

# Statement of accounts

2020/21



SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL

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## **Narrative Statement**

### **Introduction**

The Statement of Accounts for the year ended 31 March 2021 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 2020/21
- 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.

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 has a reputation of being an outward looking Council that is keen to engage and partner with external organisations and stakeholders. It provides a range of services to the population of approximately 143,000 residents which includes:

- Providing a comprehensive arts and leisure offer
- Providing high quality street scene services Providing business support and economic development through its fully owned company – InvestSK
- Providing high quality grounds maintenance through its fully owned company – EnvironmentSK
- Providing a network of Customer and Community Access Hubs across the District
- Supporting residents manage their bills by providing housing benefit and council tax support Landlord services for approximately 5,920 social rented properties which includes the provision of a repairs and maintenance service for all the Council properties
- Providing homelessness support to those most in need
- Considering and administering Planning and Building Control applications
- Managing car parks and public conveniences
- Compiling and maintaining the electoral register and administering elections

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

## **The Council's Outlook**

### **Financial Environment**

As with most authorities 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. The 2020/21 budget framework that was approved by Council on 2 March 2020 set out a three year position and showed funding challenges alongside the changes to the national funding arrangements. During 2020/21 an amended budget framework was presented and approved by Council in September 2021. This budget reflected the necessary changes to both forecast income and expenditure projections based on the changes that were being experienced during the year. In the medium term, the exact timing of the funding challenges remains unclear but the Council is not being complacent and already has plans in place to reduce its operating expenditure and begin to create financial headroom in order to meet the challenges ahead.

### **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 has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Delivering Good Governance in Local Government Framework and conforms to the Council's Local Code of Corporate Governance and covers all significant corporate systems, processes and controls across all of the Council's activities.

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 identified that although there are some weaknesses in the internal control framework, there is a positive direction of travel with investment in a corporate wide monitoring and tracking system for all audit and governance actions (4Action) and regular reporting of outstanding audit actions to both the Corporate Management Team and each Governance and Audit Committee. Action plans are put in place to address all outstanding actions particularly in those areas where management concerns have also been raised and further work is required to strengthen the control framework.

### **The Council's response to COVID-19**

The Council continued to provide services to residents throughout the COVID-19 pandemic alongside delivering additional support to both residents and businesses in the district. The Councils' response to COVID-19 is detailed in the AGS and a summary of the key achievements directly related to COVID-19 are as follows:

#### Support to Businesses:

- 2,566 businesses received £29.7m of grant funding during the first phase of the pandemic;
- Up to 31 March 2021 the Council had awarded £12.3m of grants to local businesses of second phase funding.

#### Support to Residents

- 12,686 Council Tax account holders received Hardship payments totalling £754k;
- £164,500 Test and Trace payments were awarded to 329 claimants;
- 631 Homeless people were provided with accommodation;
- 2,865 requests were received by our SK Community Hub.

### **Key 2020/21 Achievements**

Council approved the 2020-2023 South Kesteven Corporate Plan on 1 October 2020. The Corporate Plan sets out the strategic vision and key priorities of the Council. The Corporate Plan underpins the Council's strategic activity and provides the performance framework for managing the delivery of the actions and priorities in the Plan. It is good practice for a public sector organisation seeking to deliver a wide set of aims and objectives to set out a Corporate Plan and regularly review the activity and achievements against it. The key achievements against the plan are summarised below:

#### Commercial & Operations

- Budget for the acquisition of land to build a new, modern depot was agreed by Council in November with the purchase of a new site completed on April 2021.
- For 2020/21 96% of streets met the A Grade of the national clean streets standard which means there was no litter or refuse. The remaining 4% achieved the B grade which means there predominantly free of litter and refuse apart from small items.
- In 2020/21 the Council delivered the Garden Waste service to 35,893 customers which was a 5.18% increase on 2019/20.

- Public satisfaction with Wyndham Park is 86.7% which is just below the target of 90+% however Queen Elizabeth Park satisfaction is 87.7% which is above the target of 80+%. Green Flag status at Wyndham Park has been maintained for the last 10 years and in 2021 achieved its first Heritage Award.
- Levels of recycling have reduced slightly across the district, at 38.78% compared with 40.8% in 2019/20, 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.
- In 2020/21 six electric vehicle charging points were installed. It is estimated that 30,000 electric vehicle miles were generated through use of the charging points to 31 March 2021, helping to reduce the district's overall carbon emissions by 7.65 tonnes.

#### Corporate

- The Council implemented a COVID-19 Recovery Plan. The action log indicates that 217 actions have been completed as part of the South Kesteven response to the pandemic covering a broad range of the five priority areas within the Corporate plan. These areas include the re-instatement of services, re-instatement of the High Street and effective communication with residents, Businesses, partners and staff.
- Full Council approved a balanced financial plan for 2021/22 on 1 March 2021.
- Service plans for each service (with the exception of two services with vacant posts at Head of Service level) were developed for 2021/22 and were approved by the Chief Executive setting out the financial and performance target for the financial year 2021/22 which focus on the delivery of the Corporate Plan and the 2021/22 budget.
- In 2020/21 the Council achieved spend of 54.33% with local suppliers against a target of 60%.
- The Council signed up to the Mental Health Challenge and agreed an action plan. A motion will be tabled to Full Council in July that proposes that South Kesteven District Council formally sign up to the Local Authority Mental Health Challenge that will set out supporting positive mental wellbeing as being a priority for the Council.
- The amounts collected from Council Tax 98.40% (2019/20 98.56%), Non-Domestic Rates 97.73% (2019/20 99.15%) and Housing Rent 97.35% (2019/20 97.31%) during the year remained at a high level.

#### Growth & Culture

- In 2020/21 446 houses were completed against a Local Plan target of 650 as COVID-19 has impacted on house build performance, although this level is not dissimilar to historic averages. The Council is working proactively with developers and Homes England to stimulate high quality, sustainable growth.
- The Council secured £5.560m Future High Street Funding to March 2024. Planned spend of this is split into 3 distinct projects: Station approach, Market Place and the conversion of 22 upper floor units into residential dwellings.
- The Council supported the roll out of improved broadband and other key infrastructure to support local businesses and rural areas. The 2020/21 target for broadband coverage across the district was 97% and 96.44% was achieved.

#### Housing & Property

- A review of safeguarding processes and staffing has been undertaken to ensure the Council has robust policy and procedures in place relating to the safeguarding of vulnerable individuals. This review has run alongside the Council's self-assessment submission to the S11 Safeguarding Children audit required to fulfil the Authorities duties under the Children Act 2004. Audit completed January 2021. The Council's submission to this audit is currently going through the Lincolnshire Safeguarding Children Partnership assessment process. The final report from the Partnership relating to the outcome will be published in September 2021.



- The Council prevented 60 homelessness cases against a target of 130. The main reason for this difference is that there was an embargo on possession proceedings due to COVID-19.
- The Council provided 14 new Council Homes across the District.
- The Council worked with housing associations and developers to support the delivery of 49 affordable homes against target of 100 which was due to COVID-19 impacting on site starts.

## **2020/21 Financial Performance**

From a financial perspective, 2020/21 has been the most turbulent year for many years and one that has proved extremely challenging. Almost immediately after the budget was approved by Council on 2 March 2020, the country went into lockdown and subsequently the budget framework was facing a high degree of volatility and uncertainty that continued throughout the remainder of the financial year and into 2021/22.

The Council responded in many ways including the formation of COVID-19 financial impact reports that tracked and monitored the situation throughout the year including updated narrative on the levels of Government support, the impact on the income of the Council, the impact on Business Rate and Council Tax collection and the necessary unforeseen expenditure that was being incurred.

This work culminated in an amended budget being presented and approved by Council on 17 September 2020 which set out the budget allocations that required re-basing and showed in detail the full extent of the potential deficit the Council was potentially exposed to based on a range of scenarios and in the absence of mitigating actions being implemented. The report also confirmed that the Council's Budget stabilisation reserve may need to be utilised to meet any deficit that arises; this reserve was further bolstered by specific allocations to it as part of the Budget framework proposals for 2021/22 that were approved by Council on 1 March 2021.

During the year 2020/21 there have been a high number of grants that have been awarded to the Council in order to serve a number of objectives ranging from supporting local businesses, communities, residents and also to provide specific financial support to the Council for reimbursement of lost income and supporting the financial recovery of the culture and leisure services. These are summarised below in table 1:

**Table 1 - Specific Covid Grants 2020/21**

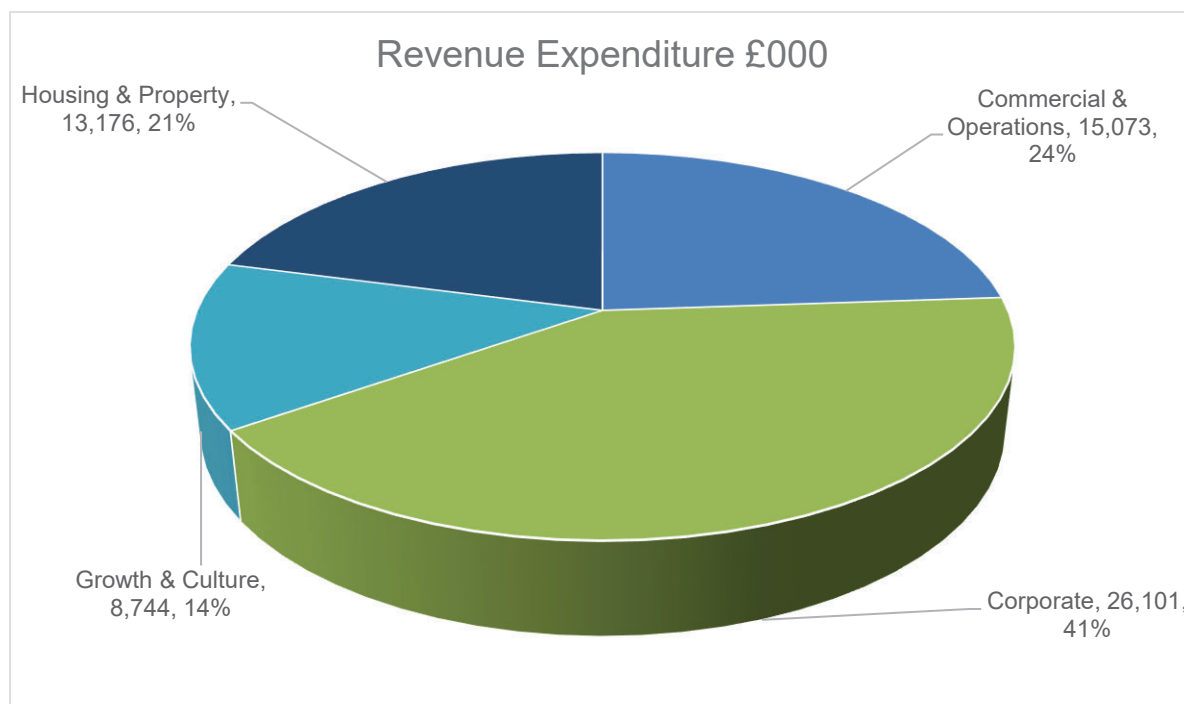
| <b>Name of Grant</b>                               | <b>Amount Awarded 2020/21 £'000</b> |
|--|-------------------------------------|
| Re-opening High Streets Safely                     | 126                                 |
| Covid Compliance and Enforcement (Covid Marshalls) | 55                                  |
| LCC Covid Outbreak Management (Test and Trace)     | 100                                 |
| Leisure Recovery                                   | 321                                 |
| Cultural Recovery                                  | 230                                 |
| Furlough scheme (Arts and Building Control)        | 331                                 |
| Business Grants awarded                            | 42,145                              |

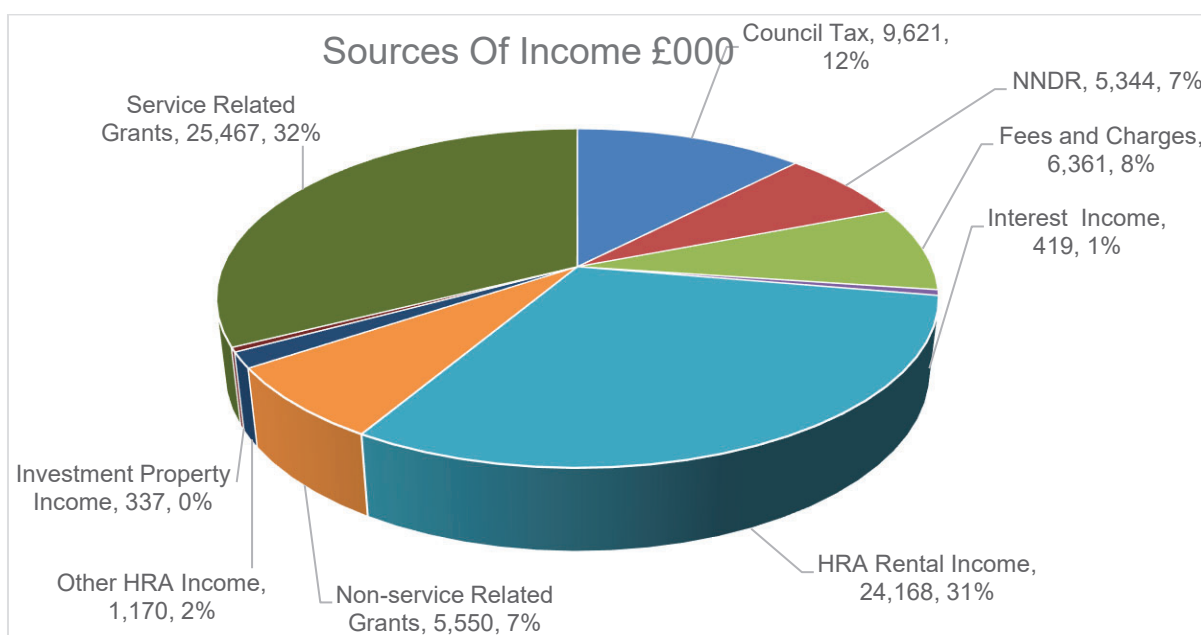
|   |       |
|---|-------|
| Winter Grant Scheme                           | 8     |
| Tranches 1 – 4 Government support for Council | 1,793 |
| Council Tax Hardship Grant                    | 924   |
| Co-payment losses contribution                | 653   |

### **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 2020/21 totalled £63.094m compared with £70.247m in 2019/20. The decrease in expenditure in 2020/21 is mainly due to a reduction in capital charges of £4.739m which are reversed using statutory accounting adjustments so there is no impact on Council resources and a reduction of £1.150m in 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 2020/21 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 in 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. Due to the financial impact of COVID-19 an amended budget was approved by Council on Table 1 shows the adjusted revenue budget compared with the actual net expenditure by directorate at 31 March 2021:

**Table 2 - Revenue Outturn Position**

| Directorate                                | 2020/21<br>Original<br>Budget<br>£'000 | 2020/201<br>Amended<br>Budget<br>£'000 | 2020/21<br>Outturn<br>£'000 | 2020/21<br>Variance<br>£'000 |
|--|--|--|-----------------------------|------------------------------|
| Commercial and Operations                  | 8,033                                  | 9,664                                  | 9,809                       | 145                          |
| Corporate                                  | 7,283                                  | 10,109                                 | 9,362                       | (747)                        |
| Growth & Culture                           | 5,161                                  | 6,718                                  | 6,174                       | (544)                        |
| Housing & Property                         | 1,238                                  | 2,090                                  | 1,612                       | (478)                        |
| Housing Revenue Account Recharge           | (2,558)                                | (2,566)                                | (2,592)                     | (26)                         |
| <b>Sub-total</b>                           | <b>19,157</b>                          | <b>26,015</b>                          | <b>24,365</b>               | <b>(1,650)</b>               |
| Housing Revenue Account                    | (8,018)                                | (7,118)                                | (18,034)                    | (10,916)                     |
| <b>Net Cost of Services</b>                | <b>11,139</b>                          | <b>18,897</b>                          | <b>6,331</b>                | <b>(12,566)</b>              |
| Internal Drainage Board*                   |  |  | (724)                       |                              |
| Investment Property*                       |  |  | 321                         |                              |
| <b>Adjusted Net Cost of Services Total</b> |  |  | <b>5,928</b>                |                              |

\*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 2 details a net underspend of £1.650m when compared with the amended budget. This underspend 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 underspend of £3.014m.

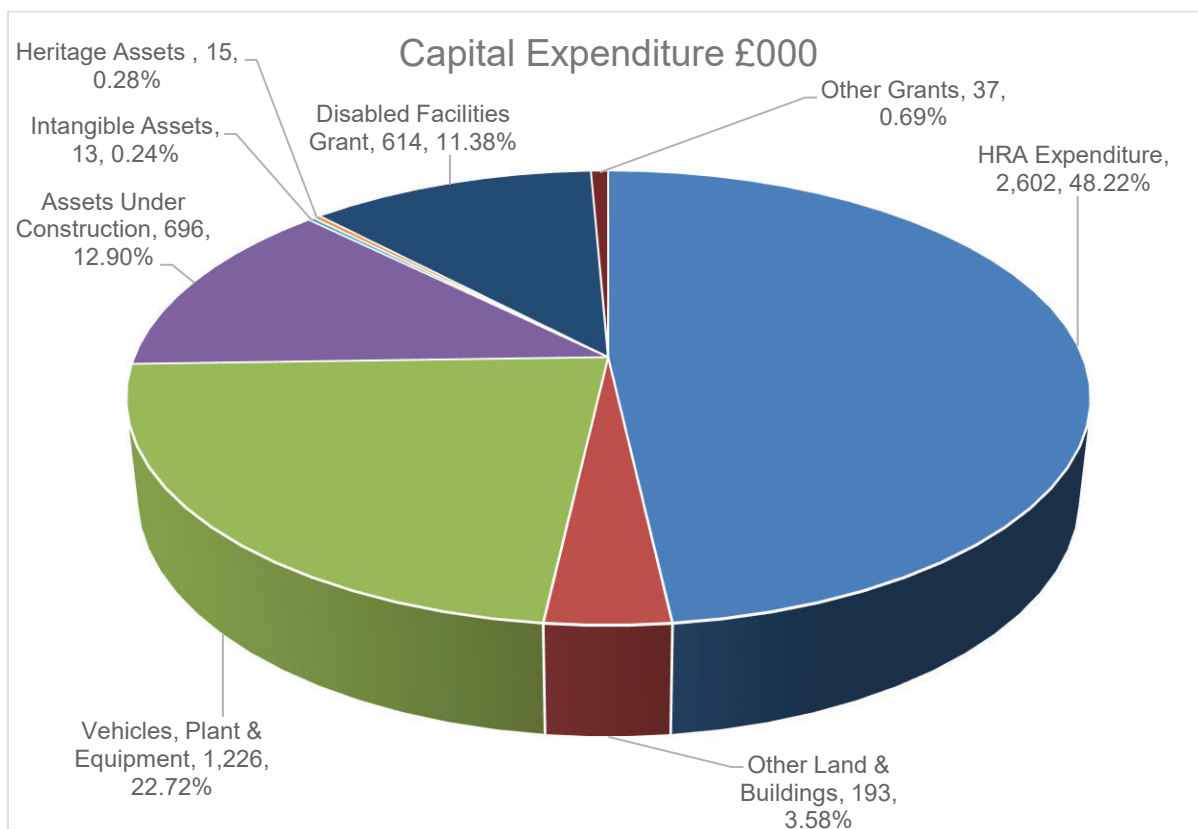
There are a number of under and over spends which account for this variance which include in year vacancies which resulted in an underspend of £428k although this is partly offset by an overspend in agency fees of £115k. The Council received additional income of £856k from a number of grants including job retention grant, new burdens and cultural recovery grant. Additional income of £670k was received from a number of service areas including car parking, commercial rent and planning. Expenditure savings totalling £1.424m were achieved across the Council which include an alteration to the works to the Council offices and a reduction in advertising, postage and printing costs. The savings and additional income received by the Council are partly offset by an increase in expenditure of £995k which includes the award of £739k Council Tax relief which is funded by a Section 31 grant and a reduction in income of £240k from court fees. which are partly offset which are partly offset by a number of service areas were achieved totalled £1.424m. The 2020/21 Capital and Revenue Outturn reports provides detailed explanation for the variances and can be accessed <http://moderngov.southkesteven.gov.uk/ieListDocuments.aspx?CId=164&MId=4115&Ver=4>.

