debtors	
	31-Mar-20 £'000	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-19 £'000
Amortised Cost								
Principal	2,787	4,000	1,843	24	27,220	45,640	3,116	3,902
Investment Accrued Interest	0	0	0	0	148	207	0	0
Cash and cash equivalents (CCE)	0	0	0	0	25,583	11,694	0	0
Fair value through other comprehensive income - other	1,120	1,120	0	0	0	0	0	0
Total financial assets	3,907	5,120	1,843	24	52,951	57,541	3,116	3,902
Non financial assets	0	0	0	0	0	0	3,178	2,651
Total	3,907	5,120	1,843	24	52,951	57,541	6,294	6,553

Financial Liabilities

	Non Current				Current			
	Investments				Investments		Creditors	
	31-Mar-20 £'000	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-19 £'000
Amortised Cost								
Principal	92,656	70,878	3,222	28,222	5,804	5,651		
Interest	0	0	24	22	0	0		
Total financial liabilities	92,656	70,878	3,246	28,244	5,804	5,651		
Non financial liabilities	0	0	0	0	6,177	5,665		
Total	92,656	70,878	3,246	28,244	11,981	11,316		

Designated to fair value through other comprehensive income

The Council has a 100% shareholding in Gravitas Housing Limited which is a wholly owned Local Authority Controlled Company. These shares were purchased on 22 March 2019. With the adoption of accounting standard IFRS 9 Financial Instruments requires that

investments in equity to are classified as fair value through profit and loss unless there is an irrevocable election to designate the asset as fair value through other comprehensive income. The investment in Gravitas Housing Limited is an equity instrument and as such, the default valuation method is any gains and losses on changes in fair value would be recognised through profit and loss.

The Gravitas Housing Limited shareholding is a strategic investment to stimulate housing growth in the District and are not held for trading and therefore the Council has opted to designate it as fair value through Other Comprehensive Income. This means that there is no impact on the revenue budget and the decision to designate to fair value through other comprehensive income is irrevocable. Any gains or losses on the valuation of the shareholding will therefore be transferred to a Financial Instruments Revaluation Reserve. As the shares were purchased on 22 March 2019 the fair value is deemed to be the purchase price. The investment will be revalued at the end of each reporting year taking into consideration the assets and liabilities of the company.

Description	31-Mar-20	31-Mar-19
	£'000	£'000
Gravitas Housing Limited	<u>1,120</u>	<u>1120</u>
Total	<u>1120</u>	<u>1120</u>

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. 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.

	31-Mar-20		31-Mar-19	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB	95,902	121,464	99,122	115,529
Short Term Creditors	5,804	5,804	5,665	5,665
Total	101,706	127,268	104,787	121,194

The fair value of the liabilities is less than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders below current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £121.464 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.

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/reduced] 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 £95.902m would be valued at £98.858. 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 £121.464m.

	31-Mar-20		31-Mar-19	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Cash and Cash				
Equivalents	25,583	25,583	11,694	11,694
Short Term				
Investments	27,368	27,368	45,847	45,847
Long Term				
Investments	2,787		4,000	4,041
Short Term Debtors	3,116	3,116	3,902	3,902
Long Term Debtors	1,843	1,843	24	24
Total	60,697	57,910	65,467	65,508

The fair value of the financial assets in 2019/20 is higher than the carrying amount because the authority's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date.

The fair value measurement of the financial assets and liabilities are all hierarchy level 2 - other significant observable inputs.

27. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

The Council's overall risk management procedures focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services and is based on the framework set out in the Local Government Act 2003 and the associated regulations.

As directed by the Act, the Council has formally adopted the CIPFA Treasury Management Code of Practice and complied with the CIPFA Prudential code. As part of the adoption of the Treasury Management Code, the Council annually approves a Treasury Management Strategy prior to the commencement of the year to which it relates. This strategy sets out the parameters for the management of risks associated with financial instruments.

The Council's Treasury Management strategy for 2019/20 is available on the Council's website at:

<http://moderngovsvr:8080/documents/s22392/Appendix%20G%20TM%20Strategy%202019-20.pdf>

The strategy also includes an Annual Investment Strategy for the forthcoming year, setting out the Council's criteria for both investing and selecting investment counterparties.

These strategies are implemented by the 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.

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 is available on the Council's website.

The Council's credit risk management practices are set out on pages 11 to 12 of the Annual Investment Strategy. With particular regard to determining whether the credit risk of financial instruments has increase significantly since initial recognition.

The Annual Investment Strategy 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 Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The Council uses the creditworthiness service provided by Link. This service uses a sophisticated modeling approach with credit ratings from all three rating agencies – Fitch, Moody's and Standard and Pooers, 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

The full Investment Strategy was approved by Full Council on 1 March 2019 and is available on the Council's website.

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, property fund and money market funds of £54,030m 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, during the £3m was invested with the property fund and at 31 March 2020 this was valued at £2.7m.

Amounts Arising from Expected Credit Losses

We have assessed the Council's short and long term investments and concluded that the expected credit loss is not material therefore no allowances have been made.

A summary of the credit quality of the Council's investments at 31 March 2020 is shown below, along with the potential maximum exposure to credit risk, based on experience of default and uncollectability.

	Link Asset Services - Colour banding	Lowest Long Term Rating	Balance at 31 March 2020 £'000	Historical Experience of Default %	Estimated maximum exposure to default and uncollectability at 31 March 2020 £
Deposits with Banks and Financial Institutions					
Northamptonshire County Council	Yellow	AA-	2,000	0.001	0
DBS Bank Ltd	Orange	AA-	2,000	0.001	22
Qatar National Bank	Green	A	2,000	0.006	120
Blaenau Gwent County Borough Council	Yellow	AA-	2,000	0.003	0
Close Brothers Ltd	Red	A	1,000	0.012	120
Lloyds Bank Plc (RFB)	Orange	A+	4,000	0.013	505
Santander UK Plc	Red	A	6,200	0.013	782
Monmouthshire County Council	Yellow	AA-	1,000	0.009	0
Close Brothers Ltd	Red	A	1,000	0.019	194
Monmouthshire County Council	Yellow	AA-	2,000	0.011	0
Newcastle Building Society	No Colour	Not Rated	2,000		
Close Brothers Ltd	Red	A	1,000	0.031	308
Lloyds Bank Plc (RFB)	Orange	A+	1,000	0.040	404
CCLA Property Fund	Not Rated	Not Rated	2,700		
Aberdeen Standard Investments MMF*	Yellow	AAA	3,000	0.000	3
BNP Paribas MMF*	Yellow	AAA	1,118	0.000	1
CCLA MMF*	Yellow	AAA	5,000	0.000	5
Federated Investors (UK) MMF*	Yellow	AAA	5,000	0.000	5
Invesco MMF*	Yellow	AAA	4,000	0.000	4
Insight MMF*	Yellow	AAA	3,000	0.000	3
LGIM MMF*	Yellow	AAA	3,012	0.000	3
Total Investments			54,030	0.006	2479

***Money Market Funds**

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

The Council does not generally allow extended credit for its trade debtors, but some of the current balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

Under 30 Days	119	157	118
30-60 days	1,189	2,235	663
60-90 days	128	53	50
Over 90 Days	420	451	307
Total	1,856	2,896	1,138

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

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 Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

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

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

	At 31 March 2020 £'000	At 31 March 2019 £'000	At 31 March 2018 £'000
Less than one year	51,330	56,414	57,975
Between one and two years	2,700	4,000	6,000
Between two and three years	0	0	0
More than three years	0	0	0
Total	54,030	60,414	63,975

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 2020 £'000	At 31 March 2019 £'000	At 31 March 2018 £'000
Less than one year	3,246	28,244	3,245
Between one and two years	3,221	3,221	3,221
Between two and five years	9,665	9,665	34,665
Between five and ten years	16,109	16,109	16,109
Between ten and fifteen years	41,109	16,109	16,109
Over Fifteen Years	22,552	25,774	28,996
Total	95,902	99,122	102,345

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:

Increase in interest receivable on variable rate investments	<u>368</u>
Impact on Surplus or Deficit on the Provision of Services	<u>368</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 and Expenditure)	<u>13,165</u>
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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 but does have shareholdings in the Gravitas Housing Limited which is a wholly owned Local Authority Controlled Company. Whilst these holdings are generally illiquid, the Council is consequently exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for “open book” arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

The shares in Gravitas Housing Limited have been elected as Fair Value through Other Comprehensive Income, meaning that all movements in prices will impact on gains and losses recognized in the Financial Instruments Revaluation Reserve. A general shift of 5% in the general price of the shares (positive or negative) would have resulted in a £56k gain or loss being recognised in the Financial Instrument Revaluation reserve.

