

AGENDA



For a meeting of the	
GOVERNANCE AND AUDIT COMMITTEE	
to be held on	
THURSDAY, 24 SEPTEMBER 2009	
at	
1.30 PM	
in	
WITHAM ROOM, COUNCIL OFFICES, ST. PETER'S HILL, GRANTHAM, Lincs NG31 6PZ	
Beverly Agass, Chief Executive	

Committee Members:	Councillor John Dawson, Councillor Stuart Farrar (Vice-Chairman), Councillor John Harvey, Councillor Reg Lovelock MBE. (Chairman) and Councillor Andrew Moore
Scrutiny Support Officer:	David Lambley 01476 40 62 97 d.lambley@southkesteven.gov.uk

Members of the Panel are invited to attend the above meeting to consider the items of business listed below.

1. MEMBERSHIP

The Committee to be notified of any substitute members.

2. APOLOGIES

3. DECLARATIONS OF INTEREST

Members are asked to declare an interest in matters for consideration at the meeting.

4. MINUTES OF THE MEETING HELD ON 3 SEPTEMBER 2009

(Enclosure)

5. UPDATES FROM PREVIOUS MEETING



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6. DISTRICT AUDIT ANNUAL GOVERNANCE REPORT

The Committee to consider the District Auditor's Annual Governance Report.
(Enclosure)

7. REVISED STATEMENT OF ACCOUNTS 2008/09

The Committee to review the revised Statement of Accounts for 2008/09.
(Enclosure)

8. INTERNAL AUDIT PLAN - PROGRESS REPORT

Members to be updated on progress of the work of Internal Audit.
(Enclosure)

9. TRACKING REPORT

Members to consider the Tracking Report.
(Enclosure)

10. INTERNATIONAL FINANCE REPORTING STANDARDS - UPDATE REPORT

The Committee to be updated on changes to International Finance Reporting Standards.
(Enclosure)

11. ASSURANCE STATEMENTS - MONITORING REPORT

Members to review the Assurance Statements.
(Enclosure)

12. REVISED RISK MANAGEMENT STRATEGY

The Committee to review the revised Risk Management Strategy.
(Enclosure)

13. ANNUAL OMBUDSMAN LETTER

The Committee to consider the Annual Ombudsman Letter.
(Enclosure)

EXCLUSION OF THE PUBLIC

It is anticipated that, in accordance with Schedule 12A(4) of the Local Government Act 1972 (as amended) the public may be excluded from the meeting during consideration of the following item of business because of the likelihood that otherwise exempt information, as described in paragraph 2 of the Act (as amended) would be disclosed to the public.

14. HOUSING SERVICES REPORT

The Committee to be updated on progress relating to the Housing Services Report by the Internal Auditor.

15. ANY OTHER BUSINESS, WHICH THE CHAIRMAN, BY REASONS OF SPECIAL CIRCUMSTANCES, DECIDES IS URGENT.

MEETING OF THE GOVERNANCE AND AUDIT COMMITTEE

THURSDAY, 3 SEPTEMBER 2009

10.00 AM



PANEL MEMBERS PRESENT

Councillor Stuart Farrar (Vice-Chairman)
Councillor Kenneth Joynson

Councillor Reg Lovelock MBE.
(Chairman)
Councillor Andrew Moore

OFFICERS

Corporate Head Finance & Customer
Services (Richard Wyles)
Finance Support Service Manager (David
Scott)
Financial Management Officer (Crystal
Dewsbury)
Scrutiny Support Officer (David Lambley)

OTHER MEMBERS PRESENT

Councillor Nick Craft

27. MEMBERSHIP

There were no substitute Members at the meeting.

28. APOLOGIES

Apologies were received from Councillor Dawson and Councillor Taylor, the Portfolio Holder for Resources and Assets.

29. DECLARATIONS OF INTEREST

No declarations of interest were made.

30. MINUTES OF THE MEETING HELD ON 25 JUNE 2009

It was noted that the decision at minute 23 should have stated "To approve the draft Statement of Accounts for 2008/09".



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The minutes of the meeting of 25 June 2009 were agreed to be a correct record of the meeting.

31. UPDATES FROM PREVIOUS MEETING

The Committee would be updated on the Housing Services Report at the next meeting.

32. TREASURY MANAGEMENT TRAINING

The Committee were given a training session by Richard Wyles, the Corporate Head for Finance and Customer Services, explaining Treasury Management.

- According to CIPFA, Treasury Management was “the management of the organisation’s cash flow, its banking, money market and capital market transactions; the effective control of risk associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- Treasury Management was important for the Council to manage its cash flow, as an additional source of income, to maximise resources from balances and reserves and was a balance of risk and reward.
- The Council used Butlers as advisors on Treasury Management. The Council also used two firms to manage investment funds.

33. ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY 2008/09

Richard Wyles, the Corporate Head for Finance and Customer Services, introduced the Annual Report on Treasury Management Activity 2008/09. The Annual Report was a requirement of the Council’s reporting procedures and was seen as good practice by CIPFA.

- The Council had used revenue funding to finance capital expenditure as capital receipts had not been at the expected level.
- The treasury position at 31 March 2009 stated that the Council had £4m of long term debt from the Public Works Loan Board and had taken a short term loan of £2m during the course of the year to assist with a temporary cash flow shortfall. The debt was all at a fixed interest rate, which was an average of 9.83%. Members noted that this seemed high, however there were penalties on the long term debt and this meant that it would cost more to refinance the debt at this stage. The Council did continually review this situation. It was noted that the Council’s borrowing was well below the Authorised Limit of £18m.
- The treasury position also showed that the Council had £27m of fixed rate investments at an average rate of 5.91%. The Council had no variable rate investments.
- It was noted that the economic background during 2008/09 had been particularly testing and that interest rates were at a historical low. It was noted that the Council had not had any investments in Icelandic

institutions.

- Members questioned why there had been a cash flow shortfall that necessitated a short term loan. This had been taken out during March 2009. It was sometimes difficult for the Council to accurately forecast cash flow due to a high number of variables such as creditor payments. It was noted that the cost of the £2m loan, over a period of 26 days had been around £1,500. The Council had recently invested in new cash flow management software.
- The Council's investment position showed that the core cash resources increased by over £1m over the course of the year, due to an underspend on the capital programme.
- Members noted that both the Council's fund managers had performed above the benchmarks. Members requested that in future the net returns, after fees were taken into consideration, be included in the report. It was also noted that as the number of suitable investment opportunities has reduced that it would potentially be more effective for the Council to identify its own investments. Members noted that the budget assumed an average of £22m invested at 5.3% and that performance had been greater both in terms of the rate of return and level of average investment balance.
- Members enquired as to what length of long term investment was currently considered by the Council. At the present time the Council would not consider taking any fixed rate investments for a period of longer than two years.
- During the course of the year the Council had made a number of short term deposits, which had earned an average rate of 5.376%, against the Bank of England base rate which average 3.62%.
- Members noted the report.

The Committee went into recess between 10:55 and 11:04.

34. TREASURY MANAGEMENT ACTIVITY 2009/10 - FIRST QUARTER REVIEW

The Committee considered the report reviewing the treasury management activity for the first quarter of 2009/10. Previously the Committee had received six-monthly reviews, but it was now seen as best practice to conduct quarterly reviews.

- No additional long term borrowing had been required and £4m of long term debt was outstanding at an average rate of 10.141%. No long term debt had been repaid during the first quarter of 2009/10.
- On 1 April 2009 the Council repaid a £2m short term loan that had been taken out in March 2009.
- At 30 June 2009 the Council had £33.9m invested in short term investments and £1m in long term investments. This was well within the Council's policy of not holding more than 25% of its investments as long term.

- The Council had £5.0m of short term fixed deposits as of 30 June 2009.
- The amount invested in managed cash funds had been reduced by £2m to £25m.
- Members considered the economic background. It was expected that official rates would remain at 0.5% to the end of the financial year.
- It was reiterated that it would cost more to refinance the existing long term debt than to continue with the existing loans. This would be continually reviewed. Members requested that future reports incorporate a paragraph to show the costs of refinancing the loans against maintaining the existing ones.
- Members noted that in Appendix B that they would like to see the average interest rate separated for investments of under one year and those for longer periods.
- It was noted that the future financing of the capital programme might potentially require the Council to borrow money in the future due to the pressure on revenues. Members noted that the present time was favourable for borrowing money, but that the Council needed to have spending plans in place before borrowing could be undertaken.
- Members noted the report.

35. REVISION OF TREASURY MANAGEMENT STRATEGY 2009/10

The Corporate Head for Finance and Customer Services, Richard Wyles, introduced the report. The purpose of the report was to make changes to the Treasury Management Strategy that had been previously approved in March 2009.

- The report set out a number of minor changes to where and how the Council could invest, following discussions with the Council's treasury management advisors. The changes were designed to allow the Council to take a more prudent and flexible approach to managing its investments and to spread risk over a wider area.
- Members questioned why the Council would consider placing funds with Parish Councils or Community Councils. It was the case that local authorities were low risk and that they would still have to be individually risk assessed and comply with all due diligence procedures.
- Members noted that the Council was not considering any foreign investments and the strategy reflected this position.
- Members questioned the proposed changes that would introduce a 25% guideline limit to the amount of fixed term investment being non specified investment. Members questioned whether this should be a fixed limit with the Corporate Head for Finance and Customer Services not having the discretion to exceed the limit within reasons. Members noted that the strategy would need some flexibility to be deliverable and noted that they would not wish the Council to miss out on a specific opportunity for an investment if there were fixed limits in place. Members agreed that flexibility should be allowed, but should the guideline limit be exceeded

then this be reported accordingly.

- Members noted Annex D of the appendix and questioned whether the portfolio holder should be required to countersign the risk assessment. This was not seen as practical due to the forms sometimes being completed on a daily basis and it was noted that Members had already approved the Treasury Management Strategy in order to delegate this authority to officers. The risk assessment took place within the parameters set by the Members. The Committee expressed a view that the portfolio holder might consider reviewing the risk assessments periodically.

DECISION:

To approve the revised Treasury Management Strategy subject to the following amendment relating to Non-Specified Investments on page 16 of the strategy:

- ***In the event that the 25% limit be exceeded (in respect of non-specified investments), the Corporate Head for Finance and Customer Services shall report to the following Governance and Audit Committee meeting.***

36. ANY OTHER BUSINESS, WHICH THE CHAIRMAN, BY REASONS OF SPECIAL CIRCUMSTANCES, DECIDES IS URGENT.

There was no other business to consider.

MEETING CLOSE

The meeting closed at 11:55.

Annual Governance Report

South Kesteven District Council

Audit 2008/09

Date: **September 2009**

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Section 151 Officer in September 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Yours faithfully

Chris Wilson
District Auditor
September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from error	Yes	6
Adequate internal control environment	Yes	6
Adequate arrangements to secure value for money	Yes	8

Audit opinion

- 1 Our work on the financial statements is substantially complete and I propose issuing an unqualified audit opinion by 30 September (a draft report is attached at Appendix 1).

Financial statements

- 2 Management has agreed to adjust the financial statements for those errors identified in Appendix 2. We have not identified any errors (other than those of a trivial nature) that management has declined to correct.

Audit Fees

- 3 Our work has been undertaken in line with the fees previously reported.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

4 I ask the Governance and Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 7);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- take note of the VFM conclusion; and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 5** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 6** We identified errors within the financial statements (other than those of a trivial nature) and reported these to management. Management has agreed to adjust the financial statements for the errors identified in Appendix 2. We have not identified any errors (other than those of a trivial nature) that management has declined to correct.

Material weaknesses in internal control

- 7** We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statement of which you are not aware.

Letter of representation

- 8** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Key areas of judgement and audit risk

- 9** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Financial statements

Table 1 **Key areas of judgement and audit risk**

Issue or risk	Finding
Financial statements need to be supported by working papers that have been subject to robust quality review processes.	The working papers were complete and had been subject to a quality review.
Fixed Asset Register is likely to be updated during 2008-09 and this could impact on the working papers produced to support the accounts.	The Fixed Asset Register has been updated and has been used to support the generation of working papers from the system.
Valuation Reports previously obtained to support the accounts did not explicitly identify the consideration of enhancements during the year in view of the capital programme.	The valuation reports obtained now included enhancements during the year however an error was found with the valuation produced by the District Valuer.
Leisure Trust - the Council is establishing a trust which could impact on the financial statements which need to be produced.	The trust was not established within the 2008-09 financial year and the risk remains inherent for the 2009-10 audit work.

Accounting practice and financial reporting

- 10** I consider the qualitative aspects of your financial reporting and there are no matters that auditing standards require me to report to you.

Value for Money Conclusion

I am required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 11** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. In making my conclusion I have relied on the work carried out as part of the separately reported scored Use of Resources judgement. The background to the assessment and my decision on each of the areas reviewed in reaching the Value for Money Conclusion are set out in more detail at Appendix 4. The results from the scored Use of Resource judgement are being reported separately from this report.
- 12** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor's report to Members of South Kesteven District Council

Opinion on the Financial Statements.

I have audited the Authority accounting statements and related notes of South Kesteven District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses. The Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of South Kesteven District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor.

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider nor have I considered, whether the governance statement covers all risks and controls.

Appendix 1 – Independent auditor’s report to Members of South Kesteven District Council

Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of Audit Opinion

I conducted my audit in accordance with the Audit Commissions Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority's financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

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

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit

Appendix 1 – Independent auditor’s report to Members of South Kesteven District Council

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commissions and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, South Kesteven District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Chris Wilson

District Auditor

Audit Commission

2nd Floor

Witham House

Canwick Road

Lincoln, LN5 8HE

Date:

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Explanatory Foreword

The explanatory foreword to the accounts contained three typographical errors and an error in relation to cross referencing to the page containing the Statement of Responsibilities. There was no financial effect to this adjustment.

Net Pension Liability

The net pension liability figure in Note 43 did not agree to the corresponding figure within the Balance Sheet by £520,000. The figure within the Balance Sheet has been amended to read £20,107k and match that within Note 43. The Total Net Worth figure within the Balance Sheet has decreased as a result.

Financial Instruments

The notes to the account contained typographical/format errors in relation to missing columns and title headings which have now been included to match the presentation required by the SORP.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

The REFCUS has not been recorded in accordance with the Local Authority Accounting Practice - Bulletin 81. The Deferred Charges element has been treated correctly but the Grant funding element (both income and expenditure totalling £834,000) needed to be removed from the Capital Adjustment Account and presented through the Statement of Movements on the General Fund Balance which has no effect on the deficit or the amount transferred to the General Fund working balance. The cash flow statement also needed amendment because the REFCUS was shown within the capital transactions and should have been within revenue activities. The above changes have been made to the final statements.

FRS17 - Pension Fund

The method used to value the Pension Fund assets for FRS 17 purposes has been changed this year by the actuary. The Council included a note in relation to the change in policy but this needed to be expanded to meet the requirements of the Statement of Recommended Practice (SORP).

Appendix 2 – Adjusted amendments to the accounts

Building Control Account

The transactions within the Building Control Account are correctly represented but there is a requirement for the account to break-even over a three year period. The account has made a deficit over the last three years and a record of this has been added along with management's responses to the situation to the account note.

Meres Leisure Centre

An error was identified within the District Valuers (DV) valuation report for Fixed Assets within the Balance Sheet whereby the Meres Leisure Centre was valued at £632,000 less than expected. The DV has confirmed the error and adjustments have been made to the figures within Fixed Assets, I&E, Revaluation Reserve and Capital Adjustment Account along with the subsequent impact on other statements and notes within the accounts.

Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP)

The calculation of the CFR and the MRP were not in accordance with the SORP requirements. The CFR and MRP have been recalculated following the adjustments made above and have been represented to match the adjusted transactions within the accounts.

Appendix 3 – Draft letter of representation

Chris Wilson
Audit Commission
2nd Floor
Witham house
Canwick Road
Lincoln
LN5 8HE

South Kesteven District Council - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of Beverly Agass, Chief Executive, and Ian Yates, Corporate Director of South Kesteven District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

Compliance with statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice/United Kingdom Generally Accepted Accounting Practice which presents fairly the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

There are no uncorrected misstatements within the Financial Statements.

Supporting Records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information including minutes of all Council meetings have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

Appendix 3 – Draft letter of representation

There have been no:

irregularities involving management or employees who have significant roles in the system of internal accounting control;

irregularities involving other employees that could have a material effect on the financial statements; or

communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I have also confirm that I have disclosed:

my knowledge of fraud, or suspected fraud, involving either management employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and

my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators' or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regularity authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair values

I confirm the reasonableness of the significant assumptions within the financial statements.

Group Entities

I confirm there are none.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

losses arising from sale & purchase commitments;

agreements & options to buy back assets previously sold; and

assets pledged as collateral.

Compensating Arrangements

There are no formal or informal compensating arrangements with any of our cash and investment accounts. Except as disclosed within financial statements we have no other lines of credit arrangements.

Contingent Liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;

there is no material commitments or contractual issues, other than those already disclosed in the financial statements; and

no financial guarantees have been given to third parties.

Related Party Transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post Balance Sheet Events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets or liabilities reflected in the financial statements. If adoption of the financial statements and the representation are on the same day this paragraph is not required.

Specific Representations

There are no further specific representations we seek.

Signed on behalf of South Kesteven District Council

I confirm that this letter has been discussed and agreed by the Council on 24th September 2008.

Signed

Name	Richard Wyles
Position	Corporate Head of Finance (Section 151 Officer)
Date	24 September 2009

Appendix 4 – Value for money conclusion

Under the Code of Audit Practice (the code), auditors are required to give a value for money (VFM) conclusion in their statutory audit report as to whether they are satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor's VFM conclusion is informed, and limited, by reference to 'relevant criteria' covering specific aspects of audited bodies' arrangements, specified by the Commission in accordance with the Code.

As part of the Comprehensive Area Assessment (CAA) framework from 2009 the Commission has published a set of key lines of enquiry (KLOEs) that will be used to arrive at a scored (on a scale of 1-4) use of resources assessment for local authorities, fire and rescue authorities, police authorities and primary care trusts for the purposes of CAA. These KLOEs also form the set of criteria for the VFM conclusion for these bodies. The Commission specifies which of these KLOE will form the 'relevant criteria' for the VFM conclusion each year. Auditors are required to apply a yes/no judgement against the criteria to indicate whether the organisation has proper arrangements in place or not. To apply a 'yes' judgement the auditor must be satisfied that the organisation has at least met level 2 as part of the scored Use of Resources judgement for the relevant KLOE.

We have assessed the Council's arrangements against the specified criteria for the 2008/09 Conclusion and reviewed relevant evidence from our Use of Resources judgement. The detailed results from the scored Use of Resources judgement are being fed back to the Council separately from this report. The relevant criteria and our judgements for the VFM conclusion are set out in the Table below.

Specified VFM Criteria (Key Lines of Enquiry)2008/09	Met
Planning for financial health - Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
Understanding costs and achieving efficiencies - Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
Financial reporting - Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes

Appendix 4 – Value for money conclusion

Specified VFM Criteria (Key Lines of Enquiry)2008/09	Met
Commissioning and procurement - Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
Use of information - Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
Governance and ethics - Does the organisation promote and demonstrate the principles and values of good governance?	Yes
Risk management and internal control - Does the organisation manage its risks and maintain a sound system of internal control?	Yes
Managing human resources - Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	Yes

We judged all the relevant criteria to be met for 2008/09 which enables an unqualified opinion to be given stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Commission has specified the criteria for 2009/10. The criteria remain largely unchanged, although the managing human resources KLOE is replaced by one which assesses whether the Council is making effective use of natural resources.

Agenda Item 7

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: CORPORATE HEAD OF FINANCE AND CUSTOMER SERVICES

REPORT NO: CHFCS67

DATE: 24th September 2009

TITLE:	Revised Statement of Accounts 2008/09	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	N/A	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Councillor Mike Taylor Resources and Assets Portfolio	
CONTACT OFFICER:	Richard Wyles – Corporate Head of Finance and Customer Services 01476 406210 Email: r.wyles@southkesteven.gov.uk	
INITIAL IMPACT ASSESSMENT:	N/A	Full impact assessment Required: No
Equality and Diversity	N/A	
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	CHFCS50	

Introduction

1. The purpose of this report is to present the Council's audited Statement of Accounts for 2008/09. It covers
 - Account and Audit Regulations 2003
 - Section 21(2) Local Government Act 2003
 - Revised Statement of Accounts
 - Commentary on the outcome of the audit of the Statement of Accounts

Recommendations

2. I recommend that Members of the Governance and Audit Committee:
 - a. Approve the Revised Statement of Accounts 2008/2009;
 - b. Note changes to the outturn position of the General Fund following the changes agreed with Audit
 - c. Note the commentary on the outcome of the audit work; and

- d. Approve the publication of the Summary of Accounts (with “Plain English” accreditation)

Section 21(2) Local Government Act 2003

3. Section 21(2) of the Local Government Act 2003 requires that the Statement of Accounts is prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2003. The Statement of Accounts which accompanies this report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008 – A Statement of Recommended Practice (2007 SORP) produced by CIPFA¹ which sets out proper accounting practices required for the Statement of Accounts.

Statement of Accounts

4. The Statement of Accounts was originally presented to this committee in report no. CHFCS50 on 25th June 2009. Following the completion of the external audit the Statement of Accounts has been revised to reflect the outcome of this work. An updated copy of the Statement of Accounts is attached and a commentary setting out the main findings from the audit and amendments made to the accounts is provided here for members’ acceptance and approval.

Audit Adjustments

5. An error in the valuation figure provided by the District Valuer for Grantham Meres Leisure Centre resulted in the value of Other Land & Buildings within Fixed Assets being understated by £569k and the deficit to the Income & Expenditure account being overstated by £119k. In the bottom half of the Balance Sheet the impact was an understatement of the revaluation reserve of £431k and of the Capital Adjustment Account of £138k. This amendment also resulted in changes to the Statement of Movement in the General Fund Balance and to the Statement of Total Recognised Gains & Losses. Discussions have been held with the District Valuer to ensure that correct amounts are provided in the future. Various notes that were impacted by these changes have been adjusted.
6. Deferred charges are now known as Revenue Expenditure funded from Capital under statute. In light of this change the Cash Flow Statement has been amended to show this expenditure within Other Operating Cash Payments instead of under Other Capital Cash Payments. A compensating error had also been made to the accounting entries within the Income & Expenditure Account and the Statement of Movement in the General Fund Balance, but these had no effect on the reported deficit or amount transferred to the General Fund Balance.

¹ CIPFA – Chartered Institute of Public Finance and Accountancy

7. Past Service Costs relating to changes to the Pension scheme had not been included in the pension liability on the Balance Sheet resulting in the liability being understated by £520k.

Changes to the Notes to the Accounts

8. Further explanation has been added to Note 7 relating to the Building Control Trading Account to demonstrate compliance with Building Control regulations.
9. The Closing Capital Financing Requirement in Note 21 in the 2007/08 Statement of Accounts was stated incorrectly after changes were made to the financing of the Capital Programme, resulting in the 2008/09 Opening Capital Financing Requirement being incorrect. This has also resulted in a small error in the calculation of the 2008/09 Minimum Revenue Provision of £5k which will be corrected in 2009/10.
10. A clarification to Note 43 relating to the Pension scheme has also been made to more fully explain the impact of a change in accounting policy relating to the valuation of assets within the Pension Fund.

Comments of Section 151 Officer

11. My comments are included in the report.

Comments of the Monitoring Officer

12. The Council has a statutory duty to approve the Statement of Accounts by 30th June in accordance with the Account and Audit Regulations 2003. This was done by this committee on the 25th June 2009. External audit has required changes to that approved statement in accordance with this report.

Conclusion

13. The report represents a detailed picture of the result of the annual audit of the Statement of Accounts and provides a revised Statement of Accounts for 2008/2009. I would like to take this opportunity to thank all staff both from Accountancy Services and supporting services for their hard work in producing the Statement of Accounts.



Statement of Accounts

2008/2009



"Listening Learning Delivering"

South Kesteven District Council

STAMFORD • GRANTHAM • BOURNE • THE DEEPINGS

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Introduction - Councillor Linda Neal Leader of the Council

Welcome to South Kesteven District Council's Statement of Accounts for the financial year 2008/09.

The council's vision is **"To provide brilliant services to our customers"**. During 2008/09 we have continued to achieve a number of successes which will help us to shape the future and enable us to be recognised as a council that provides brilliant services.

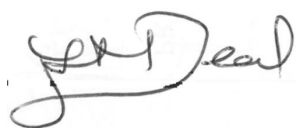
Recycling continues to improve with the percentage of waste household waste sent for re-use, recycling and composting increasing from 36% in 2007/08 to 54.20% in 2008/09. An area where performance has significantly exceeded target is the provision of affordable homes. In 2008/09 we set ourselves a target of providing 150 affordable homes across the district and this was almost doubled to 289.

The Council's financial resources have been severely tested during the last 12 months as the economic recession has impacted on our communities. The Council has responsibly managed its finances during the difficult period whilst continuing to maintain a high level of service delivery. We are very fortunate to have a strong financial standing which will enable us to provide quality services and support to both businesses and our residents. However, we will continue to ensure we provide good value for money by delivery efficiencies throughout the organisation.

In addition, we have continued to keep our reserves under review to protect the Council for the future whilst also utilising our resources for the benefit of the community. We have further improved our budget control through in year forecasting in order to identify any spending issues at an earlier stage in the financial year. This work has greatly assisted us in taking in-year corrective action, where necessary, without the need to draw on our reserves to financially support our spending plans.

Finally, we continue to strive to improve the way we get messages across to the public on how we spend public money on the services you want. The explanatory foreword to this statement of accounts describes how we use your money to support your priorities. We have tried to avoid the use of jargon and tell the story behind the figures in a straightforward way. I do hope that even those of you who are not finance experts find this statement of accounts readable and informative.

I confirm that at the meeting of the Governance and Audit Committee held on 25 June 2009, the annual accounts were duly approved subject to external audit.

A handwritten signature in black ink, appearing to read 'Linda Neal', written in a cursive style.

**Councillor Linda Neal
Leader of the Council**

EXPLANATORY FOREWORD

Introduction to the Statement of Accounts – Richard Wyles, Corporate Head of Finance and Customer Services

As the Council's statutory Chief Finance Officer, I have pleasure in writing this explanatory foreword to South Kesteven's Statement of Accounts for 2008/09.

Since my appointment to the post I have focussed my efforts on securing a financially sound base for the Authority in order that it may continue to deliver quality services that underpin and support the delivery of its 4 priority themes of Customer First, Quality Organisation, Good for Business and Quality Living. In recent months the Council, like many organisations, has felt the impact of the economic downturn and many elements of our finances such as income projections have been under constant review. As a result of good financial management over many years the Council is well placed to continue to provide quality services to our residents at a time when it is most needed. I have continued to develop the Council's approach to financial management at both a corporate level and a service level. The key aims of this work have been to:

- Provide clear and regular reporting information, including in-year forecasting reports to the Cabinet
- Support good financial practices across the Council,
- Advise the Council to ensure that the money raised from public taxation is used efficiently and effectively to meet local needs as reflected in the Council's priorities.
- Develop a three year financial plan for the Council's finances that links them into the delivery of the priority themes.

Work on these aims is on-going and is underpinned by a Financial Team that provides focussed and supportive work to all services across the Council. Further work will be under taken in 2009/10 to develop the Council's Medium Term Financial Plan. This Plan will reflect on the current economic position and set out how the Council will financially support the delivery of the priority themes within the context of extremely challenging financial constraints in the coming years.

I hope this explanatory foreword and notes that follow give you a clear picture of how the figures make up our statement of accounts and show you how the Council Tax and our other sources of income are used to provide you with our range of services. The statement of accounts is required by law and sets out various statutory and other relevant information. The supporting notes are aimed at providing a more straightforward explanation of the often-complicated local government financial arrangements.

We will continue to produce a Summary Statement of Accounts which provides a useful overview of the Council's financial position. The summary will once again be made available following the publication of these accounts. In addition we also produce an Annual Report that brings together finance and performance.

Please continue to provide comments and feedback on the format of the statement of accounts to enable us to make them as user friendly as possible.



Richard Wyles ACMA

Corporate Head of Finance and Customer Services (s151 officer)

District Profile

South Kesteven is located in the southwest corner of Lincolnshire, incorporating the towns of Grantham, Stamford and Bourne and an area known as the Deepings with over 100 villages and hamlets covering 365 sq miles of countryside. The administrative headquarters are based in Grantham and the area is one of the fastest growing districts in the UK. The population of the area was estimated by the Office for National Statistics to be 131,100 for 2007, (the last period for which figures are available) which is an increase of over six thousand since the Census in 2001.

South Kesteven has a considerable mix of commercial, business and industrial activity. The quality of its infrastructure, with the main A1 traffic artery and the East Coast rail link between London and Edinburgh is unique in the county of Lincolnshire context. However, as the Community Plan emphasises, regional, national and international economic conditions, changes brought about by e commerce, an ageing population, skills shortages and low paid, low skilled employment pose major challenges to South Kesteven.