## **Housing Revenue Account Outturn**

The outturn position for the HRA shown at table 2 details an in year surplus of £10.916m (2019/20 £2.821m surplus) when compared with the amended budget. The difference between 2019/20 and 2020/21 mainly relates to a revaluation gain in 2020/21 of £12.353m compared with a reduced gain of only £9.056m in 2019/20, a reduced impairment charge of £2.602m in 2020/21 compared with £4.567m in 2019/20 these gains are reversed using statutory accounting adjustments so there is no impact on Council resources. There was also a reduction of £0.868m in repairs cost which was due to a delay in repairs due to COVID-19 as properties needed to be accessed to complete the repair. The 2020/21 Capital and Revenue Outturn reports provides detailed explanation for the variances.

## **Capital Expenditure**

Capital expenditure is defined as expenditure incurred on assets which have a life exceeding one year. The Council incurred expenditure totalling £5.396m in 2020/21 compared with £16.108m in 2019/20. This difference mainly relates to £2.491m of loans to other organisations in 2019/20, £2.904m of expenditure in 2019/20 on the cinema development and associated public realm work, £1.964m reduction in expenditure on HRA major repair works due to COVID-19 restrictions, £2.299m of expenditure was incurred on New Build properties compared with £0.404m in 2020/21 and there was a reduction in the expenditure on equipment of £1.226m which mainly relates to the expenditure incurred on the university fit-out project (£0.581m), the wireless project (£0.194m) and a number of smaller capital projects (£0.172m) in 2019/20. The following chart details the capital expenditure incurred in 2020/21.



It can be seen from the chart that 12.9% of the capital expenditure was assets under construction. This expenditure primarily relates to £0.229m on an office conversion on Elm Street in Stamford and £0.405m has been invested in developing new homes in the HRA.

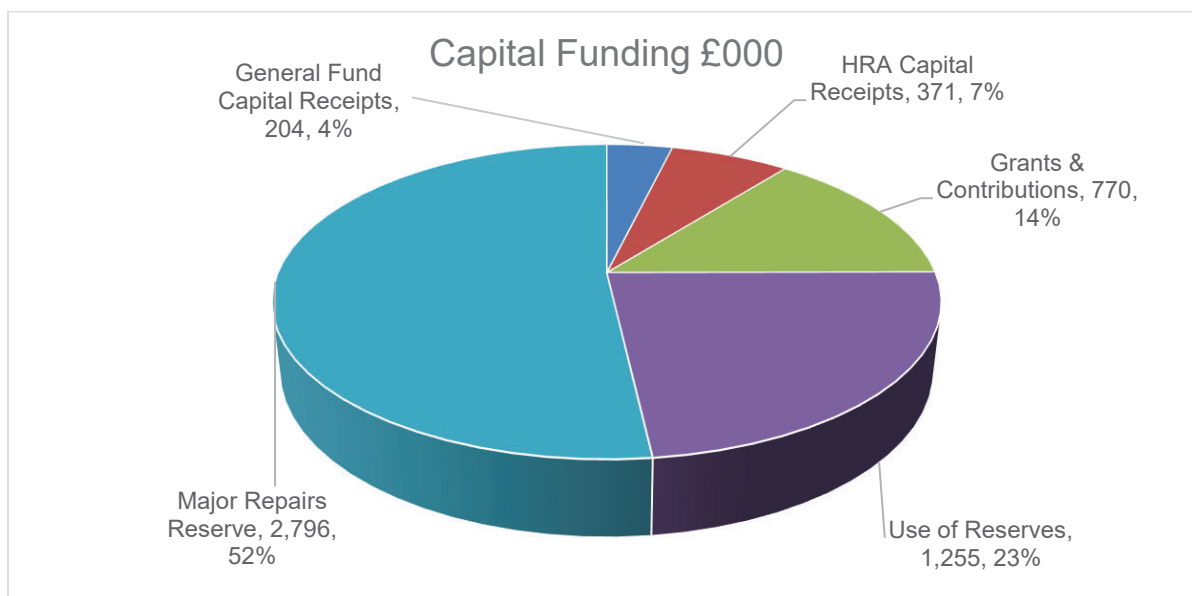
Expenditure on the HRA accounts for 48.22% of the total capital expenditure, the £2.602m incurred related to enhancing Council dwellings, for example replacing roofs, kitchens and bathrooms.

Vehicle, Plant and Equipment accounts for 22.72% of the expenditure incurred. This expenditure includes £0.939m on vehicles, £0.779m relates to the General Fund and £0.160m to the HRA. £0.287m was invested in new equipment which includes £0.107m on the fit-out of the University which is located in the Savoy cinema building and £72k on vehicle electric charging points in Welham Street Car Park.

The other forms of capital expenditure relate to capital grants released to finance capital assets owned by third parties, heritage and intangible assets. £614k was incurred on Disabled Facilities Grants and £37k on Shop Front Grants which are both financed by Government Grants.

### **Capital Financing**

The Council has funded the 2020/21 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 £0.142m 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 £1.255m of reserves to finance 23% of the remaining expenditure. The main use of these reserves was the office conversion on Elm Street (£0.229m) in Stamford and replacement vehicles (£0.768m).

The council utilised £0.770m of government grants of which £0.614m was used to finance the disabled facilities grants, £97k was towards the cost of the university fit-out, £44k towards the cost of the Vehicle Electric Charging Points and £15k was used to finance shop front grants.

At 31 March 2021 the balance on the ring-fenced Major Repairs Reserve was £17.90m which will be invested in continuing to enhance Council dwellings and other HRA assets. The balance of £8.057m on the HRA capital receipts reserve will be used to increase Council housing stock. The General Fund capital receipts reserve had a balance of £2.195m. The Council continues to generate its own resources through the disposal of assets deemed to be surplus. During 2020/21 £0.797m of HRA capital receipts were received 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 are presented to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee and Cabinet. 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 Plan and the budget report for the following year. The 2020/21 Revenue and Capital Outturn report presented to Finance, Economic Development and Corporate Services Overview and Scrutiny Committee, Cabinet and Governance and Audit Committee provides further detail on the variances between the adjusted budget and actual spend.

## **LOOKING FORWARD**

### **Strategic Direction - Vision**

Following the approval of the Corporate Plan in October 2020, the budget setting and medium term financial planning underpins and supports the delivery of the stated ambitions as set out in the Plan. This clarity of focus and purposes allows the Council to be clear on how its funding will be prioritised and enable disinvestment or re-allocation from non-priority areas. The Plan now sets out the core of the Council's overarching strategic planning framework which includes the Medium Term Financial Plan, Local Plan and arrangements for delivering good governance.

### **Sustainable Financial Autonomy**

Sustainable financial autonomy remains a core part of the Council's ambitions whereby it is no longer reliant on Government grant support to deliver its Corporate Plan ambitions but is able to generate income for re-investment. Accordingly, the Council is committed to:

- An ongoing, robust and detailed review of the assumptions that underpin the Medium Term Financial Plan supporting by scenario planning linked to the timing of the national funding distribution changes specifically business rates reset and the Fair Funding review. 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 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.
- Ensuring that the Capital investment ambitions are supported by robust business cases that demonstrate value for money and support the Corporate Plan. The Capital programme is supported by a robust governing framework that includes details of the capital cost and financing of each of the capital investments.
- Commissioning services that are relevant to the community and valued by those who use them.
- Reviewing the costs and performance of operating assets and identifying those that are classified as surplus to requirements or can be disposed of to generate capital receipts.

The Housing Revenue Account relates to the management of the Council's social housing stock. Given the issues identified in the delivery of landlord health and safety compliance, considerable improvement plans have been put in place in 2020/2021 and 2021/22 as part of the engagement with the Regulator of Social Housing. As the Housing Service continues its journey to full regulatory compliance and ensures resources are allocated to meet and manage emerging risks, there is the increased possibility of previously unforeseen areas of expenditure being incurred in 2021/2022.

## **EXPLANATION OF THE FINANCIAL STATEMENTS**

The 2020/21 Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting 2020/21, issued by the Chartered Institute of Public Finance and Accountancy and the Accounts and Audit Regulations 2021. 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 2020/21. The accounting policies are outlined on pages 77 to 88 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 Interim 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 2020/21 (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 decreased from £12.560m in 2019/20 to £5.928m in 2020/21. This is primarily due to an HRA revaluation gain in 2020/21 of £12.353m compared with a reduced gain of only £9.056m in 2019/20 and a reduced impairment charge of £2.602m in 2020/21 compared with £4.567m in 2019/20. There was also a reduction of £0.868m in repairs cost which was due to a delay in repairs due to COVID-19 as properties needed to be accessed to complete repairs.

The movement in Financing and Investment Income and Expenditure is technical in nature. The decrease of £0.371m consists of a net increase of £83k on interest payable and receivable, a reduction of £0.223m on net interest on the pension liability and the £0.281m movement in the value of the property fund investment.

There has been an increase of £3.441m in the income received from taxation and non-specific grants. There was a decrease of £0.482m in NNDR and Section 31 business rate grant. There was an increase in Council tax of £0.352m and a reduction in New Homes Bonus of £0.143m. The Council received £3.440m of Section 31 grants to fund the cost of COVID-19 which includes £0.739m to fund the cost of the Council Tax Hardship awards, £0.653m Co-payment Losses grant and £1.793m COVID Support grant.

The combination of these variances means there has been an increase of £9.511m 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 £13.250m (Surplus of £8.263m in 19/20) being recognised in the CIES. This relates mainly to the upward revaluation of Council Dwellings. Changes in actuarial assumptions in the pension fund have resulted in a loss of £14.974m (19/20 surplus of £10.325m) 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 £6.683m largely due to:



- an increase of £15.784m in Property, Plant and Equipment which relates to revaluation gains and the acquisition of new assets;
  - an increase of £11.450m in Short Term Debtors which mainly relates to the Central Government and Lincolnshire County Council Collection Fund Debtor;
  - an increase of £13.692m in Short Term Investments and Cash and Cash Equivalents which is due to higher cash balances following the receipt of additional Section 31 grants received during the year;
  - an increase of £17m in Short Term Creditors which mainly relates to the receipt of additional Section 31 grants;
  - an increase of £17.873m in other long term liabilities which relates to an increase 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 61)** - 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 £15.341m in 2020/21 (£8.959m in 2019/20) this increase is mainly due to a revaluation gain in 2020/21 of £12.353m compared with a reduced gain of only £9.056m in 2019/20 and a reduced impairment charge of £2.602m in 2020/21 compared with £4.567m in 2019/20. There was also a reduction of £0.868m in repairs cost which was due to a delay in repairs due to COVID-19 as properties needed to be accessed to complete repairs.
- **Collection Fund (pages 68)** – 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 deficit of £22.710m on the Business Rates section of the Collection Fund compared with a surplus of £0.322m (£2.590m in 2019/20). There are a number of variables that affect this including valuation appeals by businesses to the Valuation Office and collection rates. The deficit is distributed as follows: £11.353m Central Government, £9.087m South Kesteven District Council and £2.270m Lincolnshire County Council. The deficit relates to an in -year reduction in the net business rates collectible following the award of additional reliefs to support businesses during the COVID-19 pandemic which are funded by Section 31 grants. The Council received the Section 31 grant to fund the additional reliefs in 2020/21 but due to the technical nature of the Collection Fund they will be used to fund the deficit in future years. The Council has transferred the grant to a newly created a Section 31 Grant reserve which had a balance of £8.828m at 31 March 2021.
- **Statement of Group Accounts (page 71)** – according to statutory requirements the Council is required to produce Group Accounts where it has subsidiaries, joint ventures or associates. The Council has four wholly owned companies (EnvironmentSK, Gravitas Housing Ltd, InvestSK and LeisureSK) 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 Gravitas Ltd have been consolidated with the Council's. LeisureSK has only been operating since 1 January 2021 so the Group Accounts in 2021/22 will also include this company as well.

- **Glossary of Terms (page 89)** – 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](mailto: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/index.aspx?articleid=8920>

## 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 Interim 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 2021.



**Richard Wyles CPFA, ACMA, FCMA**  
**CHIEF FINANCE OFFICER**  
**20 October 2021**



**Councillor Ian Stokes**  
**Chairman of Governance & Audit Committee**  
**20 October 2021**



## MOVEMENT IN RESERVES STATEMENT

|   | General Fund<br>Balance<br>(including<br>Earmarked<br>Reserves) | Housing<br>Revenue<br>Accounts<br>(including<br>Earmarked<br>Reserves) | Capital<br>Receipts<br>Reserve | Major Repairs<br>Reserve | Total Usable<br>Reserves | Unusable<br>Reserves | Total Reserves   |
|---|---|--|--------------------------------|--------------------------|--------------------------|----------------------|------------------|
|   | £'000   | £'000  | £'000                          | £'000                    | £'000                    | £'000                | £'000            |
| <b>Balance at 31 March 2020 carried forward</b>                           | (18,697)  | (18,580)   | (9,577)                        | (14,292)                 | (61,146)                 | (181,369)            | (242,515)        |
| Movement in reserves during 2020/21                                       |   |  |                                |                          |                          |                      |                  |
| Total Comprehensive Income &<br>Expenditure                               | 6,935   | (15,341)   | 0                              | 0                        | (8,406)                  | (576)                | (8,982)          |
| Transfers between Reserves  | 0   | 2,974  | (42)                           | (2,974)                  | (42)                     | 42                   | 0                |
| Adjustments between accounting basis &<br>funding basis under regulations | 17  | (17,475)   | (633)                          | (634)                    | (7,124)                  | 7,124                | 0                |
| (Increase) or decrease in 2020/21   | (10,540)  | (749)  | (675)                          | (3,608)                  | (15,572)                 | 6,590                | (8,982)          |
| <b>Balance at 31 March 2021 carried forward</b>                           | <b>(29,237)</b>   | <b>(19,329)</b>  | <b>(10,252)</b>                | <b>(17,900)</b>          | <b>(76,718)</b>          | <b>(174,779)</b>     | <b>(251,497)</b> |

|   | General Fund<br>Balance<br>(including<br>Earmarked<br>Reserves) | Housing<br>Revenue<br>Accounts<br>(including<br>Earmarked<br>Reserves) | Capital<br>Receipts<br>Reserve | Major Repairs<br>Reserve | Total Usable<br>Reserves | Unusable<br>Reserves | Total Reserves   |
|---|---|--|--------------------------------|--------------------------|--------------------------|----------------------|------------------|
|   | £'000   | £'000  | £'000                          | £'000                    | £'000                    | £'000                | £'000            |
| <b>Balance at 31 March 2019 carried forward</b>                           | (25,492)  | (19,401)   | (9,246)                        | (12,659)                 | (66,798)                 | (158,234)            | (225,032)        |
| Movement in reserves during 2019/20                                       |   |  |                                |                          |                          |                      |                  |
| Total Comprehensive Income &<br>Expenditure                               | 10,064  | (8,959)  | 0                              | 0                        | 1,105                    | (18,588)             | (17,483)         |
| Transfers between Reserves  | 0   | 2,883  | (3)                            | (2,883)                  | (3)                      | 3                    | 0                |
| Adjustments between accounting basis &<br>funding basis under regulations | 17  | (3,270)  | (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)         |
| <b>Balance at 31 March 2020 carried forward</b>                           | <b>(18,697)</b>   | <b>(18,580)</b>  | <b>(9,577)</b>                 | <b>(14,292)</b>          | <b>(61,146)</b>          | <b>(181,369)</b>     | <b>(242,515)</b> |

For details of reserves see notes 33 and 34

## BALANCE SHEET

| At 31 March<br>2020 |                                    | Note | At 31 March<br>2021 |
|---------------------|------------------------------------|------|---------------------|
| £'000               |                                    |      | £'000               |
| 333,775             | Property Plant & Equipment         | 19   | 349,559             |
| 522                 | Heritage Assets                    | 21   | 537                 |
| 5,583               | Investment Property                | 22   | 5,198               |
| 278                 | Intangible Assets                  | 23   | 181                 |
| 3,907               | Long Term Investments              | 24   | 3,868               |
| 2,311               | Long Term Debtors                  | 26   | 2,283               |
| <b>346,376</b>      | <b>Long Term Assets</b>            |      | <b>361,626</b>      |
| 132                 | Current Assets Held for Sale       | 27   | 132                 |
| 27,368              | Short Term Investments             | 24   | 24,764              |
| 23                  | Inventories                        |      | 25                  |
| 6,294               | Short Term Debtors                 | 26   | 17,744              |
| 25,583              | Cash and Cash Equivalents          | 28   | 41,879              |
| <b>59,400</b>       | <b>Current Assets</b>              |      | <b>84,544</b>       |
| (3,246)             | Short Term Borrowing               | 24   | (3,245)             |
| (11,981)            | Short Term Creditors               | 30   | (28,981)            |
| (767)               | Provisions                         | 32   | (554)               |
| <b>(15,994)</b>     | <b>Current Liabilities</b>         |      | <b>(32,780)</b>     |
| (1,211)             | Provisions                         | 32   | (1,524)             |
| (92,656)            | Long Term Borrowing                | 24   | (89,435)            |
| (51,158)            | Other Long Term Liabilities        | 33   | (66,732)            |
| (2,242)             | Capital Grants Receipts in Advance | 12   | (4,202)             |
| <b>(147,267)</b>    | <b>Long Term Liabilities</b>       |      | <b>(161,893)</b>    |
| <b>242,515</b>      | <b>Net Assets</b>                  |      | <b>251,497</b>      |
| £'000               |                                    |      | £'000               |
| 61,146              | Usable Reserves                    | 34   | 76,718              |
| 181,369             | Unusable Reserves                  | 35   | 174,779             |
| <b>242,515</b>      | <b>Total Reserves</b>              |      | <b>251,497</b>      |

## 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.

| 2019/20<br>£'000 |   | Notes | 2020/21<br>£'000 |
|------------------|---|-------|------------------|
|                  | <b>Operating Activities</b>   |       |                  |
| (1,105)          | Net surplus or (deficit) on the provision of services   |       | 8,406            |
| 12,966           | Adjustments to net surplus or deficit on the provision of services for non-cash movements   | 36    | 26,304           |
| (5,013)          | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 36    | (3,108)          |
| <b>6,848</b>     | <b>Net cash flows from Operating Activities</b>   |       | <b>31,602</b>    |
| 9,540            | Net cash flows from investing activities  | 36    | 2,689            |
| (2,499)          | Net cash flows from financing activities  | 36    | (17,995)         |
| <b>13,889</b>    | <b>Net increase or (decrease) in cash and cash equivalents</b>  |       | <b>16,296</b>    |
| 11,694           | Cash and cash equivalents at the beginning of the reporting period  |       | 25,583           |
| 25,583           | Cash and cash equivalents at the end of the reporting period  | 28    | 41,879           |
| <b>13,889</b>    |   |       | <b>16,296</b>    |

## **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 2020/21 (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 2021/22 code:

- IFRS 3 Business Combinations: This standard will require local authorities to disclose in its financial statements that a transfer of functions has taken place (including a brief description of the transferred function) giving the date of the transfer, the name of the transferring body and the effect on the financial statements. An authority that transfers functions to another authority or public sector entity shall also provide the same information in its financial statements. Where accounted for as a transfer by absorption, the authority should apply judgement as to whether the additional disclosure of historical financial performance of the function should be provided, to enable users to understand the operational performance.
- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark reform: these standards (as adapted by the Code) govern the recognition, measurement, presentation and disclosure of financial instruments as specified in the Code. Many requirements are inapplicable since all material financial instruments are carried at fair value through profit or loss.