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.

28. DEBTORS

An analysis of Debtors is shown below

At 31st March 2019 £'000		At 31st March 2020 £'000
	Current Debtors	
2,163	Government Departments	2,635
294	Other Local Authorities	363
(3)	NHS	(3)
4,098	Other entities and individuals	3,299
6,552		6,294
	Long Term Debtors	
24	Other	2,311
24		2,311

29. ASSETS HELD FOR SALE

As at 31st March 2018, there are 17 Council Dwellings that are in the process of being sold and these are classified as Current Assets Held for Sale in the Balance Sheet. In addition to Right to Buy sales, the disposal of Vantage Park (NBV £820K) was completed. The details of the assets held for sale are shown below.

2018/19 £'000		2019/20 £'000
667	Balance at start of year	532
	Assets newly classified as held for sale:	
315	Property, Plant & Equipment	0
(277)	Assets sold	(363)
(173)	Withdrawn sales transferred back to PPE	(37)
532		132

30. CASH AND CASH EQUIVALENTS

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

At 31st March 2019 £'000		At 31st March 2020 £'000
103	Cash held by the authority	8
817	Bank current accounts	1,445
10,774	Short Term Deposits	24,130
11,694	Total Cash & Cash Equivalents	25,583

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.

31. BORROWING

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

2018/19		2019/20
£'000	Analysis of Loans by Source	£'000
70,878	PWLB	92,656
70,878		92,656
£'000	Analysis of Loans by Maturity	£'000
3,221	Between 1 and 2 Years	3,221
9,665	Between 2 and 5 Years	9,665
16,109	Between 5 and 10 Years	16,109
16,109	Between 10 and 15 Years	41,109
25,774	Over 15 years	22,552
70,878		92,656

Current Borrowing represents borrowing repayable within one year.

2018/19		2019/20
£'000		£'000
3,245	Balance at start of year	28,244
(3,245)	Borrowing repaid during year	(28,244)
28,222	Transferred from Non-Current Borrowing	3,222
22	Accrued interest at end of year	24
28,244	Balance at end of year	3,246

32. CREDITORS

An analysis of Creditors is shown below:

At 31st March		At 31st March
2019		2020
£'000		£'000
3,122	Government Departments	5,237
2,645	Other Local Authorities	893
5,551	Other entities and individuals	5,851
11,318	Total	11,981

33. 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		At 31st March
2019	Carrying Value	2020
£'000		£'000
2,106	Other Land & Buildings	2,035

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		At 31st March
2019	Future Minimum Lease Payments Due	2020
£'000		£'000
3	Not later than one year	0
1	Between one & five years	0
2	Later than 5 years	0
6		0

At 31st March		At 31st March
2019	Expenditure charged to Comprehensive	2020
£'000	Income & Expenditure Account	£'000
3	Cultural	0
3	Corporate	0
6		0

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:

	Gross Investment in the Lease	
At 31st March		At 31st March
2019	Finance Lease Debtor (net present value	2020
£'000	of minimum lease payments)	£'000
13	Non-Current	12
55	Unearned finance income	54
1,740	Unguaranteed residual value of property	1,740
1,808	Gross Investment in the Lease	1,806

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	At 31st	At 31st	At 31st
	March 2020	March 2019	March 2020	March 2019
	£'000	£'000	£'000	£'000
Not later than one year	1	1	0	0
Between one & five years	5	5	1	1
Later than 5 years	1,800	1,802	12	13
	1,806	1,808	13	14

	Gross Investment in the Lease		Minimum Lease Payments	
	At 31st	At 31st	At 31st	At 31st
	March 2019	March 2018	March 2019	March 2018
	£'000	£'000	£'000	£'000
Not later than one year	1	1	0	0
Between one & five years	5	5	1	1
Later than 5 years	1,802	1,803	13	13
	1,808	1,809	14	14

No allowance for uncollectible amounts has been set aside as at 31 March 2019.

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 2019/20 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 2019		At 31st March 2020	
£'000		£'000	
582	Not later than one year	641	
2,174	Between one & five years	2,128	
1,031	Later than 5 years	551	
3,787		3,320	

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 2019/20 no contingent rents were receivable by the Council.

34. PROVISIONS

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 £209k provided at 31st March 2020 £143k is expected to be settled in 2020/21.

	Injury & Damage Compensation Claims £'000	Business Rates Appeals £'000	Total £'000
2019/20			
Balance at 1st April 2019	285	1,738	2,023
Adjusted split due to 50% rates retention	0	(579)	(579)
Additional provisions made in 2019/20	110	633	743
Amounts used in 2019/20	(123)	(23)	(146)
Unused amounts reversed in 2019/20	(63)	0	(63)
Total	209	1,769	1,978

Split between:

Short-term provisions	143	624	767
Long-term provisions	66	1,145	1,211
	209	1,769	1,978

2018/19

Balance at 1st April 2018	301	1,515	1,816
Adjusted split due to 100% rates retention	0	757	757
Additional provisions made in 2018/19	139	0	139
Amounts used in 2018/19	(115)	(329)	(444)
Unused amounts reversed in 2018/19	(40)	(205)	(245)
Total	285	1,738	2,023

Split between:

Short-term provisions	202	742	944
Long-term provisions	83	996	1,079
	285	1,738	2,023

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 Government who is responsible for 50% and Lincolnshire County Council being responsible for a 10%.

35. 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.

2018/19 £'000		2019/20 £'000
	Comprehensive Income and Expenditure Statement	
	Cost of Services	
5,211	- current service cost	6,025
294	- past service cost	214
	Financing & Investment Income & Expenditure	
3,896	- Net interest expense	3,915
(2,564)	-Expected return on assets in the scheme	(2,504)
6,837	Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services	7,650
	Other Post-employment benefits charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:	
(6,004)	-return on plan assets (excluding the amount included in the net interest expense)	11,943
0	-Actuarial gains and losses arising on changes in demographic assumptions	(5,831)
11,891	-Actuarial gains and losses arising on changes in financial assumptions	(14,032)
(90)	-Other	(2,405)
12,634	Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement	(2,675)
	Movement in Reserves Statement	
(2,968)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(4,155)
	Actual amount charged against the General Fund Balance for pensions in the year.	
3,869	- Employers' contributions payable to scheme.	3,495

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:

2018/19 £'000 Original		2019/20 £'000
161,451	Present Value of the defined benefit obligation	145,805
(104,123)	Fair value of plan assets	(94,647)
<u>57,328</u>	Sub-total	<u>51,158</u>
<u>57,328</u>	Net liability arising from defined benefit obligation	<u>51,158</u>

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

2018/19 £'000		2019/20 £'000
94,525	Opening fair value of scheme assets	104,123
2,564	Interest income	2,504
	Remeasurement gain/ (loss: The return on plan assets, excluding the amount included	
6,004	in net interest	(11,943)
3,869	Contributions from employer	3,495
875	Contributions from employees into the scheme	883
(3,714)	Benefits paid	(4,415)
<u>104,123</u>	Closing fair value of scheme assets	<u>94,647</u>

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

2018/19 £'000		2019/20 £'000
Original		
143,088	Opening balance at 1 April	161,451
5,211	Current Service Cost	6,025
3,896	Interest cost	3,915
875	Contributions from scheme participants	883
	Remeasurement (gains) and losses:	
0	Actuarial gains/ losses arising from changes in demographic assumptions	(5,831)
11,891	Actuarial gains/ losses arising from changes in financial assumptions	(14,032)
(90)	Other	(2,405)
294	Past Service cost	214
(3,714)	Benefits paid	(4,415)
161,451	Closing Balance at 31st March	145,805

f. Local Government Pension Scheme assets comprised

2018/19	Fair Value of Scheme Assets	2019/20
£'000		£'000
992	Cash and Cash equivalents	566
	Equity instruments by industry type:	
11,286	Consumer	4,132
4,434	Manufacturing	2,774
2,535	Energy and utilities	1,123
6,244	Financial institutions	2,649
6,882	Information technology	6,481
4,674	Other	966
<u>36,055</u>	Sub Total Equity	<u>18,125</u>
<u>1,170</u>	Private Equity:	<u>0</u>
	Real Estate	
8,594	UK Property	7,905
666	Overseas Property	622
<u>9,260</u>	Sub-total Property	<u>8,527</u>
	Investment Funds and Unit Trusts	
28,378	Equities	29,630
12,541	Bonds	17,688
1,967	Infrastructure	2,112
13,760	Other	13,868
<u>56,646</u>	Sub-total other investment funds	<u>63,298</u>
<u>104,123</u>	Total Assets	<u>90,516</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 31 March 2019.