The percentage of people of working age that are employed is 79.9% (compared with a Lincolnshire average of 77.3% and an East Midlands average of 76.2%). The number of VAT registered businesses as at the beginning of 2008 was 5,015 which is an increase on the previous year of 4.37% and indeed has increased year on year for the past eleven years. An analysis of the non-domestic rating list indicated that in March 2009 there were 1,004 industrial units, 552 office units and 1,562 retail units (of these, 402 are vacant units).

Political Structure

The Council holds elections for all members once every four years. The last elections were held in May 2007. Following the election there were 35 Conservatives, 2 Labour, 15 Independents and 6 Liberal Democrats.

The Council operates with a Cabinet, three Policy Development Groups (responsible for policy development), a Scrutiny Committee and a Governance and Audit Committee responsible for corporate governance and approval of the Statement of Accounts. There is also a Development Control and Licensing committee, a Constitution Committee, and a Standards Committee.

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

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

Performance Management

Corporate Plan 2008/11

The Council's vision is **"To provide brilliant services to our customers"**. This vision along with our core values of *"listening, learning and delivering"* and our priorities are fully explained in the Council's Corporate Plan for 2008 to 2011.

The Council, at its meeting in September 2008, took the opportunity to review the approach to the priorities and agreed to repackage them under the following broader priority themes of:

- Customer First
- Quality Living
- Good for Business
- Quality Organisation

The purpose of this is to enable the Council to clearly define where to direct its focus and resources over the next three years and to deliver real outcomes for the local community.

Service Inspections and Annual Assessments

The Annual Audit and Inspection Letter produced by the Audit Commission undertook an inspection of the Council's Housing Landlord Services and assessed it as a "No Stars – Poor with uncertain prospects for improvement". However, the Council has developed strategies and frameworks in important areas such as resident involvement and value for money, which provides a foundation for future change. Corporate service planning and performance management frameworks are being used to manage performance of the housing service more effectively.

The Council has improved its Use of Resources rating assessment by the Audit Commission from a level 2 (adequate performance) to a level 3 (performing well). This assessment examines five key areas: Financial Reporting; Financial Standing; Financial Management; Value for Money and Internal Control. The Audit Commission assessed the Council as providing adequate value for money. During the year the Council has introduced 'Lean systems thinking' reviews in two key services areas – Revenues and Benefits and Housing Repairs. These reviews have demonstrated significant service improvements for the customer and will be used throughout the organisation to deliver service improvements and identify efficiency savings.

The Audit Commission's assessment of the Council's "direction of travel" is that the Council has delivered visible outcomes across the whole community through concentrating on the priorities determined by our stakeholders and identified that services are improving in priority areas.

Efficiency

The review of local government funding (Comprehensive Spending Review 07) identified an on-going efficiency target of 3% per annum for each of the three years within the spending review (2008/09 to 2010/11). This target has been identified under the national indicator NI 179 which is defined as 'the value for money – total net value of on-going cash releasing value for money gains that have impacted since the start of the 2008/09 financial year'. Within the Local Area Agreement (LAA) delivery plan, the priority of improving services across Lincolnshire authorities in order to provide value for money has been agreed. Each authority has agreed to contribute towards this overall priority and deliver value for money savings over the three year period. For 2008/09 the contribution towards the LAA target is £826,000.

The Statement of Accounts

We have followed the Chartered Institute of Public Finance and Accountancy's Code of Practice on Local Authority Accounting in the United Kingdom in putting together our Statement of Accounts for the financial year ended 31 March 2009.

The accounts fairly reflect South Kesteven's financial position for the financial year 2008/09. Our accounting policies are outlined in this document and have been fairly and consistently applied. We keep proper and up to date accounting records and take all reasonable steps to prevent and detect fraud and other irregularities.

The Corporate Head of Finance and Customer Services is the statutory officer responsible for the proper administration of the Council's financial affairs (referred to in the statement as the Chief Finance Officer). He is required by law to confirm that the Council's system of internal controls can be relied upon to produce an accurate statement of accounts. His statement of assurance for 2008/09 (known as the statement of responsibilities) appears on page 20 of this document.

The main statements included in the accounts consist of:

Statement of Accounting Policies (pages 14 to 19) - This provides the framework within which the Council's accounts are prepared and published. It explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

Statement of Responsibilities (page 20) - The Statement of Responsibilities for the Statement of Accounts details the respective responsibilities of the Chief Finance Officer and the Council.

Income & Expenditure Account (page 21) - This reports the net cost for the year of all the services and functions for which the Council is responsible and demonstrates how that cost has been financed from central government grants, national non-domestic rates and income from local taxpayers. It brings together the expenditure and income relating to all the Council's services.

Statement of Movement on the General Fund (page 22) – Starting with the surplus or deficit for the year from the Income and Expenditure Account, this adds the amounts required by statute and non-statutory proper practice to be charged or credited to the General Fund in determining the movement on the General Fund Balance.

Statement of Total Recognised Gains & Losses (page 23) – This records all gains and losses recognised in the year, e.g. from the revaluation of assets, which are realised or unrealised and not included in the Income and Expenditure Account.

Balance Sheet (pages 24 to 25) - This provides a snapshot of our financial position as at 31 March 2009. It sets out what we own and what we owe at that point in time. The statement shows the balances and reserves at the Council's disposal, our long term indebtedness and the fixed and net current assets employed in our operations, together with summarised information on the fixed assets we held.

Cash Flow Statement (pages 26 to 27) - This statement summarises the Council's cash movements in the year for both revenue and capital.

Notes to the Core Financial Statements (pages 28 to 64) – Notes to the preceding financial statements, explaining and providing additional information to figures included in these statements.

Annual Governance Statement (pages 65 to 74) - Regulation 4(2) of the Accounts and Audit Regulations 2006 requires that the Council or a Committee of the Council consider the findings of a review of the system of internal control. With effect from 2007/08 an Annual Governance Statement is required to meet the requirement of this regulation. This statement replaces the previous requirement to produce a statement of internal control (SIC). The governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities.

Housing Revenue Account (pages 75 to 83) - This reflects a statutory obligation to account separately for the Council's housing landlord function. It shows the major elements of housing revenue expenditure - maintenance, administration, and capital financing costs, and how these are met by rents, subsidy and other income.

Collection Fund (pages 84 to 86) – We are legally obliged to maintain this fund separately from all our other funds and accounts. It shows transactions that have arisen because we are a billing authority, collecting non-domestic rates and council tax on behalf of precepting authorities – the County Council, Police Authority and Parish Councils as well as ourselves. The Collection Fund shows the money we receive from local taxpayers in relation to non-domestic rates and council tax, and illustrates the way in which this has been distributed to preceptors and the General Fund. All business rates, less a deduction for collection costs, are paid into a central government pool and redistributed to local authorities on the basis of population. The Collection Fund is incorporated into the Council's Consolidated Balance Sheet and the Cash Flow Statement.

A glossary is provided at pages 87 to 91 to help explain the terms used.

Review of the Year

The Council incurs both revenue and capital expenditure during the year. Revenue expenditure is generally on items that are consumed within one year, and financed from government grants, council tax, council house rents and fees and charges. Whereas capital expenditure is on assets that have a life beyond one year and financed from supported capital expenditure, proceeds from the sale of assets (capital receipts), capital grants and contributions, major repairs reserve and direct revenue financing.

The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice sets out the core financial statements that are applicable to all local authorities whatever their function and comprises:

- Income and Expenditure Account
- Statement of the Movement on the General Fund Balance
- Statement of Total Recognised Gains and Losses (STRGL)
- Balance Sheet
- Cash Flow Statement.

In addition South Kesteven, because of its functions, also has to produce the following supplementary financial statements:

- Housing Revenue Account Income and Expenditure Account and Statement of Movement on the Housing Revenue Account Balance
- Collection Fund.

Our revenue account known as the General Fund, bears the net cost of providing day-to-day services. In this section of the foreword I will:

- compare actual spending to the budget
- compare our treasury management performance and
- identify where the money went.

Comparing actual revenue spending to budget

The budget for the year required an increase in the Council Tax of 4.38%. This gave a Band D Council Tax of £115.74.

The total budget requirement for the year was set at £15.755m.

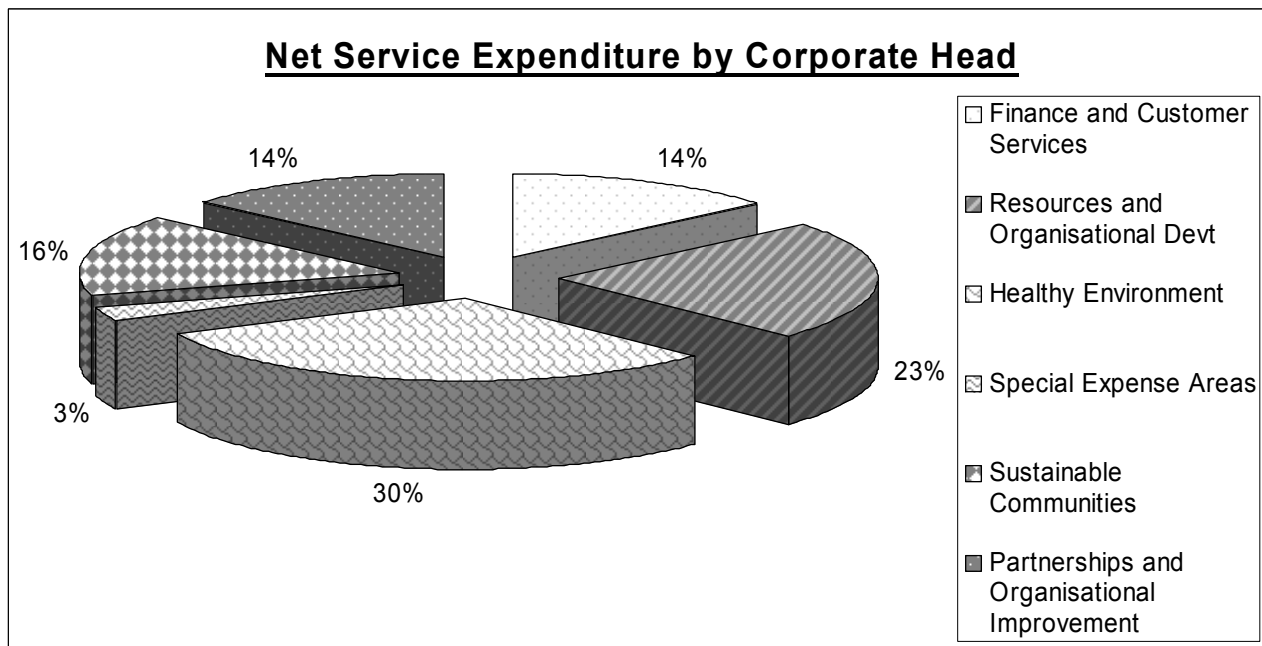
The financing of the budget requirement for the year was as follows:

- £10.124m government formula grant (revenue support grant, redistributed business rates and Area Based Grant)
- £5.819m council tax income (excluding Parish Precepts of £1.253m)
- £0.093m collection fund surplus

The table below identifies significant variances in service expenditure analysed by Corporate Head area. The published estimates for 2008/09 are shown below in summarised format.

Where the money went

The following chart provides an analysis of net expenditure:



Corporate Head	2008/09 Estimate £'000	2008/09 Actual £'000	Variance £'000
Finance and Customer Services	2,738	2,856	118
Resources and Organisational Devt.	1,583	4,844	3,261
Healthy Environment	6,578	6,341	(237)
Partnerships and Organisational Improvement	3,471	2,849	(622)
Special Expense Areas	654	625	(29)
Sustainable Communities	3,224	3,234	10
Salary Vacancy Factor*	(250)	0	250
Under/(over) allocation of support services	44	(11)	(55)
Total Service Expenditure	18,042	20,738	2,696

*Salary Vacancy Factor of £250k is shown as a separate corporate item for the 2008/09 estimate, which was distributed within each Corporate Head area according to actual occurrence for the "Actual 2008/09"

Explaining the big differences

Variances from the original budget relate to:

- Finance and Customer Services – The variance for this corporate area is £118K compared to original base. There has been a charge of £427k in respect of the required FRS17 calculation. Supported travel is £301k less than budget due to lower than budgeted operator costs and a reduction in the support charge allocation for this service. In respect of Customer Services there has been less than budgeted staffing costs amounting to £74k. The internal insurance premiums have been set

higher during the year than the actual costs of self insurance. This has lead to a credit balance of £156k which will be transferred into insurance reserve.

- Resources and Organisational Development – the outturn position shows an overspend of £3.261m compared to original base. There are a number of factors that contribute to this variance. One of the main reasons for this variance is the downward revaluation of assets which has resulted in a notional charge being made to certain services (as required by accounting treatment which will not have an impact on the Council Tax payer). This affects the following headings: Leisure Premises, Markets, Miscellaneous Property, Car Parks, Industrial Estates, Public Conveniences and Admin Buildings. Car parking income is less than budget by £310k following a reduction in usage across many sites. There has been a refund in respect of business rates at Deepings Leisure Centre. There have been additional costs incurred in respect of leisure procurement following the need for external support and guidance in respect of the Leisure Trust. There has been a revaluation loss of £138k in respect of the premises at Northfields Market Deeping and a deferred charge of £62k in respect of the pumping station works
- Healthy Environment – The outturn position is £237k less than original base. There has been a fundamental review of the support charge allocation which has been applied to the outturn charge (not reflected in the original base). Although not significant this has affected the outturn position for: air pollution control, community activities, gambling licensing, hackney carriage, health and safety enforcement, liquor licensing and local licences. Furthermore there has been a service restructure which has mainly affected Street scene, waste management and contract monitoring. These changes are reflected in the adjusted base column. There is an underspend in respect of waste management that has been caused by a reduction in central support charge and an increase in recycling credit income of £75k.
- Partnerships and Organisational Improvement – The outturn position is £622k less than original base of £3.471m. There are a number of variances that contribute to this underspend. In respect of corporate costs there is an underspend of £244k relating to supplies and services £148K and a reduction in support charge allocation of £86k. Partnerships and Community Safety, Communications and Performance Management all have underspends relating to a number of variances.
- Sustainable Communities – the variance for this corporate area is only £10k when compared to the original budget. However there are a number of significant variances by individual cost centre basis that require commentary. In respect of the development control there has been a shortfall in income of £88k. Economic development has underspent on salaries and has received additional external grants during the year that were not included in the original budget. There has been revenue expenditure charged as capital of £318k in respect of the discretionary element of the disabled facilities grants under the heading of private sector housing. Members will be aware that the building control service is split between chargeable and non-chargeable. In respect of the chargeable service the outturn deficit increased to £79k due to a reduction in the income received. This deficit will be financed from the building control reserve.

Full details of these variances can be found in Report no. CHFCS 48 Capital and Revenue Outturn 2008/09.

Comparing actual revenue spending to budget in the Housing Revenue Account

The Council also owns Council Housing and therefore is required to maintain a separate revenue account for recording all income and expenditure relating to managing and maintaining this landlord function.

This revenue account is known as the Housing Revenue Account and budgeted for a net operating expenditure of £2.177m. The outturn position shows a net operating expenditure of £31.087m. Whilst there are a number of significant issues that have contributed to this position, a £25.634m accounting adjustment has had to be made to reflect the latest housing stock valuation undertaken by the District Valuer. 20% of the housing stock is valued annually and the decreased value reflects the impact of the downturn in house prices over recent months. This accounting treatment has no impact on the HRA balances, as a further accounting adjustment has been made to reflect this entry within the "Statement of Movement on the Housing Revenue Account" in line with accounting requirements.

The other key reasons for the remaining variance include:

- Dwelling rents – the income is adjusted to account for week commencing 31 March 2009 in order to ensure the full year's income is accounted for. This figure represents rental debit due (not rent collected) and shows an improvement due to an improved void letting rate compared with budget prediction.
- Repairs and maintenance – Overspends on responsive repairs specified works have occurred during the year. However, corrective action has been taken to minimise the impact. The delay in the commencement of the stock condition survey works has resulted in an underspend which will be taken forward to the 2009/10 financial year. Also included in this heading is rechargeable works not collected which have been subsequently written off during the year along with adjustments in the required levels for bad debt provisions.
- Supervision and management – there is an underspend as a result of a number of variances across a range of service headings including salaries, supplies and services and resident involvement. The underspend is partly offset by a charge relating to non-enhancing capital expenditure.
- A reduction of the bad debt provision has been calculated following a review of the level as a result of a number of write offs during the year and a reduction in the levels of arrears for dwelling rents.
- Non-enhancing capital expenditure has been charged to the revenue account. This will be financed from the Major Repairs Reserve.
- Depreciation charged is less than budgeted due to the reduction in the valuation of the housing stock.
- There has been a charge from the General Fund in respect of rent rebates and a reduction in the actual subsidy charge against budget.
- An increase in the level of investment income as a result of higher than anticipated reserve levels for investment during the year and lower level of capital investment than anticipated.

This has resulted in an increase in the balance on the Housing Revenue Account to £7.176m compared to a budgeted balance of £9.390m.

Capital Spending in 2008/09

Our capital account shows the income and expenditure transactions we make when we:

- buy or sell land or property
- build new property
- carry out major repairs to our properties
- improve our properties
- provide grants for the above type of activity

In this section of the foreword I will:

- compare actual spending to budget
- explain the big differences
- explain where the money was invested and where the money came from

Comparing actual capital spending to budget

The original budget plan for the year was to spend £10.514m on capital projects. The final capital programme for the year was £7.677m which was £2.837m less than the original budget. The capital programme was reviewed during the year and Council approved a revised programme of £12.058m which resulted in a spend of £4.381m less than the revised plan.

Explaining the big differences

The final spend for the year was £4.381m lower than the revised approved programme for the following key reasons:

- Bourne Core Area – this expenditure relates to the purchase of 2 buildings within the core area in order to facilitate the delivery of the project. The Council was successful in securing external grants totalling £543K. This will be applied in order to contribute to the financing of the expenditure.
- Town Centre projects – this provision of £750K was not required during 2008/09. This provision will no longer be included under a general heading and only specified projects have been included in the 2009/10 capital programme.
- Purchase of freight vehicles – both vehicles have been ordered but delivery of 1 vehicle will not be until 2009/10.
- Upgrading of the sheltered housing scheme is underspent by £108K against a budget of £300k due to the commencement of a scheme being put back to 2009/10.
- Structural Repairs is underspent by £152K compared with a budget of £240k as no further schemes have been identified.
- An underspend on passenger lifts of £90K against a budget of £120k due to difficulties in identifying suitable locations.
- An underspend of £249K in respect of the windows programme due to delays in commencing a contract.
- Central Heating and ventilation – overspend of £179K has been incurred due to an increase in the number of boiler replacements undertaken during the year. The replacement programme has now been reviewed to ensure the programme is in accordance with the capital programme.
- Slippage of £160k for Electrical rewires (budget of £326k) is expected due to delays in commencing the contract.
- Kitchen and bathroom refurbishments – This budget heading has been constantly reviewed during the course of the financial year and the outturn position shows an overspend of £121K when compared to the forecast base. This overspend relates to the 2009/10 budget allocation as part of the work has been brought forward.
- The communal doors programme of £160K is underspent by £149K due to delays in tendering for contracting the work.
- DDA compliance work and fire risk assessment work – the remainder of the identified work is programmed to be undertaken during 2009/10.
- Disabled adaptations – this budget heading was reviewed following the low number of referrals that related to capital related expenditure.
- A underspend on Garages of £25k as no locations have been identified.
- The use of IT capital budgets for Total Repairs (£42k) and Mobilisation (£171k) have been removed pending the review of new operational working practices.

Where the money was invested and where the money came from

The following table sets out this expenditure and how it was financed

Investment	<u>£'000</u>	Financed From	<u>£'000</u>
Council Dwellings (Non-Enhancing)	4,385		
Other Land & Buildings	270	Capital Reserve	0
Vehicles, Plant & Equipment	763	Capital Receipts	0
Non-Operational Assets	912	Direct Revenue Financing	1,814
Deferred Charges	1,293	Major Repairs Reserve	4,436
Intangible Assets	54	Capital Grants & Contribution:	1,427
	<u>7,677</u>		<u>7,677</u>

Capital expenditure on Council Dwellings totalled £4.385m in respect of improvements to existing stock. However, all of this was treated as non-enhancing capital expenditure and was not added to the balance sheet. The continuation of the roll-out for the new twin bin waste collection service plus additional freighters and replacement vehicle are included in vehicles, plant and equipment. The capital investment on non-operational assets relates to the restatement works on Grantham Canal, works at Grantham Cemetery to increase the number of grave spaces and purchases of properties at Bourne for future development. Revenue expenditure funded from capital under statute includes £477,000 expenditure on Disabled Facilities Grants and £291,000 on Home Improvement Grants. Intangible assets include the ongoing modernisation of services in respect of software development and enhancements.

Our Treasury Management performance

We exceeded our original investment income budget for the year of £1.335m by £0.760m. This was achieved by higher than anticipated cash balances from lower than budgeted spending on capital which was underspent by £2.837m compared with the original estimate. The benchmark 7-day LIBID (London Interbank Bid rate) rate was 3.71% and the rate of return we achieved of 5.55% was some 1.84% above this benchmark figure.

Council Tax collection

The net collectable amount in respect of 2008/09 Council Tax was £55.15m of which £54.16m has been received. This represents a collection rate of 98.2% (2007/08 98.47%).

Council Tax arrears (for all years), including costs amounted to £1.953m as at 31 March 2009.

Reserves and Balances

The General Fund working balance at the end of the financial year is £2.239m which will be carried over into 2009/10 and is equivalent to 12.6% of net original base budget for 2009/10 (net operating expenditure).

The working balance has been maintained to provide a financial cushion should something unexpected happen that leads to significant unplanned expenditure that would not be met from other sources or by specific Central Government grants. The level of working balance is in accordance with the policy set by the Council to maintain a balance at a level equal to 10-15% of net expenditure or 4 - 5% of the general fund gross turnover.

The Housing Revenue working balance of £7.176m represents the existing revenue balance.

The Council's total balances and reserves have been reduced by £0.617m and now total £29.766m.

Specific and earmarked reserve balances as at 31 March 2009 are as follows:

• General Fund Capital Reserve	£2.946 million
• Insurance reserve	£0.546 million
• Pensions (former & current employees) reserves	£1.794 million
• Building Control reserve	£0.218 million
• Capacity building reserve	£1.006 million
• Useable Capital Receipts reserve	£7.413 million
• Housing Revenue Account capital reserve	£6.173 million
• Special Expense Area Reserve	£0.028 million

In summary, the Council's position remains strong and the review of balances and reserves has enabled the Council to earmark additional resources for specific purposes in the future. This healthy state is as a result of sound financial management and a strong track record of striking the right balance between spending and the need to keep an adequate level of resources to support the revenue account. The state of our financial well-being is reflected in the level of reserves and working balances we hold.

Further Information

Further information about the Statement of Accounts is available from the Financial Services section at the Council Offices, St Peter's Hill, Grantham, Lincs, NG31 6PZ, telephone 01476 406080 or customerservices@southkesteven.gov.uk. In addition, interested members of the public have a statutory right to inspect the accounts before the annual audit is completed. The availability of the accounts for inspection is advertised in the local press and on our website at www.southkesteven.gov.uk

Richard Wyles ACMA
Corporate Head of Finance and Customer Services
25 JUNE 2009

STATEMENT OF ACCOUNTING POLICIES

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year-end of 31 March 2009. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2008* (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

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** income and expenditure are accounted for in the year in which they arise, not simply when cash is either received or paid, by the creation of debtors and creditors, including estimates where appropriate.
- **Fees, charges and rents** due from customers are accounted for as income at the date the council provides the relevant goods or services.
- **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 stocks on the balance sheet.
- **Works** are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- **Interest** paid on external borrowings and interest received from the investment of surplus capital and revenue monies is accounted for in the period to which it relates.
- **Charges for Fixed Assets** Service revenue accounts, support services and trading accounts are debited with depreciation attributable to the assets used by the relevant service; impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service; and amortisation of intangible fixed assets attributable to the service.
- **Leases** Rentals paid under leasing agreements have been accrued and accounted for through the revenue accounts in the period to which they relate.
- **VAT** Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.
- **Government Grants and Contributions (Revenue)** Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (eg Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

OVERHEADS & SUPPORT SERVICES

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2008* (for example, charges are based on estimated or actual time allocations with the exception of administrative building costs – floor area basis). The total absorption costing principle

is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early, and depreciation and impairment losses relating to surplus assets. This category has been accounted for as separate heading in the Income and Expenditure Account, as part of Net Cost of Services.

RETIREMENT BENEFITS

Pension Costs – The Council fully complies with the requirements of FRS17, Retirement Benefits and recognises the cost of retirement benefits in the revenue account when employees earn them, rather than when the benefits are eventually paid as pensions.

Employees of the Council are offered membership of the Local Government Pension Scheme, administered by Lincolnshire County Council. This is accounted for as a defined benefit scheme (retirement lump sums and pensions) earned as employees worked for the Council.

Local Government Pension Scheme

- The liabilities of the 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 the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 6.9% (based on the indicative rate of return on the Bond yields and inflation rates).
- The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the balance sheet at their fair value:

Quoted securities – current bid price
Unquoted securities – professional estimate
Unitised securities – current bid price
Property – market value

The change in the net pension liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – charged in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Accounts as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
- gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the

actuaries have updated their assumption – debited to the Statement of Total Recognised Gains and Losses

- contributions paid to the Lincolnshire County Council pension fund – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising the Council Tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund balance this means that there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

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

CAPITAL ASSETS

Intangible Assets: Expenditure on the acquisition or preparation of a computer program, including expenditure on the right to use the program, providing the program is for use for longer than one year, results in an intangible asset. Annual licence payments will be treated as a revenue cost.

Intangible assets are amortised to the service accounts over 10 years or the life of the software/licence whichever is the shorter, on the straight line basis. The amount in the balance sheet is the cost net of amortisation. Internal system development costs are written off to revenue in the year they are incurred.

Tangible Fixed Assets: Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (eg repairs and maintenance) is charged to revenue as it is incurred.

Enhancement is expenditure intended to:

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

The Council has a de-minimis of £10,000 for capital expenditure, with the exception of the purchase of motor vehicles.

Valuation: All fixed assets are included in the accounts at their historical cost, until such time as they are revalued. Operational assets constructed or acquired during the year will be revalued on 1 April of the following year.

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. Revaluations are carried out in accordance with a rolling programme which covers all assets at 5 yearly intervals. The basis at which the assets are valued are as follows:

- Council Dwellings are valued at existing use value for social housing (EUVSH). The social housing discount applied in 2008/09 is 50%.

- Other Land & Buildings are valued on the basis of existing use value (EUV) or, where this could not be assessed, at depreciated replacement cost (DRC).
- Vehicles, Plant & Equipment are carried in the Balance Sheet at historical cost.
- Non Operational Surplus Assets are valued at their market value (MV).
- Assets under Construction are carried at historical cost until the asset is brought into use, when it will be valued as above.
- Investment Properties are valued at their market value (MV).
- Intangible Assets are included in the balance sheet at net amortised cost.

Increases as a result of revaluations are debited to the appropriate asset account, with the opposite entry going to the Revaluation Reserve except to the extent where it reverses a previous revaluation loss that was charged to the Income & Expenditure Account. 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.

Reductions in valuation are classed as impairments. An assessment is made as to whether the impairment is due to the consumption of economic benefits or to a change in market values. Market value impairments are first offset against any previous revaluation gains for that particular asset in the Revaluation Reserve. Any further impairment below this is charged to the Income & Expenditure Account to the relevant service that uses the asset. Impairments as a result of the consumption of economic benefits are charged directly to the Income & Expenditure Account. These charges to the Income and Expenditure Account are offset by an entry to the Statement of Movement on the General Fund Balance so that there is no impact on council tax or rent levels.

The net surplus or deficit arising from revaluations is reported in the Statement of Total Recognised Gains and Losses.

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review the accounting treatment is as described above.

Disposals: The income from the sale of fixed assets, subject to a statutory de-minimis of £10,000, is credited to the Income and Expenditure Account. The Balance Sheet value of the asset is debited to the Income and Expenditure Account with the credit to the Fixed Asset Account.

In addition, the disposal proceeds are credited to the Usable Capital Receipts Reserve, with a debit to the Capital Adjustment Account equal to the Balance Sheet value. The balancing figure of this latter journal, representing the gain or loss on disposal, is taken to the Statement of Movement on the General Fund Balance. Finally, if the asset was valued at current value, there will be an amount on the Revaluation Reserve which is written off to the Capital Adjustment Account.

A proportion of the income from the disposal of council houses and housing revenue account land is required to be paid over to Central Government as a 'Housing Pooled Capital Receipt'.

Depreciation: This is provided for on all fixed assets with a finite useful life which can be determined at the time of acquisition or revaluation.