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

In applying the accounting policies (see page 77), 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. The long term effects of the Covid-19 pandemic and the delayed Fairer Funding Review and Business Rates Retention Review has created a high degree of uncertainty about future levels of funding for local government. 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. The Council has chosen to revalue land and buildings on a rolling basis. A full valuation is carried out on 20% of the stock each year ensuring all assets receive a full revaluation every 5 years. Assets are revalued as at 1<sup>st</sup> April with an impairment assessment being undertaken as at 31<sup>st</sup> March the following year.



### 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 2021 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 | The Council's external valuers provided valuations as at 31 March 2021.<br>The restrictions required due to Covid-19 safeguarding requirements resulted in most inspections being external only.  | 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 £34m to the Comprehensive Income and Expenditure Statement and the Revaluation Reserve. |
| Pension Liability     | 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 expected returns on Pension Fund investments.<br><br>The Council has engaged Barnett Waddingham to provide expert advice about the assumptions applied. | A 0.1% decrease in the discount rate will increase the net pension liability by £3.846m;<br>A 0.1% increase in the assumed level of pension increases will increase the net pension liability by £3.292m  |

### 4. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Finance on 31 July 2021. 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 2021, the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## **5. PRIOR PERIOD ADJUSTMENT**

The Cipfa Code requires that revaluation gains are depreciated. An amount equal to the difference between current value depreciation charged to the Comprehensive Income and Expenditure Statement and the depreciation that would have been charged based on their historical cost, should be transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

A prior period adjustment has been processed to adjust the balances of the revaluation reserve and the capital adjustment account to reflect this historical cost depreciation adjustment. This is an accounting entry with the net effect being no change in the unusable reserve total in the Balance Sheet however it is an adjustment to the balances making up this total. A prior year adjustment transfer of £9.4M has been made from the Revaluation Reserve to the Capital Adjustment Account. This is detailed in Note 35 Unusable Reserves

## 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.

2020/21

|  | 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  | 6,495   | (3,314)  | 9,809   |
| Corporate  | (12,498)  | 8,484  | (20,982)  |
| Growth & Culture   | 2,783   | (3,426)  | 6,209   |
| Housing & Property   | 5,878   | (5,014)  | 10,892  |
| <b>Net Cost of Services</b>  | <b>2,658</b>  | <b>(3,270)</b>                                       | <b>5,928</b>  |
| Other Income & Expenditure   | (16,923)  | (2,589)  | (14,334)  |
| <b>(Surplus) or Deficit on Provision of Services</b>                   | <b>(14,265)</b>   | <b>(5,859)</b>                                       | <b>(8,406)</b>  |
| <br>   |   |  |   |
| Total  |   | General Fund   | HRA   |
| £'000  | £'000   | £'000  | £'000   |
|  | (37,277)  | (18,698)   | (18,579)  |
|  | (14,263)  | (10,539)   | (3,724)   |
|  | 2,974   | 0  | 2,974   |
| <b>Closing General Fund and HRA Balance</b>                            | <b>(48,566)</b>   | <b>(29,237)</b>                                      | <b>(19,329)</b>   |
| <b>Opening General Fund and HRA Balance</b>                            |   |  |   |
| Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year |   |  |   |
| Transfers to/ from reserves  |   |  |   |

### Adjustments between Funding and Accounting Basis 2019/20

|  | Net Expenditure<br>Chargeable to the<br>General Fund and HRA<br>Balances | Adjustments between<br>the Funding and<br>Accounting Basis | Net Expenditure in the<br>Comprehensive Income<br>and Expenditure<br>Statement |
|--|--|--|--|
|  | £'000  | £'000  | £'000  |
| Commercial & Operations                              | 5,699  | (3,486)  | 9,185  |
| Corporate  | (19,877)   | (2,997)  | (16,880)   |
| Growth & Culture                                     | 6,469  | (372)  | 6,841  |
| Housing & Property                                   | 11,307   | (2,107)  | 13,414   |
| <b>Net Cost of Services</b>                          | <b>3,598</b>   | <b>(8,962)</b>   | <b>12,560</b>  |
| Other Income & Expenditure                           | 1,136  | 12,591   | (11,455)   |
| <b>(Surplus) or Deficit on Provision of Services</b> | <b>4,734</b>   | <b>3,629</b>   | <b>1,105</b>   |

|  | Total<br>£'000  | General Fund<br>£'000 | HRA<br>£'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           |
| <b>Closing General Fund and HRA Balance</b>                            | <b>(37,277)</b> | <b>(18,698)</b>       | <b>(18,579)</b> |

### Opening General Fund and HRA Balance

Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year

Transfers to/ from reserves

### Closing General Fund and HRA Balance

## 7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

### Adjustments between Funding and Accounting Basis 2020/21

#### Adjustments from General

| Fund to arrive at the<br>Comprehensive Income<br>and Expenditure<br>Statement amounts  | Adjustments<br>for Capital<br>Purposes<br>(Note a)<br>£'000 | Net change for<br>the Pensions<br>Adjustments<br>(Note b)<br>£'000 | Other<br>Differences<br>(Note c)<br>£'000 | Total<br>Adjustments<br>£'000 |
|--|---|--|---|-------------------------------|
| Commercial & Operations  | (2,171)   | (1,123)  | (20)                                      | (3,314)                       |
| Corporate  | 7,937   | 577  | (30)                                      | 8,484                         |
| Growth & Culture   | (3,059)   | (359)  | (8)                                       | (3,426)                       |
| Housing & Property   | (4,185)   | (806)  | (23)                                      | (5,014)                       |
| <b>Net Cost of Services</b>  | <b>(1,478)</b>  | <b>(1,711)</b>   | <b>(81)</b>                               | <b>(3,270)</b>                |
| Other Income and<br>expenditure from the<br>Expenditure and Funding<br>Analysis  | 8,173   | (1,188)  | (9,574)                                   | (2,589)                       |
| <b>Difference between<br/>General Fund surplus or<br/>deficit and Comprehensive<br/>Income and Expenditure<br/>Statement Surplus or<br/>Deficit on the Provision of<br/>Services</b> | <b>6,695</b>  | <b>(2,899)</b>   | <b>(9,655)</b>                            | <b>(5,859)</b>                |

## 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<br>(Note a)<br>£'000 | Net change for the Pensions Adjustments<br>(Note b)<br>£'000 | Other Differences<br>(Note c)<br>£'000 | Total Adjustments<br>£'000 |
|--|---|--|--|----------------------------|
| Commercial & Operations  | (2,148)   | (1,338)  | 0                                      | (3,486)                    |
| Corporate  | (3,668)   | 671  | 0                                      | (2,997)                    |
| Growth & Culture   | 1,207   | (1,579)  | 0                                      | (372)                      |
| Housing & Property   | (1,608)   | (499)  | 0                                      | (2,107)                    |
| <b>Net Cost of Services</b>  | <b>(6,217)</b>  | <b>(2,745)</b>   | <b>0</b>                               | <b>(8,962)</b>             |
| Other Income and expenditure from the Expenditure and Funding Analysis   | 15,174  | (1,411)  | (1,172)                                | 12,591                     |
| <b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b> | <b>8,957</b>  | <b>(4,156)</b>   | <b>(1,172)</b>                         | <b>3,629</b>               |

- a) **Adjustments for Capital Purposes** – this column adds in depreciation and impairment and revaluation gains and losses in the services line and for:
- **Other Operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
  - **Financing and investment income and expenditure** – the statutory charges for capital financing 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.
- b) **Net Change for the Pension Adjustments** – the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:
- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement (CIES).
- c) **Other Differences** between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute:
- Adjustment involving **Accumulated Absences Account** represents the amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.

## 8. EXPENDITURE AND INCOME ANALYSED BY NATURE

| 2019/20<br>£'000 | Expenditure/Income                     | 2020/21<br>£'000 |
|------------------|--|------------------|
|                  | <b>Expenditure</b>                     |                  |
| 23,955           | Employee benefits expenses             | 23,500           |
| 40,074           | Other services expenses                | 38,116           |
| 6,217            | Depreciation, amortisation, impairment | 1,478            |
| <b>70,246</b>    | <b>Total expenditure</b>               | <b>63,094</b>    |
|                  | <b>Income</b>                          |                  |
| (9,721)          | Fees, charges and other service income | (6,361)          |
| (1)              | Interest and investment income         | 0                |
| (23,201)         | Government grants and contributions    | (25,467)         |
| (23,689)         | Dwelling Rents                         | (24,168)         |
| (1,074)          | Non- Dwelling rents                    | (1,170)          |
| <b>(57,686)</b>  | <b>Total income</b>                    | <b>(57,166)</b>  |
| <b>12,560</b>    | <b>Net cost of services</b>            | <b>5,928</b>     |

## 9. PRECEPTS AND LEVIES

| 2019/20<br>£'000 |                         | 2020/21<br>£'000 |
|------------------|-------------------------|------------------|
| 1,718            | Parish Council Precepts | 1,835            |
| 692              | Drainage Board Levies   | 725              |
| <b>2,410</b>     |                         | <b>2,560</b>     |

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

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| (333)            | Income & Expenditure from investment properties                             | (339)            |
| 329              | Movements in relation to changes in the fair value of investment properties | 385              |
| <b>(4)</b>       |   | <b>46</b>        |

## 11. NON SERVICE RELATED GOVERNMENT GRANTS

| 2019/20<br>£'000 |                     | 2020/21<br>£'000 |
|------------------|---------------------|------------------|
| (9,269)          | Council Tax         | (9,621)          |
| (5,531)          | Non-Domestic Rates* | (5,348)          |
| (1,957)          | New Homes Bonus     | (1,814)          |
| (295)            | S31 Grant           | (3,734)          |
| (22)             | S106 Contribution   | (2)              |
| <b>(17,074)</b>  |                     | <b>(20,519)</b>  |

\*includes £10.5m S31 Business Grants (2019/20 £2.232m)



## 12. GRANT INCOME

The Council credited the following grants and contributions to the Cost of Services in the Comprehensive Income and Expenditure Statement in 2020/21

| 2019/20<br>£'000 |                                 | 2020/21<br>£'000 |
|------------------|---------------------------------|------------------|
| 19,847           | Benefits Subsidy                | 18,560           |
| 409              | Local Council Tax Admin Subsidy | 124              |
| 261              | Housing Benefits Admin Grant    | 286              |
| 68               | Discretionary Housing Payment   | 277              |
| 465              | Welfare Reform                  | 102              |
| 26               | IER Funding                     | 10               |
| 0                | Custom Build Grant              | 17               |
| 20               | Neighbourhood Planning Grant    | 0                |
| 861              | Disabled Facilities Grant       | 975              |
| 261              | Homelessness                    | 260              |
| 0                | Rough Sleeping                  | 615              |
| 0                | COVID 19 Grants                 | 2,584            |
| 0                | Heritage Action Zone            | 125              |
| 0                | Local Enterprise Partnership    | 207              |
| 441              | Arts and Recreation Grants      | 595              |
| 66               | Other Grants                    | 205              |
| <u>22,725</u>    |                                 | <u>24,942</u>    |

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

The balances at the year end are as follows:

| 2019/20<br>£'000 | <b>Capital Grants<br/>Receipts in Advance</b> | 2020/21<br>£'000 |
|------------------|---|------------------|
| 116              | Receipts in Advance                           | 1,066            |
| <u>2,126</u>     | S106 Contributions                            | <u>3,136</u>     |
| <u>2,242</u>     |   | <u>4,202</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:

| 2019/20         |                   | 2020/21         |
|-----------------|-------------------|-----------------|
| No. of officers | Remuneration Band | No. of officers |
| 3               | £50,000 - £54,999 | 2               |
| 7               | £55,000 - £59,999 | 3               |
| 4               | £60,000 - £64,999 | 3               |
| 0               | £65,000 - £69,999 | 3               |
| 0               | £70,000 - £74,999 | 2               |
| 1               | £75,000 - £79,999 | 1               |
| 1               | £80,000 - £84,999 | 1               |
| <b>16</b>       |                   | <b>15</b>       |

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)                            | 2020/21 | 0                         | 0                             | 0                                   | 0                              | 0                   | 0     |
|  | 2019/20 | 43                        | 12                            | 84                                  | 7                              | 0                   | 146   |
|  | 1       |                           |                               |                                     |                                |                     |       |
| Chief Executive (2)                            | 2020/21 | 0                         | 0                             | 0                                   | 0                              | 0                   | 0     |
|  | 2019/20 | 74                        | 3                             | 0                                   | 12                             | 0                   | 89    |
|  | 2       |                           |                               |                                     |                                |                     |       |
| Chief Executive (3)                            | 2020/21 | 131                       | 7                             | 0                                   | 23                             | 0                   | 161   |
|  | 2019/20 | 11                        | 0                             | 0                                   | 2                              | 0                   | 13    |
|  | 3       |                           |                               |                                     |                                |                     |       |
| Strategic Director                             | 2020/21 | 55                        | 3                             | 23                                  | 10                             | 0                   | 91    |
|  | 2019/20 | 41                        | 0                             | 0                                   | 7                              | 0                   | 48    |
|  | 4       |                           |                               |                                     |                                |                     |       |
| Strategic Director                             | 2020/21 | 100                       | 2                             | 0                                   | 18                             | 0                   | 120   |
|  | 2019/20 | 97                        | 2                             | 0                                   | 16                             | 0                   | 115   |
|  |         |                           |                               |                                     |                                |                     |       |
| Strategic Director                             | 2020/21 | 0                         | 0                             | 0                                   | 0                              | 0                   | 0     |
|  | 2019/20 | 10                        | 0                             | 0                                   | 2                              | 0                   | 12    |
|  | 5       |                           |                               |                                     |                                |                     |       |
| Strategic Director                             | 2020/21 | 0                         | 0                             | 0                                   | 0                              | 0                   | 0     |
|  | 2019/20 | 24                        | 1                             | 0                                   | 4                              | 0                   | 29    |
|  | 6       |                           |                               |                                     |                                |                     |       |
| Strategic Director (S151 Officer) (1)          | 2020/21 | 0                         | 0                             | 0                                   | 0                              | 0                   | 0     |
|  | 2019/20 | 24                        | 6                             | 0                                   | 4                              | 0                   | 34    |
|  | 7       |                           |                               |                                     |                                |                     |       |
| Strategic Director (S151 Officer) (2)          | 2020/21 | 100                       | 3                             | 0                                   | 18                             | 0                   | 121   |
|  | 2019/20 | 73                        | 1                             | 0                                   | 12                             | 0                   | 86    |
|  | 8       |                           |                               |                                     |                                |                     |       |
| Assistant Chief Executive                      | 2020/21 | 90                        | 0                             | 0                                   | 16                             | 0                   | 106   |
|  | 2019/20 | 79                        | 1                             | 0                                   | 13                             | 0                   | 93    |
|  | 9       |                           |                               |                                     |                                |                     |       |
| Strategic Director                             | 2020/21 | 51                        | 5                             | 0                                   | 9                              | 0                   | 65    |
|  | 2019/20 | 73                        | 0                             | 0                                   | 12                             | 0                   | 85    |
|  | 10      |                           |                               |                                     |                                |                     |       |
| Monitoring Officer                             | 2020/21 | 93                        | 0                             | 0                                   | 16                             | 0                   | 109   |
|  | 2019/20 | 19                        | 1                             | 0                                   | 3                              | 0                   | 23    |
|  | 11      |                           |                               |                                     |                                |                     |       |
| Assistant Chief Executive (Monitoring Officer) | 2020/21 | 0                         | 0                             | 0                                   | 0                              | 0                   | 0     |
|  | 2019/20 | 22                        | 2                             | 0                                   | 4                              | 0                   | 28    |

1. Aidan Rave left the Council's employment on 31 July 2019
2. Paul Thomas appointed as Interim Chief Executive on 1 August 2019
3. Karen Bradford appointed as Chief Executive on 1 March 2020
4. Paul Thomas returns to substantive post of Strategic Director 1 March 2020
5. Ken Lyon appointed Interim Strategic Director Growth on 1 August 2019 – 20 October 2019
6. Harry Rai appointed Interim Strategic Director Growth 21 October 2019 – 29 February 2020

7. Debbie Muddimer left the Council's employment as Director of Finance (S151 Officer) on 27 June 2019
8. Richard Wyles was appointed Interim Director on Finance (S151 Officer) on 27 June 2019
9. Ken Lyon returned to substantive post of Assistant Chief Executive on 21 October 2019
10. Lee Sirdifield was appointed Strategic Director Transformation & Change on 27 June 2019
11. Shahin Ismail was appointed Director of Law and Governance (Monitoring Officer) on 1 January 2020

#### 14. TERMINATION BENEFITS

| Exit Package cost bands<br>(including special<br>payments)  | Number of<br>compulsory<br>redundancies |         | Total number of<br>exit packages by<br>cost band |         | Total cost of exit<br>packages in each band |            |
|---|---|---------|--|---------|---|------------|
|   | 2019/20                                 | 2020/21 | 2019/20  | 2020/21 | 2019/20                                     | 2020/21    |
|   | No.                                     | No.     | No.  | No.     | £'000                                       | £'000      |
| £0-£20,000  | 0                                       | 0       | 11   | 7       | 103   | 51         |
| £20,001 - £40,000   | 0                                       | 0       | 3  | 3       | 85  | 83         |
| £40,001 - £60,000   | 0                                       | 0       | 1  | 4       | 42  | 173        |
| £60,001 - £80,000   | 0                                       | 0       | 1  | 0       | 76  | 0          |
| £80,001 - £100,000  | 0                                       | 0       | 1  | 0       | 84  | 0          |
| £100,001 - £150,000   | 0                                       | 0       | 0  | 0       | 0   | 0          |
| £150,000 and above  | 0                                       | 0       | 0  | 0       | 0   | 0          |
| Total Cost included in<br>bandings                          | 0                                       | 0       | 17   | 14      | 390   | 307        |
| Amounts provided for in<br>CIES not included in<br>bandings |   |         |  |         | 0   | 0          |
| Total Cost included in CIES                                 |   |         |  |         | <b>390</b>                                  | <b>307</b> |

#### 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 55 elected Councillors as at 31 March 2021.

Members' allowances and expenses paid during the year amounted to £486,106 (2019/20 £531,873). 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 2020/21 is £130,628 of which £43,543 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 2020/21 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.