The significant assumptions used by the actuary have been:

2018/19

2019/20

Long term expected rate of return on assets in the Scheme

Mortality Assumptions

	Longevity at 65 for current pensioners:	
22.1	Men	21.4
24.4	Women	23.7
	Longevity at 65 for future pensioners:	
24.1	Men	22.4
26.6	Women	25.2
2.9%	Rate of increase in salaries	2.2%
2.5%	Rate of Increase in Pensions	1.9%
2.4%	Rate for discounting scheme liabilities	2.3%

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.

Impact on the Defined Benefit Obligation in the Scheme	Increase/ Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	
Rate of increase in salaries (increase or decrease)	1,260
Rate of increase in pensions (increase or decrease)	12,349
Rate of discounting scheme liabilities	13,717

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 31st March 2022.

The Council is anticipated to pay £3.6m expected contributions to the scheme in 2020/21.

The weighted average duration of the defined benefit obligation for scheme members is 17 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 1YL (Tel: 01522 553656).

36. USABLE RESERVES

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

	Balance at 1st April 2018 £'000	Transfer To Reserve £'000	Transfer From Reserve £'000	Balance at 31st March 2019 £'000	Transfer To Reserve £'000	Transfer From Reserve £'000	Balance at 31st March 2020 £'000
GF Capital Receipts Reserve	3,793		(1,207)	2,586		(269)	2,317
HRA Capital Receipts Reserve	3,332	3,328		6,660	600		7,260
Major Repairs Reserve	10,328	2,331		12,659	1,633		14,292
Earmarked GF Revenue Reserves	19,532		(1,775)	17,757		(2,638)	15,119
General Fund Unapplied Revenue Grants	431	717		1,148		(652)	496
Earmarked HRA Revenue Reserves	1,446		(125)	1,321		(374)	947
Earmarked GF Capital Reserve	4,082		(330)	3,752		(2,680)	1,072
Earmarked HRA Capital Reserves	16,350		(277)	16,073			16,073
Housing Revenue Account Balance	2,489		(482)	2,007		(447)	1,560
General Fund Balance	2,835			2,835		(825)	2,010
	64,618	6,376	(4,196)	66,798	2,233	(7,885)	61,146

37. UNUSABLE RESERVES

Restated At 31 March 2019 £'000		At 31 March 2020 £'000
43,699	Revaluation Reserve	51,827
170,406	Capital Adjustment Account	180,825
(57,328)	Pensions Reserve	(51,158)
1,565	Collection Fund Adjustment Account	393
(131)	Accumulated Absences Adjustment Account	(131)
23	Deferred Capital Receipts	20
0	Financial Instruments Adjustment Account	(107)
0	Financial Instruments Revaluation Reserve	(300)
158,234		181,369

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.

REVALUATION RESERVE		
Restated 2018/19 £'000		2019/20 £'000
37,538	Balance at start of year	43,699
6,576	Upward revaluation of assets	8,636
(223)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	(372)
43,891	Surplus/Deficit on revaluation of non-current assets not posted to Surplus/Deficit on Provision of Services	51,963
(144)	Difference between fair value depreciation and historical cost depreciation	(73)
(48)	Accumulated gains on assets sold or scrapped	(63)
(192)	Amounts written off to the Capital Adjustment Account	(136)
43,699	Balance at end of year	51,827

b. Capital Adjustment Account (CAA)

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 current 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.

37b CAA Continued

Restated 2018/19 £'000		2019/20 £'000
168,049	Balance at start of year	170,406
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement	
(7,637)	Charges for depreciation of non-current assets	(8,205)
(4,018)	Charges for impairment of non-current assets	(4,567)
(2,685)	Revaluation losses on Property, Plant & Equipment	(1,911)
5,015	Revaluation gains reversing previous impairments charged to the Comprehensive Income & Expenditure Statement	9,396
(104)	Amortisation of intangible assets	(112)
(401)	Revenue expenditure funded from capital under statute	(818)
(3,716)	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	(2,587)
<hr/> 154,503		<hr/> 161,602
144	Adjusting amounts written out of the Revaluation Reserve	73
<hr/> 154,647	Net written out amount of the cost of non-current assets consumed in the year	<hr/> 161,675
	Capital financing applied in the year	
1,650	Use of the Capital Receipts Reserve to finance new capital expenditure	2,847
4,202	Use of the Major Repairs reserve to finance new capital expenditure	4,665
1,767	Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	742
154	Statutory provision for the financing of capital investment charged against the General Fund & HRA balances	148
8,106	Self-financed capital expenditure	10,978
(1,000)	Long Term Debtor written down	0
419	Capital expenditure charged against the General Fund and HRA balances	99
<hr/> 15,298		<hr/> 19,479
461	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	(329)
<hr/> 170,406	Balance at end of year	<hr/> 180,825

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.

2018/19 £'000		2019/20 £'000
Original (48,563)	Balance at start of year	(57,328)
(5,797)	Remeasurement of the net defined benefit liability/ (asset)	10,325
(6,837)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on Provision of Services	(7,650)
3,869	Employer's pensions contributions and direct payments to pensioners payable in the year	3,495
(57,328)	Balance at end of year	(51,158)

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.

2018/19 £'000		2019/20 £'000
(399)	Balance at start of year	1,565
19	Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated in accordance with statute	4
1,945	Amount by which NNDR income credited to the CIES is different from council tax and NNDR income calculated for the year in accordance with statutory requirements	(1,176)
1,565	Balance at end of year	393

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.

2018/19		2019/20
£'000		£'000
(131)	Balance at start of year	(131)
	Amounts accrued at the end of the current year	
	Amount by which officer remuneration charged to the	
0	Comprehensive Income & Expenditure Statement on an	0
	accruals basis is different from remuneration chargeable in	
	the year in accordance with statute	
(131)	Balance at end of year	(131)

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.

2018/19		2019/20
£'000		£'000
27	Balance at start of year	23
(4)	Repayments received in year	(3)
23	Balance at end of year	20

g. Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses for certain financial instruments and for bearing losses or benefiting from gains as per statutory provisions. This reserve is used for accounting for monies advanced by the Council at less than the market interest rate (soft loans).

2018/19		2019/20
£'000		£'000
0	Balance at start of year	0
0	Soft Loan Cost	(120)
0	Repayments received in year	13
0	Balance at end of year	(107)

h. Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments which are measured at fair value through profit and loss. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and gains are lost
- Disposed of and the gains are realised

Statutory override on pooled investments

The Council holds £3m of pooled investments. The Council is using the temporary statutory override agreed by MHCLG (5years commencing from April 2018) to account for any changes in the fair value on its pooled investments.

2018/19 £'000		2019/20 £'000
0	Balance at start of year	0
0	Upward Revaluation of Investments	0
0	Downward Revaluation of Investments	(300)
0	Change in Impairment Loss Allowances	0
0		(300)
0	Accumulated gains or losses on assets sold and maturing assets written out to the CIES as part of Other Investment Income	0
0	Balance at end of year	(300)

NOTES TO THE CASHFLOW STATEMENT

38. 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;

2018/19 £'000	2019/20 £'000
7,637 Depreciation	8,205
1,767 Impairment & downward valuations	(2,918)
104 Amortisation	112
3,751 Increase/(Decrease) in Creditors	62
(2,300) (Increase)/Decrease in Debtors	120
(5) (Increase)/Decrease in Stock	(4)
2,968 Movement in pension liability	4,155
3,765 Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	2,650
(254) Other non-cash items charged to the net surplus or deficit on the provision of services	584
<u>17,433</u>	<u>12,966</u>

OTHER DISCLOSURE NOTES

39. INTEREST IN OTHER COMPANIES AND ENTITIES

South Kesteven District Council wholly owns Gravitas Housing Ltd, Invest SK Limited and Environment SK Limited. Group accounts have been produced for Gravitas Housing Ltd and these are available on page 73 onwards.