- 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 & 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.
- Vehicles are depreciated using the reducing balance method at a rate of 25% per annum.
- Surplus assets are depreciated as with land and buildings above.
- Assets under construction and newly acquired assets are depreciated from the date they are brought into use.
- Investment Properties are not depreciated.
- Assets disposed of are depreciated until the date of disposal.

The depreciation calculated is charged to the service revenue accounts, central support service accounts and trading accounts. Depreciation on surplus assets waiting for disposal, with no benefiting service, is charged to non-distributed costs.

Capital Grants and Contributions Full use will be made of all grants and contributions available towards the cost of capital schemes. When received, the grant or contribution will be credited to an Unapplied Grants & Contributions Account. As the grant or contribution is applied towards the financing of any capital project, the appropriate amount is credited to a Capital Grants and Contributions Deferred Account. This amount is then written down to revenue at the same rate that the asset, for which the grant was used, is depreciated.

Revenue Expenditure Funded from Capital Under Statute represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Such amounts incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the Council has determined that it will meet these costs from existing capital resources or by borrowing, a transfer is made to the Capital Financing Account then reversed out in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

Revaluation Reserve records the accumulated gains on the fixed assets held by the authority arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The Reserve is also debited with amounts equal to the part of depreciation charges on assets that have been incurred only because the asset has been revalued. On disposal, the Revaluation Reserve balance for the asset disposed of is written out to the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the current value of fixed assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost. Whilst these gains arising from revaluations increases the net worth of the authority they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated.

LEASES

The Council will not acquire any vehicles or equipment by means of a finance lease. Rental payments under finance leases would need to be apportioned between finance charge and the reduction of the outstanding obligation. The finance charge is charged to revenue over the term of the lease

Any leases taken out to obtain vehicles, plant and equipment will be under operating leases, the payments for which will be charged direct to revenue and the service revenue account.

CURRENT ASSETS

Stocks and Work in Progress Material stocks are valued at cost less an allowance for loss in value where appropriate. Work in progress is valued at cost including an allocation of overheads.

RESERVES AND PROVISIONS

Provisions These are included in the accounts for known liabilities at the balance sheet date, which will be incurred but where there is uncertainty as to when these liabilities may arise. There must be a reliable estimate of the amount due. The provision is charged to the relevant service revenue account and when the liability is eventually settled, this is then charged directly to the provision.

Reserves These are amounts set aside for earmarked purposes out of the balances of the Council's funds. Details of reserves held at 31 March 2009 are shown in the notes to the core financial statements.

FINANCIAL INSTRUMENTS

Loans Payable For loans from the PWLB (Public Work Loans Board) and other loans payable the balance sheet value will be calculated using the premature repayment rates to ascertain the fair value using the PWLB debt redemption procedures. The Fair Value is the principal plus premiums/discounts plus accrued interest. These values are calculated and provided directly by the PWLB.

Loans Receivable greater than 12 months The fair value for Loans which are due to mature after 12 months from the balance sheet date will be calculated based on the PWLB premiums and discount method as undertaken by the Councils Treasury Management advisors.

Loans Receivable less than 12 months Where loans receivable are due to mature within 12 months from the balance sheet date the fair value will be taken as the principal outstanding or the billed amount.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. In this Authority, that officer is the 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 Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

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 SORP

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 irregularities.

CHIEF FINANCE OFFICER'S CERTIFICATE

I certify that the accounts set out in this document present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2009.



**RICHARD WYLES ACMA
CHIEF FINANCE OFFICER**

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

2007/08			2008/09	2008/09	2008/09
Net			Expenditure	Income	Net
£'000		Note	£'000	£'000	£'000
906	Central Services to the Public		8,103	(7,041)	1,062
12,697	Cultural, Environmental and Planning Services		18,113	(5,896)	12,217
471	Highways, Roads and Transport Services		3,483	(1,691)	1,792
11,806	Local Authority Housing (HRA)		52,395	(21,307)	31,088
1,574	Other Housing Services		24,665	(22,791)	1,874
1,707	Corporate and Democratic Core		2,844	(631)	2,213
32	Non Distributed Costs		673	0	673
29,193	Net Cost of Services		110,276	(59,358)	50,918
687	Loss on disposal of fixed assets				412
1,580	Precepts and Levies	16			1,837
(394)	(Surplus)/Deficit on Trading Undertakings	4			331
445	Interest Payable and similar charges				407
	Contribution of Housing Capital Receipts to				
1,546	Government Pool				333
(2,050)	Interest and Investment income				(2,121)
	Pension Interest Cost Expected and				
(288)	Return on Pension Assets				711
(42)	Other Operating Income				0
30,677	Net Operating Expenditure				52,828
(6,546)	Demand on the Collection Fund				(7,166)
(2,106)	General Government Grants	13			(1,450)
(8,243)	Non-Domestic Rate Income				(8,674)
13,782	Deficit for the year				35,538

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2007/08		Note	2008/09
Net			Net
£000			£000
13,782	Deficit for the year on the Income & Expenditure Account		35,538
	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	20	<u>(35,055)</u>
<u>(13,680)</u>			
102	(Increase)/Decrease in General Fund Balance for the year		483
<u>(2,824)</u>	General Fund Balance at start of year		<u>(2,722)</u>
(2,722)	General Fund Balance at end of year		(2,239)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

2007/08 Net £'000		Note	2008/09 Net £'000
13,782	Deficit for the year on the Income and Expenditure Account		35,538
(6,531)	Deficit/(Surplus) arising on revaluation of fixed assets	36	2,496
(134)	Actuarial (gains) and losses on pension fund assets and liabilities	43	7,802
(54)	Other (gains) and losses		74
<u>7,063</u>	Total Recognised (Gains) and Losses for the year		<u>45,910</u>
0	Prior Year Adjustments		12

BALANCE SHEET AS AT 31 MARCH 2009

2007/08 (Restated)		Note	2008/09	
£'000	£'000		£'000	£'000
99		30		123
	Intangible Fixed Assets			
	Tangible Fixed Assets	21		
	Operational Assets			
296,702	- Council dwellings		265,185	
57,650	- Other land and buildings		52,147	
3,868	- Vehicles, plant and equipment		3,731	
	Non-Operational Assets			
3,909	- Surplus assets		2,390	
362,356	- Assets under construction		495	
	- Investment Properties		644	
				324,592
2,104	Long Term Investments	48		6,275
544	Long Term Debtors	53		481
365,103	Total Long Term Assets			331,471
	Current Assets			
35	Stocks and work in progress	54	28	
5,112	Debtors	55	8,199	
25,889	Investments	48	21,478	
3,502	Cash and bank	47	714	
34,538			30,419	
	Current Liabilities: Amounts Falling Due Within One Year			
	Borrowing repayable on demand or within 12 months	48	(2,001)	
0				
(9,724)	Creditors	56	(8,188)	
0	Bank overdraft		0	
(9,724)			(10,189)	
24,814	Net Current Assets			20,230
389,917	Total Assets Less Current Liabilities			351,701
(4,159)	Borrowing repayable within a period in excess of 12 months	52		(4,159)
(3,955)	Capital grants and contributions deferred account			(3,593)
(191)	Capital grants and contributions unapplied			(254)
(182)	Provisions	34		(55)
(11,987)	Pension liability	43		(20,107)
369,443	Total Assets Less Liabilities			323,533

**BALANCE SHEET (Contd.)
AS AT 31 MARCH 2009**

2007/08 (Restated)		note	2008/09	
£'000	£'000		£'000	£'000
	Financed by:			
345,439	Capital adjustment account	36		311,220
5,608	Revaluation reserve	36		2,654
(11,987)	Pension reserve (FRS17)	36		(20,107)
7,225	Usable Capital receipts reserve	36		7,413
121	Deferred Capital Receipts	36		104
7,048	Major repairs reserve	36		6,173
	Specific reserves			
4,482	- Revenue			3,593
1,558	- Capital			2,946
	Balances			
2,722	- General Fund	36		2,239
7,031	- Housing Revenue Account			7,176
196	- Collection fund			122
369,443	Total Net Worth			323,533

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2009

2007/08		Note	2008/09	
£'000	£'000		£'000	£'000
Revenue Activities				
Cash Outflows				
16,639	Cash paid to and on behalf of employees			17,349
16,439	Other operating cash payments			22,485
7,816	Housing benefits			9,693
34,610	National non-domestic rate payments to national pool			36,333
43,799	Lincolnshire County Council precept paid			46,223
5,838	Lincolnshire Police Authority precept paid			7,500
4,700	Housing Subsidy			5,650
2,043	Payments to the Capital Receipts Pool			512
<u>131,884</u>				<u>145,745</u>
Cash Inflows				
8,619	Housing rents (after rebates)		8,888	
51,588	Council tax receipts		54,361	
33,323	Non-domestic rate receipts		34,658	
1,383	Revenue Support Grant		1,207	
8,243	National non-domestic rate receipts from national pool		8,674	
23,668	DWP grants for benefits		24,181	
2,111	Other government grants	51	2,432	
134,687	Cash received for goods and services and other operating cash receipts		9,152	143,553
<u>5,752</u>				
(2,803)	Net Cash (Inflow)/Outflow on Revenue Activities	46		2,192
Returns on Investments and Servicing of Finance				
Cash Outflows				
428	Interest paid		430	
Cash Inflows				
(1,343)	Interest received		(2,333)	(1,903)
<u>(1,771)</u>				
Capital Activities				
Cash Outflows				
8,462	Purchase of fixed assets		6,488	
0	Purchase of long term investments		0	
455	Other capital cash payments		0	
<u>8,917</u>			<u>6,488</u>	

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009
(CONTINUED)**

2007/08			2008/09	
£'000	£'000		Note	£'000
		Cash inflows		
	4,065	Sale of fixed assets		490
	210	Capital grants received	51	1,258
	44	Other capital cash receipts		191
	<u>4,319</u>			<u>1,939</u>
<u>4,597</u>				<u>5,842</u>
451		Net Cash Inflow before Financing		<u>4,838</u>
		Management of Liquid Resources		
(4,400)		Net increase/(decrease) in short term investments		(50)
		Financing		
		Cash Outflows		
500		Repayment of amounts borrowed		0
		Cash Inflows		
0		New short-term loans		(2,000)
<u>(3,449)</u>		Net Decrease/(Increase) in Cash		<u><u>2,788</u></u>

NOTES TO THE CORE FINANCIAL STATEMENTS

Note 1 – Acquired, Discontinued Operations and outstanding liabilities

Local authorities are required to show the results of acquired services and discontinued operations separately from the results of continuing services.

All operations at the Council are categorised as continuing operations.

Note 2 – Prior Period and Exceptional/Extraordinary items

Exceptional items are material items in terms of the authority's overall expenditure which are not expected to recur frequently or regularly. During the financial year 2008/09 the Council has not had any exceptional items.

Extraordinary items are large unforeseen items of expenditure, as local authorities operate within statutory constraints; these types of transaction are very unlikely. During the financial year 2008/09 the Council has not had any extraordinary items.

Prior period adjustments are material adjustments applicable to prior years which have arisen from changes in accounting policies or as a result of errors in previous years. During 2008/09 there has been one change to accounting policies and two prior period adjustments made as a result of errors in previous years and one further adjustment made as a result of changes to accounting regulations.

The accounting policy change relates to The Local Government Pension Scheme, where assets are now valued at bid value instead of at mid-market value as in previous years. However, the actuaries consider that the change to the closing asset values for 2007/08 would be immaterial, so prior year figures have not been adjusted.

During the audit of the 2007/08 accounts £1.25m of capital expenditure was identified as non-enhancing and subsequently charged to revenue. The original capital financing entries charging this expenditure to the Major Repairs Reserve and the Useable Capital Receipts Reserve were not reversed at the time. The effect of this adjustment is an increase to the Major Repairs Reserve of £1.2m, an increase to the Useable Capital Receipts Reserve of 0.025m and a decrease to the Capital Adjustment Account of £1.25m

The second prior period adjustment results to a change made to the Local Authorities (Capital Finance & Accounting) Regulations which came into force on 31 March 2008. These regulations state that when calculating the amount of revenue needed to be set aside each year to finance previous capital purchases (the Minimum Revenue Provision or MRP) the Council need to make a "prudent" provision. This replaces the detailed formulae that was previously required to be used in the calculation. During the 2004/05 financial year the Council were required to set aside a larger MRP by the external auditor, who considered that an under-provision existed based on the formula method. The effect of the new regulation is to negate this extra MRP as the original provision at the time would now be considered prudent. The effect of this adjustment is to increase the General Fund working balance by £504K and decrease the balance on the Capital Adjustment Account by £504K

The third minor adjustment relates to a Section 106 contribution from a developer, towards Affordable Housing. This had been miscoded in 2004/05 and had not been applied to Affordable Housing in compliance with the S106 agreement. This contribution has now been returned to the S106 code for use in the provision of Affordable Housing. The effect of this adjustment is to decrease the General Fund working balance by £12.5K.

The effects of these adjustments are shown in the restated 2007/08 Balance Sheet below.

**RESTATED BALANCE SHEET
AS AT 31 MARCH 2008**

2006/07		2007/08	
£'000	£'000	£'000	£'000
70			99
	Intangible Fixed Assets		
	Tangible Fixed Assets		
	Operational Assets		
	304,170 -Council dwellings	296,702	
	54,013 -Other land & buildings	57,650	
	3,966 -Vehicles, plant & equipment	3,868	
	Non-Operational Assets		
	6,376 -Surplus assets	3,909	
370,018	1,493 -Assets under construction	227	362,356
3,050	Long Term Investments		2,104
653	Long Term Debtors		544
<u>373,791</u>			<u>365,103</u>
	Total Long Term Assets		
	Current Assets		
	Stocks & work in progress	35	
	5,102 Debtors	5,112	
	28,400 Investments	25,889	
	544 Cash & bank	3,502	
	<u>34,046</u>	<u>34,538</u>	
	Current Liabilities: Amounts Falling Due Within One Year		
	(500) Short term borrowing	0	
	(8,882) Creditors	(9,724)	
	(492) Bank overdraft	0	
	<u>(9,874)</u>	<u>(9,724)</u>	
24,172	Net Current Assets		24,814
<u>397,963</u>	Total Assets Less Current Liabilities		<u>389,917</u>
(4,000)	Long Term Borrowing		(4,159)
(3,728)	Capital grants and contributions deferred account		(3,955)
(1,035)	Capital grants and contributions unapplied		(191)
(60)	Provisions		(182)
(12,622)	Pension Liability		(11,987)
<u>376,518</u>	Total Assets less Liabilities		<u>369,443</u>

RESTATED BALANCE SHEET (Contd.)

2006/07		2007/08	
£'000	£'000	£'000	£'000
	Financed by:		
62,326	Capital Financing Account		0
296,928	Fixed Asset Restatement Account		0
0	Capital Adjustment Account		345,439
0	Revaluation Reserve		5,608
(12,622)	Pension Reserve (FRS17)		(11,987)
4,757	Useable Capital Receipts Reserve		7,225
182	Deferred Capital Receipts		121
7,643	Major Repairs Reserve		7,048
	Specific Reserves		
4,227	-Revenue		4,482
2,249	-Capital		1,558
	Balances		
2,824	-General Fund		2,722
7,863	-Housing Revenue Account		7,031
141	-Collection Fund		196
376,518	Total Net Worth		369,443

Note 3 – Uncharged Obligations arising from long-term contracts (e.g. PFI)

The Council does not have any material revenue resources committed for future financial years.

Note 4 – Trading Operations

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

2007/08				2008/09	
£'000	£'000			£'000	£'000
	(538)	The letting of Industrial Units located within the District	Turnover	(566)	
(400)	138			137	
			(Surplus)/Deficit		(429)
	(324)	Markets held weekly at Bourne, Grantham and Stamford	Turnover	(286)	
6	330			344	
			(Surplus)/Deficit		58
		(Surplus)/Deficit			
<u>(394)</u>				<u>(371)</u>	

On the face of the Income & Expenditure account (page 20) the trading operations show a deficit of £331K. This figure includes revaluation losses of £702K that have been charged to the trading operations. They have been excluded from the figures above as they are purely accounting entries and are fully reversed in the Statement of Movement on the General Fund Balance. The net impact of the trading operations in 2008/09 was an increase to the General Fund working balance of £371K.

Note 5 – Discretionary Expenditure (Section 137 of the Local Government Act 1972)

Section 137 of the Local Government Act 1972 (as amended) empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service for the benefit of the residents of its area on activities or projects not specifically authorised by other powers. The Council's expenditure under this power was £6,300 (2007/08 £7,000) and was incurred on grants to voluntary bodies and associations.

Note 6 – Expenditure on Publicity

Section 5(1) of the Local Government Act 1986 requires the Council to keep a separate account of its expenditure on publicity. The Council's spending on publicity was:

2007/08			2008/09	
£'000			£'000	
138	Recruitment advertising		72	
23	Other Advertising (Tourism)		31	
331	Other publicity (Public Relations)		391	
<u>492</u>			<u>494</u>	

Note 7 – The Building Control Account (England and Wales only)

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control functions. The Council complies with the Local Government Association (LGA) model scheme of charges. Certain activities performed by the Building Control unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control unit divided between the chargeable and non-chargeable activities. A deficit of £79k was made on chargeable activities in 2008/09. However, this was offset by a contribution from the Building Control reserve to leave a balance on the trading account of zero for the year. There is a requirement for the Building Control trading account to breakeven over a rolling three year period. Over the last three years the trading account has run at a deficit. Steps are being taken to address this. At 31st March 2009 the Building Control Reserve stands at £217,000, any future deficits will reduce this.

Building Regulation Charging Account

	2008/09 Chargeable Activities	2008/09 Non-Chargeable Activities	2008/09 Total Building Control
	£'000	£'000	£'000
Expenditure			
Employees Expenses	374	72	446
Premises	18	4	22
Transport	23	6	29
Supplies and Services	33	10	43
Capital Charges	2	0	2
Central and Support Services Charges	44	32	76
Total Expenditure	494	124	618
Income			
Building Regulation Charges	410	0	410
Miscellaneous Income	5	1	6
Total Income	415	1	416
Surplus/(Deficit) for Year	(79)	(123)	(202)
Transfer from earmarked Building Control			
Reserve to offset deficit	79	0	79
Balance	0	(123)	(123)

Comparatives for 2007/08

	2007/08 Chargeable Activities	2007/08 Non-Chargeable Activities	2007/08 Total Building Control
	£'000	£'000	£'000
Expenditure	493	129	622
Income	531	0	531
Surplus/(Deficit) for Year	38	(129)	(91)

Note 8 – Agency Income and Expenditure

The Council has an agency agreement with Lincolnshire County Council to manage Spittlegate Hill Travellers Site, for which it is paid a management fee. The fee covers the cost of maintaining the land and collection of rents. The council also provides a grass cutting service cutting 34 hectares of verges around the district approximately 16 times a year, under a highways agency agreement Lincolnshire County Council reimburses the cost of seven cuts.

2007/08 £'000		2008/09 £'000
	Travellers Site Expenditure	
27	Management & Maintenance	39
(28)	Income from Rent & Other Charges	(42)
	Total Reimbursement by/(to)	
(1)	Lincolnshire County Council	(3)
2007/08 £'000		2008/09 £'000
	Grass Cutting Expenditure	
113	Premises & Support Costs	110
(73)	Income from Lincolnshire County Council	(75)
40	Net Service Costs	35

Note 9 – Schemes under the Transport Act 2000

The Council has not entered into any schemes under the Transport Act 2000.

Note 10 – Business Improvement District Schemes

The Council is not part of any Business Improvement District Schemes.

Note 11 – Local Authority (Goods and Services) Act 1970

The Council does not provide any services relating to the Local Authority (Goods & Services) Act 1970.

Note 12 – Health Act 1999 Pooled Funds and Similar Arrangements

The Council is not involved in any schemes under the Health Act 1999.

Note 13 – Government Grants not attributable to specific services

The council receives general government grants which are accounted for in the Income & Expenditure account below Net Operating Expenditure. For 2008/09 these grants amounted to £1.45m. This is made up of Revenue Support Grant £1.207m, Area Based Grant £0.049m and Local Authority Business Growth Incentive Grant £0.194m

Note 14 – 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 has 58 elected Councillors.

Members' allowances paid during the year amounted to £369,799 (2007/08 £361,864).
The figure includes basic allowance, special responsibility, and other related allowances.

Note 15 – Officer Emoluments

The numbers of employees whose remuneration was £50,000 or more, in bands of £10,000 were:

<u>2007/2008</u> <u>No. of officers</u>		<u>2008/2009</u> <u>No. of officers</u>
	Remuneration Band	
2	£50,000 - £59,999	3
4	£60,000 - £69,999	3
2	£70,000 - £79,999	1
0	£80,000 - £89,999	2
0	£90,000 - £99,999	0
1	£100,000 - £109,999	0

Note 16 – 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.

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, 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 a note to the Cashflow Statement (note 51)

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 key 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 Key Managers have been requested to complete a Related Party Transaction declaration. Upon analysis of completed returns no material items were identified that required separate disclosure. The Council maintains a Register of Interests which is complete and up to date on the basis of information received.

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

Payments made during the year were as follows:

2007/08 £'000		2008/09 £'000
1,035	Town and Parish Councils	1,253
93	Upper Witham Drainage Board	95
51	Black Sluice Drainage Board	54
401	Welland and Deepings Drainage Board	435
<u>1,580</u>		<u>1,837</u>

Note 17 – Audit Costs

The following fees were incurred in 2008/09 relating to external audit and inspection.

2007/08 £'000		2008/09 £'000
90	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor.	107
13	Fees payable to the Audit Commission in respect of Statutory Inspection.	13
16	Fees payable to the Audit Commission for the certification of grant claims and returns.	23
<u>119</u>		<u>143</u>

Note 18 – Non Domestic Rate, Council Tax Base precept information for Welsh Authorities.

The Council is not a Welsh Authority.

Note 19 – Explanation of the Significance of the Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated. The authority, however, is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the assets are consumed.
- The payment of a share of housing capital receipts to the Government is a loss in the Income and Expenditure Account, but is met from useable capital receipts.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council Tax raised for the year taking into account the use of and contributions to reserves.

The Statement of Movement on the General Fund Balance is a reconciliation between the outturn on the Income and Expenditure Account and the General Fund Balance.

Note 20 – Breakdown of Reconciling Items in the Statement of Movement on the General Fund Balances

2007/08	Amounts included in the Income & Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	2008/09
<u>£'000</u>		<u>£'000</u>
(15)	Amortisation of intangible fixed assets	(30)
(11,903)	Depreciation and impairment of fixed assets	(36,282)
	Excess of depreciation charged to HRA services over the Major	
(951)	Repairs element of Housing Subsidy	(847)
454	Government Grants Deferred amortisation	985
	Write downs of revenue expenditure charged as capital	
(606)	under statute	0
(687)	Net loss on sale of fixed assets	(412)
(1,712)	Net charges made to retirement benefits in accordance with FRS 17	(2,750)
(15,420)		(39,336)
	Amounts not included in the Income & Expenditure Account but required to be included when determining the Movement on the General Fund Balance for the year	
215	Minimum Revenue Provision for capital financing	207
133	Capital expenditure charged in year to the General Fund Balance	1,261
	Transfer from Useable Capital Receipts to meet payments to the	
(1,504)	Housing Capital Receipts Pool	(333)
	Employers contributions payable to the Lincolnshire County	
	Council Pension Fund and retirement benefits payable direct to	
2,213	pensioners	2,432
1,057		3,567
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
(832)	Housing Revenue Account balance	146
1,515	Net transfer to or from earmarked reserves	567
683		713
	Net additional amount required to be credited to the General Fund	
(13,680)	Balance for the year	(35,055)

Note 21 – Summary of Capital Expenditure and Fixed Asset Disposals

Movements on Tangible Fixed Assets during the year were as follows:

Operational Assets	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Total £'000
Cost or Valuation at 1 April 2008	300,912	59,479	7,473	367,864
Additions	0	791	763	1,554
Disposals	(289)	0	(46)	(335)
Revaluations and restatements	(35,438)	(7,509)	0	(42,947)
Impairments	0	0	0	0
Reclassifications	0	(614)	0	(614)
Gross book value as at 31 March 2009	265,185	52,147	8,190	325,522

Depreciation				
At 1 April 2008	(4,210)	(1,828)	(3,605)	(9,643)
Charge for 2008/09	(4,217)	(1,789)	(872)	(6,878)
Written back on Revaluation	8,427	3,617	0	12,044
Written Back on Disposal	0	0	18	18
At 31 March 2009	0	0	(4,459)	(4,459)

Net Book Value as at 31 March 2009	265,185	52,147	3,731	321,063
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Non-Operational Assets	Surplus Assets £'000	Assets Under Construction £'000	Investment Properties £'000	Total £'000
Cost or Valuation at 1 April 2008	3,909	227	0	4,136
Additions	164	298	0	462
Disposals	(564)	0	0	(564)
Revaluations and restatements	(1,119)	0	0	(1,119)
Impairments	0	0	0	0
Reclassifications	0	(30)	644	614
Net book value as at 31 March 2009	2,390	495	644	3,529

Capital expenditure and financing:

2007/08 £'000		2008/09 £'000
<u>7,542</u>	Opening Capital Financing Requirement	<u>7,458</u>
	Capital Investment:	
43	Intangible fixed assets	54
	Operational Assets	
4,032	Council dwellings	0
1,793	Other land & buildings	177
709	Vehicles, plant & equipment	763
1,250	Non-enhancing capital expenditure	4,478
227	Non-operational assets	912
821	Revenue expenditure charged as capital under statute	1,293
	Improvements	
135		
	Sources of Finance	
(121)	Capital receipts	
(962)	Capital grants & contributions	(1,427)
(8,011)	Sums set aside from revenue	(6,457)
<u>7,458</u>	Closing Capital Financing Requirement	<u>7,251</u>
	Explanation of movements in year	
(84)	Increase/(Decrease) in underlying need to borrow	(207)

Note 22 – Commitments under Capital Contracts

The Council entered into a contract with Roger Budge Ltd to rewire a number of council houses in Grantham. The value of the contract is £67k.

Contracts to carry out structural repairs on council houses in Stamford worth £58k were awarded to A Hatcher & Sons Ltd.

Contracts for the Disability Discrimination Act compliance and Fire Risk Assessments for Automatic Entrance Doors within the South Kesteven area totalling £104k were awarded to Tormax UK.

There is a total value of £73k outstanding for the Northfields Industrial Estate scheme in regard to the pumping station and drainage, to comply with the requirements to enable adoption by Lincolnshire County Council.

The Council entered into a contract with Dennis Eagle Ltd for two freighters to expand the green waste collection within the South Kesteven area. A part payment for work completed to date was made in year and the value of the outstanding contract is £147k.

Contracts for vehicles for the Council totalling £62k were awarded to Advantage Motor Group.

Major capital commitments at 31 March 2009 are in respect of the above:

	£'000
Improvement to Council Dwellings -	
Structural Repairs	58
Electric Rewires	67
Adoption of Northfields Industrial Estate	73
DDA Compliance/Fire risk Assessment	104
Expansion of Green Waste Collection	147
Vehicles	62
Contract commitments at 31 March 2009	511

Note 23 – Information on Assets Held

Fixed Assets owned and assets leased by the Council include the following:

As at 31 March 2008		As at 31 March 2009
	<u>Housing Revenue Account Assets</u>	
	Council Dwellings	
6,268	- Dwellings	6,264
27	- Shared Ownership Dwellings*	27
	Other Land and Buildings	
992	- Garages	992
19	- Community Centres	19
11	- Shops	11
	<u>General Fund Assets</u>	
	Other Land and Buildings	
2	- Art Centres	2
3	- Bus Stations	3
17	- Car Parks	17
1	- Depots	1
3	- Market Stores	3
2	- Council Offices	2
6	- Playing Fields (including Pavilions)	6
12	- Public Conveniences	12
1	- Public Halls	1
5	- Stadium and Leisure Centres	5
1	- Cycle Centre and Changing Facilities	1
30	- Industrial Premises	31
9	- Community Facilities	9
	- Investment Properties	3
	Vehicles, Plant and Equipment	
97	- Vehicles	103
102	- CCTV Cameras	103
	Community Assets	
5	- Parks	5
1	- Cemeteries	1

* The Council owns a share in 69 dwellings as at 31 March 2009. The Council share of these is equivalent to 27 whole dwellings.

Note 24 – Assets Held Under Leases

Vehicles, Plant, Furniture and Equipment – the authority uses waste management vehicles financed under terms of an operating lease. The amount paid under this arrangement in 2008/09 was £316,193 (2007/08 - £322,883)

Land and Buildings – the authority leases the following properties on either a 10 or 15 year lease. All have been accounted for as operating leases. The rental payments in 2008/09 were £46,604 (2007/08 £53,679).