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

**2020/21**

|  | General<br>Fund<br>£'000 | HRA<br>£'000  | Capital<br>Receipts<br>Reserve<br>£'000 | Major<br>Repairs<br>Reserve<br>£'000 | Total Usable<br>Reserves<br>£'000 | Unusable<br>Reserves<br>£'000 |
|--|--------------------------|---------------|---|--------------------------------------|-----------------------------------|-------------------------------|
| <b>Adjustments primarily involving the Capital Adjustment Account</b>                |                          |               |   |                                      |                                   |                               |
| Depreciation of non-current assets   | (4,687)                  | (399)         | 0                                       | (3,430)                              | (8,516)                           | 8,516                         |
| Amortisation of intangible assets  | (110)                    | 0             | 0                                       | 0                                    | (110)                             | 110                           |
| Revaluation gains/losses on PPE  | (1,952)                  | 12,354        | 0                                       | 0                                    | 10,402                            | (10,402)                      |
| Impairments charged to CIES  | 0                        | (2,602)       | 0                                       | 0                                    | (2,602)                           | 2,602                         |
| Movements in market value of investment properties                                   | (370)                    | (15)          | 0                                       | 0                                    | (385)                             | 385                           |
| Revenue expenditure funded from capital under statute (REFCUS)                       | (650)                    |               | 0                                       | 0                                    | (650)                             | 650                           |
| Financing of REFCUS  | 650                      |               | 0                                       | 0                                    | 650                               | (650)                         |
| Capital expenditure  | 1,373                    | 3,222         | 574                                     | 2,796                                | 7,965                             | (7,965)                       |
| Statutory provision for financing of capital investment                              | 142                      |               | 0                                       | 0                                    | 142                               | (142)                         |
| Profit/Loss on disposal of non-current assets  | (113)                    | 620           | (1,975)                                 | 0                                    | (1,468)                           | 1,468                         |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account</b>        |                          |               |   |                                      |                                   |                               |
| Adjustment to council tax income   | (176)                    |               | 0                                       | 0                                    | (176)                             | 176                           |
| Adjustment to NNDR income  | (9,397)                  |               | 0                                       | 0                                    | (9,397)                           | 9,397                         |
| <b>Adjustments primarily involving the Pension Fund</b>                              |                          |               |   |                                      |                                   |                               |
| Adjustment of IAS 19 retirement entries for actual contributions                     | (2,123)                  | (776)         | 0                                       | 0                                    | (2,899)                           | 2,899                         |
| <b>Adjustments primarily involving the Accumulating Compensated Absences Account</b> |                          |               |   |                                      |                                   |                               |
| Adjustments relating to the value of Financial Instruments                           | (63)                     | (18)          | 0                                       | 0                                    | (81)                              | 81                            |
| Financial Instruments  | 1                        | 0             | 0                                       | 0                                    | 1                                 | (1)                           |
| <b>Adjustments between Usable Reserves</b>   |                          |               |   |                                      |                                   |                               |
| Payments to Housing Capital Receipts Pool  | 0                        | (768)         | 768                                     | 0                                    | 0                                 | 0                             |
| <b>Total Adjustments</b>   | <b>(17,475)</b>          | <b>11,618</b> | <b>(633)</b>                            | <b>(634)</b>                         | <b>(7,124)</b>                    | <b>7,124</b>                  |

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

**2019/20**

|   | General Fund   | HRA          | Capital Receipts Reserve | Major Repairs Reserve | Total Usable Reserves | Unusable Reserves |
|---|----------------|--------------|--------------------------|-----------------------|-----------------------|-------------------|
|   | £'000          | £'000        | £'000                    | £'000                 | £'000                 | £'000             |
| <b>Adjustments primarily involving the Capital Adjustment Account</b> |                |              |                          |                       |                       |                   |
| 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             |
| <b>Adjustments primarily involving the Collection</b>                 |                |              |                          |                       |                       |                   |
| Adjustment to council tax income                                      | 4              | 0            | 0                        | 0                     | 4                     | (4)               |
| Adjustment to NNDR income   | (1,176)        | 0            | 0                        | 0                     | (1,176)               | 1,176             |
| <b>Adjustments primarily involving the Pension Fund</b>               |                |              |                          |                       |                       |                   |
| Adjustment of IAS 19 retirement entries for actual contributions      | (3,064)        | (1,091)      | 0                        | 0                     | (4,155)               | 4,155             |
| <b>Adjustments relating to the value of Financial Instruments</b>     |                |              |                          |                       |                       |                   |
| Financial Instruments   | (406)          | 0            | 0                        | 0                     | (406)                 | 406               |
| <b>Adjustments between Usable Reserves</b>                            |                |              |                          |                       |                       |                   |
| Payments to Housing Capital Receipts Pool                             | 0              | (802)        | 802                      | 0                     | 0                     | 0                 |
| <b>Total Adjustments</b>  | <b>(3,270)</b> | <b>6,898</b> | <b>(328)</b>             | <b>1,250</b>          | <b>4,550</b>          | <b>(4,550)</b>    |



### 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                    |
| <b>2020/21</b>  |              |                         |                         |                                 |                      |                       |                       |                   |                          |
| <b>Amounts set aside to provide for future expenditure</b>              |              |                         |                         |                                 |                      |                       |                       |                   |                          |
| Insurance provision   | (37)         |                         |                         | 37                              |                      |                       | 0                     | 0                 | 0                        |
| SEA provision   | 65           |                         |                         | (65)                            |                      |                       | 0                     | 0                 | 0                        |
| Transfer Surplus to reserves  | (927)        | 1,513                   |                         | 927                             | 1,461                | (2,974)               | 0                     | 0                 | 0                        |
| Repaid loans  |              |                         | (40)                    |                                 |                      |                       | (40)                  | 40                | 0                        |
| Other Long-Term Debtors   |              |                         | (2)                     |                                 |                      |                       | (2)                   | 2                 | 0                        |
| <b>Amounts transferred from reserves to support in year expenditure</b> |              |                         |                         |                                 |                      |                       |                       |                   |                          |
| Finance Building Control deficit  | 25           |                         |                         | (25)                            |                      |                       | 0                     | 0                 | 0                        |
| <b>Total Transfers To/(From) Earmarked Reserves</b>                     | <b>(874)</b> | <b>1,513</b>            | <b>(42)</b>             | <b>874</b>                      | <b>1,461</b>         | <b>(2,974)</b>        | <b>(42)</b>           | <b>42</b>         | <b>0</b>                 |
| <b>2019/20</b>  |              |                         |                         |                                 |                      |                       |                       |                   |                          |
| <b>Amounts set aside to provide for future expenditure</b>              |              |                         |                         |                                 |                      |                       |                       |                   |                          |
| 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                        |
| <b>Amounts transferred from reserves to support in year expenditure</b> |              |                         |                         |                                 |                      |                       |                       |                   |                          |
| Finance Building Control deficit  | 3            | 0                       | 0                       | (3)                             | 0                    | 0                     | 0                     | 0                 | 0                        |
| <b>Total Transfers To/(From) Earmarked Reserves</b>                     | <b>1,708</b> | <b>2,508</b>            | <b>(3)</b>              | <b>(1,708)</b>                  | <b>375</b>           | <b>(2,883)</b>        | <b>(3)</b>            | <b>3</b>          | <b>0</b>                 |

## NOTES TO THE BALANCE SHEET

### 19. PROPERTY PLANT AND EQUIPMENT (PPE)

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

|  | Movement in 2019/20        |                                 |                            |                         |                                    | Movement in 2020/21 |                            |                                 |                                      |                         |                                    |                    |
|--|----------------------------|---------------------------------|----------------------------|-------------------------|------------------------------------|---------------------|----------------------------|---------------------------------|--------------------------------------|-------------------------|------------------------------------|--------------------|
|  | Council Dwellings<br>£'000 | Other Land & Buildings<br>£'000 | Plant & Equipment<br>£'000 | Surplus Assets<br>£'000 | Assets Under Construction<br>£'000 | Total PPE<br>£'000  | Council Dwellings<br>£'000 | Other Land & Buildings<br>£'000 | Vehicles, Plant & Equipment<br>£'000 | Surplus Assets<br>£'000 | Assets Under Construction<br>£'000 | Total PPE<br>£'000 |
|  | 234,572                    | 75,354                          | 15,906                     | 211                     | 6,026                              | 332,069             | 242,894                    | 76,030                          | 17,374                               | 216                     | 9,713                              | 346,227            |
|  | 4,745                      | 59                              | 2,285                      | 0                       | 5,676                              | 12,765              | 2,602                      | 193                             | 1,226                                | 0                       | 696                                | 4,717              |
|  | 3,452                      | 372                             | 0                          | 5                       | 0                                  | 3,829               | 11,582                     | (3,847)                         | 0                                    | (19)                    | 0                                  | 7,716              |
|  | 2,223                      | (1,744)                         |                            |                         |                                    | 479                 | 8,322                      | (2,337)                         | 0                                    | 0                       | 0                                  | 5,985              |
|  | (2,135)                    | 0                               | (817)                      | 0                       | 0                                  | (2,952)             | (1,260)                    | 0                               | (1,128)                              | 0                       | (41)                               | (2,429)            |
|  | 37                         |                                 |                            |                         |                                    | 37                  | 0                          | 0                               | 0                                    | 0                       | 0                                  | 0                  |
|  | 0                          | 1,989                           | 0                          | 0                       | (1,989)                            |                     | 2,237                      |                                 |                                      | (2,237)                 |                                    | 0                  |
|  | <b>242,894</b>             | <b>76,030</b>                   | <b>17,374</b>              | <b>216</b>              | <b>9,713</b>                       | <b>346,227</b>      | <b>266,377</b>             | <b>70,039</b>                   | <b>17,472</b>                        | <b>197</b>              | <b>8,131</b>                       | <b>362,216</b>     |
|  | (9)                        | (147)                           | (11,628)                   | 0                       | 0                                  | (11,784)            | (4)                        | (271)                           | (12,177)                             | 0                       | 0                                  | (12,452)           |
|  | (3,415)                    | (3,563)                         | (1,213)                    | (14)                    | 0                                  | (8,205)             | (3,430)                    | (3,871)                         | (1,199)                              | (16)                    | 0                                  | (8,516)            |
|  | 1,151                      | 3,270                           | 0                          | 14                      | 0                                  | 4,435               | 1,970                      | 3,549                           | 0                                    | 16                      | 0                                  | 5,535              |
|  | 6,836                      | 169                             | 0                          | 0                       | 0                                  | 7,005               | 4,035                      | 381                             | 0                                    | 0                       | 0                                  | 4,416              |
|  | (4,567)                    | 0                               | 0                          | 0                       | 0                                  | (4,567)             | (2,602)                    | 0                               | 0                                    | 0                       | 0                                  | (2,602)            |
|  | 0                          | 0                               | 664                        | 0                       | 0                                  | 664                 | 0                          | 0                               | 962                                  | 0                       | 0                                  | 962                |
|  | <b>(4)</b>                 | <b>(271)</b>                    | <b>(12,177)</b>            | <b>0</b>                | <b>0</b>                           | <b>(12,452)</b>     | <b>(31)</b>                | <b>(212)</b>                    | <b>(12,414)</b>                      | <b>0</b>                | <b>0</b>                           | <b>(12,657)</b>    |
|  | <b>242,890</b>             | <b>75,759</b>                   | <b>5,197</b>               | <b>216</b>              | <b>9,713</b>                       | <b>333,775</b>      | <b>266,346</b>             | <b>69,827</b>                   | <b>5,058</b>                         | <b>197</b>              | <b>8,131</b>                       | <b>349,559</b>     |
|  | <b>234,563</b>             | <b>75,207</b>                   | <b>4,278</b>               | <b>210</b>              | <b>6,026</b>                       | <b>320,285</b>      | <b>242,890</b>             | <b>75,759</b>                   | <b>5,197</b>                         | <b>216</b>              | <b>9,713</b>                       | <b>333,775</b>     |

#### Net Book Value

|  |         |        |       |     |       |         |         |        |       |     |       |         |
|--|---------|--------|-------|-----|-------|---------|---------|--------|-------|-----|-------|---------|
|  | 242,890 | 75,759 | 5,197 | 216 | 9,713 | 333,775 | 266,346 | 69,827 | 5,058 | 197 | 8,131 | 349,559 |
|  | 234,563 | 75,207 | 4,278 | 210 | 6,026 | 320,285 | 242,890 | 75,759 | 5,197 | 216 | 9,713 | 333,775 |

## **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 Council carries out a full revaluation of its properties on a rolling basis over a five year period. In the years where an asset is not subject to a full revaluation a review is carried out by appointed valuers Valuation Office Agency in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS). Valuations of vehicles, plant and equipment are based on depreciated cost.

## 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.

| 2019/20<br>£'000 |  | 2020/21<br>£'000 |
|------------------|--|------------------|
| 114,602          | <b>Opening Capital Finance Requirement</b>   | 111,232          |
|                  | <b>Capital Investment</b>  |                  |
| 178              | Council Dwellings  | 0                |
| 59               | Other land & buildings   | 193              |
| 2,285            | Vehicles, plant & equipment  | 1,226            |
| 5,676            | Assets under construction  | 696              |
| 4,566            | Capital expenditure  | 2,602            |
| 55               | Intangible Assets  | 13               |
| 2,471            | Loans to Other Organisations   | 0                |
| 0                | Heritage Assets  | 15               |
| 818              | Revenue expenditure charged to capital under statute   | 651              |
|                  | <b>Sources of Finance</b>  |                  |
| (2,847)          | Capital receipts   | (574)            |
| (1,189)          | Capital grants & contributions   | (769)            |
| (15,442)         | Sums set aside from revenue  | (7,417)          |
| <b>111,232</b>   | <b>Closing Capital Financing Requirement</b>   | <b>107,868</b>   |
|                  | <b>Explanation of movements in year</b>  |                  |
| (3,370)          | Increase/(Decrease) in underlying need to borrow<br>(supported by government financial assistance) | (3,364)          |
| <b>(3,370)</b>   | <b>Increase/ (Decrease) in Capital Financing Requirement</b>                                       | <b>(3,364)</b>   |

## 21. HERITAGE ASSETS

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

|                          | Assets held at value |                         | Assets held at cost | Total Assets |
|--------------------------|----------------------|-------------------------|---------------------|--------------|
|                          | Antiques             | Miscellaneous Artefacts | Art Installations   |              |
|                          | £'000                | £'000                   | £'000               | £'000        |
| <b>Cost or Valuation</b> |                      |                         |                     |              |
| 1st April 2019           | 238                  | 264                     | 20                  | 522          |
| Revaluations             | 0                    | 0                       | 0                   | 0            |
| Disposals in Year        | 0                    | 0                       | 0                   | 0            |
| 31st March 2020          | 238                  | 264                     | 20                  | 522          |
| Revaluations             | 0                    | 0                       | 0                   | 0            |
| Additions in year        | 0                    | 0                       | 15                  | 15           |
| Disposals in Year        | 0                    | 0                       | 0                   | 0            |
| 31st March 2021          | 238                  | 264                     | 35                  | 537          |

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. Art Installations

The Orrery sculpture in Grantham Market Place and the light installation on St Peter's Hill are 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.

## 22. 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:

| 2019/20      |  | 2020/21      |
|--------------|--|--------------|
| £'000        |  | £'000        |
| (352)        | Rental income from investment property                     | (358)        |
| 19           | Direct operating expenses arising from investment property | 19           |
| <u>(333)</u> |  | <u>(339)</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:

| 2019/20      |  | 2020/21      |
|--------------|--|--------------|
| £'000        |  | £'000        |
| 5,912        | <b>Balance at start of year</b>              | 5,583        |
| 0            | Additions - Purchases                        | 0            |
| (329)        | Net gains/losses from fair value adjustments | (385)        |
| 0            | Disposals                                    |              |
| <u>5,583</u> | <b>Balance at end of year</b>                | <u>5,198</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.

## 23. 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:

| 2019/20<br>£'000 |                                      | 2020/21<br>£'000 |
|------------------|--------------------------------------|------------------|
|                  | Balance at start of year:            |                  |
| 945              | Gross carrying amount                | 1,000            |
| (610)            | Accumulated amortisation             | (722)            |
| <u>335</u>       | Net carrying amount at start of year | <u>278</u>       |
| 55               | Additions                            | 13               |
| (112)            | Amortisation for the period          | (110)            |
| <u>(57)</u>      |                                      | <u>(97)</u>      |
| 0                | Disposals                            | 196              |
| 0                | Amortisation written back            | (196)            |
| <u>0</u>         |                                      | <u>0</u>         |
| 278              | Net carrying amount at end of year   | 181              |
| Comprising       |                                      |                  |
| 1,000            | Gross carrying amount                | 1,209            |
| (722)            | Accumulated amortisation             | (1,028)          |
| <u>278</u>       |                                      | <u>181</u>       |

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

## 24. 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-21<br>£'000 | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 | 31-Mar-20<br>£'000 |
| <b>Amortised Cost</b>  |                    |                    |                    |                    |                    |                    |                    |                    |
| Principal  | 2,748              | 2,787              | 2,283              | 2,311              | 24,720             | 27,220             | 6,450              | 3,116              |
| Investment Accrued Interest                                  | 0                  | 0                  | 0                  | 0                  | 44                 | 148                | 0                  | 0                  |
| Cash and cash equivalents (CCE)                              | 0                  | 0                  | 0                  | 0                  | 41,879             | 25,583             | 0                  | 0                  |
| <b>Fair value through other comprehensive income - other</b> |                    |                    |                    |                    |                    |                    |                    |                    |
|  | 1,120              | 1,120              | 0                  | 0                  | 0                  | 0                  | 0                  | 0                  |
| <b>Total financial assets</b>                                | <b>3,868</b>       | <b>3,907</b>       | <b>2,283</b>       | <b>2,311</b>       | <b>66,643</b>      | <b>52,951</b>      | <b>6,450</b>       | <b>3,116</b>       |
| Non financial assets   | 0                  | 0                  | 0                  | 0                  | 0                  | 0                  | 11,294             | 3,178              |
| <b>Total</b>   | <b>3,868</b>       | <b>3,907</b>       | <b>2,283</b>       | <b>2,311</b>       | <b>66,643</b>      | <b>52,951</b>      | <b>17,744</b>      | <b>6,294</b>       |

### Financial Liabilities

|                                    | Non Current        |                    |                    |                    | Current            |                    |                    |                    |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                    | Investments        |                    |                    |                    | Investments        |                    | Creditors          |                    |
|                                    | 31-Mar-21<br>£'000 | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 | 31-Mar-20<br>£'000 |
| <b>Amortised Cost</b>              |                    |                    |                    |                    |                    |                    |                    |                    |
| Principal                          | 89,435             | 92,656             | 3,222              | 3,222              | 6,045              | 5,804              |                    |                    |
| Interest                           | 0                  | 0                  | 24                 | 24                 | 0                  | 0                  |                    |                    |
| <b>Total financial liabilities</b> | <b>89,435</b>      | <b>92,656</b>      | <b>3,246</b>       | <b>3,246</b>       | <b>6,045</b>       | <b>5,804</b>       |                    |                    |
| Non financial liabilities          | 0                  | 0                  | 0                  | 0                  | 22,937             | 6,177              |                    |                    |
| <b>Total</b>                       | <b>89,435</b>      | <b>92,656</b>      | <b>3,246</b>       | <b>3,246</b>       | <b>28,982</b>      | <b>11,981</b>      |                    |                    |

### Designated to fair value through other comprehensive income

The Council has a 100% shareholding in Gravitass Housing Limited which is a wholly owned Local Authority Controlled Company. These shares were purchased on 22 March 2019. The adoption of accounting standard IFRS 9 Financial Instruments requires that investments in equity 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 Gravitass 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. 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-21           | 31-Mar-20           |
|--------------------------|---------------------|---------------------|
|                          | £'000               | £'000               |
| Gravitas Housing Limited | <u>1,120</u>        | <u>1,120</u>        |
| <b>Total</b>             | <b><u>1,120</u></b> | <b><u>1,120</u></b> |

### 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-21               |                       | 31-Mar-20               |                       |
|----------------------|-------------------------|-----------------------|-------------------------|-----------------------|
|                      | Carrying Amount<br>£000 | Fair Value<br>£000    | Carrying Amount<br>£000 | Fair Value<br>£000    |
| PWLB                 | 92,681                  | 109,726               | 95,902                  | 121,464               |
| Short Term Creditors | <u>6,045</u>            | <u>6,045</u>          | <u>5,804</u>            | <u>5,804</u>          |
| <b>Total</b>         | <b><u>98,726</u></b>    | <b><u>115,771</u></b> | <b><u>101,706</u></b>   | <b><u>127,268</u></b> |

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 £121.464m 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 £98.858m. 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-21                  |                       | 31-Mar-20                  |                       |
|------------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
|                              | Carrying<br>Amount<br>£000 | Fair<br>Value<br>£000 | Carrying<br>Amount<br>£000 | Fair<br>Value<br>£000 |
| Cash and Cash<br>Equivalents | 41,879                     | 41,879                | 25,583                     | 25,583                |
| Short Term<br>Investments    | 24,764                     | 24,764                | 27,368                     | 27,368                |
| Long Term<br>Investments     | 2,748                      | 0                     | 2,787                      | 0                     |
| Short Term Debtors           | 6,450                      | 6,450                 | 3,116                      | 3,116                 |
| Long Term Debtors            | 2,311                      | 2,311                 | 2,311                      | 2,311                 |
| <b>Total</b>                 | <b>78,152</b>              | <b>75,404</b>         | <b>61,165</b>              | <b>58,378</b>         |

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.