Invest SK Limited

The registered name of the company is Invest SK Limited, and this is a wholly owned subsidiary of South Kesteven District Council. The company was incorporated on 13 June 2018 and exists to “lead South Kesteven’s ambitious economic development agenda, support local business to grow, deliver new inwards investment, boost the arts, heritage, town centre and visitor economy offers”. The company is a Private company limited by guarantee without share capital

The net assets of the Company at 31 March 2020 are £0.357m (£0.804m 2018/19). The accounts can be obtained from Invest SK, Council Offices, St Peter’s Hill, Grantham, NG31 6PZ.

During 2019/20 the net amount paid by the Council to the company was £1.119m (£1.150m 2018/19).

Environment SK Limited

The registered name of the company is Environment SK Limited, and this is a wholly owned subsidiary of South Kesteven District Council. The company was incorporated on 1 March 2019 and exists to “offer a range of quality, environmental services”.

The net assets of the Company as at 31 March 2020 are £0.456m (£0.686m 2018/19). The accounts can be obtained from Environment SK Ltd, Council Offices, St Peters Hill, Grantham, Lincolnshire, NG31 6PZ.

During 2019/20 the Council spent £1.079m (£63K 2018/19) on services with Environment SK Ltd. At the 31 March 2020 the Council owed £57k (£6k 2018/19) to Environment SK Ltd and Environment SK Ltd owed £9k to the Council.

The Council provided a loan to Environment SK Ltd of £571k during 2019/20 which was the balance outstanding at 31 March 2020.

40. 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.

2018/19 £'000		2019/20 £'000
36	Fees payable to the external auditors with regard to external audit services carried out by the appointed auditor.	44
5	Fees payable to the external auditors for the certification of grant claims.	3
10	CFO Insights	4
5	Fees payable to external auditors for the certification of returns	7
56		58

41. 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 11 and 12 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.

Wholly owned companies of the Council have members and senior officers on the board of Directors. The boards are constituted as follows:

Gravitas Limited – Director of Finance, Assistant Director of Growth, Assistant Director Housing

Environment SK – Cabinet Member for Commercial and Operations, Assistant Director of Commercial and Operations, Community Resilience Lead

Invest SK – Leader of the Council, Deputy Leader of the Council, Chief Executive.

Note 38 provides details of the transactions with Environment SK and Invest SK.

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:

2018/19		2019/20
£'000		£'000
1,659	Town and Parish Councils	1,718
130	Upper Witham Drainage Board	133
58	Black Sluice Drainage Board	58
488	Welland and Deepings Drainage Board	501
<u>2,335</u>		<u>2,410</u>

42. CONTINGENT ASSETS AND LIABILITIES

There were no material contingent assets or liabilities as at 31 March 2020.

43. AUTHORISATION OF ACCOUNTS FOR ISSUE

The date that the Statement of Accounts was authorised for issue was 30 November 2020. 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 Richard Wyles (Chief Finance Officer).

HOUSING REVENUE ACCOUNT

INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

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.

Restated 2018/19 £'000	2019/20 £'000
Income	
Gross Rental Income	
(24,186) - Dwelling Rents	(23,676)
(305) - Non-Dwelling Rents	(289)
(667) Charges for Services and Facilities	(670)
(475) Other Income	(108)
(25,633) Total Income	(24,743)
Expenditure	
9,110 Repairs and Maintenance	8,153
4,812 Supervision and Management	3,657
14 Rent, rates, taxes and other charges	9
269 Increase/(Decrease) in Prov'n for Doubtful Debts	131
5,053 Depreciation and impairment of Non-Current Assets	(812)
40 Debt Management Costs	42
19,298	11,180
(6,335) Net Cost of HRA Services	(13,563)
344 HRA share of Corporate and Democratic Core	2,517
(5,991) Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement	(11,046)
(1,728) (Gain)/loss on sale of HRA assets	(1,358)
803 Contribution Housing Capital Receipts to the Pool	802
0 Other operating income (Right to Buy Discount Repaid)	0
2,815 Interest payable and similar charges	2,731
(384) Interest and Investment Income	(391)
(59) Investment Property Income and Expenditure	(25)
207 Pension Interest Costs and Expected Return on Assets	328
(4,337) (Surplus)/Deficit for the year on HRA services	(8,959)

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

Restated 2018/19 £'000		Note	2019/20 £'000
(2,490)	Balance on the HRA at the end of the previous year		(2,007)
(4,337)	(Surplus)/Deficit for the year on the HRA Income & Expenditure Statement		(8,959)
1,712	Adjustments between Accounting Basis and Funding Basis under statute	7	6,898
(2,625)	Net (increase) or decrease before transfers to or from reserves		(2,061)
3,108	Transfers to or (from) reserves	7	2,508
(2,007)	Balance on HRA at the end of the current year		(1,560)

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 5,994 dwellings during 2019/20. The housing stock and changes during the year are as follows:

	At 1st April 2019	Additions	Disposals /Sales	At 31st March 2020
Rentable Stock				
- Houses	3,197	0	(52)	3,145
- Bungalows	1,498	0	(5)	1,493
- Flats	1,300	13	(2)	1,311
Shared Ownership	22	0	(0)	22
Total	6,017	13	(59)	5,971

2. LAND HOUSES AND OTHER PROPERTY

Analysis of Housing Fixed Assets

	Operational Assets			Non Operational Assets		Total
	Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Investment Properties	Assets Under Construction	
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation at 1 April 2019	234,572	3,845	1,397	461	469	240,744
Additions	4,745	0	99	0	2,299	7,143
Revaluation increases/(decreases) recognised in the Revaluation Reserve	3,452	58	0	0	0	3,510
Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	2,223	2	0	7	0	2,232
Derecognition - Disposals	(2,135)	0	(109)	0	0	(2,244)
Assets reclassified to/from Held for Sale	37	0	0	0	0	37
Gross Book Value as at 31/3/2020	242,894	3,905	1,387	468	2,768	251,422
Depreciation & Impairments						
At 1 April 2019	(9)	0	(1,240)	0	0	(1,249)
Depreciation charge	(3,415)	(220)	(133)	0	0	(3,768)
Depreciation written out to the revaluation reserve	1,151	154	0	0	0	1,305
Depreciation written out to the CI&E	6,836	66	0	0	0	6,902
Impairment losses/(reversals) recognised in the Surplus/Deficit on Provision of Services	(4,567)	0	0	0	0	(4,567)
Derecognition - Disposals	0	0	87	0	0	87
At 31 March 2020	(4)	0	(1,286)	0	0	(1,290)
Balance Sheet Amount at 31 March 2020	242,890	3,905	101	468	2,768	250,132
Balance Sheet Amount at 31 March 2019	234,563	3,845	157	461	469	239,495

The vacant possession value of dwellings at 31 March 2020 was £579.16m (£560.74m at 31 March 2019). 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 2020 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.

Restated 2018/19 £'000		2019/20 £'000
3,638	Depreciation	3,768
(2,641)	Revaluation Loss/(Gain)	(9,135)
4,018	Impairment Losses	4,567
<u>5,015</u>		<u>(800)</u>

4. MAJOR REPAIRS RESERVE

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

2018/19 £'000		2019/20 £'000
10,328	Opening balance on the Major Repairs Reserve	12,658
	Transfer to/ (from) the Major Repairs Reserve	
3,299	Transfer from HRA equal to depreciation	3,415
3,233	Additional contribution from HRA	2,883
(4,202)	Financing of Capital Expenditure	(4,665)
<u>12,658</u>	Closing balance on the Major Repairs Reserve	<u>14,291</u>

5. FINANCING CAPITAL EXPENDITURE

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

2018/19 £'000	Expenditure	2019/20 £'000
4,304	Council Dwellings	4,745
184	Plant and Equipment	99
461	Assets Under Construction	2,299
4,949	Total	7,143
Financed from:		
4,202	Major Repairs Reserve	4,665
470	Capital Receipts	2,478
277	Property Development Reserve	0
4,949		7,143

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	15	0	15
Sale of Vehicles	12	0	12
Sale of Council Dwellings	3,850	(799)	3,051
Mortgage Repayments	3	(3)	0
Total	3,880	(802)	3,078

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

Restated 2018/19 £'000	Movement on the Housing Revenue Account Statement	2019/20 £'000
	Adjustments between Accounting and Funding Basis:	
(1,062)	IAS 19	(1,780)
348	- Pension Costs Charged to Rent Income	689
(4,018)	- Non-Enhancing Capital Expenditure	(4,567)
3,222	Capital Expenditure	3,222
1,728	Gains/losses on disposal of non current assets	1,358
2,641	Revaluation gains/(losses) on PPE	9,135
(803)	Payments to Housing Capital Receipts Pool	(802)
(343)	Depreciation of non-current assets	(357)
(1)	Other Adjustment	0
1,712		6,898
	Transfers to/from Earmarked Reserves:	
(125)	- Transfers to/(from) reserves	(375)
3,233	- Transfers to/(from) Major Repairs Reserve	2,883
3,108		2,508

8. RENT ARREARS

An analysis of rent arrears is shown below:

£'000		£'000
1,086	Current Tenants	1,122
711	Former Tenants	828
1,797	Gross Rent Arrears	1,950
(1,116)	Impairment Provision for Bad & Doubtful Debt	(1,247)

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

**COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2020**

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.