1 Avenue Road, Grantham
 39 High Street, Stamford
 1 Maiden Lane, Stamford
 89 High Street, Market Deeping

Commitments under Operating Leases - The authority was committed at 31 March 2009 to making payments of £358,970 under operating leases in 2009/10, comprising the following elements:

	Other Land and Building	Vehicles, Plant & Equipment
Leases expiring in 2009/10	4	-
Leases expiring between 2010/11 and 2013/14	23	313
Leases expiring after 2013/14	19	-

Note 25 – Assets Held For Leases

The authority has granted leases for various properties and industrial units of between 1 and 15 years. These arrangements are accounted for as operating leases and rentals receivable in 2008/09 were £623,504 (2007/08 £600,757).

With regard to the authority's activity as a lessor, the gross value of assets held for use in operating leases was as follows

2007/08	£'000		2008/09	£'000
Gross Value	Accumulated Depreciation		Gross Value	Accumulated Depreciation
5,538	98	Industrial Units	4,675	0
2,288	17	Miscellaneous Properties	1,103	0
7,826	115		5,778	0

Note 26 – Assets Recognised Under a PFI Arrangement

The Council does not own any assets under a Private Finance Initiative arrangement.

Note 27 – Valuation Information

A full revaluation of all assets valued at current value was carried out as at 1 April 2008.

Asset valuations are carried out by an external independent valuer – S Brattan MRICS, District Valuer. Fixed assets have been valued on the basis recommended by CIPFA and the DCLG and in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

Asset values are stated on the following basis:

- Council dwellings are included at the existing use values as social housing i.e. 50% of market value.
- Assets regarded by the Council as operational have been valued on the basis of their existing use or, where this could not be assessed, their depreciated replacement cost.
- Assets regarded by the Council as Non-Operational Surplus Assets have been valued on the basis of their market value.
- Vehicles, Plant and Equipment, Assets awaiting Development and Assets under Construction are stated in the Balance Sheet at historical cost.

The following Statement shows the progress of the Council's programme for the revaluation of fixed assets:

	Council Dwellings £'000	Other Land & Buildings £'000	Surplus Assets £'000	Total £'000
Valued on Current Value basis 2008/2009				
- on 31 March 2009	265,185	52,147	2,390	319,722
- on 1 April 2008	294,841	57,132	3,731	355,704
Valued on Current Value basis 2007/2008				
- on 31 March 2008	-	-	-	-
- on 1 April 2007	297,928	59,504	3,909	361,341

Note 28 – Information about Depreciation Methodologies

Depreciation on Council Dwellings and Other Land and Buildings has been calculated using the straight-line method based on finite useful lives as specified by the District Valuer as part of asset valuations. Freehold land and building elements have been separately identified, as freehold land has an unlimited life and is therefore not subject to depreciation.

Council Dwellings are depreciated over 50 years whilst the depreciation period for other land and buildings vary between 1 and 60 years.

Depreciation on Plant and Equipment has been calculated using the straight-line method. Depreciation periods for plant and equipment vary between 3 and 10 years.

Vehicles have been depreciated using the reducing balance method at a rate of 25%.

Impairment the value at which assets are included in the balance sheet is reviewed at the end of each year, and where assessed that any asset values reveal a significant reduction the valuations are adjusted accordingly. A review of assets at 31 March 2009 for impairment suggested that due to changes in the market all current value assets were subject to a decrease in value of approximately 10%. This impairment is included in the Balance Sheet values.

Note 29 – Changes in Depreciation Methods

There have been no changes in the depreciation methods used for 2008/09, as outlined in the Statement of Accounting Policies.

Note 30 – Intangible Fixed Assets

Intangible fixed assets are defined as non-financial assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights. They comprise of software licences costs which are amortised to revenue over their estimated useful economic lives to the Council.

Movements on Intangible Fixed Assets during the year were as follows:

	Software Licences £'000
Original Cost	124
Amortisations to 1 April 2008	(25)
Balance at 1 April 2008	99
Expenditure in Year	54
Amortisation in year	(30)
Balance as at 31 March 2009	123

The balance as at 31 March 2009 relates to software licences, as all system development costs have been written off in 2008/09 in accordance with the Council's policy. The software licences are amortised over 5 - 10 years

Note 31 – Changes in Amortisation Method for Intangible Fixed Assets

There have been no changes in the amortisation methods used for 2008/09, as outlined in the Statement of Accounting Policies.

Note 32 – Analysis of Net Assets Employed

2007/08 £'000		2008/09 £'000
55,173	General Fund	58,440
314,270	Housing Revenue Account	265,093
369,443		323,533

Note 33 – Interest in Companies

The Council does not own interests in any companies.

Note 34 – Insurance Provisions

	Balance 1 April 2008 £'000	Contribution in Year £'000	Expenditure In Year £'000	Balance 31 March 2009 £'000
Insurance Provision - Public Liability	50	20	(15)	55

Provision for Public Liability claims is made where the Council is at risk for the first £5,000 for each and every claim. Provisions are based on estimated sums provided by the Council's insurer.

Note 35 – Provisions

The Council has not needed to make provision in the year for expenditure which it was already committed to as at 31 March 2009. The provision of £132,000 made last year for severance costs was utilised during the year and the overprovision of £2,419 transferred into Income and Expenditure for 2008/09.

Note 36 – Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

	Balance 1 April 2008 £'000	Net Movement in year £'000	Balance 31 March 2009 £'000	Explanation of Reserve	Further Detail of Movements
Capital Adjustment Account	345,439	(34,219)	311,220	Accumulated balances from fixed asset accounting prior to 1 April 2007, together with capital resources set aside to meet past expenditure	(a) Below
Revaluation Reserve	5,608	(2,954)	2,654	Gains on revaluation of fixed assets	(d) Below
Pension Reserve FRS 17	(11,987)	(8,120)	(20,107)	Shows the total underlying commitments to pay retirement benefits	Note 43 to the Core financial statements.
Useable Capital Receipts Reserve	7,225	188	7,413	Proceeds of fixed asset sales available to meet future capital investment.	(b) Below
Capital Receipts Deferred	121	(17)	104	Primary principal outstanding from the Sale of Council Houses	(c) Below
Major Repairs Reserve	7,048	(875)	6,173	Resources available to meet capital investment in housing stock	HRA Statement
General Fund Capital Reserve	1,558	1,388	2,946	Resources available to meet capital investment on general fund schemes	(e) Below
Other Reserves	4,678	(963)	3,715	Resources available to meet future running cost for non-housing services	(e) Below
General Fund Balance	2,722	(483)	2,239		
HRA Balance	7,031	145	7,176		
Total	369,443	(45,910)	323,533		

(a) - Capital Adjustment Account

2007/08 £'000		2008/09 £'000
0	Balance brought forward	345,439
62,326	Transfer from Capital Financing Account	0
296,928	Transfer from Fixed Asset Restatement Account	0
164	Capital Receipts	(32)
1,954	Capital Financing - revenue	1,232
5,297	Capital Financing - MMR	81
(6,472)	Provisions for depreciation and MRP	(6,493)
454	Capital Grants & contributions	985
(143)	Deferred charges	0
(8,680)	Revaluations	(29,098)
(1,754)	Prior Year Adjustments	
(4,635)	Disposals	(894)
<u>345,439</u>		<u>311,220</u>

(b) - Useable Capital Receipts

2007/08 £'000		2008/09 £'000
4,757	Balance brought forward	7,225
4,109	Amounts received	521
(1,666)	Amounts applied	(333)
25	Prior Year Adjustment	
<u>7,225</u>		<u>7,413</u>

(c) - Capital Receipts Deferred

2007/08 £'000		2008/09 £'000
182	Balance brought forward	121
(61)	Loan repayment	(17)
<u>121</u>		<u>104</u>

(d) - Revaluation Reserve

2007/08 £'000		2008/09 £'000
0	Balance brought forward	5,608
3,195	Dwellings	(1,854)
2,065	Other Land & Buildings	(616)
1,271	Non-Operational Assets	(238)
-923	Revaluation Depreciation Adjustment	(246)
<u>5,608</u>		<u>2,654</u>

(e) – Other Reserves

	Balance 1 April 2008 £'000	Net Movement in year £'000	Balance 31 March 2009 £'000	Explanation of Reserve
Revenue Insurance reserve	500	46	546	Reserve held to protect against future claims and to finance risk management initiatives
Building Control reserve	298	(80)	218	Annual surpluses form chargeable element of service to finance service improvements and offset future deficits
Capacity building, priority setting and service improvements reserve	1,862	(856)	1,006	Resource to finance improvements in delivery of priority services
Pensions reserve	1,806	(12)	1,794	To cover early retirement decisions and reduce large fluctuations in Council tax
Collection Fund	196	(74)	122	Surplus funds collected from council tax
SEA	16	12	28	Special Expense Areas
Total	4,678	(964)	3,714	

Note 37 – Contingent Liabilities and Contingent Assets

There are no material contingent assets or liabilities as at 31 March 2009.

Note 38 – Authorisation of Accounts for Issue

The date that the Statement of Accounts was authorised for issue was 25 June 2009 and the name of the person who gave the authorisation was Richard Wyles (Chief Finance Officer)

Note 39 – Events after the Balance Sheet Date

There are no other significant events to be reported for the current financial year.

Note 40 – Trust Funds

The Council does not hold any trust funds.

Note 41 – Reserves and Balances held by Schools under Delegated Schemes

The Council does not hold any reserves or balances under delegated schemes.

Note 42 – Amounts due to or from Related Parties

The Council is required to disclose the amounts due to or from related parties as referred to in Note 16.

- Central Government – The Council has received grants from Central Government for revenue and capital purposes. Amounts are disclosed in Note 51 – Analysis of Government Grants in Cash Flow.
- Members and Officers of the Council – The amounts in relation to related party disclosures are referred to in Note 16 – Related Parties.
- Assisted Organisations – The amounts due to or from assisted organisations are referred to in Note 16 – Related Parties.
- Levying Bodies – Amounts are disclosed in Note 16 – Related Parties.
- Pension Fund – Amounts are disclosed in Note 43 to 45 – Retirement Benefits.

Note 43 – Retirement Benefits

Participation in Pension Scheme

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Scheme administered by Lincolnshire County Council. This is a funded scheme, meaning the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. The scheme is a defined benefit final salary scheme.

FRS 17 Accounting Entries

The Authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. In order to comply with FRS17, the employer's pension contributions have been replaced with current service costs as estimated by the independent actuary. However, the charge the Authority is required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is adjusted for in the Statement of Movement on the General Fund Balance. The reversal of the FRS17 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

Income and Expenditure Account and Statement of Movement in the General Fund Balance

2007/08 £'000		2008/09 £'000
	Income and Expenditure Account	
	Net Cost of Services	
1,979	- Current Service Cost	1,422
0	- Past Service Cost	520
21	- Curtailments and Settlements	97
	Net Operating Expenditure	
3,735	- Interest Cost	4,361
(4,023)	- Expected return on assets in the scheme	(3,650)
	Net Charge to the Income and Expenditure Account	
1,712		2,750
	Statement of Movement of the General Fund Balance	
	- reversal of net charges made for retirement benefits in accordance with FRS 17	
(1,712)		(2,750)
0		0
	Actual amount charged to revenue accounts for Pensions in the year.	
2,213	- Employers' contributions payable to scheme.	2,432

The estimated employers' contributions payable in 2009/10 are £2,328,000.

Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

31 March 2008 £'000		31 March 2009 £'000
(63,118)	Estimated liabilities in scheme	(61,963)
51,131	Estimated assets in scheme	41,856
(11,987)	Net Liability	(20,107)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £61.963m has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative overall balance of £20.107m. However statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The County Council Fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Fund being based on the latest full

valuation of the scheme as at 31 March 2007. The next full valuation of the scheme is due in March 2010.

The main assumptions used in their calculations are:

2007/08 %		2008/09 %
3.6	Rate of inflation	3.1
5.1	Rate of increase in salaries	4.6
3.6	Rate of increase in pensions	6.4
6.9	Rate for discounting scheme liabilities	6.9

There are no material prepaid or accrued pension contributions at the 31 March 2009.

The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund.

31 March 2008 %		31 March 2009 %	Long Term Return %
68.1	Equities	64.6	7.0
16.9	Bonds	20.9	5.6
13.7	Property	13.7	4.9
1.3	Cash	0.8	4.0
100.0		100.0	

Movement in Present Value of Scheme Liabilities

2007/08 £'000		2008/09 £'000
69,221	Balance at 1 April 2008	63,118
1,979	Current Service Cost	1,422
3,735	Interest cost	4,361
600	Contributions by scheme participants	676
(9,742)	Actuarial losses/(Gains)	(5,681)
(2,696)	Benefits paid	(2,550)
0	Past service costs	520
21	Curtailments	97
63,118	Balance at 31 March 2009	61,963

Movement in Fair Value of Scheme Assets

2007/08 £'000		2008/09 £'000
56,599	Balance at 1 April 2008	51,131
4,023	Expected return on assets	3,650
(9,608)	Actuarial gains/(Losses)	(13,483)
2,213	Contributions by the employer	2,432
600	Contributions by scheme participants	676
(2,696)	Benefits paid	(2,550)
51,131	Balance at 31 March 2009	41,856

The actual return on scheme assets for the year was (18.70)%.

Total Expense Recognised in the Income and Expenditure Account

2007/08 £'000		2008/09 £'000
1,979	Current service cost	1,422
3,735	Interest cost	4,361
(4,023)	Expected return on scheme assets	(3,650)
0	Past service costs	520
21	Curtailments	97
<u>1,712</u>		<u>2,750</u>

Gains and Losses recognised in the Statement of Recognised Gains and Losses Actuarial

The actuarial gains and losses identified in each financial year can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March at the end of each year. The cumulative losses over the period were £12,024,000.

	2004/05 £000s	%	2005/06 £000s	%	2006/07 £000s	%	2007/08 £000s	%	2008/09 £000s	%
Actual Return Less Expected Return on Pension Scheme Assets	1,634	4.0	6,861	13.3	152	0.3	(6,837)	(13.4)	(13,483)	(32.2)
Experience Gains and Losses Arising on the Scheme Liabilities	(201)	(0.3)	8		59	0.1	(3,413)	(5.4)	(14)	(0.0)
Changes in Assumptions Underlying the Present Value of the Scheme Liabilities	(9,273)	(16.0)	(7,650)	(11.1)	4,054	5.9	10,384	16.5	5,695	9.2
	<u>(7,840)</u>		<u>(781)</u>		<u>4,265</u>		<u>134</u>		<u>(7,802)</u>	

Scheme Valuation for current year and previous four accounting periods

	31/3/2009 £'000	31/3/2008 £'000	31/3/2007 £'000	31/3/2006 £'000	31/3/2005 £'000
Present value of scheme liabilities	(61,963)	(63,118)	(69,221)	(68,957)	(57,789)
Fair value of scheme assets	41,856	51,131	56,599	51,414	41,043
Surplus/(Deficit) in scheme	<u>(20,107)</u>	<u>(11,987)</u>	<u>(12,622)</u>	<u>(17,543)</u>	<u>(16,746)</u>
	%	%	%	%	%
Experience gains/(losses) on assets	(32.21)	(18.79)	(0.27)	13.34	(23.41)
Experience gains/(losses) on liabilities	(0.02)	(1.02)	0.09	0.01	(32.21)

Change of Accounting Policy

Under the 2008 SORP the council has adopted the amendment to FRS17, Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets at 31 March 2009 has been restated from £65m to £62m, a decrease of £3m, resulting in an increase in the pension deficit of £3m (31 March 2008 £2.8m). Current and prior year surplus have been unaffected by this change. A change in accounting policy would normally require restatement of the previous year figures. However, based on the advice of the Actuary, Hyman Robertson, the change is less than 0.5% and is considered immaterial.

Actuarial assumptions used in the year

Discount rate	6.90%	
Expected rate of return on assets for the year	6.40%	
Expected rate of salary increases	4.60%	
Inflation/Pension increase rate	3.10%	
Mortality rates	<u>Male</u>	<u>Female</u>
Current pensioners	19.6 years	22.5 years
Future pensioners	20.7 years	23.6 years

Further information can be found in Lincolnshire County Council's Pension Fund Annual Report which is available upon request from the County Treasurer, Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YE (Tel: 01522 552222).

Note 44 – Defined Contribution Schemes

The Council does not contribute to a defined contribution scheme.

Note 45 – Teachers Contribution Schemes

The Council does not contribute to a Teachers Pension Scheme.

NOTES RELATING TO THE CASH FLOW STATEMENT

Note 46 – Reconciliation between the net surplus or deficit on the Income and Expenditure Account to the revenue activities net cash flow shown in the Cash Flow Statement.

2007/08		2008/09	
£'000	£'000	£'000	£'000
(13,783)			(35,538)
Net surplus/(deficit) for the year on the Income and Expenditure Account			
Movement on General Fund Balance			
476			(648)
Surplus/(deficit) on the Collection Fund			
Non-Cash Transactions			
	16,495	39,734	
	687	412	
	(501)	318	
17,059	378	339	40,803
3,752			4,617
Items on an Accruals Basis			
	(35)	7	
	(11)	(3,087)	
656	702	(722)	(3,802)
4,408			815
Revenue Financing			
(1,605)			(1,714)
Net Cash (Inflow)/Outflow on Revenue Activities			
2,803			(899)

Note 47 – Reconciliation of the movement in cash to the movement in net debt

	Balance 1 April 2008 £'000	Cash Flow £'000	Non- Cash Changes £'000	Balance 31 March 2009 £'000
Cash and bank	2,661	(2,419)	-	242
Bank overdraft	840	(368)	-	472
Increase/(Decrease) in cash	3,501	(2,787)	0	714

Note 48 – Reconciliation of the items shown within the financing and management of liquid resources

	Balance 1 April 2008 £'000	Cash Flow £'000	Non-Cash Changes £'000	Balance 31 March 2009 £'000
Long term borrowing	(4,159)	-	-	(4,159)
Short term borrowing	-	(2,000)	(1)	(2,001)
Current Asset Investment	25,889	-	(4,411)	21,478
Long term investments	2,104	(50)	4,221	6,275
	23,834	(2,050)	(191)	21,593

Note 49 – Explanation of Liquid Deposits

The authority's liquid resources are cash deposits.

Note 50 – Any Further narrative or analysis to assist interpretation of the Cash Flow Statement

The amount paid out in precepts to Parish Councils is included in Other Operating Cash Payments.

Note 51 – Analysis of Government Grants shown in the Cash Flow Statement

An analysis of Government Grants is as follows:

2007/08 £'000		2008/09 £'000
	Revenue activities	
	Other Government grants	
1,043	Local Authority Business Growth Incentive	194
121	Planning Delivery grant	272
745	Housing Benefits Admin Subsidy	734
44	Homelessness	81
-	Capacity Building Training	47
77	LSP Second Homes	83
55	Waste Efficiency Grant	55
-	Area Based Grant	49
-	Concessionary Travel	379
-	Big Lottery Funding	203
-	Grantham Growth Watercycle Study	44
-	Lincs Enterprise - Station Approach GGP	52
-	Arts Council England	125
26	Other grants	114
<u>2,111</u>		<u>2,432</u>
	Revenue Support Grant	
1,383	Revenue Support Grant	1,207
<u>1,383</u>		<u>1,207</u>
	Capital activities	
	Capital grants received	
40	Planning Delivery grant	131
-	Disabled facilities grant	259
-	Stamford Rec ground Improvements	78
6	Langtoft Playing Fields	-
-	Warners Mill	300
164	Regional Housing Capital Pot	490
<u>210</u>		<u>1,258</u>

Note 52 – Long-Term Borrowing

Long Term Borrowing represents borrowing repayable within a period in excess of one year.

2007/08 £'000	Analysis of Loans by Source	2008/09 £'000
<u>4,159</u>	Public Works Loan Board	<u>4,159</u>
<u>4,159</u>		<u>4,159</u>
	Analysis of Loans by Maturity	
2007/08 £'000		2008/09 £'000
-	Between 1 and 2 Years	1,561
1,561	Between 2 and 5 Years	1,041
2,598	Between 5 and 10 Years	1,557
-	Between 10 and 15 Years	
<u>4,159</u>		<u>4,159</u>

Note 53 - Long Term Debtors

These debts, secured by mortgages or agreements falling due in the future, are analysed as follows:

	Balance 1 April 2008 £'000	Advances £'000	Property Sold £'000	Repayments £'000	Balance 31 March 2009 £'000
Council House Sales	126			(19)	107
House Purchase Loans	0				0
Staff Car Loans	33	5		(18)	20
Leisure and recreational Loans	385			(31)	354
	<u>544</u>	<u>5</u>	<u>0</u>	<u>(68)</u>	<u>481</u>

In preparing the accounts the recoverability of these debts has been considered. As a result the Council has not made any impairment of bad debts/losses in the 2008/09 accounts.

Note 54 - Stocks and Work in Progress

An analysis of Stocks and Work In Progress is shown below:

2007/08 £'000		2008/09 £'000
	Stocks	
35	Housing Repair Stocks - Materials	28
<u>35</u>		<u>28</u>

Note 55 - Debtors

An analysis of Debtors is shown below:

2007/08 £'000		2008/09 £'000
1501	Government Departments	4282
423	Other Local Authorities	352
1649	Council Taxpayers	2082
975	Business Ratepayers	1150
978	Housing Rents	655
359	Housing Benefits	578
431	Sundry Debtors	402
421	Payments in Advance	348
36	Other Balances	32
<u>6773</u>		<u>9881</u>
1661	Less impairment for Bad Debts	1682
<u>5112</u>		<u>8199</u>

Interest receivable is no longer classified under the debtors heading but included within the amount shown on the balance sheet for investments.

Under FRS 26 Financial Instruments, the previous heading of Provision for bad debts has been replaced by new requirements to estimate the impairment of financial assets including monies owed to the Council and can be analysed into the following categories.

2007/08 £'000		2008/09 £'000
294	Council Taxpayers	249
226	Business Ratepayers	189
764	Housing Rents	682
0	Rechargeable Repairs	0
341	Housing Benefits	526
36	Sundry Debtors	36
<u>1,661</u>		<u>1,682</u>

Note 56 - Creditors

An analysis of Creditors is shown below:

2007/08 £'000		2008/09 £'000
1,272	Government Departments	1,111
56	Other Local Authorities	138
1,429	Collection Fund-Precepting Authorities	854
834	Council Taxpayers	844
825	Business Ratepayers	842
444	Housing Rents	100
356	Receipts in advance	230
4,468	Sundry Creditors	4,028
40	Other Balances	41
<u>9,724</u>		<u>8,188</u>

Interest payable is no longer classified under the creditors heading but included within the amount shown on the balance sheet for borrowing.

Note 57 – Capital Instruments

The Council has not issued capital instruments listed or publicly traded on the stock exchange.

Note 58 – Disclosure of Nature and Extent of Risk Arising from Financial Instruments

From 1 April 2007 the Council has been required to account for financial instruments under a different accounting requirement. The Council has therefore included the notes below to provide further information on this area.

Key Risks

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

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

Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are also reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure (the 2008/09 Treasury Management Strategy was approved by Full Council on 3rd March 2008) . Actual performance is also reported annually to Members (the 2007/08 performance was reported to the Governance and Audit Committee on 25th September 2008)

These policies are implemented by Accountancy Services. 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 regularly.

Credit risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The following analysis summarises the Authority's potential maximum exposure to credit risk. The table below (from Fitch) gives details of global corporate finance average cumulative default rates (including financial organizations) for the period 1990-2007 on investments out of 5 years. based on experience of default assessed by the ratings agencies and the Council's previous experience.

	Amount at 31 March 2009 £'000	Historical experience of default %	Adjustment for market conditions at 31 March 2009 %	Estimated maximum exposure to default £'000
	(a)	(b)	(c)	(a*c)
Deposits with banks and financial institutions				
AAA rated counterparties	-	-	-	-
AA rated counterparties	8,000	0.06%	0.06%	5
A rated counterparties	1,000	0.65%	0.65%	7
Other counterparties	18,000	0.65%	0.65%	117
Bonds - AAA rates	-	-	-	-
Trade debtors	463	7.22%	7.22%	33
	<u>27,463</u>			<u>162</u>

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

Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties.

The Council also uses non credit rated institutions (building societies with an asset base in excess of £1 billion). In these circumstances these investments have been classified as other counterparties and we have assumed a default rate similar to an 'A' rated institution.

The Council does not generally allow credit for its trade debtors, such that £0.463m is past its due date for payment. The past due amount can be analysed by age as follows:

	£'000
less than 30 days	316
30 to 60 days	38
60 to 90 days	13
90 days plus	96
	<u>463</u>

Collateral – 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 Code of Practice. This seeks to ensure that cash is available when it is needed.

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

Refinancing 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 prudential indicator limits for the maturity structure of debt and the limits placed 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:

	£'000
Less than one year	2,001
Between one and two years	1,561
Between two and seven years	1,041
Between seven and fifteen years	1,557
More than fifteen years	0
	6,160

The maturity analysis of financial assets is as follows:

	£'000
Less than one year	21,000
Between one and two years	5,471
Between two and three years	1,203
More than three years	0
	27,674

All trade and other payables £0.463m are due to be paid in less than one year and are not shown in the table above.

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 Income and Expenditure Account will rise;
- ✓ borrowings at fixed rates – the fair value of the borrowing will fall;
- ✓ investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- ✓ investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or the Statement of Total Recognised Gains & Losses (STRGL). However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account, in which case gains and losses will be posted to the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential 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.

The risk of interest rate loss should further borrowing occur would be partially mitigated by Government grant payable on financing costs.

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

	£'000
Increase in interest payable on variable rate borrowings	12
Increase in interest receivable on variable rate investments	(336)
Impact on Income and Expenditure Account	(324)
costs	
Share of overall impact debited to the HRA	121
Decrease in fair value of fixed rate investment assets	-
Impact on STRGL	
Decrease in fair value of fixed rate borrowing liabilities (no impact on I&E Account or STRGL)	-

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 instruments with this type of risk.

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.

A) Financial Instruments Balances

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

	31 March 2008 £'000	31 March 2009 £'000	31 March 2008 £'000	31 March 2009 £'000
Financial liabilities (principal) Plus Accounting Adjustments	4,000 159	4,000 159	-	2,000 1
Financial liabilities at fair value through the I&E	-	-	-	-
Total Borrowings	<u>4,159</u>	<u>4,159</u>	<u>0</u>	<u>2,001</u>
Loans and receivables (principal) Plus Accounting Adjustments	2,000 104	6,000 196	25,000 889	18,000 476
Loans and receivables at amortised cost	<u>2,104</u>	<u>6,196</u>	<u>25,889</u>	<u>18,476</u>
Available-for-sale financial assets	-	-	-	-
Financial assets at fair value through the I&E	-	-	-	3,080
Unquoted equity investment at cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>2,104</u>	<u>6,196</u>	<u>25,889</u>	<u>21,556</u>

Note 1 – Under accounting requirements the financial instrument value shown in the balance sheet include the principal amount borrowed or lent plus accrued interest and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation).

Note 2 – Fair value has been measured estimated using a valuation technique with the above instrument being a forward deal relating to a £3m investment.

B) Financial Instruments Gain/Losses

The gains and losses recognised in the Income and Expenditure Account and Statement of Total Recognised Gains and Losses (STRGL) in relation to financial instruments are made up as follows.

2008/09	Financial Liabilities	Financial Assets			Total £'000
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available-for-sale assets £'000	Fair value through the I&E £'000	
Interest expense	407	-	-	-	407
Losses on de-recognition	-	-	-	-	0
Impairment losses	-	-	-	-	0
Interest payable and similar charges	407	0	-	-	407
Interest Income	-	(2,121)	-	(79)	(2,200)
Gains on de-recognition	-	-	-	-	0
Interest and Investment Income	0	(2,121)		(79)	(2,200)
Gains on revaluation	-	-	-	-	
Losses on revaluation	-	-	-	-	
Amounts recycled to the I&E Accounts after impairment	-	-	-	-	
Surplus arising on revaluation of financial assets					
Net gain/(loss) for the year	407	(2,121)	-	-	

2007/08	Financial Liabilities	Financial Assets			
	Liabilities measured at amortised cost £'000	Loans and receivables £'000	Available-for-sale assets £'000	Fair value through the I&E £'000	Total £'000
Interest expense	(445)	-	-	-	(445)
Losses on de-recognition	-	-	-	-	0
Impairment losses	-	-	-	-	0
Interest payable and similar charges	(445)	0	-	-	(445)
Interest Income	-	(2,007)	-	-	(2,007)
Gains on de-recognition	-	-	-	-	0
Interest and Investment Income	0	(2,007)			(2,007)
Gains on revaluation	-	-	-	-	
Losses on revaluation	-	-	-	-	
Amounts recycled to the I&E Accounts after impairment	-	-	-	-	
Surplus arising on revaluation of financial assets					
Net gain/(loss) for the year	(445)	(2,007)	-	-	

C) Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. 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 PWLB and other loans payable, premature 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 trade debtor or other receivable the fair value is taken to be the principal outstanding or the billed amount.
- The fair value of trade or other receivables is taken to be the invoiced or billed amount.