## 25. 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 2020/21 is available on the Council's website at: <http://moderngov.southkesteven.gov.uk/documents/s25014/Appendix%20E%20-%20TM%20Strategy%202020-21.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 12 to 13 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 modelling approach with credit ratings from all three rating agencies – Fitch, Moody's and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap 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 2 March 2020 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 £67.141m 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, the Council has £3m invested with the property fund and at 31 March 2021 this was valued at £2.681m.

### 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 2021<br>£'000 | Historical Experience of Default % | Estimated maximum exposure to default and uncollectability at 31 March 2021<br>£ |
|---|--------------------------------------|-------------------------|-----------------------------------|------------------------------------|--|
| <b>Deposits with Banks and Financial Institutions</b> |                                      |                         |                                   |                                    |  |
| Santander UK Plc - Call account                       | Red                                  | A                       | 5,800                             | 0.000                              | 7  |
| Lloyds Bank Plc (RFB) - call account                  | Red                                  | A+                      | 3,679                             | 0.000                              | 5  |
| National Westminster Bank Plc (RFB)                   | Blue                                 | A                       | 10,281                            | 0.005                              | 465  |
| Santander UK Plc - Notice account                     | Red                                  | A                       | 6,200                             | 0.005                              | 280  |
| Blaenau Gwent County Borough Council                  | Yellow                               | AA-                     | 3,000                             | 0.003                              | 0  |
| Close Brothers Ltd                                    | Red                                  | A-                      | 1,000                             | 0.006                              | 62   |
| Cheltenham Borough Council                            | Yellow                               | AA-                     | 3,000                             | 0.004                              | 0  |
| London Borough of Southwark                           | Yellow                               | AA-                     | 2,500                             | 0.005                              | 0  |
| Close Brothers Ltd                                    | Red                                  | A-                      | 1,000                             | 0.012                              | 116  |
| Thurrock Borough Council                              | Yellow                               | AA-                     | 5,000                             | 0.011                              | 0  |
| Lloyds Bank Plc (RFB)                                 | Red                                  | A+                      | 1,000                             | 0.039                              | 391  |
| Blaenau Gwent County Borough Council                  | Yellow                               | AA-                     | 2,000                             | 0.023                              | 0  |
| CCLA Property Fund                                    | Not Rated                            | Not Rated               | 3,000                             |                                    |  |
| Aberdeen Standard Investments MMF*                    | Yellow                               | AAA                     | 5,000                             |                                    |  |
| BNP Paribas MMF*                                      | Yellow                               | AAA                     | 5,000                             |                                    |  |
| CCLA MMF*   | Yellow                               | AAA                     | 5,000                             |                                    |  |
| Federated Investors (UK) MMF*                         | Yellow                               | AAA                     | 5,000                             |                                    |  |
| <b>Total Investments</b>                              |                                      |                         | <b>67,460</b>                     |                                    | <b>1326</b>  |

#### \*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:

|               | At 31 March<br>2021<br>£'000 | At 31 March<br>2020<br>£'000 | At 31 March<br>2019<br>£'000 |
|---------------|------------------------------|------------------------------|------------------------------|
| Under 30 Days | 108                          | 119                          | 157                          |
| 30-60 days    | 1,689                        | 1,189                        | 2,235                        |
| 60-90 days    | 152                          | 128                          | 53                           |
| Over 90 Days  | 471                          | 420                          | 451                          |
| <b>Total</b>  | <b>2,420</b>                 | <b>1,856</b>                 | <b>2,896</b>                 |

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<br>2021<br>£'000 | At 31 March<br>2020<br>£'000 | At 31 March<br>2019<br>£'000 |
|-----------------------------|------------------------------|------------------------------|------------------------------|
| Less than one year          | 64,460                       | 51,330                       | 56,414                       |
| Between one and two years   | 2,681                        | 2,700                        | 4,000                        |
| Between two and three years | 0                            | 0                            | 0                            |
| More than three years       | 0                            | 0                            | 0                            |
| <b>Total</b>                | <b>67,141</b>                | <b>54,030</b>                | <b>60,414</b>                |

### 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<br>2021<br>£'000 | At 31 March<br>2020<br>£'000 | At 31 March<br>2019<br>£'000 |
|-------------------------------|------------------------------|------------------------------|------------------------------|
| Less than one year            | 3,245                        | 3,246                        | 28,244                       |
| Between one and two years     | 3,222                        | 3,221                        | 3,221                        |
| Between two and five years    | 9,665                        | 9,665                        | 9,665                        |
| Between five and ten years    | 16,109                       | 16,109                       | 16,109                       |
| Between ten and fifteen years | 41,109                       | 41,109                       | 16,109                       |
| Over Fifteen Years            | 19,330                       | 22,552                       | 25,774                       |
| <b>Total</b>                  | <b>92,680</b>                | <b>95,902</b>                | <b>99,122</b>                |

## 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 favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

|   | £'000        |
|---|--------------|
| Increase in interest payable on variable rate borrowings  | 0            |
| Increase in interest receivable on variable rate investments  | <u>564</u>   |
| Impact on Surplus or Deficit on the Provision of Services   | <u>564</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>2,203</u> |

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

### **Price risk**

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

## 26. DEBTORS

An analysis of Debtors is shown below

| At 31 March<br>2020<br>£'000 |                                | At 31 March<br>2021<br>£'000 |
|------------------------------|--------------------------------|------------------------------|
|                              | <b>Current Debtors</b>         |                              |
| 2,635                        | Government Departments         | 10,719                       |
| 363                          | Other Local Authorities        | 3,375                        |
| (3)                          | NHS                            | 10                           |
| 3,299                        | Other entities and individuals | 3,640                        |
| <b>6,294</b>                 |                                | <b>17,744</b>                |
|                              | <b>Long Term Debtors</b>       |                              |
| 2,311                        | Other                          | 2,283                        |
| <b>2,311</b>                 |                                | <b>2,283</b>                 |

## 27. ASSETS HELD FOR SALE

As at 31 March 2021 there are 4 Council Dwellings that are in the process of being sold and these are classified as Current Assets Held for Sale in the Balance Sheet. The details of the assets held for sale are shown below.

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| 532              | Balance at start of year                  | 132              |
|                  | Assets newly classified as held for sale: |                  |
| 0                | Property, Plant & Equipment               | 0                |
| (363)            | Assets sold                               | 0                |
| (37)             | Withdrawn sales transferred back to PPE   | 0                |
| <b>132</b>       |   | <b>132</b>       |

## 28. CASH AND CASH EQUIVALENTS

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

| At 31 March 2020<br>£'000 |  | At 31 March 2021<br>£'000 |
|---------------------------|--|---------------------------|
| 8                         | Cash held by the authority               | 219                       |
| 1,445                     | Bank current accounts                    | 1,900                     |
| 24,130                    | Short Term Deposits                      | 39,760                    |
| <b>25,583</b>             | <b>Total Cash &amp; Cash Equivalents</b> | <b>41,879</b>             |

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



## 29. BORROWING

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

| 2019/20       |                               | 2020/21       |
|---------------|-------------------------------|---------------|
| £'000         | Analysis of Loans by Source   | £'000         |
| 92,656        | PWLB                          | 89,435        |
| <b>92,656</b> |                               | <b>89,435</b> |
| £'000         | Analysis of Loans by Maturity | £'000         |
| 3,221         | Between 1 and 2 Years         | 3,222         |
| 9,665         | Between 2 and 5 Years         | 9,665         |
| 16,109        | Between 5 and 10 Years        | 16,109        |
| 41,109        | Between 10 and 15 Years       | 41,109        |
| 22,552        | Over 15 years                 | 19,330        |
| <b>92,656</b> |                               | <b>89,435</b> |

Current Borrowing represents borrowing repayable within one year.

| 2019/20      |  | 2020/21      |
|--------------|--|--------------|
| £'000        |  | £'000        |
| 28,244       | Balance at start of year               | 3,246        |
| (28,244)     | Borrowing repaid during year           | (3,247)      |
| 3,222        | Transferred from Non-Current Borrowing | 3,222        |
| 24           | Accrued interest at end of year        | 24           |
| <b>3,246</b> | Balance at end of year                 | <b>3,245</b> |

## 30. CREDITORS

An analysis of Creditors is shown below:

| At 31 March   |                                | At 31 March   |
|---------------|--------------------------------|---------------|
| 2020          |                                | 2021          |
| £'000         |                                | £'000         |
| 5,237         | Government Departments         | 22,781        |
| 893           | Other Local Authorities        | 60            |
| 5,851         | Other entities and individuals | 6,140         |
| <b>11,981</b> | <b>Total</b>                   | <b>28,981</b> |

## 31. 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 31 March  |                        | At 31 March  |
| 2020         | <b>Carrying Value</b>  | 2021         |
| £'000        |                        | £'000        |
| <b>2,035</b> | Other Land & Buildings | <b>2,153</b> |

None of these properties are sublet.

## b. Council as Lessor

### Finance Leases

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

|              |   |              |
|--------------|---|--------------|
|              | <b>Gross Investment in the Lease</b>    |              |
| At 31 March  |   | At 31 March  |
| 2020         | Finance Lease Debtor (net present value | 2021         |
| £'000        | of minimum lease payments)              | £'000        |
| 12           | Non-Current                             | 12           |
| 54           | Unearned finance income                 | 54           |
| 1,740        | Unguaranteed residual value of property | 1,740        |
| <b>1,806</b> | <b>Gross Investment in the Lease</b>    | <b>1,806</b> |

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

|                          | Gross Investment in the Lease |                  | Minimum Lease Payments |                  |
|--------------------------|-------------------------------|------------------|------------------------|------------------|
|                          | At 31 March 2021              | At 31 March 2020 | At 31 March 2021       | At 31 March 2020 |
|                          | £'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                         | 1,800            | 12                     | 12               |
|                          | <b>1,806</b>                  | <b>1,806</b>     | <b>13</b>              | <b>13</b>        |

|                          | Gross Investment in the Lease |                  | Minimum Lease Payments |                  |
|--------------------------|-------------------------------|------------------|------------------------|------------------|
|                          | At 31 March 2020              | At 31 March 2019 | At 31 March 2020       | At 31 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               |
|                          | <b>1,806</b>                  | <b>1,808</b>     | <b>13</b>              | <b>14</b>        |

No allowance for uncollectible amounts has been set aside as at 31 March 2021.

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 2020/21 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 31 March 2020 |                          | At 31 March 2021 |  |
|------------------|--------------------------|------------------|--|
| £'000            |                          | £'000            |  |
| 641              | Not later than one year  | 695              |  |
| 2,128            | Between one & five years | 2,264            |  |
| 551              | Later than 5 years       | 1,731            |  |
| <b>3,320</b>     |                          | <b>4,690</b>     |  |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2020/21 no contingent rents were receivable by the Council.

## 32. 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 £167k provided at 31<sup>st</sup> March 2021 £140k is expected to be settled in 2021/22.

|   | Injury & Damage<br>Compensation<br>Claims<br>£'000 | Business Rates<br>Appeals<br>£'000 | Total<br>£'000 |
|---|--|------------------------------------|----------------|
| <b>2020/21</b>                            |  |                                    |                |
| Balance at 1 April 2020                   | 209  | 1,769                              | 1,978          |
| Additional provisions made in 2020/21     | 45   | 351                                | 396            |
| Amounts used in 2020/21                   | (35)   | (209)                              | (244)          |
| Unused amounts reversed in 2020/21        | (52)   | 0                                  | (52)           |
| <b>Total</b>                              | <b>167</b>   | <b>1,911</b>                       | <b>2,078</b>   |
| Split between:                            |  |                                    |                |
| Short-term provisions                     | 140  | 414                                | 554            |
| Long-term provisions                      | 27   | 1,497                              | 1,524          |
|   | <b>167</b>   | <b>1,911</b>                       | <b>2,078</b>   |
| <b>2019/20</b>                            |  |                                    |                |
| Balance at 1 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)           |
| <b>Total</b>                              | <b>209</b>   | <b>1,769</b>                       | <b>1,978</b>   |
| Split between:                            |  |                                    |                |
| Short-term provisions                     | 143  | 624                                | 767            |
| Long-term provisions                      | 66   | 1,145                              | 1,211          |
|   | <b>209</b>   | <b>1,769</b>                       | <b>1,978</b>   |

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 are responsible for 50% and Lincolnshire County Council being responsible for a 10%.

### **33. 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.

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
|                  | <b>Comprehensive Income and Expenditure Statement</b>   |                  |
|                  | <b>Cost of Services</b>   |                  |
| 6,025            | - current service cost  | 5,343            |
| 214              | - past service cost   | 39               |
| 0                | Administration fee  | 78               |
|                  | <b>Financing &amp; Investment Income &amp; Expenditure</b>  |                  |
| 3,915            | - Net interest expense  | 3,064            |
| (2,504)          | -Expected return on assets in the scheme  | (1,876)          |
| 7,650            | Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services   | 6,648            |
|                  | <b>Other Post-employment benefits charged to the Comprehensive Income and Expenditure Statement</b>   |                  |
|                  | Remeasurement of the net defined benefit liability comprising:  |                  |
| 11,943           | -return on plan assets (excluding the amount included in the net interest expense)  | (21,742)         |
| (5,831)          | -Actuarial gains and losses arising on changes in demographic assumptions   | (1,672)          |
| (14,032)         | -Actuarial gains and losses arising on changes in financial assumptions   | 37,852           |
| (2,405)          | -Other  | (1,763)          |
| <b>(2,675)</b>   | <b>Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>  | <b>19,323</b>    |
|                  | <b>Movement in Reserves Statement</b>   |                  |
| (4,155)          | Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (2,899)          |
|                  | <b>Actual amount charged against the General Fund Balance for pensions in the year.</b>   |                  |
| <b>3,495</b>     | - Employers' contributions payable to scheme.   | <b>3,749</b>     |

### 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:

| 2019/20<br>£'000     |  | 2020/21<br>£'000     |
|----------------------|--|----------------------|
| 145,805              | Present Value of the defined benefit obligation              | 184,792              |
| (94,647)             | Fair value of plan assets                                    | (118,060)            |
| <u>51,158</u>        | Sub-total  | <u>66,732</u>        |
| <b><u>51,158</u></b> | <b>Net liability arising from defined benefit obligation</b> | <b><u>66,732</u></b> |

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

| 2019/20<br>£'000     |  | 2020/21<br>£'000      |
|----------------------|--|-----------------------|
| 104,123              | Opening fair value of scheme assets                      | 94,647                |
| 2,504                | Interest income  | 1,876                 |
|                      | Remeasurement gain/ (loss:                               |                       |
|                      | The return on plan assets, excluding the amount included |                       |
| (11,943)             | in net interest  | 21,742                |
| 3,495                | Contributions from employer                              | 3,749                 |
| 883                  | Contributions from employees into the scheme             | 911                   |
| (4,415)              | Benefits paid  | (4,787)               |
| 0                    | Administration Expense                                   | (78)                  |
| <b><u>94,647</u></b> | <b>Closing fair value of scheme assets</b>               | <b><u>118,060</u></b> |

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

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| Original         |   |                  |
| 161,451          | Opening balance at 1 April                                | 145,805          |
| 6,025            | Current Service Cost                                      | 5,343            |
| 3,915            | Interest cost   | 3,064            |
| 883              | Contributions from scheme participants                    | 911              |
|                  | Remeasurement (gains) and losses:                         |                  |
|                  | Actuarial gains/ losses arising from changes in           |                  |
| (5,831)          | demographic assumptions                                   | (1,672)          |
| (14,032)         | Actuarial gains/ losses arising from changes in financial | 37,852           |
|                  | assumptions   |                  |
| (2,405)          | Other   | (1,763)          |
| 214              | Past Service cost   | 39               |
| (4,415)          | Benefits paid   | (4,787)          |
| <b>145,805</b>   | <b>Closing Balance at 31 March</b>                        | <b>184,792</b>   |



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

| 2019/20       | Fair Value of Scheme Assets | 2020/21        |
|---------------|-----------------------------|----------------|
| £'000         |                             | £'000          |
| 65,754        | Equities                    | 84,692         |
| 17,688        | Bonds                       | 16,278         |
| 10,639        | Property                    | 12,345         |
| 566           | Cash                        | 4,745          |
| <b>94,647</b> | <b>Total Assets</b>         | <b>118,060</b> |

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 Barnett Waddingham, 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:

| 2019/20 |  | 2020/21 |
|---------|--|---------|
|         | <b>Long term expected rate of return on assets in the Scheme</b> |         |
|         | <b>Mortality Assumptions</b>                                     |         |
|         | Longevity at 65 for current pensioners:                          |         |
| 21.4    | Men  | 21.1    |
| 23.7    | Women  | 23.6    |
|         | Longevity at 65 for future pensioners:                           |         |
| 22.4    | Men  | 22.0    |
| 25.2    | Women  | 25.0    |
| 2.2%    | Rate of increase in salaries                                     | 3.2%    |
| 1.9%    | Rate of Increase in Pensions                                     | 2.9%    |
| 2.3%    | Rate for discounting scheme liabilities                          | 2.0%    |

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.

| <b>Impact on the Defined Benefit Obligation in the Scheme</b>         | Increase in | Decrease in |
|---|-------------|-------------|
|   | Assumption  | Assumption  |
|   | £000        | £000        |
| Longevity (increase or decrease in 1 year)                            | 194         | 176         |
| Rate of increase in salaries (increase or decrease by 0.1%)           | 185         | 184         |
| Rate of increase in pensions (increase or decrease by 0.1%)           | 188         | 182         |
| Rate of discounting scheme liabilities (Increase or decrease by 0.1%) | 181         | 189         |

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

The objectives of the scheme are to keep employers' contribution at as constant a rate as possible. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2022.