2018/19				2019/20		
Business Rates £'000	Council Tax £'000	Total £'000		Business Rates £'000	Council Tax £'000	Total £'000
Income						
0	77,167	77,167	Council Tax Payers	0	82,427	82,427
42,380	0	42,380	Business Ratepayers	43,195	0	43,195
Apportionment of Previous Year Deficit -						
496	0	496	Central Government	0	0	0
397	0	397	South Kesteven District Council	0	0	0
99	0	99	Lincolnshire County Council	0	0	0
<u>43,372</u>	<u>77,167</u>	<u>120,539</u>	Total Income	<u>43,195</u>	<u>82,427</u>	<u>125,622</u>
Expenditure						
40,804	76,186	116,990	Precepts and Demands	3 41,374	81,473	122,847
177	0	177	Costs of Collection	176	0	176
(91)	0	(91)	Transitional Protection Payment	(186)	0	(186)
Bad and doubtful Debts -						
146	70	216	Write Offs	279	186	465
(20)	89	69	Provisions	(13)	91	78
(890)	0	(890)	Appeals	1,526	0	1,526
Apportionment of Previous Year Surplus -						
0	0	0	Central Government	168	0	168
0	74	74	South Kesteven District Council	1,317	73	1,390
0	501	501	Lincolnshire County Council	822	473	1,295
0	83	83	Lincolnshire Police & Crime Commissioner	0	84	84
<u>40,126</u>	<u>77,003</u>	<u>117,129</u>	Total Expenditure	<u>45,463</u>	<u>82,380</u>	<u>127,843</u>
3,246	164	3,410	Movement on Fund	(2,268)	47	(2,221)
(656)	546	(110)	Balance at the Beginning of the Year	2,590	710	3,300
<u>2,590</u>	<u>710</u>	<u>3,300</u>	Surplus/(Deficit) on Fund at End of Year	<u>322</u>	<u>757</u>	<u>1,079</u>
Allocated to -						
168	0	168	Central Government	(85)	0	(85)
1,487	78	1,565	South Kesteven District Council	311	82	393
935	533	1,468	Lincolnshire County Council	96	565	661
0	99	99	Lincolnshire Police & Crime Commissioner		110	110
<u>2,590</u>	<u>710</u>	<u>3,300</u>		<u>322</u>	<u>757</u>	<u>1,079</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 2019/20 increased to 47,125.7 (46,519.3 in 2018/19)

The Council Tax base was calculated as follows:

Band	Estimated No. of Taxable Properties After Effect of Discounts	Ratio	Band D Equivalent Dwellings
A	12,942.90	6/9	8,628.6
B	11,830.90	7/9	9,201.8
C	9,791.10	8/9	8,703.2
D	8,332.00	9/9	8,332.0
E	5,252.30	11/9	6,419.5
F	2,731.90	13/9	3,946.1
G	1,016.40	15/9	1,694.0
H	65.30	18/9	130.6
Band A entitled to Disabled Relief Reduction	19.70	5/9	10.9
Ministry of Defence Properties			47,066.7
Council Tax Base			<u>59.0</u> <u>47,125.7</u>

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 2019/20 there are two multipliers:

Full	50.4p (49.3p for 2018/19)
Small Business	49.1p (48.0p for 2018/19)

The total Non-Domestic Rateable Value at 31 March 2020 was £111.347m (31 March 2019 £110.310m).

3. PRECEPTS AND DEMANDS

2018/19			2019/20		
£'000	£'000	£'000		£'000	£'000
Council Tax	Business Rates	Total		Council Tax	Business Rates
0	0	0	Central Government	0	20,687
57,287	16,322	73,609	Lincolnshire County Council	60,905	4,137
10,115	0	10,115	Lincs Police & Crime Commissioner	11,375	0
8,784	24,482	33,266	South Kesteven District Council	9,193	16,550
76,186	40,804	116,990		81,473	41,374

STATEMENT OF GROUP ACCOUNTS

INTRODUCTION

The statement of group accounts consolidates South Kesteven District Council accounts with those of its subsidiary Gravitas Housing Limited.

Gravitas Housing Limited has been established by the Council to deliver new housing outside the Housing Revenue Account. The company is wholly owned by the Council and the aggregation of accounts has been completed on a line-by-line basis with intra-group transactions removed.

Group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The aim of the statement of group accounts is to provide the reader with an overall view of the material economic activities of the Group. It provides a summary of the group's financial position and details of material items that have impacted on the accounts during the year. The same accounting policies have been applied to both the Council and Group Accounts.

The main differences between the Group and single entity accounts are seen in the balance sheet:

- Gravitas Housing Limited properties currently being marketed have been added, classified as current assets held for sale in the sum of £2.66m
- £1.9m intercompany loan has been removed from long term debtors and short and long term investments
- £1.12m intercompany investment has been removed from long term investments
- The company's bank balance has added £720k to the cash and cash equivalent total.

GROUP MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the reserves held by the Group, analysed into usable and unusable reserves. The Total Comprehensive Income & Expenditure line shows the true economic cost of providing the Group's services, this is further detailed in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund and Housing Revenue Account for Council Tax setting and dwelling rent setting purposes.

	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Gravitas Housing Ltd	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2019 carried forward	(66,798)	(158,234)	(225,032)	81	(224,951)
Movement in reserves during 2019/20					
Total Comprehensive Income & Expenditure	1,105	(18,588)	(17,483)	(141)	(17,624)
Transfers between Reserves	(3)	3	0	0	0
Adjustments between accounting basis & funding basis under regulations	4,550	(4,550)	0	0	0
(Increase) or decrease in 2019/20	5,652	(23,135)	(17,483)	(141)	(17,624)
Balance at 31 March 2020 carried forward	(61,146)	(181,369)	(242,515)	(60)	(242,575)

	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Gravitas Housing Ltd	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2018 carried forward	(64,618)	(156,521)	(221,139)	0	(221,139)
Movement in reserves during 2018/19					
Total Comprehensive Income & Expenditure	(3,259)	(634)	(3,893)	81	(3,812)
Transfers between Reserves	(1,030)	1,030	0	0	0
Adjustments between accounting basis & funding basis under regulations	2,109	(2,109)	0	0	0
(Increase) or decrease in 2018/19	(2,180)	(1,713)	(3,893)	81	(3,812)
Balance at 31 March 2019 carried forward	(66,798)	(158,234)	(225,032)	81	(224,951)

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting costs of providing services in the year. 2018/19 comparators have been restated to reflect a change in directorates.

2018/19				2019/20		
Group Gross Expenditure	Group Gross Income	Group Net Expenditure	Note	Group Gross Expenditure	Group Gross Income	Group Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
12,858	(6,112)	6,746	Commercial & Operations	14,392	(5,987)	8,405
36,167	(49,309)	(13,142)	Finance, Legal & Democratic	25,698	(45,997)	(20,299)
21,841	(7,633)	14,208	Growth	25,411	(5,547)	19,864
4,398	(156)	4,242	Transformation	4,760	(156)	4,604
75,264	(63,210)	12,054	Cost Of Services	70,261	(57,687)	12,574
Other Operating Expenditure						
0	(1,675)	(1,675)	(Gain)/Loss Disposal of Fixed Assets	0	(1,328)	(1,328)
2,335	0	2,335	Precepts & Levies	2,410	0	2,410
803	0	803	Contribution Housing Capital Receipts to the Pool	802	0	802
(20)	0	(20)	Other Operating Income and Expenditure	0	0	0
3,118	(1,675)	1,443		3,212	(1,328)	1,884
Financing and Investment Income and Expenditure						
2,814	0	2,814	Interest Payable on Debt	2,731	0	2,731
1,332	0	1,332	Net Interest on the net defined benefit liability (asset)	1,411	0	1,411
0	(712)	(712)	Interest & Investment Income	0	(653)	(653)
0	(780)	(780)	Income & Expenditure and Movement in Fair Value of Investment Property	0	(4)	(4)
0	0	0	Movement in the value of property fund income	300	0	300
4,146	(1,492)	2,654		4,442	(657)	3,785
Taxation and Non-Specific Grant Income						
0	(8,877)	(8,877)	Council Tax	0	(9,269)	(9,269)
0	(5,845)	(5,845)	Non-Domestic Rates	0	(3,299)	(3,299)
0	(4,607)	(4,607)	Non-Service-Related Government Grants	0	(4,506)	(4,506)
0	(19,329)	(19,329)		0	(17,074)	(17,074)
	(3,178)		(Surplus) or Deficit on Provision of Services			1,169
	0		Tax expenses of subsidiaries			33
	(3,178)		Group (Surplus)/Deficit on Provision of Services			1,202
	(6,431)		(Surplus) or deficit on revaluation of non-current assets			(8,263)
	5,797		Remeasurement of Defined Pension Liability			(10,325)
	(634)		Other Comprehensive Income and Expenditure			(18,588)
	(3,812)		TOTAL COMPREHENSIVE INCOME & EXPENDITURE			(17,386)