£000s	31 March 2009		31 March 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
PWLB debt	4,000	5,340	4,000	5,268
Non-PWLB debt	2,000	2,001	-	-
Total debt	6,000	7,341	4,000	5,268
Trade creditors	5,417	5,417	7,167	7,167
Total Financial liabilities	11,417	12,758	11,167	12,435

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date

Money market loans less than 1 yr	21,478	21,478	25,889	25,889
Money market loans greater than 1 yr	6,197	6,440	2,104	2,131
Bonds	-	-	-	-
Trade debtors	6,649	6,649	4,148	4,148
Total Loans and receivables	34,324	34,567	32,141	32,168

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

The fair values for financial liabilities have been determined by reference to the PWLB redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair value for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments.

The fair values for loans and receivables have been determined by reference to the Public Works Loan Board (PWLB) redemption rules which provide a good approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

Note 59 – Special Expense Areas – SEA's

Special Expense Areas are used to budget for non-strategic services provided for a particular local community as opposed to the whole District. The Special Expense Area charge is levied only on those people living in the relevant area. To ensure that this money is spent entirely for the benefit of the specific area in which it was raised, the Council has set up Reserves to retain any underspend of precepts so that they may be used in future years. For 2008/09 a contribution was made to the reserve amounting to £0.012m, bringing the total to £0.028m.

Note 60 – HRA Revaluation Losses

From 1 April 2007 all local authorities were required to establish a Revaluation Reserve to start to bring their accounts into line with International Financial Reporting Standards. Due to the fact that most authorities would not have accurate records relating to the initial purchase cost of their assets and any subsequent revaluations, the starting balance on the reserve for all authorities was zero.

When assets are revalued, 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 revalued down, 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 to the Income & Expenditure account as expenditure in the year.

Due to the economic situation and the state of the housing market a revaluation loss of £35.54 million was recorded against the Council’s housing stock and a loss of £8.52 million against non-dwelling assets. As the Revaluation Reserve started at zero on 1 April 2007, for some assets there were no previous gains for any downward revaluations to be set against. This therefore meant that a total charge of £25.634 million had to be included in the Housing Revenue Account and a charge of £3.91 million included in the General Fund Income & Expenditure account to comply with accounting rules. This charge is not included in the sum used to calculate the council tax requirement or rent levels as it is an unrealised loss and may be reversed in future years.

Note 61 – Revaluation Reserve

Due to changes in 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 2009 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 fixed assets prior to 1 April 2007 are accounted for in the Capital Adjustment Account.

Note 62 – General Fund Balance

The General Fund Balance is maintained to protect against unplanned future spending, e.g. To cope with an emergency. The movement in the balance for the year is shown below

Opening Balance	2,722
Surplus added in year	625
	3,347
Expenditure & Transfers to/from Reserves	
Pension Fund	(508)
General Fund Capital	(600)
	(1,108)
Closing Balance	2,239

Note 63 – Revenue Expenditure Funded from Capital Under Statute

In accordance with the Statement of Recommended Practice, expenditure that was previously known as deferred charges has now been renamed as revenue expenditure funded from capital under statute. This expenditure is written off to revenue as it is incurred but can be financed using capital resources. It is expenditure on capital schemes, capital grants and improvement grants that does not result in a fixed asset belonging to the Council. Net expenditure of £1,292,980 was incurred in 2008/09 (£820,866 2007/08).

Note 64 – Local Area Agreement (LAA)

The Council is a participant in an LAA – a partnership with other public bodies to work towards jointly agreed objectives for local public services. In 2008/09 the LAA was in the final year of its three year agreement.

The purpose of the LAA is:

- To form an agreement between the Lincolnshire Strategic Partnership, Government (represented by Government Office East Midlands), and other external agencies.
- To agree specific outcomes and targets that will be achieved each year for the three years of the agreement.
- To improve the effectiveness and efficiency of public services in Lincolnshire by pooling and aligning funding streams.

The LAA partners are:

- Local government bodies – Lincolnshire County Council (LCC), South Kesteven District Council, North Kesteven District Council, South Holland District Council, Boston Borough Council, West Lindsey District Council, East Lindsey District Council and Lincoln City Council.
- Community protection authorities – Lincolnshire Police Authority.
- Health bodies – Lincolnshire PCT.

SOUTH KESTEVEN DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT 2008/09

Introduction

The Council is committed to ensuring good governance principles and management practices are adopted throughout the authority. This Annual Governance Statement (AGS) has been produced in accordance with the 2007 CIPFA/SOLACE¹ framework “Delivering Good Governance in Local Government” and meets the statutory requirement set out in Regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006.

The statement is an open and honest review of the effectiveness of the Council’s system of internal control, including performance across all of its activities. It is inevitable that during a rigorous and robust review of the Council’s operations issues will be identified to be addressed. Therefore, a key element of good governance is to ensure that there is a clear action plan for addressing these issues and this reflects the approach taken by this Council, i.e. the AGS sets out the actions being taken or required in the future to address areas of concern identified.

The AGS covers all significant corporate systems, processes and controls, spanning the whole range of the Council’s activities, including the following:

- The Council’s policies are implemented in practice
- High quality services are delivered efficiently and effectively
- The Council’s values and ethical standards are met
- Laws and regulations are complied with
- Required processes are adhered to
- Financial statements and other published performance information are accurate and reliable
- Human, financial, environmental and other resources are managed efficiently and effectively.

The self-assessment contained within this statement has been produced taking account of assurance provided by managers from across the organisation together with regular reviews of risk management. It also takes account of Internal Audit reports together with a wide range of external sources, including the Audit Commission’s Annual Audit Letter; inspection of Landlord Services; the annual Audit of the Accounts and the annual Use of Resources assessment.

In preparing this statement account has been taken of both the statutory codes and the ethical governance tool-kit produced by the IDEA² and the CIPFA Financial Advisory Network.

The Importance of Good Governance

Good governance leads to good management, good performance, good stewardship of public money, good public engagement and ultimately, good outcomes for residents and service users. Good governance enables the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk.

Good governance means:

- Focusing on the purpose of the authority and outcomes for the community and creating and implementing a vision for the local area

¹ CIPFA – Chartered Institute of Public Finance and Accountancy
SOLACE – Society of Local Authority Chief Executives and Senior Managers

² IDEA – Improvement and Development Agency

- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting the values of the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability.

Scope of responsibility

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

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs including the management of risk. Whilst the Cabinet and Senior Managers are responsible for delivering the Council's services and activities within these arrangements, the Governance and Audit Committee is responsible for reviewing the effectiveness of these arrangements on behalf of the Council. It is also responsible for making any recommendations necessary as a result of its review together with any issues identified as a result of reports from external review bodies such as the Audit Commission or the Local Government Ombudsman.

The Council approved and adopted a code of corporate governance together with an action plan at its meeting on 17 April 2008 following a period of consultation. This code is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". A copy of the code is available on our website at www.southkesteven.gov.uk.

Purpose of the Governance Framework

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

The Council's system of internal control is a key element of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. It evaluates the likelihood of those risks coming to fruition and their impact should they do so, and identifies ways to manage them efficiently, effectively and economically.

The governance framework has been in place throughout the financial year which ended on 31 March 2009 and continues to be in place up to the date of the approval of the Statement of Accounts.

The Governance Framework

The Council's vision, core values and intended outcomes.

The Council's vision is – *"To provide brilliant services to our customers"*. This vision along with our core values of *"listening, learning and delivering"* and our priorities are fully explained in the Council's Corporate Plan for 2009 to 2012, which was reviewed and updated during 2008/09 and published on the 1st February 2009. The vision and core values have been developed by the Cabinet working together with the support of officers to take account of stakeholders' views and the

views of residents on the previous plan. The Corporate Plan is available on our website at www.southkesteven.gov.uk.

Reviewing the vision and its implications for governance arrangements

Putting customers at the heart of all we do is the focus of four new themes which will shape how the council works over the next three years. The council's priorities, which were approved by Council in September 2008, are encompassed within the 4 themes which are: Customer First, Quality Living, Quality Organisation and Good for Business. The themes allow us to focus on what really matters to local residents and businesses and to deliver on the things that make a difference to them. We will continue to consult and engage with the local community to make sure that we are focusing on the right priorities.

Progress against these priorities will be assessed monthly by both the Cabinet and the Management Team, through a process of regular monitoring and reviewing national and local performance measures.

Measuring the quality of services for users

Following consultation with users the Council specifies service standards for those aspects of service delivery which are reflected in Service Plans and Priority Plans. Satisfaction surveys are undertaken by key services following the provision of services. In the preparation of their service plans, managers are required to measure the value for money provided by their service and to set-out measures for improving it in the future. This has enabled the council to identify projected efficiency savings of £820k within the budget for 2009/10.

The Audit Commission's 2007/08 Annual Audit and Inspection Letter (AAIL) published in March 2009 identified that the Council has robust plans for improving services and performance is actively monitored. Each of the Council's priority areas has an action plan, detailing the key actions, targets and measures of success against which improvement can be measured. Performance and progress is also monitored in monthly "pit-stop" sessions attended by Corporate Heads and the Senior Management Team. The Audit Commission also reported that the Council has the financial capacity to deliver its plans and is using "systems thinking" reviews and improving attendance at work to release capacity. It also acknowledged the benefits of the Council working with its partners, including Procurement Lincolnshire and a partnership with East Lindsey and Supporting people to prevent homelessness.

The Council has continued to improve across a range of services, including recycling, planning applications, customer services and communicating with residents. Its programmes for developing Bourne town centre and Grantham have been revised and re-profiled to reflect funding options and the market downturn in order to maximise the return on investment. However, the Council is aware of areas where improvement is required, e.g. the delivery of Landlord Services. It has already made significant progress in repairing and re-letting empty properties and a high proportion of the housing stock has been assessed as meeting the decent homes standard. To inform this process, a detailed stock condition survey is being undertaken during 2009/10. Sheltered housing and resident involvement has improved and there is an effective partnership with the Police to deal with anti-social behaviour. Robust plans are in place to address other important issues, e.g. responsive repairs, financial management and performance management, including bench-marking.

Use of Resources

For the 2008 Use of Resources Judgement the Council improved its overall score to a level 3 – performing well. This acknowledges improvements across all 5 themes covering, financial reporting, financial management, financial standing, internal control and value for money. In particular, the Council improved its score for the system of internal control from a level 1 to a level 3.

The Council has plans in place to secure improvement in a number of areas, including: providing information on environmental footprint in external reports; developing joint plans and partnerships as an integral part of financial planning; actively reviewing its balances and reserves; managing

risks associated with partnership working; and testing members' and officers' compliance with the Code of Conduct. The Council is developing a more pro-active approach to counter fraud and corruption issues and this will be implemented during 2009/10.

The Council's electronic Performance Management system is being effectively used as a tool to manage a range of performance issues such as national and local performance indicators; risk; and project management of key projects. The Council is beginning to adopt a benchmarking culture to compare and understand transaction/unit costs and gain an awareness of how spending compares for elements of service. This is an issue which will be developed further during 2009/10.

The roles and responsibilities of members and officers.

The Council's Constitution defines the responsibilities of the members and officers involved in building and maintaining high standards of governance. Also, the Constitution defines the role of the various Member forums, including the role of the Cabinet, Policy Development Groups, Scrutiny Committee and the Governance and Audit Committee. During the year these have been clearly communicated to both members and officers through training and development sessions. These will continue to be developed to reflect the changing needs and requirements of the Council. Formal job descriptions for each Member, Council Leader and Executive Members are in the process of being introduced.

Standards of behaviour for members and staff

The Council has adopted codes of conduct for both members and staff and these are detailed within the Council's Constitution. Compliance with the member's Code of Conduct is monitored by the Standards Committee. In April 2008, the Council approved a Local Code of Corporate Governance. This will be reviewed by the Governance and Audit Committee during 2009/10.

Training on both the local code, and on the codes of conduct as well as governance issues generally, has been provided to all service managers during the year. Knowledge of these issues will be formally assessed by the Manager Competency and Development scheme which applies to all Service Managers.

The Constitution, Financial Regulations, Scheme of Delegation and Contract Procedure Rules

During 2006/07 the Council's Constitution was thoroughly reviewed by the Council's Constitution Committee supported by officers led by the Council's Monitoring Officer. Various amendments were then considered and approved by the Council based on the recommendation of the Constitution Committee. Since that time, minor amendments have been recommended by the Constitution Committee and approved by Council.

During 2007/08, the Council's Chief Finance Officer conducted a review of the Council's Financial Regulations and these were approved in October 2007 following an evaluation of their fit for purpose by the Governance and Audit Committee. In March 2009 and following consideration by the Governance & Audit Committee in January 2009, Council approved a revised scheme of virement and amendments to the delegated limits.

The procedures for making delegated decisions are detailed within the Council's constitution. In April 2008, the Governance and Audit Committee approved a consultation draft Protocol on the recording of Officer Decisions. This was trialled by officers during the summer and after some minor revisions was formally adopted in September 2008.

Undertaking the core functions of the Governance and Audit Committee.

The Governance and Audit Committee was established by the Council in March 2007 and its terms of reference were prepared to ensure that it complies fully with the guidance provided by CIPFA³.

³ Audit Committees – Practical Guidance for Local Authorities published 2005

The key areas covered by the committee's terms of reference are Audit Activity; Regulatory Framework; Accounts; and Ombudsman.

Members of the Committee are required to undertake some mandatory training including training on the role of an effective Audit Committee and its terms of reference. In particular, during the year, the Committee has received training on risk management and how to understand and scrutinise financial statements.

At its meeting in December 2008, Members of the Committee completed a self-assessment in order to measure their effectiveness in line with CIPFA guidance. The results were considered by the Committee in January 2009 and members were pleased with the outcome. It was noted that the work of the Governance and Audit Committee was complex and that it was felt necessary to keep a regular check on Member development. It was important that training was kept up to date and Members were in agreement that self assessment should be conducted on a yearly basis. The next self-assessment is scheduled to be undertaken in December 2009.

In line with best practice and to ensure that Members become better informed and therefore engaged with the work of the Committee, an annual work plan and timetable was agreed at its meeting in January 2009.

In April 2009, the Chairman of the Committee presented an annual report to Council on the key outcomes arising from the work of the Governance & Audit Committee for 2008/09. Members acknowledged that these outcomes had helped to improve and strengthen the Council's overarching control environment and governance arrangements.

Compliance with laws, regulations and internal policies and procedures

Following risks identified as a result of our corporate governance procedures, formal agenda planning meetings chaired by the Chief Executive and involving all statutory officers have been introduced to ensure that all reports going to decision-making Committees have been properly scrutinised for governance issues. Reports to Council, Cabinet, Policy and Development Committees, Governance and Audit Committee, Scrutiny Committee and Portfolio holders for non key decisions contain comments from the Monitoring Officer and the Section 151 officer (Chief Finance Officer). Reports are also reviewed for compliance with internal policies and during 2008/09 the Member Report Template for key and non-key decisions was reviewed and updated. This includes provision to comment on risk and mitigation, equality and diversity and crime and disorder, etc.

The 2007/08 AGS identified that enhancements were needed to the Council's system of internal control and it was agreed that this requirement could be met by service managers and corporate heads completing quarterly Assurance Statements in relation to the effectiveness or otherwise of the systems and controls in operation on a day to day basis. Accordingly, Assurance Statements have been completed since the quarter ended 31st December 2007 and outcomes are reviewed by the Senior Management Team as an integral part of the monthly "pit stop" meetings. Generally, the statement covers risk management and adherence to internal control policies and procedures, etc. It will be reviewed and updated in time for the quarter ending 30th June 2009.

Whistle-blowing and Investigating complaints from the public.

The Council's whistle-blowing policies and complaints from the public regarding governance matters are considered, where appropriate, at a monthly governance meeting chaired by the Chief Executive and attended by the Strategic Directors, Section 151 Officer and Monitoring Officer. Training is provided as part of the Induction programme for new employees on Counter Fraud and Whistle blowing. The Assurance Statements completed by service managers and corporate heads have continued to identify the need for refresher training for existing staff and this will again be incorporated within the action plan for 2009/10.

The internal control policies relating to corporate anti-fraud and corruption and whistle-blowing were reviewed, updated and approved by the Governance & Audit Committee in January 2009.

The Council's anti-money laundering policy and guidance has been revised and updated and this will be formally approved during 2009/10.

The authority also takes part in the Audit Commission's National Fraud Initiative and has set procedures in place for dealing with any highlighted data matches identified by this process.

Training for members and senior officers

During 2008/09, the Council has shown clear leadership on this issue by requiring all members of its Committees to attend training courses which deal with corporate governance as well as other corporate issues. The training needs of all staff are formally assessed through their Performance Appraisals. Additionally, this will be further assessed for service managers through the planned re-introduction of the Council's own Competence and Development Scheme during 2009/10.

Communication and consultation

The Council has established a clear framework for consulting its communities through six local forums. During the year these meetings have been supplemented by specific consultation events on key issues such as the Grantham growth bid and key issues in the preparation of the Local Development Framework.

These arrangements were reviewed in 2008 as part of our preparation for the implementation of the duty to consult. The Council's newspaper "SK Today" is the principal method for communicating with the authority's 130,000 residents on the roles and responsibilities of the Council. According to the Audit Commission, the Council communicates well with residents. The last residents survey showed that 75% of respondents had read SK Today and 93% felt it was informative.

The Council has improved communication with tenants. Its first annual conference will be held during May 2009 and it is improving its approach to consultation by adopting a new strategy and toolkit that includes guidance on consulting with diverse groups and individuals. This was approved by Cabinet in October 2008. The Council will continue to develop external accountability through continuing to seek stakeholder views and incorporate information in relation to the Council's environmental footprint.

Governance arrangements for partnerships

The Council has participated in a number of partnerships aimed at improving the services we provide to the community such as the Local Strategic Partnership, Lincolnshire Shared Service Partnership, East Lindsey Supporting People programme and various Community Safety Partnerships.

The Use of Resources Judgement for 2008 identified that the Council has started to incorporate the impact of joint plans and partnerships within the medium term financial plan (MTFP). The MTFP will be reviewed in August 2009 once the outturn position for 2008/09 has been finalised and further linkages with partnership plans and programmes will be included.

When drawing together different partners with varying organisational cultures and methodologies for handling governance issues, it is important that clear protocols are established at an early stage to minimise and manage risk. Accordingly, a draft Protocol on Partnerships was approved by the Governance and Audit Committee at its meeting on 10 April, 2008. This was reviewed prior to adoption in December 2008 and took into account the recommendations of a recent internal audit review.

The Council is adopting a partnership toolkit used by Lincolnshire County Council as this would provide an annual health-check on the operation of significant partnerships and help to evaluate the benefits to the local community. Risk assessment would be undertaken alongside the use of the toolkit. A decision will be made during 2009/10.

During 2009/10, the Council will develop its arrangements for assessing the risks of partnerships, including the compilation of joint plans and joint risk registers.

Risk Management

The Council has in place a process for identifying, assessing, managing and reviewing the key areas of risk and uncertainty that could impact on the achievement of its objectives and priorities. In particular, risk management is an integral part of the corporate, service and budget planning process. The current risk management strategy was approved in March 2008 and will be revised and updated during 2009/10.

There are risk registers in place for corporate, operational, service, project and partnership risk and these are updated on a regular basis. The Governance & Audit Committee receives a regular briefing on corporate risks and the latest Annual Report will be presented in May 2009. This report details the activity undertaken and provides a summary of the direction risk management will take for the financial year 2009/10.

During 2008/09 the risk management group, established in 2007/08 met on three occasions with discussions focussing on the operational risk register, service risks and the monitoring processes in place, progress of business continuity plans for the authority, health & safety and risk management training.

A risk management training programme was introduced during the year. This included introduction to risk management workshops for staff and sessions in the induction programme for both staff and members. At the end of the year, risk management training had been provided for staff and members.

The Authority has a service level agreement with the Lincolnshire County Council Emergency Planning Unit for the provision of an emergency planning officer one day per week. This officer provides support for both emergency planning and business continuity. No significant events arose during the year. During 2009/10 plans will focus on ensuring service managers are committed to the continual review of their business continuity risks and mitigating actions.

Partnership risk management has been developed in some areas but further work is still needed in order to cover all significant partnerships.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is determined by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment. The review is also informed by the Internal Audit Annual Report, and also comments by the External Auditors and other review agencies and inspectorates.

The process applied in maintaining and reviewing the effectiveness of the governance framework

The key players in the process may be summarised as:

Key Players	Role and Activity during the year
Council	○ Approve Constitution including: Financial Regulations; Codes of Conduct; Contract Procedure Rules
Cabinet	○ Set budget and policy framework ○ Financial, performance and risk management of service delivery within the Budget and Policy Framework set by Council ○ At least monthly public meetings ○ Monthly briefings and development days

Governance and Audit Committee	○ Six scheduled meetings per annum to: ○ review and scrutinise the Council's governance arrangements, including the outcome of Internal and External audit reports and those of other external agencies such as the Ombudsman ○ review the arrangements for managing risk throughout the authority ○ scrutinise and approve the Financial Statements on behalf of the Council
Scrutiny Committee	○ To provide a "critical friend" challenge to the Executive as well as external authorities and agencies ○ To reflect the voice and concerns of the public and its communities
Standards Committee	○ Consider allegations of breaches to the Code of Conduct ○ Undertake the statutory functions of the Standards Committee as set out in the Local Government Act 2000
Internal Audit	○ Set overall internal audit strategy to meet the Council's overall strategic direction ○ Undertake an annual programme of audits ○ Present progress reports against the plan ○ Make recommendations for improvement in systems and controls and value for money
Governance Officer Group	○ Monthly Governance meetings of statutory officers to review Governance issues arising out of day to day working practices ○ Consider issues arising out of: ○ the assurance statements ○ Management Board review of risk management
Management Board (Strategic and Operational Management Teams) Risk Management Group	○ Monthly review of budget, performance and risk management ○ Officer meetings (membership drawn from service areas) to review operational risks and business continuity
Senior Managers	○ Complete Quarterly Assurance statements covering: Risk Management; Staff - PDRs, risk and fraud awareness, and awareness and access to core governance documents and guidance; Health Safety; Business Continuity; External reviews; and performance monitoring arrangements

Accordingly, we have been advised of the result of the review of the effectiveness of the governance framework by the Governance and Audit Committee and a plan to address the weaknesses and ensure continuous improvement of the system of internal control is in place. In particular, we have been advised by the Council's Head of Internal Audit (HIA) and the issues highlighted in his Annual Report to the Governance & Audit Committee in May 2009.

In accordance with the Accounts and Audit Regulations and CIPFA Code of Practice on Internal Audit, the HIA is required to provide an opinion on the overall adequacy and effectiveness of the Council's risk management, control and governance processes and this is set out below.

Significant governance issues:

Internal Audit:

Internal Audit has completed the program of internal audit work for the year ended 31 March 2009 comprising 13 reviews and they have reported that their work did not identify any significant control weaknesses that they consider to be pervasive in their effects on the system of internal control. However, Internal Audit has identified the following 5 specific systems and processes where improvement in control is required.

Concessionary Travel

The aim of this review was to assess the adequacy of the Authority's governance arrangements for Concessionary Travel. The two high risk areas where improvement is required relate to the need to put service level agreements in place governing the relationships with MCL Consulting and East Lindsey District Council; and the need to provide supporting information with invoices to support the basis on which the Authority has been billed and to provide an audit trail for the Authority to investigate unusual items. Management has accepted the recommendations and is working towards their implementation.

Major Capital Schemes

This review considered the management of major capital projects with a total spend of £100,000 or more and included a review of the design of the controls across the whole process together with detailed testing to determine whether the controls were operating in practice. The 1 high risk area where improvement is required concerns the need to ensure that project risk registers for all projects are in place. The recommendation has now been implemented fully.

HR Devolvment

The objectives of this audit were to review the adequacy and effectiveness of the controls in place surrounding the devolvment of key HR processes to service areas, including recruitment and sickness absence management. The two high risk areas where improvement is required relate to the need to develop a strategic plan for HR devolvment and ensure compliance with personnel file policies in respect of police checks and identification checks. In respect of the compliance checking the recommendation has been fully implemented and the strategic plan for HR devolvment is partially developed and will be implemented during 2009/10.

HRA Financial Management Arrangements

The Senior Management Team asked the internal auditors to undertake a thorough review of the controls and processes within the HRA service following the identification of financial and budgeting difficulties being experienced by the HRA. The objectives of this audit were to review the design of the controls supporting financial management of the Housing Revenue Account ("HRA") together with testing of the controls to determine whether the controls are operating in practice. In particular internal audit were asked to examine the budget setting and authorisation processes as well as the ongoing financial management processes at the budget holder level. The 6 high risk areas where improvement is required relate to the need to improve:

- greater budget ownership within the HRA;
- budget constraint when authorising responsive repairs work
- the increased use of commitment accounting.
- the invoicing of rechargeable repairs to prevent a backlog occurring
- budget monitoring training for budget holders
- the arrangements for holding formal budget monitoring meetings

The Senior Management Team has already undertaken extensive corrective action to ensure significant improvements are made and all of the 6 areas identified above have been or are being implemented by the appropriate staff.

Planning Applications

The objectives of this audit were to review the adequacy and effectiveness of the controls in place supporting the planning applications process together with testing of the controls to determine whether the controls are operating in practice. The 2 high risk areas where improvement is required concern the need strengthen data security around hard copy planning application files and the access controls over the APAS planning applications system. Both of the recommendations have been fully implemented.

The remaining 8 audit reviews covering disabled facilities grants, duty to involve, creditors and bank reconciliations, gas servicing and maintenance, VAT, corporate governance, void lettings and pool cars all contained medium or low risk recommendations.

The internal auditors have completed their program of work for the year ended 31 March 2009 and can report that their work did not identify any significant control weaknesses that they consider to be pervasive in their effects on the system of internal control. However, they did identify some significant control weaknesses that when taken in aggregate have a significant impact upon the system of internal control. Consequently the internal auditors can only give limited assurance on the design of adequacy and effectiveness of the overall system of internal control.

All recommendations have been agreed by management and action plans have been prepared for each of these areas which are continuously followed up and tracked by senior management. Tracking Reports that report on the implementation of audit recommendations are presented to the Governance & Audit Committee at each meeting. In addition, the Internal Audit Work plan includes a follow up review of these areas to be undertaken during 2009/10.

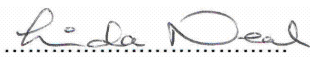
Other Issues

In addition, the review underpinning this Governance Statement has identified some additional areas for improvement and these will be addressed as part of the 2008/09 Governance Statement Action Plan. Of particular note is the need for the Council to improve and strengthen its arrangements for procuring goods and services and the maintenance of its contracts register. With regard to the Action Plan for 2007/08, all issues have or are being addressed with the exception of one area relating to the implementation of a programme/database for all key business processes. This will be carried forward and included in the 2008/09 Action Plan.

Our commitment to continuous improvement

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

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

Signed 
(Cllr Mrs L Neal – Leader of the Council)

Signed 
(Mrs B Agass – Interim Chief Executive)

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

2007/08			2008/09	
£'000	£'000		£'000	£'000
		Income		
		Gross Rental Income		
(17,664)		- Dwelling Rents		(19,085)
(245)		- Non-Dwelling Rents		(252)
(1,140)		Charges for Services and Facilities		(1,310)
(127)		Other Income		(60)
(19,176)				(20,707)
		Expenditure		
	7,350	Repairs and Maintenance	10,619	
	4,576	Supervision and Management	5,167	
	0	Rent, rates, taxes and other charges	0	
	4,700	Housing Revenue Account Subsidy	5,650	
		Increase/(Decrease) in Provision for Bad and Doubtful Debts	(52)	
	126	Depreciation and impairment of Fixed Assets	30,001	
	13,773	Debt Management Costs	17	
	28	Subsidy Limitation - Transfer to the General Fund		
30,774	221		197	51,599
		Net Cost of HRA Services as included in the whole authority Income and Expenditure Account		
11,598				30,892
209		HRA services share of Corporate and Democratic Core		195
11,807		Net Cost of HRA Services		31,087
688		(Gain)/loss on sale of HRA assets		415
177		Interest payable and similar charges		173
(819)		Interest and Investment Income		(764)
(75)		Pension Interest Costs and Expected Return on Assets		195
11,778		(Surplus)/Deficit for the year on HRA services		31,106

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

2007/08 Net £'000	Note	2008/09 Net £'000
11,778	(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	31,106
(10,946)	Net additional amount required by statute to be debited or credited to HRA Balance for the year	(31,251)
832	(Increase)/Decrease in the Housing Revenue Account Balance	(145)
(7,863)	HRA Balance at Start of Year	(7,031)
(7,031)	HRA at End of Year	(7,176)

NOTES TO THE HOUSING REVENUE ACCOUNT

The Housing Revenue Account reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with part 6 of the Local Government and Housing Act 1989. The 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.