The Council is anticipated to pay £3.842m expected contributions to the scheme in 2021/22.

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).

### 34. USABLE RESERVES

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

|                                       | Balance at<br>1 April 2019<br>£'000 | Transfer<br>To Reserve<br>£'000 | Transfer<br>From Reserve<br>£'000 | Balance at<br>31 March 2020<br>£'000 | Transfer<br>To Reserve<br>£'000 | Transfer<br>From Reserve<br>£'000 | Balance at<br>31 March 2021<br>£'000 |
|---------------------------------------|-------------------------------------|---------------------------------|-----------------------------------|--------------------------------------|---------------------------------|-----------------------------------|--------------------------------------|
| GF Capital Receipts Reserve           | 2,586                               |                                 | (269)                             | 2,317                                |                                 | (122)                             | 2,195                                |
| HRA Capital Receipts Reserve          | 6,660                               | 600                             |                                   | 7,260                                | 797                             |                                   | 8,057                                |
| Major Repairs Reserve                 | 12,659                              | 1,633                           |                                   | 14,292                               | 3,608                           |                                   | 17,900                               |
| Earmarked GF Revenue Reserves         | 17,757                              |                                 | (2,638)                           | 15,119                               | 11,303                          |                                   | 26,422                               |
| General Fund Unapplied Revenue Grants | 1,148                               |                                 | (652)                             | 496                                  |                                 | (8)                               | 488                                  |
| Earmarked HRA Revenue Reserves        | 1,321                               |                                 | (374)                             | 947                                  | 1,089                           |                                   | 2,036                                |
| Earmarked GF Capital Reserve          | 3,752                               |                                 | (2,680)                           | 1,072                                |                                 | (757)                             | 315                                  |
| Earmarked HRA Capital Reserves        | 16,073                              |                                 |                                   | 16,073                               |                                 | (2,550)                           | 13,523                               |
| Housing Revenue Account Balance       | 2,007                               |                                 | (447)                             | 1,560                                |                                 | 2,212                             | 3,772                                |
| General Fund Balance                  | 2,835                               |                                 | (825)                             | 2,010                                |                                 |                                   | 2,010                                |
|                                       | <b>66,798</b>                       | <b>2,233</b>                    | <b>(7,885)</b>                    | <b>61,146</b>                        | <b>16,797</b>                   | <b>(1,225)</b>                    | <b>76,718</b>                        |

### 35. UNUSABLE RESERVES

| At 31 March<br>2020<br>£'000 |   | At 31 March<br>2021<br>£'000 |
|------------------------------|---|------------------------------|
| 42,441                       | Revaluation Reserve                       | 56,863                       |
| 190,211                      | Capital Adjustment Account                | 194,428                      |
| (51,158)                     | Pensions Reserve                          | (66,732)                     |
| 393                          | Collection Fund Adjustment Account        | (9,180)                      |
| (131)                        | Accumulated Absences Adjustment Account   | (212)                        |
| 20                           | Deferred Capital Receipts                 | 18                           |
| (107)                        | Financial Instruments Adjustment Account  | (87)                         |
| (300)                        | Financial Instruments Revaluation Reserve | (319)                        |
| <b>181,369</b>               |   | <b>174,779</b>               |

#### a. Revaluation Reserve

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

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

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

#### REVALUATION RESERVE

| 2019/20<br>£'000 |  | 2020/21<br>£'000 |
|------------------|--|------------------|
| 43,699           | Balance at start of year   | 42,441           |
| 8,636            | Upward revaluation of assets   | 14,568           |
| (372)            | Downward revaluation of assets and impairment losses<br>not charged to the Surplus/Deficit on Provision of<br>Services | (1,318)          |
| 51,963           | Surplus/Deficit on revaluation of non-current assets not<br>posted to Surplus/Deficit on Provision of Services         | 55,691           |
| (9,459)          | Difference between fair value depreciation and<br>historical cost depreciation   | 1,224            |
| (63)             | Accumulated gains on assets sold or scrapped   | (52)             |
| (9,522)          | Amounts written off to the Capital Adjustment Account  | 1,172            |
| <b>42,441</b>    | Balance at end of year   | <b>56,863</b>    |

**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.

**35b CAA Continued**

| 2019/20        |  | 2020/21        |
|----------------|--|----------------|
| £'000          |  | £'000          |
| 170,406        | Balance at start of year   | 190,211        |
|                | <b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>                   |                |
| (8,205)        | Charges for depreciation of non-current assets   | (8,516)        |
| (4,567)        | Charges for impairment of non-current assets   | (2,602)        |
| (1,911)        | Revaluation losses on Property, Plant & Equipment  | (2,068)        |
| 9,396          | Revaluation gains reversing previous impairments charged to the Comprehensive Income & Expenditure Statement   | 12,470         |
| (112)          | Amortisation of intangible assets  | (110)          |
| (818)          | Revenue expenditure funded from capital under statute  | (650)          |
| (2,587)        | 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 | (1,415)        |
| 161,602        |  | 187,320        |
| 9,459          | Adjusting amounts written out of the Revaluation Reserve   | (1,224)        |
| 171,061        | Net written out amount of the cost of non-current assets consumed in the year  | 186,096        |
|                | <b>Capital financing applied in the year</b>   |                |
| 2,847          | Use of the Capital Receipts Reserve to finance new capital expenditure   | 574            |
| 4,665          | Use of the Major Repairs reserve to finance new capital expenditure  | 2,796          |
| 742            | Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing              | 769            |
| 148            | Statutory provision for the financing of capital investment charged against the General Fund & HRA balances  | 142            |
| 10,978         | Self-financed capital expenditure  | 4,477          |
| 0              | Long Term Debtor written down  | (41)           |
| 99             | Capital expenditure charged against the General Fund and HRA balances  |                |
| 19,479         |  | 8,717          |
| (329)          | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement                         | (385)          |
| <b>190,211</b> | <b>Balance at end of year</b>  | <b>194,428</b> |

### c. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that the funding will have been set aside by the time the benefits come to be paid.

| 2019/20<br>£'000     |  | 2020/21<br>£'000 |
|----------------------|--|------------------|
| Original<br>(57,328) | Balance at start of year   | (51,158)         |
| 10,325               | Remeasurement of the net defined benefit liability/ (asset)  | (12,675)         |
| (7,650)              | Reversal of items relating to retirement benefits debited<br>or credited to the Surplus or Deficit on Provision of<br>Services | (6,648)          |
| 3,495                | Employer's pensions contributions and direct payments to<br>pensioners payable in the year                                     | 3,749            |
| <b>(51,158)</b>      | Balance at end of year   | <b>(66,732)</b>  |

### d. Collection Fund Adjustment Account

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

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| 1,565            | Balance at start of year  | 393              |
| 4                | Amount by which council tax income credited to the<br>Comprehensive Income & Expenditure Statement is<br>different from council tax income calculated in<br>accordance with statute | (176)            |
| (1,176)          | Amount by which NNDR income credited to the CIES is<br>different from council tax and NNDR income calculated<br>for the year in accordance with statutory requirements              | (9,397)          |
| <b>393</b>       | Balance at end of year  | <b>(9,180)</b>   |

#### e. Accumulated Absences Account

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

| 2019/20      |   | 2020/21      |
|--------------|---|--------------|
| £'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          | (81)         |
|              | accruals basis is different from remuneration chargeable in |              |
|              | the year in accordance with statute                         |              |
| <b>(131)</b> | Balance at end of year                                      | <b>(212)</b> |

#### 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.

| 2019/20   |                             | 2020/21   |
|-----------|-----------------------------|-----------|
| £'000     |                             | £'000     |
| 23        | Balance at start of year    | 20        |
| (3)       | Repayments received in year | (2)       |
| <b>20</b> | Balance at end of year      | <b>18</b> |

#### 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).

| 2019/20      |                             | 2020/21     |
|--------------|-----------------------------|-------------|
| £'000        |                             | £'000       |
| 0            | Balance at start of year    | (107)       |
| (120)        | Soft Loan Cost              | 0           |
| 13           | Repayments received in year | 20          |
| <b>(107)</b> | Balance at end of year      | <b>(87)</b> |



## 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.

| 2019/20      |   | 2020/21      |
|--------------|---|--------------|
| £'000        |   | £'000        |
| 0            | Balance at start of year  | (300)        |
| 0            | Upward Revaluation of Investments   | 0            |
| (300)        | Downward Revaluation of Investments   | (19)         |
| 0            | Change in Impairment Loss Allowances  | 0            |
| <b>(300)</b> |   | <b>(319)</b> |
| 0            | Accumulated gains or losses on assets sold and maturing assets written out to the CIES as part of Other Investment Income | 0            |
| <b>(300)</b> | Balance at end of year  | <b>(319)</b> |

## NOTES TO THE CASH FLOW STATEMENT

### 36. CASH FLOW STATEMENT – OPERATING ACTIVITIES

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

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| 8,205            | Depreciation  | 8,516            |
| (2,918)          | Impairment & downward valuations  | (7,760)          |
| 112              | Amortisation  | 110              |
| 62               | Increase/(Decrease) in Creditors  | 20,050           |
| 120              | (Increase)/Decrease in Debtors  | 560              |
| (4)              | (Increase)/Decrease in Stock  | (2)              |
| 4,155            | Movement in pension liability   | 2,899            |
| 2,650            | Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised | 1,427            |
| 584              | Other non-cash items charged to the net surplus or deficit on the provision of services           | 504              |
| <b>12,966</b>    | <b>Adjustment to surplus or deficit on the provision of services for noncash movements</b>        | <b>26,304</b>    |

Adjustments to the net surplus or deficit on the provision of services that are investing or financing activities:

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| (3,977)          | Proceeds from the sale of property, plant and equipment, investment property and intangible assets  | (1,975)          |
| (1,036)          | Other items for which the cash effects are investing or financing cash flows  | (1,133)          |
| <b>(5,013)</b>   | <b>Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b> | <b>(3,108)</b>   |

The cash flows for operating activities include the following items:

| 2019/20<br>£'000 |                   | 2020/21<br>£'000 |
|------------------|-------------------|------------------|
| 762              | Interest Received | 523              |
| (2,729)          | Interest Paid     | (2,530)          |
| <b>(1,967)</b>   |                   | <b>(2,007)</b>   |

### 37. CASH FLOW STATEMENT – INVESTING ACTIVITIES

| £'000        |  | £'000        |
|--------------|--|--------------|
| (12,669)     | Purchase of property, plant and equipment, investment property and intangible assets               | (4,922)      |
| (87,200)     | Purchase of short-term and long-term investments   | (29,500)     |
| (2,473)      | Other payments for investing activities  | 0            |
| 3,980        | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 1,977        |
| 106,640      | Proceeds from short-term and long-term investments   | 32,000       |
| 1,262        | Other receipts from investing activities   | 3,134        |
| <b>9,540</b> | <b>Net cash flows from investing activities</b>  | <b>2,689</b> |

### 38. CASH FLOW STATEMENT – FINANCING ACTIVITIES

Cash flow Financing Activities:

| £'000          |   | £'000           |
|----------------|---|-----------------|
| 25,000         | Cash receipts of short- and long-term borrowing | 0               |
| (28,222)       | Repayments of short- and long-term borrowing    | (3,222)         |
| 723            | Other payments for financing activities         | (14,773)        |
| <b>(2,499)</b> | <b>Net cash flows from financing activities</b> | <b>(17,995)</b> |

## **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 2021 are £0.374m (£0.357m 2019/20). The accounts can be obtained from Invest SK, Council Offices, St Peter’s Hill, Grantham, NG31 6PZ.

During 2020/21 the net amount paid by the Council to the company was £0.430m (£1.119m 2019/20).

#### **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 2021 are £0.345m (£0.456m 2019/20). The accounts can be obtained from Environment SK Ltd, Council Offices, St Peters Hill, Grantham, Lincolnshire, NG31 6PZ.

During 2020/21 the Council spent £0.917m (£1.079m 2019/20) on services with Environment SK Ltd. At the 31 March 2021 the Council owed £38k (£57k 2019/20) to Environment SK Ltd and Environment SK Ltd owed £14k (£9k 2019/20) to the Council.

The Council provided a loan to Environment SK Ltd of £571k during 2019/20 of which £430k was the balance outstanding at 31 March 2021.

## 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.

| 2019/20<br>£'000 |  | 2020/21<br>£'000 |
|------------------|--|------------------|
| 54               | Fees payable to the external auditors with regard to external audit services carried out by the appointed auditor. | 61               |
| 3                | Fees payable to the external auditors for the certification of grant claims.                                       | 3                |
| 4                | CFO Insights   | 4                |
| 7                | Fees payable to external auditors for the certification of returns   | 10               |
| <b>68</b>        |  | <b>78</b>        |

## 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, Leader of the Council and Deputy Leader of the Council  
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.

Leisure SK – Leader of the Council, Deputy Leader of the Council, Chief Executive, Cabinet Member for Finance and Resources, Cabinet Member for Culture and Visitor Economy

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

The Council has paid a management fee of £125k to Leisure SK Limited during 2020/21.

**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:

| 2019/20      |                                     | 2020/21      |
|--------------|-------------------------------------|--------------|
| £'000        |                                     | £'000        |
| 1,718        | Town and Parish Councils            | 1,835        |
| 133          | Upper Witham Drainage Board         | 136          |
| 58           | Black Sluice Drainage Board         | 59           |
| 501          | Welland and Deepings Drainage Board | 530          |
| <b>2,410</b> |                                     | <b>2,560</b> |

## 42. AUTHORISATION OF ACCOUNTS FOR ISSUE

The date that the Statement of Accounts was authorised for issue was 30 July 2021. 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 2021

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.

| 2019/20         |   | 2020/21         |
|-----------------|---|-----------------|
| £'000           |   | £'000           |
|                 | <b>Income</b>   |                 |
|                 | Gross Rental Income   |                 |
| (23,676)        | - Dwelling Rents  | (24,152)        |
| (289)           | - Non-Dwelling Rents  | (280)           |
| (670)           | Charges for Services and Facilities   | (551)           |
| (108)           | Other Income  | (43)            |
| <b>(24,743)</b> | <b>Total Income</b>   | <b>(25,026)</b> |
|                 | <b>Expenditure</b>  |                 |
| 8,153           | Repairs and Maintenance   | 6,816           |
| 3,657           | Supervision and Management  | 3,318           |
| 9               | Rent, rates, taxes and other charges  | 37              |
| 131             | Increase/(Decrease) in Prov'n for Doubtful Debts  | 116             |
| (812)           | Depreciation and impairment of Non-Current Assets   | (5,922)         |
| 42              | Debt Management Costs   | 35              |
| <b>11,180</b>   |   | <b>4,400</b>    |
| <b>(13,563)</b> | <b>Net Cost of HRA Services</b>   | <b>(20,626)</b> |
| 2,517           | HRA share of Corporate and Democratic Core  | 2,592           |
| <b>(11,046)</b> | <b>Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement</b> | <b>(18,034)</b> |
| (1,358)         | (Gain)/loss on sale of HRA assets   | (620)           |
| 802             | Contribution Housing Capital Receipts to the Pool   | 768             |
| 0               | Other operating income (Right to Buy Discount Repaid)   | 0               |
| 2,731           | Interest payable and similar charges  | 2,530           |
| (391)           | Interest and Investment Income  | (252)           |
| (25)            | Investment Property Income and Expenditure  | (3)             |
| 328             | Pension Interest Costs and Expected Return on Assets  | 270             |
| <b>(8,959)</b>  | <b>(Surplus)/Deficit for the year on HRA services</b>   | <b>(15,341)</b> |

## MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

| 2019/20<br>£'000 |  | Note | 2020/21<br>£'000 |
|------------------|--|------|------------------|
| (2,007)          | Balance on the HRA at the end of the previous year                       |      | (1,560)          |
| (8,959)          | (Surplus)/Deficit for the year on the HRA Income & Expenditure Statement |      | (15,341)         |
| 6,898            | Adjustments between Accounting Basis and Funding Basis under statute     | 7    | 11,618           |
| <b>(2,061)</b>   | <b>Net (increase) or decrease before transfers to or from reserves</b>   |      | <b>(3,723)</b>   |
| 2,508            | Transfers to or (from) reserves  | 7    | 1,114            |
| <b>(1,560)</b>   | <b>Balance on HRA at the end of the current year</b>                     |      | <b>(4,169)</b>   |



## NOTES TO THE HOUSING REVENUE ACCOUNT

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

### 1. HOUSING STOCK

The Council was responsible for managing on average 5920 dwellings during 20/21. The housing stock and changes during the year are as follows:

|                  | At 1 April<br>2020 | Additions | Disposals<br>/Sales | At 31 March<br>2021 |
|------------------|--------------------|-----------|---------------------|---------------------|
| Rentable Stock   |                    |           |                     |                     |
| - Houses         | 3,094              | 1         | (26)                | 3,069               |
| - Bungalows      | 1,499              | 0         | (1)                 | 1,498               |
| - Flats          | 1,312              | 14        | (1)                 | 1,325               |
| Shared Ownership | 22                 | 0         |                     | 22                  |
| <b>Total</b>     | <b>5,927</b>       | <b>15</b> | <b>(28)</b>         | <b>5,914</b>        |

## 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                     |                |
| Cost or Valuation at 1 April 2020  | 242,894            | 4,340                    | 1,387                       | 468                    | 2,768                     | 251,857        |
| Additions  | 2,602              | 0                        | 160                         | 0                      | 405                       | 3,167          |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve                      | 11,582             | (170)                    | 0                           | 0                      | 0                         | 11,412         |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services | 8,322              | (76)                     | 0                           | (15)                   | 0                         | 8,231          |
| Derecognition - Disposals  | (1,260)            | 0                        | (60)                        | 0                      | 0                         | (1,320)        |
| Assets reclassified to/from Assets Under Construction  | 2,237              | 0                        | 0                           | 0                      | (2,278)                   | (41)           |
| <b>Gross Book Value as at 31 March 2021</b>  | <b>266,377</b>     | <b>4,094</b>             | <b>1,487</b>                | <b>453</b>             | <b>895</b>                | <b>273,306</b> |
| <b>Depreciation &amp; Impairments</b>  |                    |                          |                             |                        |                           |                |
| At 1 April 2020  | (4)                | 0                        | (1,286)                     | 0                      | 0                         | (1,290)        |
| Depreciation charge  | (3,430)            | (257)                    | (142)                       | 0                      | 0                         | (3,829)        |
| Depreciation written out to the revaluation reserve  | 1,970              | 185                      | 0                           | 0                      | 0                         | 2,155          |
| Depreciation written out to the CI&E   | 4,035              | 72                       | 0                           | 0                      | 0                         | 4,107          |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on Provision of Services     | (2,602)            | 0                        | 0                           | 0                      | 0                         | (2,602)        |
| Derecognition - Disposals  | 0                  | 0                        | 46                          | 0                      | 0                         | 46             |
| <b>At 31 March 2021</b>  | <b>(31)</b>        | <b>0</b>                 | <b>(1,382)</b>              | <b>0</b>               | <b>0</b>                  | <b>(1,413)</b> |
| <b>Balance Sheet Amount at 31 March 2021</b>   | <b>266,346</b>     | <b>4,094</b>             | <b>105</b>                  | <b>453</b>             | <b>895</b>                | <b>271,893</b> |
| <b>Balance Sheet Amount at 31 March 2020</b>   | <b>242,890</b>     | <b>4,340</b>             | <b>101</b>                  | <b>468</b>             | <b>2,768</b>              | <b>250,567</b> |

The vacant possession value of dwellings at 31 March 2021 was £628.42m (£579.16m at 31 March 2020). 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%.