GROUP BALANCE SHEET

The Group Balance Sheet summarises the financial position of the Council and its subsidiary, as a whole. It shows the value of group assets and liabilities at the end of the financial year.

At 31 March 2019 £'000		Note	At 31 March 2020 £'000
321,483	Property Plant & Equipment		333,775
522	Heritage Assets		522
5,912	Investment Property		5,583
335	Intangible Assets		278
4,000	Long Term Investments		2,722
24	Long Term Debtors		490
332,276	Long Term Assets		343,370
532	Current Assets Held for Sale	G1	2,789
45,847	Short Term Investments		27,353
19	Inventories		23
6,533	Short Term Debtors		6,228
12,079	Cash and Cash Equivalents	G2	26,303
65,010	Current Assets		62,696
(28,244)	Short Term Borrowing		(3,246)
(11,843)	Short Term Creditors		(12,211)
(944)	Provisions		(767)
(41,031)	Current Liabilities		(16,224)
(1,079)	Provisions		(1,211)
(70,878)	Long Term Borrowing		(92,656)
(57,328)	Other Long Term Liabilities		(51,158)
(2,019)	Capital Grants Receipts in Advance		(2,242)
(131,304)	Long Term Liabilities		(147,267)
224,951	Net Assets		242,575
£'000			£'000
66,717	Usable Reserves		61,206
158,234	Unusable Reserves		181,369
224,951	Total Reserves		242,575

NOTE G1 – ASSETS HELD FOR SALE

2018/19 £'000		2019/20 £'000
667	Balance at start of year	532
	Assets newly classified as held for sale:	
315	Property, Plant & Equipment	2,657
(277)	Assets sold	(363)
(173)	Withdrawn sales transferred back to PPE	(37)
532		2,789

NOTE G2 – CASH & CASH EQUIVALENTS

At 31st March 2019 £'000		At 31st March 2020 £'000
103	Cash held by the authority	8
817	Bank current accounts	2,165
10,774	Short Term Deposits	24,130
11,694	Total Cash & Cash Equivalents	26,303

NOTE G3 – CASHFLOW

2018/19 £'000		2019/20 £'000
7,637	Depreciation	8,205
1,767	Impairment & downward valuations	(2,918)
104	Amortisation	112
3,603	Increase/(Decrease) in Creditors	(99)
(2,131)	(Increase)/Decrease in Debtors	167
(5)	(Increase)/Decrease in Stock	(4)
2,968	Movement in pension liability	4,155
3,765	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	2,650
(256)	Other non-cash items charged to the net surplus or deficit on the provision of services	584
17,452		12,852

ACCOUNTING POLICIES

I. GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 and The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020. These regulations require the Statement of Accounts 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 2019/20 and 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.
- The impact of IFRS15: Revenue from Contracts with Customers has been considered and deemed to have no material impact.

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. 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.

V. 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.

VI. 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. These expenses are charged on an accruals basis to the relevant service line of the Comprehensive Income and Expenditure Statement.

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 at the earlier of when the Council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Fund, 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.
- The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the balance sheet at their fair value.

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

- Service Cost comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the 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. Remeasurement comprising:
 - 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 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.

VII. 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.

Financial Assets

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

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI).

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

Financial Assets Measured at Amortised Cost

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

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

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

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

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

VIII. 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.

IX. 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.

X. 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 assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(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.

XI. INTERESTS IN COMPANIES AND OTHER ENTITIES

The Council has a material interest in Invest SK and Environment SK. The nature of these relationship has been assessed and they are deemed to be subsidiaries. The Council is not currently required to produce group accounts on the grounds of materiality.

XII. 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.

XIII. 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. As a non-financial asset investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the 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.

XIV. 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).

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 and replaced by a long-term debtor in the Balance Sheet valued on the future income due under the finance lease.

Operating Leases

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

XV. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

XVI. 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.

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 2019/20 is 42%.
- Community assets and assets under construction – historic 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 31 March 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.

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 remains within 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).

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.

XVII. 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.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement 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.

XVIII. 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 transferred 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.

XIX. 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.

XX. VAT

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.

XXI. 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.

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. 31st 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.

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 1st April to 31st 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.

MHCLG

Ministry of Housing, Communities and Local Government.

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

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.

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.

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of South Kesteven District Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Account Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement, Notes to the Collection Fund Statement and Notes to the Group Accounts. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and 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 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

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

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

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's

and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 4 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement other than the Authority and group financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 1, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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 for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

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

Use of our report

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

J Gregory

John Gregory, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

30 November 2020

Annual Governance Statement

2019/20



Guildhall Arts Centre, Grantham



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Foreword

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

In discharging this overall responsibility, South Kesteven District Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

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 Annual Governance Statement conforms to the Council’s Local Code of Corporate Governance and 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 arrangements and explains how they are tested and the assurances that can be relied on to show that the systems are working effectively. The Annual Governance Statement explains how the Council has complied with the Local Code of Corporate Governance, the core governance principles and builds on the work of previous years.

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 excellent foundations on which to build further capacity to enable us to continue to develop and strengthen our governance arrangements.



Cllr Kelham Cooke
Leader of the Council
South Kesteven District Council

Karen Bradford
Chief Executive
South Kesteven District Council

 @southkesteven

 @southkdc

 [linkedin.com/company/south-kesteven-council](https://www.linkedin.com/company/south-kesteven-council)

Key elements of the Council's Governance Framework

Council	<ul style="list-style-type: none"> • Approves Constitution including Codes of Conduct • Approves the Corporate Strategy • Approves the Council's budget and policy framework • Holds decision making meetings in public
Cabinet	<ul style="list-style-type: none"> • Sets priorities in line with the Council's vision and recommend budget proposals to underpin delivery • Delivers financial performance and risk management within the budget and policy framework set by Council • Approves strategies within the Council's policy framework • Holds decision making meetings in public
Governance and Audit Committee	<ul style="list-style-type: none"> • Scrutinises and approves Financial Statements on behalf of the Council • Reviews Financial Regulations, Contract Procedure Rules, Treasury Management Strategy • Reviews and scrutinises governance arrangements, including Local Code of Corporate Governance, internal and external audit reports, management of risk • Reviews annual reports for Safeguarding, Health & Safety, Business Continuity and complaints made to the Ombudsman
Overview and Scrutiny Committees	<ul style="list-style-type: none"> • Provide a critical friend challenge to the Cabinet as well as external authorities and agencies • Reflect the voice and concerns of the public and its communities • Holds meetings in public
Companies Committee	<ul style="list-style-type: none"> • Considers proposals on the creation of any new company or joint venture, making recommendations to Cabinet • Provides oversight of companies, joint venture partnerships or other such collaborative arrangements whether wholly or jointly owned by the Council • Provide the scrutiny function for investments, outcomes against funding, property disposals and other resourcing decisions made in relation to companies
Management	<ul style="list-style-type: none"> • Reviews performance management and projects including progress against milestones, resource allocation, risks and performance • Completes annual assurance statements and contribute to the effective corporate management and governance of the Council
Risk Management	<ul style="list-style-type: none"> • Reviews risk registers for corporate, operational and fraud risks • Corporate risks considered by senior managers quarterly and Governance and Audit Committee biannually
Internal Audit	<ul style="list-style-type: none"> • Sets the internal audit strategy to meet the Council's overall strategic direction and provide assurance on risk management, governance and internal control arrangements • Undertakes annual programme of audits and presents progress reports against the plan • Makes recommendations for improvement in systems and controls and value for money

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 2019/20.