Note 1 – Housing Stock

The Council was responsible for managing on average 6293 dwellings during 2008/09. The housing stock and changes during the year are as follows:

Analysis of housing stock	As at 1 April 2008	Additions	Disposals/ Sales	As at 31 March 2009
Rentable Stock				
- Houses	3457		4	3453
- Bungalows	1515		0	1515
- Flats	1296		0	1296
Shared Ownership	27		0	27
Total	6295	0	4	6291

Note 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	Surplus Assets	
	£'000	£'000	£'000	£'000	£'000
Cost or Valuation at 1 April 2008	300,912	5,482	632	1,401	308,427
- Additions			51		51
- Disposals	(289)		(15)	(400)	(704)
- Revaluations and Restatements	(35,438)	(486)		(726)	(36,650)
- Impairments					
Gross Book Value as at 31/3/09	265,185	4,996	668	275	271,124
Depreciation					
At 1 April 2008	(4,210)	(235)	(371)		(4,816)
Charge for 2008/09	(4,217)	(124)	(64)		(4,405)
Written back on Revaluation	8,427	70			8,497
Written back on Disposal					0
At 31 March 2009	0	(289)	(435)	0	(724)
Net Book Value as at 31 March 2009	265,185	4,707	233	275	270,400

The vacant possession value of dwellings at 31 March 2009 is £586.3m (£592.6m at 1 April 2008). 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 the 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 50%.

HRA Revaluation Loss

When assets are revalued, 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 revalued 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 2009 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 fixed assets prior to 1 April 2007 are accounted for in the Capital Adjustment Account.

Due to the economic situation and the state of the housing market a revaluation loss of £35.54m was recorded against the Council’s housing stock. As the Revaluation Reserve started at zero on 1 April 2007, for some assets there were no previous gains for any downward revaluations to be set against. This therefore meant that a total charge of £25.634m had to be included in the Housing Revenue Account to comply with accounting rules. This charge is not included in the sum used to calculate the council tax requirement or rent levels as it is an unrealised loss and may be reversed in future years.

2007/08		Revaluation Loss/Depreciation charged to HRA income & expenditure	2008/09	
£'000	£'000		£'000	£'000
4,366		Depreciation of Fixed Assets	4,405	
9,419	13,785	Revaluation Loss	25,634	30,039
	<u>13,785</u>			<u>30,039</u>

Note 3- Major Repairs Reserve

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

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

Movements on the Reserve were:

2007/08		Major Repairs Reserve	2008/09	
£'000	£'000		£'000	£'000
7,643		Opening balance on the Major Repairs Reserve		7,048
		Transfer to the Major Repairs Reserve		
4,604		- Capital Adjustment Account		4,405
1,225		- Prior year Adjustment (see Note 2 to the Accounts)		
		Transfer from the Major Repairs Reserve to the Housing Revenue Account		
	(176)	- Non Dwelling depreciation	(121)	
		- Shortfall of depreciation on dwellings over		
(1,127)	(951)	Major Repairs Allowance	(723)	(844)
(5,297)		Financing of Capital Expenditure		(4,436)
7,048		Closing balance on the Major Repairs Reserve		6,173

Note 4 - Financing Capital Expenditure

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

2007/08		Expenditure	2008/09	
£'000			£'000	
	0	- Land		0
	5,282	- Council Dwellings		4,385
	0	- Other property		0
	15	- Plant and Equipment		51
5,297		Total	4,436	
Financed from:				
	0	- Borrowing		0
	4,072	- Major Repairs Reserve		4,436
	1,225	- Revenue Contributions		0
	0	- Capital Receipts Reserve		0
5,297			4,436	

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

Note 5 - Capital Receipts

The sale of HRA assets during the year is detailed in the following table. Of the receipts in the year 25% from the sale of dwellings and 50% from the sale of land (for receipts over £10,000) may be used to fund capital expenditure. The remaining element is collected by the Government and pooled for redistribution to Authorities.

	Receipt in Year £'000	Allowable Deductions £'000	Element Pooled £'000	Useable Element £'000
Sale of Land	84	0	(38)	46
Sale of Council Dwellings	309	(12)	(223)	74
Repayment of discounts	80	0	(60)	20
Mortgage Repayments	17	0	(12)	5
Total	490	(12)	(333)	145

* Enhancement expenditure and administration costs associated with the sale of council houses have been deducted before calculating the apportionment between pooled and useable.

Note 6 - Housing Revenue Account Subsidy

The Council must pay a contribution to the subsidy pool from the Housing Revenue Account based upon notional calculations representing the Government's assessment of what the Council should be collecting and spending.

The notional Housing Revenue Account for 2008/09 is shown as follows:

2007/08 £'000		2008/09 £'000
	Income	
17,932	- Rents	18,696
14	- Interest on Receipts	10
17,946	Total	18,706
	Expenditure	
8,385	- Management and Maintenance Allowance	8,465
3,477	- Major Repairs Allowance	3,562
1,042	- Capital Charges	1,077
342	- Rental Constraint Allowance	0
0	- Other Items	0
13,246	Total	13,104
4,700	Housing Subsidy Payable	5,602

The amount of subsidy debited to the Housing Revenue Account comprises the following elements:

2007/08 £'000		2008/09 £'000
(4,741)	Housing Subsidy receivable/(payable) for the year	(5,602)
41	Prior year adjustment	(48)
(4,700)		(5,650)

Note 7 – Pension Costs

Note 43 to the Core Financial Statements provides a detailed explanation of the accounting requirements for pension costs.

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

2007/2008 £'000	Housing Revenue Account Pension Cost	2008/2009 £'000
	Net Cost of Services	
514	- Current Service Cost	389
0	- Past Service Cost	0
	Net Operating Expenditure	
971	- Interest Cost	1,192
(1,046)	- Expected return on assets in the scheme	(998)
<u>439</u>		<u>583</u>
	Statement of Movement of the Housing Revenue Balance	
(439)	- Reversal of net charges made for retirement benefits in accordance with FRS 17	(583)
	Actual amount charged to revenue accounts for Pensions in the year.	
<u>552</u>	- Employers' contributions payable to scheme	<u>613</u>

Note 8 – Breakdown of Reconciling Items in the Statement of Movement on the Housing Revenue Account

2007/08 £'000	Statement of Movement on the Housing Revenue Account	2008/09 £'000
	Amounts included in the HRA Income and Expenditure Account but required by statute to be excluded when determining the Movement on the HRA Balance for the Year	
(9,419)	- Revaluation Loss	(30,019)
(688)	- Gain/(Loss) on the sale of HRA fixed assets	(415)
(439)	- Net changes made to retirement benefits in accordance with FRS 17	(583)
<u>(10,546)</u>		<u>(31,017)</u>
	Amounts not included in the HRA Income and Expenditure Account but required by statute to be included when determining the Movement on the HRA Balance for the Year	
(952)	- Transfer to/(from) Major Repairs Reserve	(847)
552	- Employer's contributions payable to the Lincolnshire County Council Pension Fund and retirement benefits payable direct to pensioners	613
<u>(400)</u>		<u>(234)</u>
<u>(10,946)</u>	Net additional amount required to be credited to the General Fund Balance for the year	<u>(31,251)</u>

Note 9 – Rent Arrears

An analysis of rent arrears is shown below:

31 March 2008 £'000	Rent Arrears	31 March 2009 £'000
567	Current Tenants	570
410	Former Tenants	390
977	Gross Rent Arrears	960
(764)	Bad Debt Impairment	(683)

A bad debt impairment has been made in the accounts for potentially uncollectible rent arrears.

Note 10 – Income

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

- Dwelling rents. These are calculated in accordance with government guidelines for rent restructuring. For 2008/09 on average rents increased by 7.79% (a maximum increase of 4.41% plus £2 for individual cases). The figure within the HRA statement is the total rent collectable after an allowance has been made for empty properties where no rent is being charged.
- Non-dwelling rents. This is composed of plots, garages, HRA shops and wayleaves. Rent on garages and plots were increased by 4.1% for 2008/09.
- Charges for services and facilities include:
 - Supported housing charges for the provision of the warden support service;
 - Communal room charge to cover the cost of providing communal lounges, kitchens and use of laundry equipment;
 - Communal facilities charge covers the costs of cleaning, fire alarms and the provision of lifts to living areas;
 - Heating charges for communal heating systems; and
 - Water charges to cover the cost of water consumption in communal areas as well as servicing tenants' dwellings from the same meter.

Charges for services and facilities were increased by 3.9% for 2008/09.

- Other income, this comes from a number of sources, including the recharge of minor capital works, court and legal costs and insurance recharges.

Note 11 – Expenditure

Repairs and Maintenance covers all aspects of maintenance for the housing revenue account properties. In the housing revenue account subsidy determination the government allows an amount per property for the maintenance of council dwellings, for 2008/09 the allowance was £919.08 per property.

	Original Budget 2008/09 £	Revised Budget 2008/09 £	Actuals 2008/09 £	Subsidy Allowance 2008/09 £
Repairs and Maintenance				
Expenditure	£7,059,000	£7,059,000	£6,234,000	
Number of Properties (as at 1 April 2008)	6295	6295	6295	
Average cost per dwelling	£1,121.37	£1,121.37	£990.31	£919.08

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

- General supervision and management costs relate to activities which are pertinent to all Council properties, this includes policy and management issues, rent collection, accountancy and tenancy management activities. In the housing revenue account subsidy determination the government allows an amount per property for the management of council dwellings. For 2008/09 the allowance was £425.07 per property.

	Original Budget 2008/09 £	Revised Budget 2008/09 £	Actuals 2008/09 £	Subsidy Allowance 2008/09 £
Supervision and Management				
Expenditure	£3,326,000	£3,326,000	£3,399,000	
Number of Properties (as at 1 April 2008)	6295	6295	6295	
Average cost per dwelling	£528.36	£528.36	£539.95	£425.07

(NB number of properties includes shared ownership properties for calculation of supervision and management subsidy)

- Supervision and management special costs relate to services which are only received by some but not all properties in the housing revenue account. Service includes supported housing schemes, heating charges, homelessness family units and other estate expenditure (grounds maintenance). The subsidy determination does not make a provision for these costs and therefore they have not been included in the comparison above.

Note 12 – Transfer to the General Fund

From 1 April 2004, the administration of rent rebate is now classified as expenditure under the General Fund and is controlled by the Department for Work and Pensions along with other benefit payments. The HRA must compensate the general Fund on an ongoing basis for losses due to any historic decisions increasing rents above Government guidelines.

**COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2009**

2007/08			2008/09	
£'000	£'000		£'000	£'000
		Income		
51,640		Council Tax		55,151
		Transfers from General Fund		
5,312		- Council Tax Benefits		5,934
33,469		Business Ratepayers		35,428
<u>90,421</u>				<u>96,513</u>
		Expenditure		
		Precepts and demands		
	43,798	- Lincolnshire County Council	46,223	
	5,838	- Lincolnshire Police Authority	7,499	
56,135	<u>6,499</u>	- South Kesteven District Council	<u>7,072</u>	60,794
		Business Rates		
	33,284	- Payment to national pool	35,245	
33,469	<u>185</u>	- Costs of collection	<u>183</u>	35,428
		Bad and doubtful debts		
28		- Write Offs		181
(100)		- Provision		(52)
		Contributions towards previous years' Collection Fund Surplus		
	323	- Lincolnshire County Council	632	
	43	- Lincolnshire Police Authority	84	
413	<u>47</u>	- South Kesteven District Council	<u>94</u>	810
<u>89,945</u>				<u>97,161</u>
476		(Deficit)/Surplus for the year		(648)
1,149		Balance at start of year		1,625
<u>1,625</u>		Balance at end of year		<u>977</u>

NOTES TO THE COLLECTION FUND

Note 1 - General

These accounts represent the statutory requirements for billing authorities to maintain a separate Collection Fund. The Collection Fund accounts independently for income relating to Council Tax and Business Rates on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised.

Note 2 - Council Tax

Council Tax income derives from charges raised according to the value of residential properties that have been classified into eight Valuation Bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lincolnshire County Council, Lincolnshire Police Authority and South 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 basic amount of Council Tax for a band D property including an average parish charge, £1,330.97 (2007/08 £1,253.00), is multiplied by the ratio specified for the particular band to give an individual amount due.

The Council Tax base was calculated as follows:

Band	Estimated No. of Taxable Properties After Effect of Discounts	Ratio	Band D Equivalent Dwellings
A	14612.25	6/9	9741.5
B	11381.01	7/9	8851.9
C	9166.28	8/9	8147.8
D	7707.80	9/9	7707.8
E	4642.04	11/9	5673.6
F	2351.98	13/9	3397.3
G	920.52	15/9	1534.2
H	58.00	18/9	116.0
Band A entitled to Disabled Relief Reduction	19.00	5/9	<u>10.6</u>
			45180.7
Ministry of Defence Properties			<u>57.0</u>
Council Tax Base			<u>45237.7</u>

Note 3 - Business Rates

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 2008/09 there are two multipliers, the small business non-domestic rating multiplier of 48.1p and the non-domestic rating multiplier of 48.5p. The total non-domestic rates due, less certain reliefs and deductions, is paid into a National Non-Domestic Rate Pool which is administered by the Government. The Government redistributes the sums paid into the pool back to Local Authorities' General Funds on the basis of a fixed amount per head of population.

The total Non-Domestic Rateable Value at 31 March 2009 was £87,647m (2008 £88.194m).

Note 4 - Collection Fund Surplus

The surplus on the Collection Fund is available for financing the expenditure of Lincolnshire County Council, Lincolnshire Police Authority and South Kesteven District Council and will be distributed in future financial years as follows:

	<u>£'000</u>
Lincolnshire County Council	725
Lincolnshire Police Authority	130
South Kesteven District Council	<u>122</u>
	<u>977</u>

GLOSSARY OF TERMS

Accounting Period

The length of time covered by the authority'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 fixed 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 fixed assets.

Asset

An asset is something that the authority owns that has monetary value. Assets are either "current" or "fixed".

- A **current asset** is one that will be used or cease to have material value by the end of the next financial year eg stock or debtors
- A **fixed asset** provides benefits for a period of more than one year eg Council Offices.
- An **intangible asset** are 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

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

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.

Capital Expenditure

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

Capital Receipts

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

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 authority 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.

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

Current Liabilities

Amounts payable that become due during the next financial year.

DCLG

Department for Communities and Local Government

Debtors

Amounts due to the authority 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.

Depreciation

An estimate of the loss in value of a fixed 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.

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

Financial Reporting Standard (FRS)

A reference to the accounting treatments that companies in the UK 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

A separate account to the General Fund recording all the transactions relating to the provision of council houses.

I&E

The Income and Expenditure Account on page 21.

Income

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

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.

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 eg 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.

Materiality

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

Minimum Revenue Provision

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

Net Book Value

The value of a fixed 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. The proceeds are pooled nationally and are redistributed on the basis of a fixed amount per head of population.

Non-Operational Assets

Fixed assets held by the Authority that are not directly used in the delivery of services.

Pooling of Capital Receipts

Since 1 April 2004, under the new capital financing requirements, authorities have to pay over to central government 75% of all housing right to buy capital receipts and 50% of all other housing capital receipts.

Operational Assets

Fixed assets held by the Authority 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 fixed 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.

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.

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.

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 fixed 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.

SMGFB

The Statement of Movement on the General Fund Balance on page 22.

SMHRA

The Statement of Movement on the Housing Revenue Account on page 76.

STRGL

The Statement of Total Recognised Gains & Losses on page 23.

SOUTH KESTEVEN DISTRICT COUNCIL

Internal Audit Progress Report (April 2009 – August 2009)

Governance & Audit Committee Meeting – 24 September 2009

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This report has been prepared for our client and should not be disclosed to any third parties, including in response to requests for information under the Freedom of Information Act, without the prior written consent of RSM Bentley Jennison and our client. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, it is based upon the documentation reviewed and information provided to us during the course of our work. Thus, no guarantee or warranty can be given with regard to the advice and information contained herein.

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1. Introduction

- 1.1 The periodic internal audit plan for 2009/2010 was approved by the Governance and Audit Committee on 28th May 2009. This report summarises the outcome of work completed to date against that plan, and Appendix A provides cumulative data in support of internal audit performance.

2. Final Reports Issued

- 2.1 We have finalised 6 reports; these are in the areas of:
- Cash Security (01.09/10);
 - Play Schemes (02.09/10);
 - Car Loans (04.09/10);
 - Licensing (05.09/10);
 - Resident Involvement (07.09/10); and
 - IT Security Policies Review (09.09/10).

The executive summaries and agreed action plans are included at Appendix B.

We have also included, for Members information, the Internal Audit Protocol (Appendix C) that will be followed during the course of the year when delivering the Internal Audit Plan. This will be subject to annual review.

3. Key Findings from Internal Audit Work

- 3.1 Of the six reports that have been finalised to-date five have been given a positive assurance opinion, however, the Cash Security audit resulted in a negative opinion being given. Management concerns were raised in relation to cash security at Council premises and the first piece of work undertaken by Internal Audit was to review the controls in place in relation to cash security; this has resulted in a limited assurance report being issued. We are satisfied with the progress that has been made against the Internal Audit Plan since its approval back in May 2009.

4. Work in Progress or Planned

- 4.1 IT audits are being undertaken by our IT specialist and these will be confirmed with the auditees separately. One piece of IT work (Data Quality Review) has been completed and the report will be presented at the next Governance & Audit Committee, following review by SMT.
- 4.2 Work in Progress consists of 6 audits as shown in Appendix A.
- 4.3 Management have requested a follow up audit of the recommendations made by the previous internal auditors in relation to Housing Management and this work has been scheduled for October 2009.
- 4.4 Audit commencement dates have been agreed with the auditees and all assignment planning sheets have been issued for Quarter 2. Internal Audit is currently working with management to agree Quarter 3 and Quarter 4 audits.

5. Liaison with Management and External Audit

- 5.1 An Internal Audit Protocol has been devised by the Council's Finance Department and Internal Audit; which sets out the key responsibilities of Internal Audit and SKDC Management, the audit process, performance of Internal Audit and the relationship with external audit. The Internal Audit Protocol is available to all staff on the Council's Intranet site.
- 5.2 Meetings are held with the Corporate Head (Finance & Customer Services) on a regular basis, as well as other senior management. Additional progress meetings have been agreed between Finance and Internal Audit to discuss the progress of the internal audit work against the audit plan and any issues that may arise.
- 5.3 Internal Audit will liaise with the Audit Commission through regular meetings and on an informal basis and will include audit coverage and performance of internal audit.

6. Changes to our Plan

- 6.1 There have been no changes to the plan.

Appendix A: Operational Plan Performance 2009/10

Detailed below is a summary of the work undertaken in 2009/10 to date, showing the levels of assurance given and the number of recommendations arising. Reports being considered at this Committee are shown in italics. Definitions with regard to the levels of assurance and the classification of recommendations are provided overleaf.

	Auditable Area	Start Date	Debrief date	Draft report issued	Responses received	Final report issued	Governance and Audit Committee	Audit approach	Days	Assurance level given	Number of Recommendations Made				
									Actual (Planned)		F	S	MA	In Total	Agreed
Work completed to date															
Assurance	Cash Security	04/05/09	08/05/09	14/05/09	22/05/09	26/05/09	September 2009	KEY CONTROLS	5 (5)	LIMITED	0	7	4	11	11
	Play Schemes	22/06/09	26/06/09	30/06/09	14/07/09	14/07/09	September 2009	SYSTEMATIC	6 (6)	SUBSTANTIAL	0	0	1	1	1
	Car Loans	22/06/09	26/06/09	01/07/09	16/07/09	20/07/09	September 2009	SYSTEMATIC	5 (5)	SUBSTANTIAL	0	1	2	3	3
	Licensing	15/06/09	26/06/09	01/07/09	28/08/09	01/09/09	September 2009	SYSTEMATIC	6 (6)	ADEQUATE	0	4	2	6	6
	Resident Involvement	20/07/09	24/07/09	30/07/09	12/08/09	13/08/09	September 2009	SYSTEMATIC	5 (5)	SUBSTANTIAL	0	0	2	2	2
	IT Security Policies Review	03/08/09	07/08/09	24/08/09	27/08/09	01/09/09	September 2009	KEY CONTROLS	6 (6)	ADEQUATE	0	2	3	5	5*
Totals to date:									33 (33)		0	14	14	28	27
Work in progress or yet to start (including reports still in draft)															
Assurance	IT (Inc BCP): Data Quality Review	10/06/09	16/06/09	0107/09	01/09/09				9 (9)						
	Town Centre Management	13/07/09	17/07/09	30/07/09					8 (8)						

Auditable Area	Start Date	Debrief date	Draft report issued	Responses received	Final report issued	Governance and Audit Committee	Audit approach	Days	Assurance level given	Number of Recommendations Made				
										F	S	MA	In Total	Agreed
Freedom of Information	20/07/09	24/07/09	06/08/09					4 (4)						
Procurement (Shared Services)	10/08/09	14/08/09	07/09/09					6 (6)						
Fleet Management	17/08/09	21/08/09	07/09/09					8 (8)						
Rent Collection & Arrears	07/09/09							(6)						
Debtors	14/09/09							(6)						
Cash & Banking	14/09/09							(6)						
Tenancy Business Support Services	14/09/09							(6)						
Performance Management	05/10/09							(8)						
Corporate & Service Plans	12/10/09							(5)						
Budgetary Control & Budget Setting	12/10/09							(6)						
Asset Register	12/10/09							(5)						
Members Allowances & Expenses	16/11/09							(8)						

	Auditable Area	Start Date	Debrief date	Draft report issued	Responses received	Final report issued	Governance and Audit Committee	Audit approach	Days	Assurance level given	Number of Recommendations Made				
											F	S	MA	In Total	Agreed
	Housing Strategy/ Affordable Housing	16/11/09							(8)						
	Absence Management	30/11/09							(5)						
	Payroll	30/11/09							(6)						
	Housing Benefit	30/11/09							(8)						
	MOT Service (Project Phase)	30/11/09							(6)						
	Risk Management	04/01/10							(6)						
	Fraud & Corruption	04/01/10							(7)						
	Corporate Governance	04/01/10							(5)						
Other	Follow Up: Housing Management	05/10/09							(3)						
	Other Follow Up	TBC							(7)						
	Audit Management	-	-	-	-	-	-		(15)						
	Contingency	-	-	-	-	-	-	-	(25)						
									Total Plan Days	68 (220)					

* One of the recommendations within the IT Security Policies Review has been partially accepted.

Recommendation Categorisation

Our findings and recommendations are categorised as follows:

Fundamental (F): *action is imperative to ensure that the objectives for the area under review are met*

Significant (S): *requires action to avoid exposure to significant risks in achieving the objectives for the area under review.*

Merits Attention (MA): *action advised to enhance control or improve operational efficiency*

Opinions

Risk Based Internal Audit Assignments

The definitions for the level of assurance that can be given are:

	Level	System Adequacy	Control Application
(positive opinions)	Substantial Assurance	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Adequate Assurance	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
(negative opinion)	Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

Follow Up Reviews

Our opinions reflect the progress made in implementing previous internal audit recommendations:

(positive opinions)	Good Progress
	Reasonable Progress
(negative opinion)	Little Progress

Appendix B: Executive Summaries and Action Plans

01.09/10: Cash Security

Executive Summary

Introduction

An audit of Cash Security was undertaken as part of the approved internal audit periodic plan for 2009/10.

Management raised concerns regarding the security of cash held on the Council's premises and awaiting banking after a break-in at the Stamford Arts Centre, resulted in the safe containing the day's takings plus that day's income from the weekly market, being stolen.

The Council has moved to a range of non-cash methods of payments, which has resulted in most payments to the Council being made by other methods, including the 'All-pay' system. However, there remains a residual amount of cash payments due to the Council and these are received at the Customer Services Centres in Grantham, Bourne, Market Deeping and Stamford. The Council operates Arts Centres in Grantham and Stamford and Box Office takings are received in cash, cheque and electronic formats. Cash income is also generated from Markets and from Public Conveniences.

The specific risks considered as part of this audit were:

- Monies not being securely held prior to banking or when transferring to the bank.
- Staff are not aware of their roles and responsibilities relating to cash handling and security.
- Safes used to hold cash are not suitable or fit for purpose.
- Delays in banking results in excess cash being held.
- Staff has not received adequate training to handle cash and undertake banking.
- Cash held by the Authority exceeds the Insurance limits.

These risks relate to the objective of ensuring that cash collected by the Authority is held securely and is banked in a timely manner in accordance with Council Policies and Procedures.

Scope of the review

The objective of our audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- Testing will be carried out on a sample basis only;
- Our review will focus on the process for holding, transporting and transferring cash at Area Offices;
- This review will only cover the Art Centres and income from the markets;
- It must be noted that our work does not provide an absolute assurance that material errors, loss or fraud do not exist.

The approach taken for this audit was key Controls Testing and included the following:

- Establishing the risks affecting the achievement of your corporate objectives;

Reviewing the adequacy and application of the controls in place to mitigate the risks and testing to assess the extent or cause of problems identified.

Conclusion

Taking account of the issues identified, in our opinion the Committee can take limited assurance that the controls upon which the organisation relies to manage this area, as currently laid down and operated, are effective.

The limited assurance opinion is due to the large number of recommendations made that are graded 'significant'. However, we are confident that management will apply appropriate attention to each area of concern which will enable a positive opinion to be available after a future audit of this area.

This assurance level has been formulated on the basis of conclusions drawn on the individual elements of effectiveness, design and application of controls in place:

	SUBSTANTIAL	ADEQUATE	LIMITED
EFFECTIVENESS OF CONTROL FRAMEWORK			✓
DESIGN OF CONTROL FRAMEWORK			✓
APPLICATION OF AND COMPLIANCE WITH CONTROL FRAMEWORK			✓
OVERALL OPINION			✓

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

- Cash for banking from Stamford Arts Centre is carried daily through the streets by a member of staff to the nearby Customer Service Centre;
- Cash income from the Public Conveniences in Stamford is not collected frequently enough and is then carried through the streets to the Customer Service Centre, where the volume of coins for counting affects the smooth operation of the Centre;
- Security arrangements at the Stamford Arts Centre could be improved to help prevent further break-ins;
- Safes at Arts Centres and Customer Service Centres should be bolted to the floor;
- At Grantham Arts Centre, not enough staff are trained to carry out end of day cash reconciliations and to prepare bankings with result that cash accumulates when the Manager is on leave;
- Staff are not fully aware of the current cash holding limits set by the insurer for each safe; and
- Cash collected from market traders is retained in the Grantham Arts Centre safe over the weekend.

Recommendations Summary

The following tables highlight the number and categories of recommendations made, showing which have been brought forward from previous audits. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Risk	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
MONIES NOT BEING SECURELY HELD PRIOR TO BANKING OR WHEN TRANSFERRING TO THE BANK.	0	3	1
STAFF ARE NOT AWARE OF THEIR ROLES AND RESPONSIBILITIES RELATING TO CASH HANDLING AND SECURITY.	0	0	1
SAFES USED TO HOLD CASH ARE NOT SUITABLE OR FIT FOR PURPOSE.	0	1	1
DELAYS IN BANKING RESULTS IN EXCESS CASH BEING HELD.	0	1	0
STAFF HAVE NOT RECEIVED ADEQUATE TRAINING TO HANDLE CASH AND UNDERTAKE BANKING.	0	0	1
CASH HELD BY THE AUTHORITY EXCEEDS THE INSURANCE LIMITS.	0	2	0
TOTAL	0	7	4

Action Plan

The priority of the recommendations made is as follows:

FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
ACTION IS IMPERATIVE TO ENSURE THAT THE OBJECTIVE FOR THE AREA UNDER REVIEW IS MET.	REQUIRES ACTION TO AVOID EXPOSURE TO SIGNIFICANT RISK IN ACHIEVING THE OBJECTIVE FOR THE AREA UNDER REVIEW.	ACTION IS ADVISED TO ENHANCE CONTROL OR IMPROVE OPERATIONAL EFFICIENCY.