The opening balance for Other Land and Buildings has been amended from the previous year to include the value of Earlesfield Community Centre which was previously omitted in error.

### 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 2021 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.

| 2019/20<br>£'000 |                         | 2020/21<br>£'000 |
|------------------|-------------------------|------------------|
| 3,768            | Depreciation            | 3,829            |
| (9,135)          | Revaluation Loss/(Gain) | (12,339)         |
| 4,567            | Impairment Losses       | 2,602            |
| <b>(800)</b>     |                         | <b>(5,908)</b>   |

### 4. MAJOR REPAIRS RESERVE

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

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| 12,658           | Opening balance on the Major Repairs Reserve        | 14,291           |
|                  | Transfer to/ (from) the Major Repairs Reserve       |                  |
| 3,415            | Transfer from HRA equal to depreciation             | 3,829            |
| 2,883            | Additional contribution from HRA                    | 2,576            |
| (4,665)          | Financing of Capital Expenditure                    | (2,796)          |
| <b>14,291</b>    | <b>Closing balance on the Major Repairs Reserve</b> | <b>17,900</b>    |

## 5. FINANCING CAPITAL EXPENDITURE

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

| 2019/20<br>£'000      | <b>Expenditure</b>        | 2020/21<br>£'000 |
|-----------------------|---------------------------|------------------|
| 4,745                 | Council Dwellings         | 2,602            |
| 99                    | Plant and Equipment       | 160              |
| 2,299                 | Assets Under Construction | 405              |
| <b>7,143</b>          | <b>Total</b>              | <b>3,167</b>     |
| <b>Financed from:</b> |                           |                  |
| 4,665                 | Major Repairs Reserve     | 2,796            |
| 2,478                 | Capital Receipts          | 371              |
| <b>7,143</b>          |                           | <b>3,167</b>     |

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<br>Year<br>£'000 | Element<br>Pooled<br>£'000 | Useable<br>Element<br>£'000 |
|---------------------------|-----------------------------|----------------------------|-----------------------------|
| Sale of Land              | 0                           | 0                          | 0                           |
| Sale of Vehicles          | 13                          | 0                          | 13                          |
| Sale of Council Dwellings | 1,920                       | (766)                      | 1,154                       |
| Mortgage Repayments       | 2                           | (2)                        | 0                           |
| <b>Total</b>              | <b>1,935</b>                | <b>(768)</b>               | <b>1,167</b>                |

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

| 2019/20      | Movement on the Housing Revenue Account Statement        | 2020/21       |
|--------------|--|---------------|
| £'000        |  | £'000         |
|              | <b>Adjustments between Accounting and Funding Basis:</b> |               |
| (1,780)      | IAS 19   | (1,512)       |
| 689          | - Pension Costs Charged to Rent Income                   | 736           |
| (4,567)      | - Non-Enhancing Capital Expenditure                      | (2,602)       |
| 3,222        | Capital Expenditure                                      | 3,222         |
| 1,358        | Gains/losses on disposal of non current assets           | 620           |
| 9,135        | Revaluation gains/(losses) on PPE                        | 12,339        |
| (802)        | Payments to Housing Capital Receipts Pool                | (768)         |
| (357)        | Depreciation of non-current assets                       | (399)         |
| 0            | Other Adjustment   | (18)          |
| <b>6,898</b> |  | <b>11,618</b> |
|              | <b>Transfers to/from Earmarked Reserves:</b>             |               |
| (375)        | - Transfers to/(from) reserves                           | (1,462)       |
| 2,883        | - Transfers to/(from) Major Repairs Reserve              | 2,576         |
| <b>2,508</b> |  | <b>1,114</b>  |

## 8. RENT ARREARS

An analysis of rent arrears is shown below:

| At 31st March 2020 |   | At 31st March 2021 |
|--------------------|---|--------------------|
| £'000              |   | £'000              |
| 1,122              | Current Tenants   | 1,008              |
| 828                | Former Tenants  | 939                |
| <b>1,950</b>       | <b>Gross Rent Arrears</b>                               | <b>1,947</b>       |
| <b>(1,247)</b>     | <b>Impairment Provision for Bad &amp; Doubtful Debt</b> | <b>(1,305)</b>     |

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 2021**

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.

| 2019/20                                  |                      |                | 2020/21 |                         |                      |                 |
|--|----------------------|----------------|---------|-------------------------|----------------------|-----------------|
| Business Rates<br>£'000                  | Council Tax<br>£'000 | Total<br>£'000 |         | Business Rates<br>£'000 | Council Tax<br>£'000 | Total<br>£'000  |
| <b>Income</b>                            |                      |                |         |                         |                      |                 |
| 0  | 82,427               | 82,427         |         | 0                       | 85,581               | 85,581          |
| 43,195                                   | 0                    | 43,195         |         | 21,959                  | 0                    | 21,959          |
| Apportionment of Previous Year Deficit - |                      |                |         |                         |                      |                 |
| 0  | 0                    | 0              |         | 0                       | 0                    | 0               |
| 0  | 0                    | 0              |         | 0                       | 0                    | 0               |
| 0  | 0                    | 0              |         | 0                       | 0                    | 0               |
| <u>43,195</u>                            | <u>82,427</u>        | <u>125,622</u> |         | <u>21,959</u>           | <u>85,581</u>        | <u>107,540</u>  |
| <b>Expenditure</b>                       |                      |                |         |                         |                      |                 |
| 41,374                                   | 81,473               | 122,847        | 3       | 41,954                  | 85,813               | 127,767         |
| 176                                      | 0                    | 176            |         | 174                     | 0                    | 174             |
| (186)                                    | 0                    | (186)          |         | (8)                     | 0                    | (8)             |
| Bad and doubtful Debts -                 |                      |                |         |                         |                      |                 |
| 279                                      | 186                  | 465            |         | (1)                     | 65                   | 64              |
| (13)                                     | 91                   | 78             |         | 366                     | 164                  | 530             |
| 1,526                                    | 0                    | 1,526          |         | 355                     | 0                    | 355             |
| Apportionment of Previous Year Surplus - |                      |                |         |                         |                      |                 |
| 168                                      | 0                    | 168            |         | 830                     | 0                    | 830             |
| 1,317                                    | 73                   | 1,390          |         | 1,042                   | 123                  | 1,165           |
| 822                                      | 473                  | 1,295          |         | 279                     | 817                  | 1,096           |
| 0  | 84                   | 84             |         | 0                       | 152                  | 152             |
| <u>45,463</u>                            | <u>82,380</u>        | <u>127,843</u> |         | <u>44,991</u>           | <u>87,134</u>        | <u>132,125</u>  |
| (2,268)                                  | 47                   | (2,221)        |         | (23,032)                | (1,553)              | (24,585)        |
| 2,590                                    | 710                  | 3,300          |         | 322                     | 757                  | 1,079           |
| <u>322</u>                               | <u>757</u>           | <u>1,079</u>   |         | <u>(22,710)</u>         | <u>(796)</u>         | <u>(23,506)</u> |
| <b>Allocated to -</b>                    |                      |                |         |                         |                      |                 |
| (85)                                     | 0                    | (85)           |         | (11,353)                | 0                    | (11,353)        |
| 311                                      | 82                   | 393            |         | (9,087)                 | (93)                 | (9,180)         |
| 96                                       | 565                  | 661            |         | (2,270)                 | (594)                | (2,864)         |
| 0  | 110                  | 110            |         | 0                       | (109)                | (109)           |
| <u>322</u>                               | <u>757</u>           | <u>1,079</u>   |         | <u>(22,710)</u>         | <u>(796)</u>         | <u>(23,506)</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 2020/21 increased to 47,918.4 (47,125.7 in 2019/20)

The Council Tax base was calculated as follows:

| Band   | Estimated No. of Taxable Properties After Effect of Discounts | Ratio | Band D Equivalent Dwellings |
|--|---|-------|-----------------------------|
| A  | 13,124.20   | 6/9   | 8,749.5                     |
| B  | 12,079.50   | 7/9   | 9,395.2                     |
| C  | 10,003.80   | 8/9   | 8,892.3                     |
| D  | 8,474.20  | 9/9   | 8,474.2                     |
| E  | 5,351.90  | 11/9  | 6,541.2                     |
| F  | 2,752.90  | 13/9  | 3,976.4                     |
| G  | 1,022.90  | 15/9  | 1,704.8                     |
| H  | 66.30   | 18/9  | 132.6                       |
| Band A entitled to Disabled Relief Reduction | 21.90   | 5/9   | 12.2                        |
|  |   |       | 47,878.4                    |
| Ministry of Defence Properties               |   |       | 40.0                        |
| <b>Council Tax Base</b>                      |   |       | <b><u>47,918.4</u></b>      |

### 2. BUSINESS RATES

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

Under the arrangements for Non-Domestic Rates, the Council collects rates for its area based upon local rateable values (determined by the Valuation Office Agency, an executive agency of HM Revenue & Customs) multiplied by the multiplier (determined by Government). For 2020/21 there are two multipliers:

|                |                           |
|----------------|---------------------------|
| Full           | 51.2p (50.4p for 2019/20) |
| Small Business | 49.9p (49.1p for 2019/20) |

The total Non-Domestic Rateable Value at 31 March 2021 was £111.056m (31 March 2020 £111.347m).

### 3. PRECEPTS AND DEMANDS

| 2019/20       |                |                |                                   | 2020/21       |                |                |
|---------------|----------------|----------------|-----------------------------------|---------------|----------------|----------------|
| £'000         | £'000          | £'000          |                                   | £'000         | £'000          | £'000          |
| Council Tax   | Business Rates | Total          |                                   | Council Tax   | Business Rates | Total          |
| 0             | 20,687         | 20,687         | Central Government                | 0             | 20,862         | 20,862         |
| 60,905        | 4,137          | 65,042         | Lincolnshire County Council       | 64,093        | 4,172          | 68,265         |
| 11,375        | 0              | 11,375         | Lincs Police & Crime Commissioner | 12,045        | 0              | 12,045         |
| 9,193         | 16,550         | 25,743         | South Kesteven District Council   | 9,675         | 16,920         | 26,595         |
| <b>81,473</b> | <b>41,374</b>  | <b>122,847</b> |                                   | <b>85,813</b> | <b>41,954</b>  | <b>127,767</b> |



## 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 2020/21 (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 £2.43m
- £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 £1.17m 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 Groups 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<br>Reserves | Unusable<br>Reserves | Total Authority<br>Reserves | Gravitas<br>Housing Ltd | Total Group<br>Reserves |
|--|--------------------------|----------------------|-----------------------------|-------------------------|-------------------------|
|  | £'000                    | £'000                | £'000                       | £'000                   | £'000                   |
| <b>Balance at 31 March 2020 brought forward</b>                        | <b>(61,146)</b>          | <b>(181,369)</b>     | <b>(242,515)</b>            | <b>(60)</b>             | <b>(242,575)</b>        |
| Movement in reserves during 2020/21                                    |                          |                      |                             |                         |                         |
| Total Comprehensive Income & Expenditure                               | (8,406)                  | (576)                | (8,982)                     | 56                      | (8,926)                 |
| Transfers between Reserves   | (42)                     | 42                   | 0                           | 0                       | 0                       |
| Adjustments between accounting basis & funding basis under regulations | (7,124)                  | 7,124                | 0                           | 0                       | 0                       |
| (Increase) or decrease in 2020/21                                      | (15,572)                 | 6,590                | (8,982)                     | 56                      | (8,926)                 |
| <b>Balance at 31 March 2021 carried forward</b>                        | <b>(76,718)</b>          | <b>(174,779)</b>     | <b>(251,497)</b>            | <b>(4)</b>              | <b>(251,501)</b>        |

|  | Total Usable<br>Reserves | Unusable<br>Reserves | Total Authority<br>Reserves | Gravitas<br>Housing Ltd | Total Group<br>Reserves |
|--|--------------------------|----------------------|-----------------------------|-------------------------|-------------------------|
|  | £'000                    | £'000                | £'000                       | £'000                   | £'000                   |
| <b>Balance at 31 March 2019 brought forward</b>                        | <b>(66,798)</b>          | <b>(158,234)</b>     | <b>(225,032)</b>            | <b>81</b>               | <b>(224,951)</b>        |
| 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)                |
| <b>Balance at 31 March 2020 carried forward</b>                        | <b>(61,146)</b>          | <b>(181,369)</b>     | <b>(242,515)</b>            | <b>(60)</b>             | <b>(242,575)</b>        |

## GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting costs of providing services in the year.

| Restated 2019/20                                       |                    |                       |  | 2020/21                 |                    |                       |
|--|--------------------|-----------------------|--|-------------------------|--------------------|-----------------------|
| Group Gross Expenditure                                | Group Gross Income | Group Net Expenditure |  | Group Gross Expenditure | Group Gross Income | Group Net Expenditure |
| £'000  | £'000              | £'000                 |  | £'000                   | £'000              | £'000                 |
| 15,131   | (5,946)            | 9,185                 | Commercial & Operations  | 15,073                  | (5,264)            | 9,809                 |
| 29,390   | (46,256)           | (16,866)              | Corporate  | 26,181                  | (47,083)           | (20,902)              |
| 10,334   | (3,493)            | 6,841                 | Growth & Culture   | 8,744                   | (2,535)            | 6,209                 |
| 15,407   | (1,993)            | 13,414                | Housing & Property   | 13,176                  | (2,284)            | 10,892                |
| <b>70,262</b>  | <b>(57,688)</b>    | <b>12,574</b>         | <b>Cost Of Services</b>  | <b>63,174</b>           | <b>(57,166)</b>    | <b>6,008</b>          |
| <b>Other Operating Expenditure</b>                     |                    |                       |  |                         |                    |                       |
| 0  | (1,328)            | (1,328)               | (Gain)/Loss Disposal of Fixed Assets                                   | 0                       | (507)              | (507)                 |
| 2,410  | 0                  | 2,410                 | Precepts & Levies  | 2,560                   | 0                  | 2,560                 |
| 802  | 0                  | 802                   | Contribution Housing Capital Receipts to the Pool                      | 768                     | 0                  | 768                   |
| 0  | 0                  | 0                     | Other Operating Income and Expenditure                                 | 0                       | 0                  | 0                     |
| <b>3,212</b>   | <b>(1,328)</b>     | <b>1,884</b>          |  | <b>3,328</b>            | <b>(507)</b>       | <b>2,821</b>          |
| <b>Financing and Investment Income and Expenditure</b> |                    |                       |  |                         |                    |                       |
| 2,731  | 0                  | 2,731                 | Interest Payable on Debt   | 2,530                   | 0                  | 2,530                 |
| 1,411  | 0                  | 1,411                 | Net Interest on the net defined benefit liability (asset)              | 1,188                   | 0                  | 1,188                 |
| 0  | (653)              | (653)                 | Interest & Investment Income   | 0                       | (342)              | (342)                 |
| 0  | (4)                | (4)                   | Income & Expenditure and Movement in Fair Value of Investment Property | 0                       | 46                 | 46                    |
| 300  | 0                  | 300                   | Movement in the value of property fund income                          | 19                      | 0                  | 19                    |
| <b>4,442</b>   | <b>(657)</b>       | <b>3,785</b>          |  | <b>3,737</b>            | <b>(296)</b>       | <b>3,441</b>          |
| <b>0</b>   | <b>(17,074)</b>    | <b>(17,074)</b>       | <b>Taxation and Non-Specific Grant Income</b>                          | <b>0</b>                | <b>(20,519)</b>    | <b>(20,519)</b>       |
|  | <b>1,169</b>       |                       | <b>(Surplus) or Deficit on Provision of Services</b>                   |                         |                    | <b>(8,249)</b>        |
|  | <b>33</b>          |                       | <b>Tax expenses of subsidiaries</b>                                    |                         |                    | <b>(32)</b>           |
|  | <b>1,202</b>       |                       | <b>Group (Surplus)/Deficit on Provision of Services</b>                |                         |                    | <b>(8,281)</b>        |
|  | (8,263)            |                       | (Surplus) or deficit on revaluation of non-current assets              |                         |                    | (13,250)              |
|  | (10,325)           |                       | Remeasurement of Defined Pension Liability                             |                         |                    | 12,675                |
|  | <b>(18,588)</b>    |                       | <b>Other Comprehensive Income and Expenditure</b>                      |                         |                    | <b>(575)</b>          |
|  | <b>(17,386)</b>    |                       | <b>TOTAL COMPREHENSIVE INCOME &amp; EXPENDITURE</b>                    |                         |                    | <b>(8,856)</b>        |

## 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<br>2020<br>£'000 |                                    | Note | At 31 March<br>2021<br>£'000 |
|------------------------------|------------------------------------|------|------------------------------|
| 333,775                      | Property Plant & Equipment         |      | 349,559                      |
| 522                          | Heritage Assets                    |      | 537                          |
| 5,583                        | Investment Property                |      | 5,198                        |
| 278                          | Intangible Assets                  |      | 181                          |
| 2,722                        | Long Term Investments              |      | 2,698                        |
| 490                          | Long Term Debtors                  |      | 448                          |
| <b>343,370</b>               | <b>Long Term Assets</b>            |      | <b>358,621</b>               |
| 2,789                        | Current Assets Held for Sale       | G1   | 2,574                        |
| 27,353                       | Short Term Investments             |      | 24,749                       |
| 23                           | Inventories                        |      | 25                           |
| 6,228                        | Short Term Debtors                 |      | 17,654                       |
| 26,303                       | Cash and Cash Equivalents          | G2   | 43,046                       |
| <b>62,696</b>                | <b>Current Assets</b>              |      | <b>88,048</b>                |
| (3,246)                      | Short Term Borrowing               |      | (3,245)                      |
| (12,211)                     | Short Term Creditors               |      | (29,046)                     |
| (767)                        | Provisions                         |      | (984)                        |
| <b>(16,224)</b>              | <b>Current Liabilities</b>         |      | <b>(33,275)</b>              |
| (1,211)                      | Provisions                         |      | (1,524)                      |
| (92,656)                     | Long Term Borrowing                |      | (89,435)                     |
| (51,158)                     | Other Long Term Liabilities        |      | (66,732)                     |
| (2,242)                      | Capital Grants Receipts in Advance |      | (4,202)                      |
| <b>(147,267)</b>             | <b>Long Term Liabilities</b>       |      | <b>(161,893)</b>             |
| <b>242,575</b>               | <b>Net Assets</b>                  |      | <b>251,501</b>               |
| £'000                        |                                    |      | £'000                        |
| 61,206                       | Usable Reserves                    |      | 76,722                       |
| 181,369                      | Unusable Reserves                  |      | 174,779                      |
| <b>242,575</b>               | <b>Total Reserves</b>              |      | <b>251,501</b>               |

## GROUP CASH FLOW STATEMENT

The Group Cash Flow Statement summarises the cash flows of the Council and its subsidiary during the year.