Principle A

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

The Council has defined and communicated the standards of conduct and personal behaviour expected of elected Members and Officers through various policies, procedures, codes of conduct and protocols to ensure integrity. Conduct training formed part of the induction programme for Members following the quadrennial election in May 2019.

We have arrangements in place for individuals to raise concerns where they believe these values and behaviours are not being met. 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.

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 is accountable to, engages with and informs the local community. It enables the Council to monitor the achievement of its strategic objectives.

Whenever the Council makes a decision it ensures legal implications are considered. To help it to do this, all reports include legal and governance implications, which are signed off by the Monitoring Officer or a Legal Officer.

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. The only reasons the Council can exclude the press and public from the meeting are for those reasons set out in Schedule 12A of the Local Government Act 1972 (as amended).

Our constitution sets out how we engage with stakeholders and partners.

We have carried out a number of consultations during 2019/20 including engagement with residents and representatives from clubs and societies on a draft cultural strategy. Over a thousand responded with information on what they like to do in their spare time in respect of sports, physical and cultural activities.

Those residents on the Food Waste Trial were consulted on their views of what they liked about the trial, what they do not like, why they participate and how things might be improved. 30% of participants in the trial responded, the majority stating that they took part because they believed it was the right thing to do for the environment (82.1%). Most of the respondents supported a weekly collection of food waste (90%) and liked that the liners were provided free of charge (76%).

Local residents and stakeholders to the Stamford Customer Service Centre and Deeping Customer Service Centre were consulted on a proposal to close the two area offices and replace with a self-service facility within the Stamford Arts Centre and Stamford Library, and the Community Centre and Community Library respectively. The majority of respondents did not support the proposals.



Celebrating the first year of LotterySK in September 2019 are Cllr Kelham Cooke and Chairman Jacky Smith with representatives from local good causes



Wherry's Lane, Bourne

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

EnvironmentSK Ltd, a company wholly owned by the Council, has had a successful year of providing grounds maintenance and arboricultural services, maintaining parks, playing fields and areas of open space for both residents and tenants. As well as providing the council with their core services they also provide a variety of services to a number of parish councils, private companies and residents. They have expanded their work to include fencing works, hedge planting and other such services, and have proved to be flexible and understanding in their approach to their customers.

InvestSK was established in 2017 and has worked with the Council to drive economic growth, business

support and engagement, inward investment, skills development and regeneration and heritage schemes.

InvestSK has supported companies to grow and new businesses to start, hosted networking events and promoted development opportunities to national businesses. InvestSK activities were refocused towards the end of 2019/20 to support the Council in its response to Covid-19; working closely with its finance and business rates team to deliver critical support to local businesses.

LotterySK celebrated its first birthday. It now has 109 approved good causes – the newest of which has raised £1,560 in just six weeks. Good causes are being supported by 1,129 players that buy an average of 1.94 tickets each. The total revenue generated for good causes is in excess of £123,000.



Marking the first anniversary of the launch of EnvironmentSK are Cllr Kelham Cooke (second from left) and Cllr Dr Peter Moseley (left) with two members of the Environment SK team

Principle E

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

The Council has a People Strategy which is built around three themes:

- Attract the right people, retain and develop excellent skills, define and embed the right culture
- Engaging and valuing our people in order to run our business effectively
- Effective leadership to encourage, inspire and navigate change

The aim of the People Strategy is to provide an immediate and on-going and long-term framework for engaging, sustaining, developing and managing our people to be fit for purpose in supporting the Council’s vision, goals and the aspirations outlined in the Corporate Strategy. In order to address this, we will:

- Attract and recruit high calibre staff regionally and nationally
- Develop and support our staff to fulfil their potential and help us deliver our aspirations
- Retain and reward our staff through recognising their contribution
- Promote and secure excellent leadership and management
- Create and maintain a progressive, collaborative and healthy working environment

The Council has a scheme of delegation that sets out how decisions are made within the Council both at Member level and officer 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.

Our Risk Management Framework sets out our approach to identifying and controlling risks. Risk registers are maintained at corporate and service

area level. Corporate risks are reported to Corporate Management Team and to Governance and Audit Committee biannually.

Our counter fraud strategy structured on the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, sets out the importance of achieving intended outcomes, whilst acting in the public interest, and being seen to do so.

The Council continues to be a 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 in Lincolnshire to develop and deliver proactive exercises and investigate fraud.

Financial management is a key element of the structure and processes that comprise the Council’s governance arrangements.

Underpinning the delivery of our Corporate Strategy 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.

Corporate Risks 2019/20

1. Maintaining an effective internal control environment (able to mitigate against material failure)
2. Ensuring ongoing resilience and quality in third parties ie partners, major providers, suppliers etc
3. Achieving future financial resilience
4. Ensuring robust security measures to protect the Council’s data and assets from cyber threats

Principle G

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

.....

The Council 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 have regard to 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 directly to the Governance and Audit Committee on all aspects of its work, including tracking the implementation of management actions. The Committee also has the opportunity to suggest items for the internal audit work programme.

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

Governance Framework for 2019/20

The Governance Framework shown below has been in place throughout the financial year which ended on 31 March 2020 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, internal policies and procedures
- Management of risk
- Effectiveness of internal controls

Sources of Assurance

- Constitution; Scheme of Delegation, financial procedures and Contract Procedure Rules
- Council, Cabinet and Committees including Governance and Audit and Overview and 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
- Partnership governance arrangements
- Codes of Conduct
- Corporate Management Team
- Annual Assurance Statements
- Customer complaints system

Assurances Received

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

Review of Effectiveness

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. 15 reviews were undertaken during 2019/20 plus two follow-up reviews. The 15 reviews resulted in an assurance opinion summarised below:



For the twelve months ended 31 March 2020, 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 organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective."

With regard to the issues raised by the Head of Internal Audit in their Annual Report to the Governance and Audit Committee in June 2020, 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 auditors, Grant Thornton, concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The following significant Value for Money audit risks were identified:

Financial sustainability – Like most of local government, the authority faces a challenging future driven by funding reductions and an increase in demand for services. This is further complicated by the uncertainty relating to the future of financing of local government, particularly business rate reform, fair funding review and the strategy for funding social care. The authority needs make tough decisions ahead to deliver balanced budgets over the coming years, but also maintain strict budgetary control to minimise overspends and continue to monitor delivery of savings targets tightly.

Governance and Audit

Committee is well established with its terms of reference complying fully with CIPFA guidance.

The key areas covered by the Committee's terms of reference are:

- accounts and financial reporting
- financial regulations
- treasury management
- internal and external audit activity
- risk management
- governance
- counter fraud and bribery
- contract procedure rules
- regulatory framework
- the ombudsman process

In addition, Committee receives annual reports on:

- Business Continuity
- Health & Safety
- Safeguarding

Turnover of statutory officers – It is important that both members, including the new leadership, and officers fully grasp the opportunity presented by these reviews to ensure that the Council is run in an effective way going forward and that the appropriate safeguards are built in to ensure. We will continue to monitor progress during 2019/20.

Internal audit files and reports for key financial systems are reviewed annually by external audit 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 2018/19 annual accounts.

Review of Governance

Last Autumn, a review of governance was undertaken by an independent expert. Their findings established that all the building blocks of good governance are in place within the Council, but not universally so. It has therefore been established that there are some areas for improvement, with some aspects of the Local Code of Governance not working as intended, and these will be addressed in 2020/21 and will form part of the emerging Corporate Plan.

Annual Assurance Statement

Heads of Service produced an Annual Assurance Statement for 2019/20 which assessed the effectiveness of their key internal control environment. Management assurance is a key assurance mechanism on which we seek to obtain visibility over. We recognise that management may not be able to provide a positive assurance in all cases and would prefer a conclusion to be reached that is objective and honest with a view to then addressing any areas of concern in the future as may be required.

Heads of Service were asked to agree, or otherwise, to various statements based on their knowledge and understanding across seven core areas of assurance:

- Business Continuity
- Governance
- Health and Safety
- IT Security and Confidentiality
- Probity and Regularity
- Procurement
- Staffing and Development

The overall assurance level revealed that managers fully agreed with 82% of the statements on assurance with the remainder being 8% partially agreed; 3% not agreed and 7% did not know.

Areas identified for improvement were Business Continuity, IT and Procurement.