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
1	To eliminate carrying cash daily from the Arts Centre to the Customer Services Centre in Stamford, Group 4 Securicor should be asked to collect cash for banking directly from the Stamford Arts Centre.	Significant	Y	Group 4 to be instructed to collect from Grantham Arts Centre after the collection from CSC.	June 2009	Cultural Services Service Manager
2	Consideration is given to using Group 4 Securicor to empty the cash machines at the public conveniences in Stamford and to process the cash collected for banking.	Significant	Y	Investigations into G4 collecting from the public conveniences.	June 2009	Operations & Transport Manager
3	If cash surplus or deficits occur as a result of daily transaction, the difference should be coded as a surplus or deficit and banked in the normal method and not added or deducted from the issued float.	Merits Attention	Y	Guidance is issued from Accountancy to all petty cash holders.	July 2009	Financial Management Team Leader
4	A security survey is carried out at Stamford Arts Centre to determine what additional security measures could be implemented to improve the overall levels of security at this location.	Significant	Y	A security survey to be undertaken with recommendations for review and implementation consideration.	June 2009	Asset & Facilities Service Manager
5	Staff at Customer Service Centres responsible for the daily reconciliation of cash floats are reminded of the necessity to sign the control log sheet immediately after reconciling the float.	Merits Attention	Y	Guidance is issued from Accountancy to all petty cash holders.	September 2009	Customer Service Manager
6	Appropriate maintenance and periodic servicing arrangements should be put in place to ensure that all safes are maintained in serviceable condition.	Merits Attention	Y	Guidance to be issued from Assets & Facilities for the maintenance and upkeep of safes.	September 2009	Asset & Facilities Service Manager

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
7	All safes at Customer Service Centres and at Arts Centres should be adequately bolted to the floor and/or walls.	Significant	Y	Advice has been sought from our current insurers who advised that all safes with securing facilities should be secured. This has been communicated to all safe owners.	Immediately	Finance Support Team Leader
8	At Grantham Arts Centre, additional staff are trained to carry out the end of day reconciliation of the cash register takings and the preparation of cash for banking. This must ensure that appropriate cover is provided during times when the Arts Centre Manager is absent, enabling daily banking to be carried out at all times.	Significant	Y	Instruction has been issued to the Arts Centre Manager for this training to take place. Confirmation of the training will be requested.	June 2009	Arts Centre Manager
9	The Council ensures that the staff working alone at the Market Deeping Customer Service Centre are fully covered by the Council's Lone Worker Policy and that the staff involved are fully aware of and comply with, the requirements of this policy.	Merits Attention	Y	Staff are to be advised of the Loan Working Policy and steps taken to ensure their understanding.	September 2009	Customer Service Manager
10	Staff at Customer Service Centres and at Arts Centres are reminded of the current cash limits set by the insurers for each safe. Once cash limits have been ascertained, a separate exercise is carried out to ensure that they are not exceeded as a result of normal operations.	Significant	Y	Information relating to safe limits has been circulated to all service areas by the Insurance & Risk Officer	Immediately	Finance Support Team Leader
11	Methods of collecting stall rents from market traders are reviewed to identify if greater use could be made of invoicing stall holders or if the Markets Supervisor could be provided with swipe card facilities, enabling payment by credit or debit cards. If the volume of cash takings cannot be reduced, the options of directly banking market rents at the nearest branch of HSBC or via an Allpay card at a post office or other suitable location should be investigated.	Significant	Y	A current account is currently being opened at HSBC (situated within the market place in Grantham) for cash to be regularly deposited on a Saturday morning by the Market Inspector. Chip and Pin machines have also been ordered to operate through the same current account.	September 2009	Finance Support Team Leader

02.09/10: Play Schemes

Executive Summary

Introduction

An audit of Play Schemes was undertaken as part of the approved internal audit periodic plan for 2009/10. The audit took into consideration the Council's involvement with the Big Lottery Fund's Children's Play Initiative. The Big Lottery Fund allocated £124 million across local authorities based upon child population of each area and weighted by the level of deprivation. The Council were allocated a maximum of £242,858.

In order to access the funding, applications satisfying the conditions of the grant had to be submitted. This included collating a Play Strategy, 'Making Play Count in South Kesteven 2007-2012' was collated with the use of external consultant, Pinpoint Consulting, and adopted by the Council in August 2007. The strategy was used as the basis for developing project proposals that meet local play needs.

The Play Partnership was formed to develop the strategy resulting in a portfolio programme to be submitted in application to the Big Lottery Fund. A total of 15 applicants were independently assessed and scored by the external consultant. The six highest ranking applicants were put forward to the Big Lottery Fund in application for the total allocation of the grant. The Council were awarded the total amount of grant funding available (£242,858) to be split across the following projects:

- Fulbeck Playground;
- Allington Multi Use Games Area (MUGA);
- Creative Play;
- Ruston Road MUGA;
- Dowsby Project; and
- Woody Heights Skate Park.

At the time of the audit all five capital projects had been completed and the Council had received £209,540 from the Big Lottery Fund and paid £203,146 to its beneficiaries. The amount remaining to be claimed plus the amount of £6,394 accrued totalled £39,712. This amount is equal to the remaining grant payable to the Creative Play project (Year 2 - £20,356 & Year 3 - £19,356).

Reporting to the Healthy Communities Service Manager, the Community Leisure Officer is responsible for developing and sustaining the play provision, overseeing all projects from the Big Lottery Fund portfolio. This involves ensuring that the projects meet set criteria in order to achieve the outcomes and milestones which have been set with the Big Lottery Fund.

Regular reporting through Quarterly Monitoring Reports, update the Big Lottery Fund on progress towards these outcomes. In conjunction, the Council submits regular project summary tables accounting for all grant monies received and issued through to the individual projects. Any failure to met conditions of grant would result in payments being withheld.

Steps were taken to ensure that the beneficiaries could meet the remaining project costs through match funding, the Council had no legal responsibility as set through the Grant Aid Agreements to contribute financially. Once complete the Council is not responsible for the maintenance, including health & safety aspects of the projects.

The specific risks considered as part of this audit were:

- Failure to access Big Lottery funding for play schemes and inappropriate procurement practices.

This risk relates to the objective of to ensure any funding is adequately agreed and spent on play schemes, in line with Council's objectives and policy.

Scope of the review

The objective of our audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls and limitations were agreed:

Control activities relied upon:

- Proper involvement of accountancy and legal support before agreeing terms and conditions of lottery funding and procuring on behalf of schemes.

Limitations to the scope of the audit:

- Testing is on a sample basis only;
- It must be noted that our work does not provide an absolute assurance that material errors, loss or fraud do not exist.

The approach taken for this audit was systematic Audit and included the following:

- Establishing the risks affecting the achievement of your corporate objectives.
- Reviewing the adequacy and application of the controls in place to mitigate the risk.

Conclusion

Taking account of the issues identified, in our opinion the Board can take substantial assurance that the controls upon which the organisation relies to manage this risk, as currently laid down and operated, are effective.

This assurance level has been formulated on the basis of conclusions drawn on the individual elements of effectiveness, design and application of controls in place:

	SUBSTANTIAL	ADEQUATE	LIMITED
EFFECTIVENESS OF CONTROL FRAMEWORK	✓		
DESIGN OF CONTROL FRAMEWORK	✓		
APPLICATION OF AND COMPLIANCE WITH CONTROL FRAMEWORK	✓		
OVERALL OPINION	✓		

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review.

Recommendations Summary

The following tables highlight the number and categories of recommendations made, showing which have been brought forward from previous audits. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Risk	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
FAILURE TO ACCESS BIG LOTTERY FUNDING FOR PLAY SCHEMES AND INAPPROPRIATE PROCUREMENT PRACTICES.	0	0	1
TOTAL	0	0	1

Recommendations implemented since the previous audit in this area:

An audit of Play Schemes has not been previously reviewed by RSM Bentley Jennison Internal Audit.

Additional Feedback**GOOD PRACTICE IDENTIFIED DURING THE AUDIT**

Independent assessment and scoring of applications to determine the allocation of the grant monies.

Regular monitoring and reporting against established outcomes and milestones.

Non payment of funding to the beneficiaries until grant monies from the Big Lottery Fund and invoices from the provider had been received.

Action Plan

The priority of the recommendations made is as follows:

FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
ACTION IS IIMPERATIVE TO ENSURE THAT THE OBJECTIVE FOR THE AREA UNDER REVIEW IS MET.	REQUIRES ACTION TO AVOID EXPOSURE TO SIGNIFICANT RISK IN ACHIEVING THE OBJECTIVE FOR THE AREA UNDER REVIEW.	ACTION IS ADVISED TO ENHANCE CONTROL OR IMPROVE OPERATIONAL EFFICIENCY.

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
1	Management should introduce a protocol for formally documenting and recording future project site visits and correspondence within the Authority database. This should also include site visits undertaken by the Council's Assets and Facilities Department upon completion of a project.	Merits Attention	Y	Agreed to record as service requests on authority from henceforth for same or similar projects such as play builder.	Immediate	Healthy Communities Service Manager

04.09/10: Car Loans

Executive Summary

Introduction

An audit of Car Loans was undertaken as part of the approved internal audit periodic plan for 2009/10.

The Council has a Car Loan Policy in place which enables eligible staff to obtain loans from the Council for the purpose of purchasing a car, at favourable rates of interest.

The Car Loan Policy sets out the eligibility criteria for the scheme. We noted that the policy itself has not been reviewed and updated since December 2001 and that it is a brief document, with considerable scope for making it more informative and user friendly. A possible omission from the policy is specific guidance on how to proceed when an employee is made redundant and there is a car loan outstanding. Officers and members may consider that the existing rule requiring immediate repayment of outstanding monies may cause unnecessary hardship and that alternative arrangements should be specified.

There is limited take up of the loan facility at present. There are a number of reasons for this including: - generous incentives currently being offered by car dealers and eligibility restrictions which ensure that only certain grades of staff and high mileage users will qualify. However, we also noted that the scheme is not widely publicised, with no information available on the staff intranet.

Our audit work included testing of the application and authorisation process for loans. We found that all loans granted met the award criteria and that appropriate checking and authorisation procedures were in place. Our testing identified that in a small number of cases, the employee receiving the loan did not provide a copy of the vehicle registration document as required by the policy. This is a key control as it confirms that the loan has been used for the purpose intended and that the vehicle has been insured. As a result we have recommended that Finance staff follow up this requirement and ensure that the documents are obtained.

The specific risks considered as part of this audit were:

- There is an inadequate control framework in place governing the operation of the car loan system.
- Car loans are not repaid.
- There is insufficient take up of car loans.

These risks relate to the objective of ensuring that car loans are made in accordance with Council Policy, all details are accurate and complete and repayment is properly controlled.

Scope of the review

The objective of our audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- Testing is on a sample basis only;
- It must be noted that our work does not provide an absolute assurance that material errors, loss or fraud does not exist.

The approach taken for this audit was systematic audit and included the following:

- Establishing the risks affecting the achievement of your corporate objectives;
- Reviewing the adequacy and application of the controls in place to mitigate the risks.

Conclusion

Taking account of the issues identified, in our opinion the Board can take substantial assurance that the controls upon which the organisation relies to manage this area, as currently laid down and operated, are effective.

This assurance level has been formulated on the basis of conclusions drawn on the individual elements of effectiveness, design and application of controls in place:

	SUBSTANTIAL	ADEQUATE	LIMITED
EFFECTIVENESS OF CONTROL FRAMEWORK	✓		
DESIGN OF CONTROL FRAMEWORK	✓		
APPLICATION OF AND COMPLIANCE WITH CONTROL FRAMEWORK	✓		
OVERALL OPINION	✓		

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key finding from this review is as follows:

- Not all staff participating in the Car Loan Scheme have complied with the requirement to submit a copy of the Vehicle Registration Document.

Recommendations Summary

The following tables highlight the number and categories of recommendations made, showing which have been brought forward from previous audits. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Risk	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
THERE IS AN INADEQUATE CONTROL FRAMEWORK IN PLACE GOVERNING THE OPERATION OF THE CAR LOAN SYSTEM.	0	1	1
CAR LOANS ARE NOT REPAYED.	0	0	0
THERE IS INSUFFICIENT TAKE UP OF CAR LOANS.	0	0	1
TOTAL	0	1	2

Action Plan

The priority of the recommendations made is as follows:

FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
ACTION IS IMPERATIVE TO ENSURE THAT THE OBJECTIVE FOR THE AREA UNDER REVIEW IS MET.	REQUIRES ACTION TO AVOID EXPOSURE TO SIGNIFICANT RISK IN ACHIEVING THE OBJECTIVE FOR THE AREA UNDER REVIEW.	ACTION IS ADVISED TO ENHANCE CONTROL OR IMPROVE OPERATIONAL EFFICIENCY.

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
1	The Council's Car Loan Policy should be reviewed and updated, where necessary, to ensure that it remains fit for purpose. The opportunity should be taken to ensure that all areas of policy are covered and that the document is user friendly. Consideration should be given to making the Car Loan Policy available on the staff intranet.	Merits Attention	Y	The policy is currently under review which includes a comprehensive guide for usage and limitation. Upon policy approval the document will be made available on the Intranet and publicised on internal notice boards.	September 2009	Finance Support Team Leader and Car Loans Officer
2	Finance staff must ensure that all employees participating in the Car Loan Scheme provide a copy of the vehicle registration document to confirm that the loan provided as actually been used for the purpose intended.	Significant	Y	This has been standard practice for years but some lapses have occurred. It will be included in the reviewed policy as terms of the loan agreement.	September 2009	Finance Support Team Leader and Car Loans Officer
3	The Council should ensure that the availability of the Car Loan Scheme is appropriately publicised to all employees, including on the intranet and staff notice boards.	Merits Attention	Y	Upon policy approval the policy will be made available to all staff via the finance corporate area of the Intranet and through brief details displayed on all internal staff notice boards.	September 2009	Finance Support Team Leader and Car Loans Officer

05.09/10: Licensing

Executive Summary

Introduction

An audit of the Licensing function was undertaken as part of the approved internal audit periodic plan for 2009/10. The objective of our audit was to review all licensing operations and to confirm compliance with legislation and to ensure that licensing activities also contribute towards achieving the Council's objectives in relation to creating and maintaining a healthy environment.

The Council is responsible for receiving applications and issuing licenses for a wide range of business requirements. These range from licenses and permits for Street Collections and Lotteries to the licensing of taxis and riding schools. It also includes the licensing of premises and premises supervisors as required by the Licensing Act 2003. The 'Flare' system is used to maintain records of all licenses issued and application forms. Other documentary evidence in support of each application is scanned and stored electronically within Flare enabling it to be viewed on-screen at any time.

The Council will issue a license to all applicants who meet the strict eligibility requirements. Our audit testing confirmed that license applications and renewals are processed in a timely manner and all legislative requirements are satisfied. In particular, we confirmed that Hackney Carriage and Private Hire Vehicle Drivers undergo periodic medical examinations, are CRB checked and undertake a local knowledge test. Details of applications for premises licences and variations to existing licenses are passed to the Police and Fire Authorities for comment and the statutory notice period is followed. If a hearing is necessary, that too is held within the time limits specified.

The Council will always respond to complaints from the public and responsive investigations are carried out but our testing identified that little pro-active monitoring of compliance with license conditions is undertaken. It is agreed that this is good practice and is currently being pursued. Officers attend both pub watch with the licencees and regular meetings are held with representatives from the responsible authorities. Planned, unannounced visits enable compliance to be confirmed and also help to build positive relationships with licensees, improving co-operation and enabling intelligence to be gathered. Although not required under the legislation routine risk based inspections are being planned as an added service.

Similarly, with Hackney Carriages and Private Hire Vehicles; all complaints are responded to and actions are taken when licensed drivers receive convictions. Licensing Officers meet with drivers' representatives and from time to time, do monitor taxi ranks and have a presence on the streets. Examples of pro-active enforcement that are undertaken by other local authorities and which could easily be adopted by South Kesteven DC include: - periodic observation of taxi queues to ensure that private hire cars are not operating as Hackney Cabs or that unlicensed vehicles are operating and the setting up of joint initiatives with partner organisations including the Police, VOSA, DVLA and the DWP: to carry out periodic, unannounced checks to confirm that vehicles used are roadworthy, properly licensed and taxed. Management have stated that joint initiatives with partners have been undertaken but on an ad hoc basis. All vehicles are checked in a garage every 6 months to ensure that vehicles are fit for purpose and safe.

We noted that the Councils 'Statement of Licensing Policy', reviewed September 2007 states that "The Licensing Authority will ensure that all types of licensed premises and their operators, receive the appropriate level of attention, but on a risk based assessment basis". However, we found that the risk assessments of licensed premises have not been completed; no deadline has been set in the policy as to when routine proactive inspections will be undertaken.

The new policy on Hackney Carriages and Private Hire remains as "works in progress" and a target needs to be set for policy completion and implementation.

The intentions of the licensing legislation are aimed at the prevention of crime and disorder and public safety and the Council needs to consider if it is doing sufficient pro-active monitoring to carry out this essential public protection role.

We undertook our review and concentrated on the controls in place to mitigate the following risks if adequate controls are not in place:

- Laws and regulations relating to granting of licences are being breached, placing the Council in a position of facing legal action.
- Licences are issued without appropriate authorisation.
- Expired licences are not promptly detected.

Scope of the review

The objective of our audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- Testing will be carried out on a sample basis only.
- It must be noted that our work does not provide an absolute assurance that material errors, loss or fraud do not exist.

The approach taken for this audit was systematic audit and included the following:

- Establishing the risks affecting the achievement of your corporate objectives;
- Reviewing the adequacy and application of the controls in place to mitigate the risks identified.

Conclusion

Taking account of the issues identified, in our opinion the Board can take adequate assurance that the controls upon which the organisation relies to manage this area, as currently laid down and operated, are effective.

This assurance level has been formulated on the basis of conclusions drawn on the individual elements of design and application of controls in place:

	SUBSTANTIAL	ADEQUATE	LIMITED
DESIGN OF CONTROL FRAMEWORK		✓	
APPLICATION OF AND COMPLIANCE WITH CONTROL FRAMEWORK		✓	
OVERALL OPINION		✓	

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

- There is a significant imbalance in the priority afforded to granting licenses compared to the management time and resources allowed for compliance monitoring and enforcement activities; and
- A new policy for Hackney Carriages and Private Hire Vehicles requires completion, approval and implementation.

Recommendations Summary

The following tables highlight the number and categories of recommendations made, showing which have been brought forward from previous audits. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Risk	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
LAWS AND REGULATIONS RELATING TO GRANTING OF LICENCES ARE BEING BREACHED, PLACING THE COUNCIL IN A POSITION OF FACING LEGAL ACTION.	0	4	2
LICENCES ARE ISSUED WITHOUT APPROPRIATE AUTHORISATION.	0	0	0
EXPIRED LICENCES ARE NOT PROMPTLY DETECTED.	0	0	0
TOTAL	0	4	2

Action Plan

The priority of the recommendations made is as follows:

FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
ACTION IS IMPERATIVE TO ENSURE THAT THE OBJECTIVE FOR THE AREA UNDER REVIEW IS MET.	REQUIRES ACTION TO AVOID EXPOSURE TO SIGNIFICANT RISK IN ACHIEVING THE OBJECTIVE FOR THE AREA UNDER REVIEW.	ACTION IS ADVISED TO ENHANCE CONTROL OR IMPROVE OPERATIONAL EFFICIENCY.

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
1 a	As a matter of good practice, a planned programme of monitoring visits and inspections should be documented. Licensing Officers should ensure that records are maintained to confirm that these inspections take place and the outcome of the visit.	Merits Attention	Y	An inspection schedule is in the process of being drawn up. Inspections will be monitored using flare database. Inspection reports will be scanned into Flare database.	October 2009	Environmental Protection Service Manager
1b	On an on-going basis risk assessment of all licensed premises should be carried out to identify all high risk premises.	Significant	Y	Risk based inspection form has been drafted as a discussion document. Will be discussed with the team and a final version produced for use by October 2009.	October 2009	Environmental Protection Service Manager
2 a	A planned programme of monitoring visits and inspections should be documented. Licensing Officers should ensure records are maintained to confirm that these inspections have taken place, the vehicles inspected that were inspected and the outcome.	Merits Attention	Y	All vehicles are already required to undergo a full compliance test (MOT+) at a designated garage every 6 months. Pro active inspections, based on a monthly target of vehicles checked, is being devised. Inspection forms will be scanned and attached to database.	October 2009	Environmental Protection Service Manager

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
2 b	As a matter of good practice, the Council should enter into a joint working arrangement with VOSA to carry out periodic, unannounced inspections confirming; that the vehicles are correctly licensed, are complying with the license and the VOSA team to confirm that the vehicle is taxed, registered and roadworthy.	Significant	Y	VOSA inspections require garage facilities which have cost implications. Periodic joint inspections, working with both police and VOSA are planned, within manpower and budgetary constraints.	December 2009	Environmental Protection Service Manager
2 c	The new, robust policy for Hackney Carriages and Private Hire Vehicles should be completed as soon as possible. Target completion dates should be set for each stage of the approval and implementation process, leading to full implementation at the earliest date.	Significant	Y	Agreed.	Completion of Draft – October 2009 Committee and Consultation – December 2009. Final draft approved – March 2010	Environmental Protection Service Manager
3	All of the licensing risks and mitigating controls / monitoring processes currently active should be identified and evaluated to confirm that the current status of the risks is understood by management and is accurately recorded in the Risk Register.	Significant	Y	The licensing risks will be evaluated and entered onto the service risk register.	October 2009	Environmental Protection Service Manager

07.09/10: Resident Involvement

Executive Summary

Introduction

An audit of Residents Involvement was undertaken as part of the approved internal audit periodic plan for 2009/10.

As a responsible social landlord, the Council takes its responsibility to involve its tenants and leaseholders in the consultation and decision making processes, very seriously. Residents involvement is defined as “a two-way process that involves both tenants and their landlord in the sharing of ideas, where tenants are able to influence decisions and take part in what is happening”. When carrying out inspections of Housing and Tenancy Services, the Audit Commission follows specific key lines of enquiry in order to assess the effectiveness and efficiency of services.

The Council has produced a Tenant & Residents Involvement Strategy 2008/11. This sets out the Council’s commitment to involving its tenants in the decision making process and the support and encouragement that it will provide to interested tenants. Staff have devised a wide range of ways for encouraging residents to become involved, enabling interested residents to choose a particular involvement pathway to meet both their area of interest and the amount of time that they are able to contribute.

There are currently eleven fully constituted Neighbourhood Groups in operation, all of which have implemented the Council’s standard template constitution. This constitution reflects the best practice guidelines issued by the Tenants Participation Advisory Service. The District Wide Tenants Panel has a co-ordinating role for all of the involvement processes and includes representatives from each of the Neighbourhood Groups. The resident involvement process feeds into the Housing Consultative Group. This includes representatives from the District Wide Tenants Panel and also an equal number of Council Officers, confirming the whole joint approach to involvement.

Following a recent inspection by the Audit Commission, a Better, Efficient, Services for Tenants (BEST) improvement plan has been put in place in order to implement all of the recommendations for improvement. Progress towards implementation of the recommendations for improvement is reported to the Housing Consultative Group. A re-inspection by the Audit Commission is planned for January 2010 and good progress is being made towards implementation of the BEST plan, ahead of this date.

The Council makes full use of all available media including leaflets and the internet to promote the concept of residents’ involvement to all tenants and leaseholders; and aims to attract interest from residents of all ages, ethnicity and disability. The Council uses the quarterly tenant’s newsletter, ‘Skyline’, to keep all tenants informed of service developments and of improvements brought about as a result of the resident’s involvement process.

Scope of the review

The objective of our audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- Testing is on a sample basis only.
- It must be noted that our work does not provide an absolute assurance that material errors, loss or fraud do not exist.

The approach taken for this audit was systematic Audit and included the following:

- Establishing the risks affecting the achievement of your corporate objectives;
- Reviewing the adequacy and application of the controls in place to mitigate the risks.

Conclusion

Taking account of the issues identified, in our opinion the Board can take substantial assurance that the controls upon which the organisation relies to manage this area, as currently laid down and operated, are effective.

This assurance level has been formulated on the basis of conclusions drawn on the individual elements of design and application of controls in place:

	SUBSTANTIAL	ADEQUATE	LIMITED
DESIGN OF CONTROL FRAMEWORK	✓		
APPLICATION OF AND COMPLIANCE WITH CONTROL FRAMEWORK	✓		
OVERALL OPINION	✓		

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review.

Recommendations Summary

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Risk	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
A RESIDENT INVOLVEMENT POLICY HAS BEEN PRODUCED.	0	0	2
THE COUNCIL HAS ESTABLISHED A BUDGET FOR RESIDENTS INVOLVEMENT BASED ON REASONABLE ASSUMPTIONS AND SUPPORTING INFORMATION.	0	0	0
COUNCIL TENANTS ARE ABLE TO INFLUENCE SERVICES THROUGH THE ESTABLISHMENT OF RESIDENT GROUPS.	0	0	0
THE COUNCIL PROVIDES REGULAR UPDATES TO ITS TENANTS TO KEEP THEM INFORMED OF SERVICE DEVELOPMENTS.	0	0	0
THE COUNCIL PROVIDES ITS TENANTS WITH ANNUAL FEEDBACK ON PERFORMANCE.	0	0	0
THE COUNCIL REGULARLY SURVEYS ITS TENANTS FOR LEVELS OF SATISFACTION.	0	0	0
TOTAL	0	0	2

Action Plan

The priority of the recommendations made is as follows:

FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
ACTION IS IMPERATIVE TO ENSURE THAT THE OBJECTIVE FOR THE AREA UNDER REVIEW IS MET.	REQUIRES ACTION TO AVOID EXPOSURE TO SIGNIFICANT RISK IN ACHIEVING THE OBJECTIVE FOR THE AREA UNDER REVIEW.	ACTION IS ADVISED TO ENHANCE CONTROL OR IMPROVE OPERATIONAL EFFICIENCY.

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
1	The Tenant & Resident Involvement Strategy should be reviewed and updated annually to ensure that it remains up-to-date.	Merits Attention	Y	The Strategy will be reviewed by the end of October 2009 and annually thereafter.	October 2009	Service Manager (Tenancy and Neighbourhood Services)
2	The Council should focus future recruitment activity on the under 30 year old tenants with the objective of addressing the current under representation of this age group.	Merits Attention	Y	As recognised during the audit, we are taking action to target specific age groups but we recognise there is still work to do to achieve representation of this age group. We will include articles in the tenants' magazine and specifically target the u30s with information on the benefits of 'being involved'.	will commence September 2009	Service Manager (Tenancy and Neighbourhood Services)

09.09/10: IT Security Policies Review

Executive Summary

Introduction

An audit of IT Policies and Procedures was undertaken as part of the approved internal audit periodic plan for 2009/10.

As stated in the current ICT Strategy 2008-12, South Kesteven District Council is working towards broad compliance with the Information Security Management standard ISO27001. One of the requirements of this standard is that a framework of information security policies and procedures need to be developed and embedded into the organisation. An independent ISO27001 gap analysis audit, undertaken in October 2007, identified that the Council still required a number of policies and procedures to be implemented before they could be considered compliant with the standard.

The specific risk considered as part of this audit was:

- Security standards have not been implemented, leading to the security of IT systems being compromised and/or data being lost, damaged, unavailable or unlawfully disclosed to unauthorised persons.

This risk relates to the objective of ensuring:

- Policies and procedures are in place to assist with the management of IT and Information Security.

Scope of the review

The objective of our audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following limitations were agreed:

Limitations to the scope of the audit:

- This review focussed on management, directive and procedural controls and did not consider related technical controls in place.

The approach taken for this audit was key Controls Testing and included the following:

- Establishing the risks affecting the achievement of corporate objectives;
- Reviewing the adequacy and application of the controls in place to mitigate the risk(s).

Conclusion

Taking account of the issues identified, in our opinion the Board can take adequate assurance that the controls upon which the organisation relies to manage this area, as currently laid down and operated, are effective.

A substantial amount of work has been undertaken to develop a framework of information security and associated IT policies, in broad compliance with the requirements of the ISO 27001/2 standard. However, many of these policies are currently in draft format and have not been promulgated throughout the organisation. Accordingly, until these policies have been fully implemented within the organisation, the risk remains that appropriate information security standards have not been embedded within the Council.

This assurance level has been formulated on the basis of conclusions drawn on the individual elements of effectiveness, design and application of controls in place:

	SUBSTANTIAL	ADEQUATE	LIMITED
DESIGN OF CONTROL FRAMEWORK		✓	
APPLICATION OF AND COMPLIANCE WITH CONTROL FRAMEWORK		✓	
OVERALL OPINION		✓	

The conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

- Information security policies are currently in draft format and have not been issued and publicised throughout the Council. Accordingly, until these policies have been fully embedded within the organisation, appropriate security standards may not be in place, increasing the risk of IT systems being compromised and/or data being lost, damaged, unavailable or unlawfully disclosed to unauthorised persons.

Recommendations Summary

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

RISK	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
SECURITY STANDARDS HAVE NOT BEEN IMPLEMENTED, LEADING TO THE SECURITY OF IT SYSTEMS BEING COMPROMISED AND/OR DATA BEING LOST, DAMAGED, UNAVAILABLE OR UNLAWFULLY DISCLOSED TO UNAUTHORISED PERSONS.	0	2	3
TOTAL	0	2	3

Additional Feedback**GOOD PRACTICE IDENTIFIED DURING THE AUDIT**

A substantial amount of work has been undertaken to draft a suite of IT policies in broad compliance with the ISO 27001/2 standard for Information Security Management.

The new framework of Information Security policies in final draft include the following:

- Information Security Management System;
- Information Classification Policy;
- Cryptographic controls policy;
- Acceptable Use policy;
- Home working policy;
- Systems Monitoring policy;
- System Documentation policy;
- Physical Entry Controls and Secure Areas policy;
- Information Back up policy;
- Access Control policy; and the
- Information Security policy (which was approved in January 2009).