| 2019/20<br>£'000 |  | Notes | 2020/21<br>£'000 |
|------------------|--|-------|------------------|
|                  | <b>Operating Activities</b>  |       |                  |
| (1,202)          | Net surplus or (deficit) on the provision of services  |       | 8,282            |
| 12,852           | Adjustments to net surplus or deficit on the provision of services for non-cash movements  | G3    | 26,770           |
| (5,014)          | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities      |       | (3,108)          |
| 2,018            | Reversal of operating activity items included in the net (surplus) or deficit on the provision of services that are shown separately below |       | 2,084            |
|                  | Net cash flows from Operating Activities includes  |       |                  |
| (2,729)          | Interest paid  |       | (2,530)          |
| 711              | Interest received  |       | 446              |
| <b>6,636</b>     | <b>Net cash flows from Operating Activities</b>  |       | <b>31,944</b>    |
|                  | <b>Investing Activities</b>  |       |                  |
| (14,651)         | Purchase of property, plant and equipment, investment property and intangible assets   |       | (5,556)          |
| (87,200)         | Purchase of short-term and long-term investments   |       | (29,500)         |
| (572)            | Other payments for investing activities  |       | 0                |
| 4,608            | Proceeds from the sale of property, plant and equipment, investment property and intangible assets   |       | 2,716            |
| 106,640          | Proceeds from short-term and long-term investments   |       | 32,000           |
| 1,262            | Other receipts from investing activities   |       | 3,134            |
| <b>10,087</b>    | <b>Net cash flows from Investing Activities</b>  |       | <b>2,794</b>     |
|                  | <b>Financing Activities</b>  |       |                  |
| 25,000           | Cash receipts of short and long-term borrowing   |       | (3,222)          |
| (28,222)         | Repayments of short and long-term borrowing  |       | (14,773)         |
| 723              | Other payments for financing activities  |       | 0                |
| <b>(2,499)</b>   | <b>Net cash flows from Financing Activities</b>  |       | <b>(17,995)</b>  |
| <b>14,224</b>    | <b>Net increase or (decrease) in cash and cash</b>   |       | <b>16,743</b>    |
| 12,079           | Cash and cash equivalents at the beginning of the reporting period   |       | 26,303           |
| 26,303           | Cash and cash equivalents at the end of the reporting period   |       | 43,046           |
| <b>(14,224)</b>  |  |       | <b>(16,743)</b>  |

## NOTE G1 – ASSETS HELD FOR SALE

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| 532              | Balance at start of year                  | 2,789            |
|                  | Assets newly classified as held for sale: |                  |
| 2,657            | Property, Plant & Equipment               | 456              |
| (363)            | Assets sold                               | (671)            |
| (37)             | Withdrawn sales transferred back to PPE   | 0                |
| <b>2,789</b>     |   | <b>2,574</b>     |

## NOTE G2 – CASH & CASH EQUIVALENTS

| At 31 March 2020<br>£'000 |  | At 31 March 2021<br>£'000 |
|---------------------------|--|---------------------------|
| 8                         | Cash held by the authority               | 219                       |
| 2,165                     | Bank current accounts                    | 3,067                     |
| 24,130                    | Short Term Deposits                      | 39,760                    |
| <b>26,303</b>             | <b>Total Cash &amp; Cash Equivalents</b> | <b>43,046</b>             |

## NOTE G3 – CASH FLOW

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| 8,205            | Depreciation  | 8,516            |
| (2,918)          | Impairment & downward valuations  | (7,760)          |
| 112              | Amortisation  | 110              |
| (99)             | Increase/(Decrease) in Creditors  | 20,063           |
| 167              | (Increase)/Decrease in Debtors  | 583              |
| (4)              | (Increase)/Decrease in Stock  | (2)              |
| 4,155            | Movement in pension liability   | 2,899            |
| 2,650            | Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised | 1,427            |
| 584              | Other non-cash items charged to the net surplus or deficit on the provision of services           | 934              |
| <b>12,852</b>    |   | <b>26,770</b>    |

## **ACCOUNTING POLICIES**

### **I. GENERAL PRINCIPLES**

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. 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 2020/21 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 Statements 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 LeisureSK, Invest SK and Environment SK. The nature of these relationships 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. In respect of Gravitas the Council produces Group Accounts.

## **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 2020/21 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. 31<sup>st</sup> March.

### **Budget**

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

### **CAA**

Capital Adjustment Account. The Capital Adjustment Account contains the amounts that are required by Statute to be set aside from capital receipts and revenue for the repayment of external loans as well as

amounts of revenue, useable capital receipts and contributions that have been used to fund capital expenditure. It also accumulates depreciation, impairment and write-off of non-current assets on disposal.

### **Capital Charges**

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

### **Capital Expenditure**

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

### **Capital Receipts**

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

### **Carrying Amount**

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

### **Cash Flow Statement**

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

### **Certificate of Deposit**

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

### **CIES**

Comprehensive Income & Expenditure Statement

### **CIPFA**

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

### **Code (the)**

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

### **Collection Fund**

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

### **Community Assets**

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

### **Current Service Cost**

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

### **Curtailment**

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

### **Contingent Liabilities**

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

### **Council Tax**

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

**Creditors**

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

**Current Liabilities**

Amounts payable that become due during the next financial year.

**Debtors**

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

**Deferred Charges**

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

**Deferred Credits**

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

**Depreciation**

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

**Emoluments**

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

**Earmarked Reserves**

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

**Expected Rate of Return**

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

**Explanatory Foreword**

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

**Finance Leases**

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

**Financial Year**

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

**FRS**

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

**General Fund**

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

**Government Grants**

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

### **Housing Benefits**

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

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

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

### **Joint Operation**

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

### **IAS**

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

### **IFRS**

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

### **Income**

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

### **Impairment Losses**

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

### **Intangible Assets**

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

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

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

### **Investments**

Cash deposits with approved institutions.

### **Key Prudential Indicator**

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

### **Liability**

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

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

### **Long Term Debtor**

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

### **Materiality**

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

### **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 on financial statements

We have audited the financial statements of South Kesteven District Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2021, 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, 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 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 2020/21.

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 2021 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 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

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 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

### **Other information**

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge 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 the 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 in April 2020 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 '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 matters 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, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- 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 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 2020/21, 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 Authority's and the group'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 and the group will no longer be provided.

The Governance & 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Government Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012 the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Governance & Audit committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers and the Governance & Audit committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journals; and
  - significant accounting estimates.
- Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud;
- journal entry testing, with a focus on unusual journals, which included:
  - Journals posted by senior finance officers
  - Large value journals
  - Post year end journals
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the land & buildings and defined benefit pensions liability valuations; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land & buildings and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
  - knowledge of the local government sector; and
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement; and
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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

### **Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

## 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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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

We cannot formally conclude the audit and issue an audit certificate for South Kesteven District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

### 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.

*John Paul Cuttle*

John Paul Cuttle, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

29 October 2021

# Annual Governance Statement

2020/21

Stamford



SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL

# Foreword

Welcome to South Kesteven District Council's Annual Governance Statement for the period 1 April 2020 to 31 March 2021.

The Council has a duty to ensure that its business is conducted to a high standard in accordance with law and that its finances are safeguarded and properly accounted for, and the purpose of this Statement is to demonstrate that the right systems and processes are in place.

The year 2020-21 presented a huge set of unprecedented challenges to which the Council responded positively and proactively, thereby ensuring that residents and businesses could continue to access essential services and that support and advice were available throughout.

The Council has had to adapt, be flexible and responsive in line with the changing environment, whilst also meeting the requirement of the Local Government Act 1999 of planning for continuous improvement in the way our services are delivered and ensuring value for money for residents.

As part of this, alongside our governance framework we have a new Corporate Plan 2020-2023 in place to bring focus and clarity to our vision and priorities for South Kesteven to be the best district in which to live, work and visit.

The Annual Governance Statement has been prepared and published in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Delivering Good Governance in Local Government Framework and meets the statutory requirement to review governance arrangements at least once a year.

It conforms to the Council's Local Code of Corporate Governance and covers all significant corporate systems, processes and controls across all of the Council's activities.





The Statement details 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. It also allows us to identify areas for improvement in our internal control framework and implement any necessary changes.

The Council is committed to improvement and are confident that we have established robust foundations that 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  
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 01476 40 60 80

# Key elements of the Council's Governance Framework

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

# How we comply with the Chartered Institute of Public Finance and Accountancy (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 2020/21.

## 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 its Member Codes of Conduct and its Constitution to ensure integrity. Conduct training formed part of the induction programme for Members following the quadrennial election in May 2019. At officer level, an Officer Code of Conduct is in place which guides and informs ethical conduct and provides clarity for member-officer relationships.

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. A Code of Conduct complaints process exists and the Council's Customer Feedback Policy gives the public an avenue to raise any concerns or complaints.

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 Council is able to exclude the press and public from meetings for reasons set out in Schedule 12A of the Local Government Act 1972 (as amended).

The Council has robust arrangements in place to deal with complaints, data subject access requests, data breaches and whistleblowing allegations.

Our constitution sets out how we engage with stakeholders and partners. We have carried out a number of consultations during 2020/21 including whether existing Public Space Protection Orders should be applied for another three years. This was strongly supported. Other consultations included surveys of two of our parks, Wyndham Park and Queen Elizabeth Park, to find out what people think. There were high levels of satisfaction with strong support for the messaging used in the park during the pandemic. Respondents for Queen Elizabeth Park would also like to see improvements to the natural aspects of the park ie woodlands and wildflower meadows.



There was also a consultation on Hackney Carriage and Private Hire Vehicles to gather feedback on proposed changes to the licensing policy. There was strong support for some of the proposed changes to the policy, including extending the prohibition of smoking in licensed vehicles to include vaping or other smoking devices, and the introduction of an externally provided English Language test for new licence applicants.

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 proportion of respondents supporting the proposal to close the customer service centre in Market Deeping and replace with a self-service facility was the same as the proportion not supporting the proposal.







As well as ensuring immediate support for businesses in the District, InvestSK have also been working hard in developing plans to support economic growth in the future. This includes the delivery of the Heritage Action Zone for Grantham and submitting a proposal to Government for the Future High Streets Fund that will see a significant capital investment into key areas of Grantham Town Centre.

InvestSK continue to actively engage with the key business representation groups across the District and provide advice and guidance to businesses through our monthly briefing sessions bringing together businesses, external speakers and key contacts from within SKDC.

**LeisureSK Ltd** was established as a wholly-owned Council company in September 2020. The company is responsible for the management of the Council's four leisure centres under a contract arrangement which began on the 1 January 2021. However, due to the ongoing national lockdown which was in place the centres remained closed until April 2021.

LeisureSK is responsible for the provision of a high quality, accessible leisure service across the district for residents and visitors to South Kesteven and improving the health and wellbeing of the district through a range of outcomes. These include increasing the levels of physical activity within the district and reducing inactivity levels, attracting increased numbers of users to the leisure facilities within the district and providing a high standard of customer care.



### Principles C & D

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

South Kesteven District Council has a number of Council owned companies which assists with delivering its outcomes.

**EnvironmentSK Ltd**, a company wholly owned by the Council, provides facilities management focused on grounds maintenance, arboriculture and horticultural services to the Council, other authorities, parish and town councils, businesses and the public. The company has successfully reported their five year business plan to the Council's Companies Committee and provides six monthly updates. EnvironmentSK's flexibility has allowed it to provide support for key Council services during the Covid-19 pandemic, ranging from supporting the priority refuse collection service through to ensuring the main vaccination site at Grantham had safe car parks and walkways during the peak winter period.

**InvestSK**, for the whole of the period 2020/21, has been leading on the administration of Covid business support grants. Working closely with the Council's finance and business rates teams they have provided nearly £50m to over 2,700 businesses across the District. This funding has been focused around those businesses either forced to close or severely impacted as a result of local and national restrictions and it is hoped has been a lifeline for many businesses that otherwise would not have survived during these unprecedented times.

### Principle E

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

The Council has a Workforce 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 Workforce 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 Plan. 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 strategic and service area level. Strategic risks are reviewed by the Corporate Management Team and reported to The 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 and we will be undertaking an assessment against the CIPFA Financial Management Code and developing an action plan.

Underpinning the delivery of our Corporate Plan and priorities is the ethos of a well-run Council. This includes effective financial management to achieve efficiencies and savings in the short and medium terms.

### Strategic Risks 2020/21

1. Ensuring efficient and effective internal control/compliance
2. Achieving Council transformation
3. Supporting communities
4. Achieving future financial resilience
5. Creating the right culture, capacity and capability
6. Ability to be agile and shift focus in response to policy and national political change
7. Ensuring robust security measures to protect the Council's data and assets from cyber threats

# Governance Framework for 2020-2021

The Governance Framework shown below has been in place throughout the financial year which ended on 31 March 2021 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

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.

### 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 and this is underpinned by the Corporate Strategy. 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.



# Review of Effectiveness

## Internal audit

The Council's internal auditors, FSM, are required to provide an opinion on the overall adequacy and effectiveness of the Council's risk management, governance and internal control arrangements. Eight assurance reviews were undertaken during 2020/21 plus three follow-up reviews and two advisory reviews. The eight assurance reviews resulted in an assurance opinion summarised below:

|                       |                      |                   |              |
|-----------------------|----------------------|-------------------|--------------|
| 1                     | 2                    | 3                 | 2            |
| Substantial assurance | Reasonable assurance | Partial assurance | No assurance |

For the twelve months ended 31 March 2021, 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:

*"There are weaknesses in the framework of governance, risk management and control such that it could become inadequate and ineffective."*

With regard to the issues raised by RSM's Head of Internal Audit in their Annual Report to the Governance and Audit Committee in June 2021, 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 current pandemic which has impacted on income and expenditure of the Council. It has also delayed government decisions on the future of financing of local government, particularly business rate reform, the 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*

# Annual Assurance Statement

The Council's Heads of Service produced an Annual Assurance Statement for 2020/21 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 79% of the statements on assurance with the remainder being 13% partially agreed; 2% not agreed and 6% did not know.

Areas identified for improvement were Business Continuity, Health & Safety and Governance.

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. In addition to the seven core areas of assurance, Heads of Service were also asked to assess the impact of Covid-19 within their own service areas with the outcomes being considered by Corporate Management Team.

## 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

*monitor delivery of savings targets tightly. We are nevertheless satisfied that the Council's current level of reserves provides it with sufficient flexibility in the near future to enable it to make these necessary tough decisions in future years.*

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 2019/20 annual accounts.

# Covid-19

The Annual Governance Statement assesses the governance in place during 2020/21. Therefore, this section covers the period from 1 April 2020 to 31 March 2021 and the effectiveness of the Council's governance with regards to the global Covid-19 pandemic during this period.

This period was one of great change and challenge for the Council, with many services closed or significantly reduced following the first lockdown in March 2020, then gradually reopened in line with legislation and Government guidance over the summer months and then closed or reduced again during November and in January 2021 (the second and third lockdowns).

## Governance and Decision Making

Many of these changes had significant consequences for the Council, and the residents and businesses of South Kesteven, and therefore ensuring effective and robust governance was in place was critical. This enabled the Council to make decisions that were timely, effective and evidence based. During 2020/21 the Council made:

- 15 decisions utilising the Chief Executives Emergency Powers
- 15 decisions by the Leader

The emergency scenario highlighted a lack of clarity in the Council's Constitution in relation to the emergency powers of the Chief Executive, succession arrangements in the absence of the Leader of the Council and arrangements related to the postponement of meetings once the summons is served. Amendments to the Council's constitution were approved at Full Council on 14 May 2020 to address these issues.

To ensure transparency these decisions were reported to Full Council and Cabinet as appropriate. These included seven decisions that were reported to July Council. To support transparency, All Councillor and All Staff emails from the Leader and Chief Executive communicated a number of these decisions.

## Virtual Meetings

The Council took steps to ensure democratic processes were restored as quickly as possible and, following legislation changes, Council meetings were able to be held virtually using remote technology. The Council took steps to implement virtual meetings as soon as practically possible, with the first:

# Our Covid-19 Response

(April 2020 - March 2021)

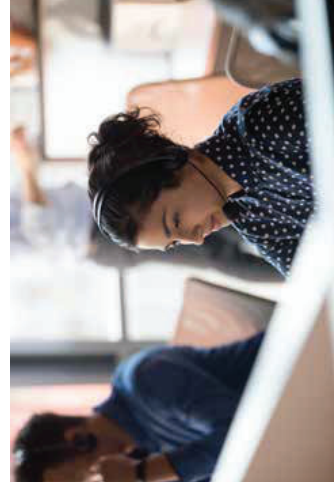
- Virtual Planning Committee Meeting (and virtual meeting of any type) taking place on 12 May 2020;
- Virtual Cabinet Meeting taking place on 15 June 2020; and
- Virtual meeting of Full Council taking place on 14 May 2020 (with 55 of 56 Members being present).

Following the establishment of virtual meetings the Council established a full programme of virtual meeting sessions and sought to make decisions via this route wherever possible (therefore reducing the reliance on emergency powers). It should be noted that in some cases the use of virtual meetings necessitated a change in process or protocol.

The use of virtual meetings increased public engagement in the democratic process with an increase of guests attending meetings. The legislation enabling virtual meetings ended on 6 May 2021 and following this the Council has returned to in person meetings and is now using 'Public-1' technology to broadcast most of democratic meetings to make them accessible to the public.

## Conclusion

The circumstances of 2020/21 provided some huge challenges for governance and decision making for organisations in both the public and private sectors. However the Council's governance process demonstrated it was both agile and robust, providing the ability to make timely and transparent decisions. In addition to this, areas where processes could be improved were identified and amended in May 2020 and further changes will be considered as part of the review of the Council's Constitution.



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

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

| Key area of focus identified for 2020/21  | Action taken  |
|---|---|
| 1. Implementation of actions arising from the independent expert review of governance in accordance with the improvement plan | There is an action plan in place which is reported on through Governance and Audit Committee. Pressing actions are complete with longer term actions in hand with timescales for completion   |
| 2. Completion of the review of the Constitution in accordance with the project plan   | The Review is underway with completion due by May 2022  |
| 3. Update of the Council's assessment against the Delivering Good Governance in Local Government: Framework                   | The Council has just appointed a Head of Democratic Services who has Deputy Monitoring Officer responsibilities, and this will be a focus for that post holder in the coming 12 months  |
| 4. Implementation of actions arising from the Annual Assurance Statement to improve internal control assurance                | Actions have been monitored throughout the year   |
| 5. Implementation of internal audit actions in accordance with the dates agreed by Governance and Audit Committee             | Follow up reviews were undertaken by internal audit and implementation of all management actions are monitored by Statutory Officers Group  |
| 6. Delivery of the Covid-19 Recovery Plan   | The Covid-19 Recovery Plan and framework was agreed by Cabinet in June 2020 and actions put in place to deliver. However in September, following a rise in Covid-19 cases nationally, the Council entered back in to the 'Response' phase. The Recovery Plan is being refreshed and rolled out alongside partners from the Local Resilience Forum in line with the Government roadmap |

# Governance Issues

For the financial year 2020/21 there has been a number of significant governance issues identified by audit, in particular in respect of Housing Compliance. We will continue to enhance and improve our governance arrangements and relevant actions are listed in the table below:

| Key area of focus for 2021/22  | Action Owner                               | Deadline   |
|--|--|------------|
| Completion of the review of the Constitution in accordance with the project plan                         | Monitoring Officer                         | May 2022   |
| Update of the Council's assessment against the Delivering Good Governance in Local Government: Framework | Head of Democratic Services                | March 2022 |
| Implementation of the Housing Service Improvement Plan   | Director of Housing and Property           | March 2022 |
| Assessment against the CIPFA Financial Management Code and development of an action plan                 | Interim Director of Finance (s151 Officer) | March 2022 |
| Develop an action plan to implement findings arising from the Peer and Scrutiny Reviews                  | Chief Executive                            | March 2022 |
| Continuation of the Covid-19 Recovery Plan   | Chief Executive                            | March 2022 |