Actions will be taken to improve the level of assurance over the controls. These may be addressed at service level, or corporately, to improve internal controls. We will liaise with Internal Audit as part of the annual planning process to seek verification of the assurance levels being provided. This will further inform the overall assurance with regards to the management of assurance within the Council. Actions will be monitored throughout 2020/21.

Covid-19

The Annual Governance Statement assesses the governance in place during 2019/20. It is therefore necessary for us to comment how Covid-19 has impacted on governance during March 2020.

Like all authorities, we became involved in the national Covid-19 response reviewing our decision-making arrangements to ensure that we could still operate effectively while maintaining transparent decision-making.

Impact on business as usual on day-to-day services

From 20 March 2020, all staff who were able were directed to work from home. Where staff were unable to work from home because of IT constraints, a rollout programme was devised based on service priority and any risk factors associated with the individual, for instance if they were required to shield or had caring responsibilities.

Changes were made to the Hackney Carriage and Private Hire Licensing Policy and the Waste Collection Policies to ensure that the services could continue to operate. We closed our arts centres, leisure centres, community centres and made the decision to only undertake urgent housing repairs.

We set up a Community Hub Service and provided grant support to businesses – distribution of the funding was led by the Council supported by InvestSK. The Government, as a part of its response to Covid-19, announced in the March Budget that it would provide local authorities with new grant funding to support economically vulnerable people and households in their local area. As a result of this, we established the Council Tax hardship fund for all working age claimants as per the guidance.

All democratic meetings were postponed pending government legislation to enable virtual meetings. The Leader of the Council amended his scheme of delegation to ensure he could make Key

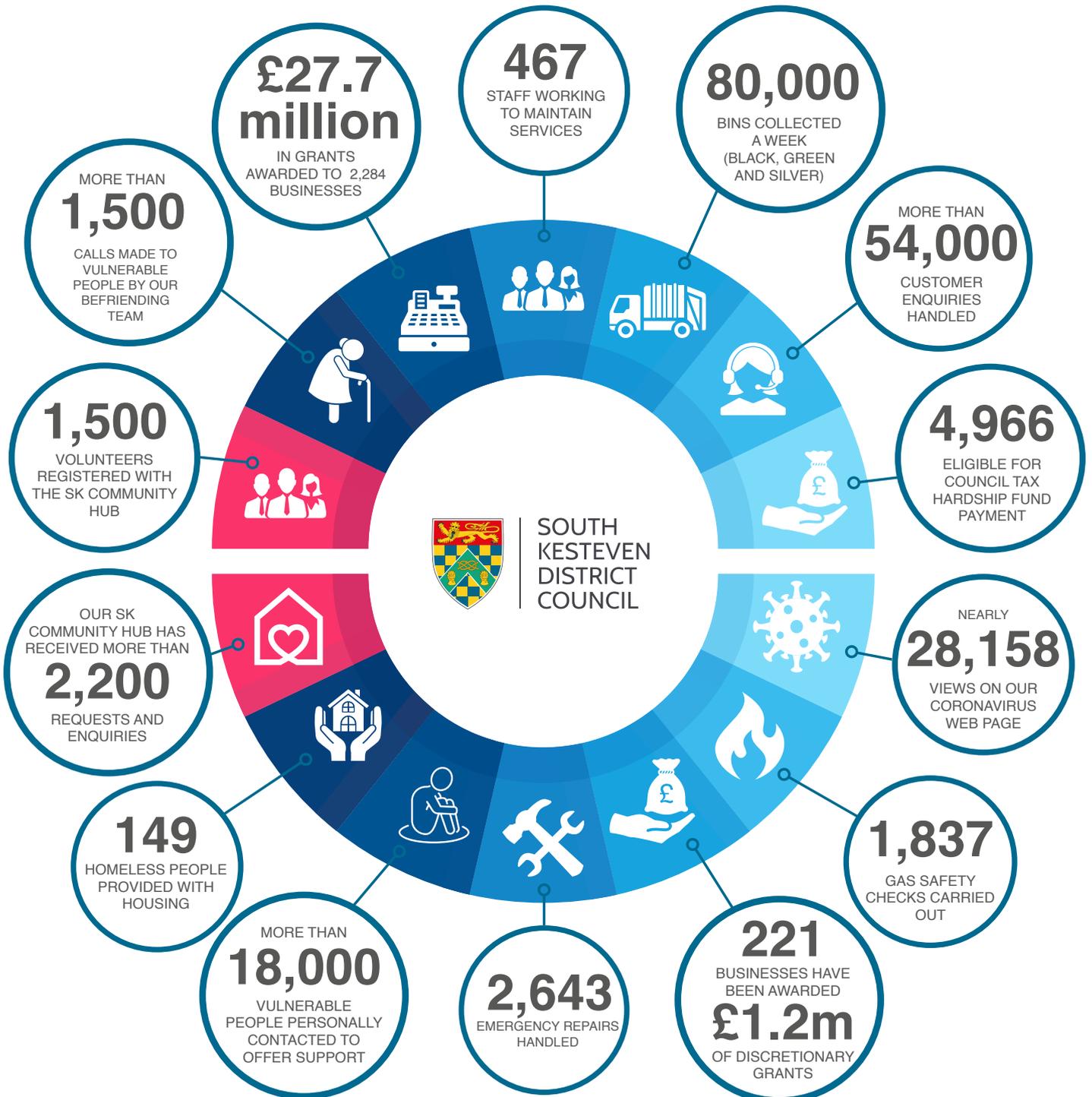
Decisions. Provisions already existed in the Council's Constitutions to enable decisions to be taken as a matter of urgency.

The emergency situation highlighted a lack of clarity in the Council's Constitution relating to the emergency powers of the Chief Executive, succession arrangements in the absence of the Leader of the Council and arrangements relating to the postponement of meetings once the summons has been served. Amendments to be Council's Constitution were approved at a meeting of Council on

14 May 2020 to address these issues.

During the immediate response period the Council's governance arrangements enabled critical decisions to be taken, ensuring the continuation of essential services. Recommendations for improvements to the Constitution were identified and have been implemented, including additional powers for the Chief Executive and putting contingency arrangements in place should the Leader be indisposed. A clear process was also put in place for postponing any meetings where the summons has been sent as a result of an emergency situation.

Our Covid-19 Response (March-August 2020)



Follow-up on last year's key areas of focus

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

Key area of focus identified for 2019/20	Action taken
<p>Continue to review and monitor the budgeted savings and additional income streams and ensure the Medium-Term Financial Strategy reflects the financial climate and supports the delivery of the Council's ambitions</p>	<p>The medium term financial framework was reviewed and updated in order to set out a] three-year budget plan which was presented and approved by Council on 2 March 2020.</p>
<p>Complete a comprehensive review of the Council's Constitution to ensure that it provides effective governance and supports the ambitions of the organisation. This will include the evaluation of the Council's arrangements against the best practice recommendations arising from the Local Government Ethical Standards: A Review by the Committee on Standards in Public Life and plan improvements where required</p>	<p>Work on the review of the Council's Constitution has commenced. This work includes a comprehensive review of the scheme of delegation, as well as the procedures around council and committee and related protocols.</p> <p>It is noted that a national review of the Members' Code of Conduct is underway and due to be completed later in 2020. Any changes will be embedded into the revised code.</p>
<p>Review and update the Council's Financial Regulations and the Contract and Procurement Procedure Rules to support the constitutional review</p>	<p>The Financial Regulations and Contract Procedure Rules were reviewed, updated and approved by Council in January 2020.</p>

Governance Issues

For the financial year 2019/20 there has been no significant governance issues identified by audit. However, we continue to enhance and improve our governance arrangements and relevant actions are listed in the table below:

Key area of focus for 2020/21	Action Owner	Deadline
Implementation of actions arising from the independent expert review of governance in accordance with the improvement plan	Assistant Director of Democratic and Legal Services (Monitoring Officer)	June 2021
Completion of the review of the Constitution in accordance with the project plan	Assistant Director of Democratic and Legal Services (Monitoring Officer)	October 2021
Update of the Council's assessment against the Delivering Good Governance in Local Government: Framework	Assistant Director of Democratic and Legal Services (Monitoring Officer)	June 2021
Implementation of actions arising from the Annual Assurance Statement to improve internal control assurance	Assistant Director of Finance (S151 Officer)	March 2021
Implementation of internal audit actions in accordance with the dates agreed by Governance and Audit Committee	Assistant Director of Finance (S151 Officer)	March 2021
Delivery of the Covid-19 Recovery Plan	Corporate Management Team	Ongoing