Action Plan

The priority of the recommendations made is as follows:

FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
ACTION IS IMPERATIVE TO ENSURE THAT THE OBJECTIVE FOR THE AREA UNDER REVIEW IS MET	REQUIRES ACTION TO AVOID EXPOSURE TO SIGNIFICANT RISK IN ACHIEVING THE OBJECTIVE FOR THE AREA UNDER REVIEW.	ACTION IS ADVISED TO ENHANCE CONTROL OR IMPROVE OPERATIONAL EFFICIENCY

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
1	The role of system "owner" should be formally assigned and documented for all key business systems. Formal system "owner" responsibilities should be drafted stating that this role is responsible for the security of information systems, as stated in the Council's Information Security Policy.	Merits Attention	Y	This recommendation is accepted and a formal document will be created to identify a system 'owner' and associated responsibilities.	1 st Nov 2009	Andy Nix
2	The Council should continue with the current plans to formally approve and implement the draft security policies, as soon as it is practical.	Significant	Partial	This recommendation is partly accepted. The security policy is approved by cabinet. Current draft policies will be formally be approved.	1 st Nov 2009	Andy Nix
3	The current framework of policy documents should be supplemented to cover all areas of Information Security as defined by the ISO27001/2 standard for Information Security Management.	Merits Attention	Y	It is agreed that this merits attention. The Council is working towards broad compliance with the ISO27001 standard. A new gap analysis will be carried out. Where significant risks continue in a gap analysis to the standard then this will be addressed.	1 st Nov 2009	Andy Nix

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
4	The Council should commence a staff awareness programme to embed the new policies and obtain formal, documented confirmation from staff that they have read, understood and agree to comply with the Information Security policies.	Significant	Y	This recommendation is accepted. Staff awareness of relevant policies and documented confirmation will be sought.	1 st Jan 2010	Andy Nix
5	The Council should develop an appropriate disclaimer at user sign on. This should, clearly state that Council systems are for internal use by employees only and that user access is subject to user agreement to abide by the relevant information security policies.	Merits Attention	Y	This recommendation is accepted. Methods to achieve this will be investigated.	1 st Jan 2010	Andy Nix

Appendix C: Internal Audit Protocol – 2009/10

The Council's approved internal auditors are RSM Bentley Jennison (BJ).

Set out below is the Internal Audit Protocol that will be followed in delivering Internal Audit work. This will be reviewed and updated annually.

Key Contacts - RSM Bentley Jennison:

Rob Barnett – Audit Manager (01159620900 & 07791237658)

Amjad Ali, – Assistant Audit Manager (01159620900 & 07721977543)

Key Contacts - SKDC:

Malcolm Gorringer, Interim Service Manager, Finance & Risk (x6511)

Tracey Elliot, Finance Support Officer (x6237)

Richard Wyles, Corporate Head & s151 officer (x6210)

Internal Audit (BJ) and SKDC Management Responsibilities

It is BJ's responsibility to ensure that the key stages in the audit process detailed below are met within the scheduled timescales e.g. assignment planning, fieldwork, draft report, etc. It is management's responsibility to ensure that they fully engage with the audit process to enable each key stage to be progressed as scheduled. This will provide managers with assurance on their internal control systems and will assist in the strengthening of internal control in underpinning service delivery. It will also assist in the management of corporate and operational risk and provide the Corporate Head (Finance and Customer Services) with the necessary s.151 assurance.

AUDIT PROCESS

Audit Needs Assessment and Annual Plan 2009/10

Initially, meetings were held with senior management (including Heads of Service and s.151 Officer) to ascertain areas of risk/ focus for Internal Audit work; previous audit plans and reports and the Council's corporate and operational risk registers have also been reviewed.

A draft audit plan for 2009/10 (and indicative plans for 2010/11 & 2011/12) was compiled and issued to senior management for comments; once agreed, a final version was presented to the Governance and Audit Committee and approved at its meeting on 28th May 2009. This plan has been used as the basis for planning each audit assignment.

Individual Assignment Planning

The Annual Audit Plan is assigned on a quarterly basis into detailed arrangements for individual audit visits and assignments. During 2009/10, 27 reviews will be undertaken plus any agreed ad-hoc work.

Prior to the beginning of each planned audit visit, the Client Manager for BJ will develop an Assignment Planning Sheet (APS) for each audit and agree audit commencement dates with relevant service managers. At this stage, Service managers should decide to what extent their Corporate Head should be involved in the audit process.

The APS is used to record the scope and objectives of the audit and to identify potential risks in the area under review. The APS includes objectives, risks and controls and provides service managers with a broad indication of the likely risks and controls that will be examined during the audit.

The APS also covers “Resources”, i.e. the logistics of the audit assignment. This includes allocating audit staff, confirming the commencement date and number of days allocated and identifying which managers will respond to the findings and recommendations and receive the draft and final reports.

The APS is sent well in advance of the audit (at least quarterly in advance) with the opportunity for managers to make comments/amendments to the APS. The APS will have deemed to be finalised if no comments or amendments are received 5 working days prior to the commencement of the audit.

Undertaking audit work

On the first day of the audit, the auditor will have an initial meeting with the relevant line manager(s) and/or Corporate Head(s); discussions include reviewing the APS (and making any amendments, if necessary) and obtaining any relevant background information (including documentation requested in the APS). It is important that all relevant managers are notified immediately if there are any material amendments to the APS.

The APS should be signed and dated by the Lead Manager with a signed copy retained by the auditor; having already been signed and dated by the Audit Manager.

The audit work is undertaken for the agreed duration of the audit and a working file is prepared with documentary evidence and tests carried out and the results.

Any issues arising are discussed with Council’s officers during the course of the audit.

Client Debrief (Exit Meeting)

Once the fieldwork is completed, the auditor will request a post-audit discussion referred to as a “debrief” with the appropriate line manager(s) and/or Corporate Head(s). The purpose of this meeting is to discuss and agree the findings and recommendations arising from the audit and to obtain initial acceptance of the recommendations made.

Draft Report

A draft audit report will normally be issued to the relevant manager(s) and/or Corporate Head(s) within 10 working days of the end of the audit visit or post-audit discussion (debrief). The Interim Service Manager and Finance Support Officer will also receive a copy of the draft report.

The draft is issued to the relevant line manager to:

- comment on any factual inaccuracies that may appear in the report;
- comment on the recommendations contained within the report;
- complete the action plan with the job title of the manager responsible for the implementation of agreed recommendations and target date for their implementation.

(Note: there may be instances where the number of recommendations or the categorisation of recommendations differs on the draft report to that discussed at the debrief; as all work is subject to audit manager review prior to the draft being issued)

Management's Response to the Draft Report

Relevant managers and/or Corporate Head(s) will respond to the draft report, complete the action plan and return direct to BJ within 15 working days of receipt (but see below). Where possible, the Lead Manager will coordinate the response.

All draft reports assessed as "limited", including the management response will be presented to the Monthly Governance Meeting for review (see below). The Corporate Head (Finance & Customer Services) will lead on this and report back with details of any further action required by managers before the report is sent to BJ to be finalised.

Customer Satisfaction Questionnaire

Commensurate with the issue of the draft report, a satisfaction questionnaire will be sent by BJ to the relevant manager(s) who will be required to complete and return this form to Tracey Elliot, Finance Support Officer within 15 working days of receipt. This will enable independent measurement of the quality of the internal audit service to be made and will be reported to the Governance & Audit Committee through in-year progress and annual reports.

Final Report

The agreed final report will be issued within 10 working days of receipt of managements' response to the draft report. The Corporate Head, S151 Officer, Interim Service Manager and Finance Support Officer will also receive a copy of the final report.

Reporting to Monthly Governance Meeting

All draft reports with "limited assurance", i.e. where the assurance level on the basis of the conclusions drawn on the individual elements of effectiveness, design and application of controls in place has been assessed as "limited" will be discussed at monthly meetings. This will give Governance Officers an opportunity to review the findings and recommendations before the report is finalised. In addition, the report can be considered alongside any governance or other issues that may be relevant to the area under review. Unless Governance Officers have requested otherwise, all other audit reviews will be finalised prior to the outcomes being reported verbally to the meeting by the Corporate Head (Finance & Customer Services).

Follow-Up – Tracking Audit Recommendations

It is important that agreed audit recommendations are implemented by the due date. To ensure that they are, internal audit will undertake a follow up review approximately six-months after the issue of the final report to establish the extent to which recommendations have been implemented. The findings will be discussed and agreed with the line manager(s) and reported at each meeting to the Governance & Audit Committee. Any residual/additional issues will be followed-up after a further 3-month period. Whilst there are no intermediate planning date stages covering follow-up an overall timeframe will be agreed in advance.

Reporting to the Governance & Audit Committee

This is on 4 levels as follows:

- Approving the Audit Needs/Risk Assessment and Annual Audit Plan at the start of the year
- Receiving progress reports from BJ summarising the findings and recommendations arising from audit work to date. Care will be taken when dealing with any sensitive information
- Receiving progress reports from the Corporate Head (Finance & Customer Services) on progress in implementing audit recommendations (tracking report)
- Receiving an Annual Report from BJ covering internal audit work undertaken throughout the year and providing an overall opinion on the assurance framework that forms part of the Council's Annual Governance Statement that accompanies the Statement of Accounts.

Covalent

Details of the Annual Audit Plan and the recommendations arising from each audit review are set up in Covalent to facilitate performance monitoring and progress chasing. Service Managers are responsible for regularly updating the list of outstanding recommendations with action taken (including notes) so that up to date progress reports can be taken direct from the system. This information is also used to inform the monthly Pit Stop reports to SMT.

Performance of Internal Audit (BJ)

This will be reviewed on a monthly basis by the Corporate Head (Finance & Customer Services) by reference to:

- Delivery of the audit plan and the quality of recommendations
- Implementation rate for audit recommendations
- Results of customer satisfaction questionnaires
- Use of Resources assessment and periodic review by District Audit
- Degree of on-site presence and response to call outs (max. 24hours)

Relationship with External Audit (DA)

BJ will consult with DA on a number of issues through regular liaison meetings but also on an informal basis. This will include:

- overall planning processes to ensure that audit plans and review cycles are complementary and that the use of audit resources is maximised without duplication.
- internal audit performance having regard to the Council's overall arrangements for governance and the use of resources assessment
- the approach to the internal audit of core financial systems. This is to ensure that the internal audit plan provides the necessary coverage and assurance in the areas of providing an opinion on the Authority's Accounts and to assess the Authority's arrangements for ensuring sound systems of internal control.

Agenda Item 9

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: CORPORATE HEAD, FINANCE & CUSTOMER SERVICES

REPORT NO: CHFCS64

DATE: 24 September 2009

TITLE:	Internal Audit Tracking Report - Position as at 31 August 2009	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Assets and Resources Portfolio Holder	
CONTACT OFFICER:	Malcolm Gorringe Interim Service Manager m.gorringe@southkesteven.gov.uk Telephone (01476) 406511	
INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
Equality and Diversity	N/A	No
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	Final Internal Audit Reports for 2007/08, 2008/09 and 2009/10	

1. RECOMMENDATIONS

It is recommended that the Committee review the contents of this report and identify any areas of concern.

2. PURPOSE OF THE REPORT

This is the regular tracking report presented to the Committee detailing progress made by management in implementing internal audit recommendations. The report sets out the number of recommendations at each stage of the process as at 31 August 2009.

3. DETAILS OF REPORT

Appendix A to this report details the reviews finalised by internal audit during 2008/09 and 2009/10, together with the number of recommendations. For the current year

(2009/10), with the exception of the Cash Security audit, none of the recommendations have been followed-up and in the majority of cases, are not due for implementation until after 31st August 2009.

The following is a summary of the status of the recommendations under each risk rating.

Year	Risk Category			Total	High Risk Implementation Rate	All Risks Implementation Rate
	High	Medium	Low			
2007/08	11	28	22	61	100%	100%
2008/09	13	31	20	64	69%	69%
2009/10	0	14	14	28	N/A	11%*
Total	24	73	56	153		

* Relates to Cash Security audit only

Appendix B details the changes in status for the risk shown in the last report (May 2009) along with any new recommendations finalised as at 31 August.

In summary, of the 125 recommendations that have been followed up in respect of 2007/08 and 2008/09, 105 (84%) have been implemented in full. Of the 24 high risk recommendations, 20 (83%) have been fully implemented and 4 are partially implemented. Appropriate management action is being taken to ensure that all outstanding recommendations are implemented by the due dates.

The next round of follow-up reviews will be undertaken by internal audit during quarters 3 and 4. The information/ recommendations arising from these reviews will be included in subsequent tracking reports.

4. OTHER OPTIONS CONSIDERED

None

5. RESOURCE IMPLICATIONS

This report has no direct impact on the Council's resources, including finance/ budget, people, land/property etc.

6. RISK AND MITIGATION (INCLUDING HEALTH & SAFETY AND DATA QUALITY)

None

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

None

8. CRIME AND DISORDER IMPLICATIONS

None

9. COMMENTS OF SECTION 151 OFFICER

This report summarises the position relating to outstanding recommendations from internal audit reports. As well as keeping members informed, it gives members the opportunity to query progress and outcomes in accordance with the committee's terms of reference.

10. COMMENTS OF THE MONITORING OFFICER

This report shows an overview of the internal audit follow-up activity. It is essential that those actions not carried out are completed and included in reports of future tracking of audit activity.

Appendix A

Internal Audit 2008/09 - All Reports Finalised

AUDIT AREA	DATE COMPLETED	ASSURANCE LEVEL	RECOMMENDATIONS													HIGH RISK IMPLEMENTATION RATE	ALL CATEGORIES IMPLEMENTATION RATE
			RISK CATEGORY					IMPLEMENTED					N/A	Not Implemented	Partly Implemented		
			Critical	High	Medium	Low	Total	Critical	High	Medium	Low	Total					
Concessionary Travel	Feb-09	Limited	0	2	1	0	3	0	0	1	0	1	0	0	2	0%	33%
Corporate Governance	Mar-09	Moderate	0	0	2	1	3	0	0	0	0	0	0	1	2	N/A	0%
Creditors & Bank Reconciliation	Feb-09	Moderate	0	0	4	4	8	0	0	2	3	5	0	2	1	N/A	63%
Disabled Facilities Grant	Feb-09	Moderate	0	0	4	2	6	0	0	3	2	5	0	0	1	N/A	83%
Duty to Involve	Jan-09	Moderate	0	0	2	1	3	0	0	0	1	1	0	2	0	N/A	33%
Gas Maintenance Contract	Feb-09	Moderate	0	0	3	4	7	0	0	3	4	7	0	0	0	N/A	100%
HR Devolvement	Jan-09	Limited	0	2	0	0	2	0	1	0	0	1	0	0	1	50%	50%
HRA	May-09	No Assurance	0	6	1	0	7	0	5	1	0	6	0	0	1	83%	86%
Major Capital Schemes	Sep-08	Limited	0	1	3	3	7	0	1	3	3	7	0	0	0	100%	100%
Planning Applications	Sep-08	Limited	0	2	2	3	7	0	2	2	3	7	0	0	0	100%	100%
Pool Cars	Feb-09	Moderate	0	0	4	0	4	0	0	1	0	1	0	0	3	N/A	25%
VAT	Feb-09	Moderate	0	0	2	1	3	0	0	0	1	1	0	0	2	N/A	33%
Void Letting	Mar-09	Moderate	0	0	3	1	4	0	0	2	0	2	0	2	0	N/A	50%
TOTAL			0	13	31	20	64	0	9	18	17	44	0	7	13	67%	58%

Implemented - Officers have indicated through self-certification the progress of recommendations. A sample of responses have been verified

N/A - The recommendation is no longer applicable due to changes in the system, or alternative action has been taken to address the risk

Not Implemented - The recommendation has not been addressed, alternative action has not been taken

Partly Implemented - Officers have started implementation of recommendations

Appendix A

Internal Audits 2009/10 - Reports Finalised as at 31 August 2009

AUDIT AREA	DATE COMPLETED	ASSURANCE LEVEL	RECOMMENDATIONS											FUNDAMENTAL RISK IMPLEMENTATION RATE	ALL CATEGORIES IMPLEMENTATION RATE
			RISK CATEGORY				IMPLEMENTED				N/A	Not Implemented	Partly Implemented		
			Fundamental (High)	Significant (Medium)	Merits Attention (Low)	Total	Fundamental (High)	Significant (Medium)	Merits Attention (Low)	Total					
Car Loans	20-Jul-09	Substantial	0	1	2	3									
Cash Security	26-May-09	Limited	0	7	4	11	0	2	1	3	1	6	1	N/A	27%
IT Policies & Procedures	01-Sep-09	Adequate	0	2	3	5									
Licensing	01-Sep-09	Adequate	0	4	2	6									
Play Schemes	14-Jul-09	Substantial	0	0	1	1									
Residents Involvement	13-Aug-09	Substantial	0	0	2	2									
		TOTAL	0	14	14	28									

With the exception of the Cash Security audit, none of the above recommendations have been followed up (tracked) and in the majority of cases the recommendations are not due for implementation until after 31 August 2009

Implemented - Officers have indicated through self-certification the progress of recommendations. A sample of responses have been verified

N/A - The recommendation is no longer applicable due to changes in the system, or alternative action has been taken to address the risk

Not Implemented - The recommendation has not been addressed, alternative action has not been taken

Partly Implemented - Officers have started implementation of recommendations

Appendix B

Internal Audit 2008/09 Recommendations Outstanding as at 31 August 2009

Code & Title	Due Date	Completed Date	Status	Progress Bar	Latest Note
IA FC09 Concessionary Travel Audit Actions					
IA FC09-01 Partnership Agreement with East Lindsay District Council	30 Oct 09		Assigned	50%	A draft participation agreement has been circulated by ELDC around the Lincolnshire Concessionary Fares partnership and SKDC has fed its comments back on this. ELDC are aiming to get this agreed by mid October 09.
IA FC09-02 Information provision to support concessionary travel expenditure	30 Sep 09		Assigned	30%	Discussions between Financial Managements Team Leader and Corporate Head for Finance & Customer Service resulted in the original due date being moved back to 30 September to allow S151 Officer to pursue the outstanding actions directly with WLDC.
IA PI19 Corporate Governance 2008/09 Audit Actions					
IA PI19-01 Member's Code of Conduct	19 Apr 10		Assigned	10%	Note in bring forward system to discuss with MO at agenda preparation time for annual meeting on 22 April 2010.
IA PI19-02 Ongoing corporate governance training for Officers	31 Dec 09		Assigned	0%	Interim Service Manager to produce a training programme by the end of December.
IA PI19-03 Annual review of committee effectiveness	19 Apr 10		Assigned	20%	Annual review of Governance & Audit Committee in place.
IA FC09 Creditors and Bank Reconciliations Audit Actions					
IA FC09-01 Segregation of Duties	30 Sep 09		Assigned	0%	
IA FC09-02 Absence of guidance for each employee	31 Dec 09		Assigned	0%	
IA FC09-06 Approved suppliers	31 Dec 09		Assigned	50%	All new suppliers set up with full information.
IA SC22 Disabled Facilities Grant Audit Actions					
IA SC22-01 Work Specifications	30 Sep 09		Assigned	20%	Work on specifications delayed as anticipated input from Building Control technical officer is not available.
IA SC22-04 SLA exit clauses	28 Sep 09	26 Aug 09	Completed	100%	3 month exit clauses in place within SLA which is the same as the arrangements with Supporting People who also fund the Home Improvement Agency.
IA SC22-06 Budget Profiling	30 Jun 09	26 Aug 09	Completed	100%	New spending profile agreed with Home Improvement Agency. Some slippage at SKDC at present because of changes to grant approval system. A non key decision is required to secure HIA delivery of grant expenditure to £450k for 2009/10. The current SLA is only for £300k.

Code & Title	Due Date	Completed Date	Status	Progress Bar	Latest Note
IA PI18 Duty to Involve Audit Actions					
IA PI18-01 Lack of Clarity	30 Sep 09		Check Progress	0%	
IA PI18-02 Member Involvement	30 Sep 09		Assigned	0%	
IA RO02 Gas Maintenance Contract Audit Actions					
IA RO02-04 KPI Review	28 Sep 09	07 Sep 09	Completed	100%	KPI returns are checked on an ongoing basis.
IA RO04 HR Devolvment Internal Audit Actions					
IA RO04-01 Strategic Plan for HR devolvment	31 Dec 09		Check Progress	66%	Due date amended due to staffing issues.
IA TS25 HRA Internal Audit Actions					
IA TS25-05 Lack of budget monitoring training for budget holders	13 Jul 09	18 Aug 09	Overdue	90%	Financial Regulations training has now been undertaken with the relevant repairs staff and any agreed actions from this are being addressed. Assets and Facilities are still tasked with arranging contract procedure rules training which is of main priority.
IA HE14 Pool Cars Internal Audit Actions					
IA HE14-01 Policies for use of pool cars	01 Jul 09	26 Aug 09	Completed	100%	Plans for new booking system have been abolished. Sticking with old system.
IA HE14-02 Transport Strategy	31 Jul 09		Overdue	78%	Transport Strategy to be re-presented to Cabinet in Sept 09.
IA HE14-03 Driving Licence Checks	30 Jun 09		Overdue	72%	Discussion has taken place with Service Managers who agreed to the amendments. The Corporate Health & Safety Officer is to formalise the process.
IA FC09 VAT Audit Actions					
IA FC09-01 VAT Reclaims (Tenancy Services)	31 Dec 09		Check Progress	0%	
IA FC09-03 Application of Invoice VAT Indicators	21 Dec 09		Check Progress	0%	
IA TS25 Void Letting Audit Actions					
IA TS25-01 Void Lettings Procedure	26 Feb 10		Assigned	0%	Due date amended - review being undertaken wrt void property repairs. Procedures will be written once review is complete.
IA TS25-02 Action plan for hard-to-let properties	30 Jun 09	08 Sep 09	Completed	100%	Hard to let plan has now been completed.

Code & Title	Due Date	Completed Date	Status	Progress Bar	Latest Note
IA TS25-03 Refreshing on prospective tenant data	28 Aug 09	08 Sep 09	Completed	100%	Review of housing register has now been completed.
IA TS25-04 Availability of procedural guidance	26 Feb 10		Assigned	0%	Due date amended - review being undertaken wrt void property repairs. Procedures will be written once review is complete.

Agenda Item 10

REPORT TO GOVERNANCE & AUDIT COMMITTEE

REPORT OF: CORPORATE HEAD, FINANCE & CUSTOMER SERVICES

REPORT NO: CHFCS68

DATE: 24th September 2009

TITLE:	Update on Transition to International Financial Reporting Standards	
FORWARD PLAN ITEM:	N/A	
DATE WHEN FIRST APPEARED IN FORWARD PLAN:	N/A	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	N/A	
COUNCIL AIMS/ PORTFOLIO HOLDER NAME AND DESIGNATION:	Councillor Mike Taylor Resources and Assets Portfolio	
CORPORATE PRIORITY:	Quality Organisation	
INITIAL IMPACT ASSESSMENT:	Carried out and appended to the report:	Full impact assessment required:
Equality and Diversity	N/A	
Crime and Disorder	N/A	
Risk	N/A	
Climate Change	N/A	
Health and Safety	N/A	
Data Quality	N/A	
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS:	CHFCS35 Transition to IFRS	

1. INTRODUCTION AND BACKGROUND

A report on the requirement to convert to compliance with International Financial Reporting Standards (IFRS) was presented to the Governance & Audit Committee on 19 March 2009.

The purpose of this report is to update the Committee on progress made towards preparing the Annual Statement of Accounts in compliance with IFRS from 2010/11.

2. RECOMMENDATIONS

2.1 The Committee is asked to:

- Note the latest position in respect of the conversion process from UK Generally Accepted Accounting Practice (UKGAAP) to IFRS.

3. DETAILS OF REPORT

3.1 The main areas of impact on SKDC were identified in the previous report.

3.2 The work relating to these areas has been assessed in light of the draft guidance published by the Chartered Institute of Public Finance & Accountancy (CIPFA) and an action plan is attached at Appendix A setting out timelines and responsibilities for the work involved in implementing the changes.

3.3 A more detailed project plan is being prepared which will show the resource requirements needed both within Finance and from an Authority perspective to complete this work.

3.4 The application of some of the new accounting standards has not yet been confirmed by CIPFA and these are still under consultation. The results of this consultation may result in further work needing to be carried out to ensure that SKDC can comply with all requirements.

4. COMMENTS OF SECTION 151 OFFICER

4.1 My comments are included in the report.

5. COMMENTS OF MONITORING OFFICER

5.1 The Council has no other alternative but to meet the new accounting standards within the timescale detailed in the report. It is important that Members are aware of the changes and the progress of the work required to meet those standards

6. CONCLUSION

6.1 There is a significant amount of work necessary within a fairly short timescale to ensure full compliance with IFRS. This will have a resource implication on both the Finance team and potentially other service areas in the Authority.

6.2 Further updates on progress will be made at future meetings.

7. CONTACT OFFICER

Nicky Lovely
Financial Accountant Team Leader
01476 406208
n.lovely@southkesteven.gov.uk

APPENDIX A - ACTION PLAN

Area of Work	Action Needed	Service Responsible	Completion by	Status
Leases	Identify lease by type and accounting transactions required	Finance	July 2009	Complete
	Acquire valuations for any leased assets requiring change in treatment	Finance	Sept 2009	Will not be received till Oct/Nov 2009
	Calculate impact on opening balance sheet	Finance	Sept 2009	Cannot commence until valuation data received
	Agree process for identifying future lease types at inception and to ensure accounting treatment agreed	Finance, Legal Assets & Facilities, Procurement	Jan 2010	
Fixed Assets & Capital Expenditure	Obtain asset valuations on new basis	Finance	Sept 2009	Will not be received till Oct/Nov 2009
	Determine accounting treatment of shared ownership properties	Finance, Housing	Sept 2009	
	Decide valuation methodology for investment properties	Finance	Sept 2009	Awaiting guidance from CIPFA
	Reclassify sports club loans and calculate split between current and non-current	Finance	Sept 2009	
	Analysis of all other assets to ensure correct accounting treatment applied under IFRS	Finance, Legal	Sept 2009	In progress
	Calculate impacts of above on opening balance sheet	Finance	Sept 2009	Cannot commence until valuation data received
	Produce IFRS compliant policy for classifying investment properties	Finance, Assets & Facilities, Economic Development	Dec 2009	

Assets for Sale	Produce IFRS compliant policy on identifying assets for sale	Finance, Legal, Assets & Facilities	Sept 2009	Cannot commence until valuation data received
	Reclassify assets according to the policy criteria	Finance	Sept 2009	
	Calculate impact on opening balance sheet	Finance	Sept 2009	
Intangible Assets	Assess intangible assets to ensure correct accounting treatment re website.	Finance, IT	Sept 2009	Completed
	Calculate impact on opening balance sheet if necessary	Finance	Sept 2009	Completed
Contracts	Analysis of existing contracts to identify embedded leases and embedded derivatives	Finance, Legal, Assets & Facilities,	Sept 2009	Completed
	Agree process to identify embedded leases and embedded derivatives in future contracts	Finance, Legal, Assets & Facilities, Procurement	Jan 2010	
Partnerships	Analysis of all partnership arrangements to determine correct accounting treatment	Finance, Partnerships & Community Safety	Oct 2009	
	Agree data collection/sharing process with partners where group accounts will need to be produced	Finance	Dec 2009	
Employee Benefits	Agree method to collect retrospective data as at 31 March 2009 and roll out to all staff	Finance, HR	Aug 2009	Completed
	Calculate accrual for restated balance sheet	Finance, Exchequer Services	Sep 2009	
	Calculate accrued maternity pay due at 31 March 2009	Finance, Exchequer Services	Sep 2009	

	• Agree process to collect data re hours owed to employees at 31 March each year	Finance, HR	Oct 2009	
	• Set up process to start from 1 April 2009 and roll out to all staff	Finance, HR	Oct 2009	
Other areas	• Restate 31 March 2009 balance sheet • Produce reconciliation between IFRS and UK GAAP balance sheets • Train finance staff – awareness of IFRS and new processes involved • Analysis of extra disclosure requirements and data needed for compliance. Set up processes to collect any new data • Produce IFRS compliant accounting policies • Produce templates of new format financial statements and map figures • Advanced training of finance staff to ensure correct level of skills available • Produce 2009/10 accounts under UK GAAP then IFRS rules	Finance Finance Finance Finance Finance Finance Finance Finance	Sep 2009 Sep 2009 Oct 2009 Nov 2009 Feb 2010 Mar 2010 Mar 2010 Mar to Sep 2010	In progress, cannot complete until valuation data received Cannot complete until valuation data received

Agenda Item 11

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: CORPORATE HEAD OF FINANCE AND CUSTOMER SERVICES

REPORT NO: CHFCS65

DATE: 24th September 2009

TITLE:	ASSURANCE STATEMENTS – QUARTER ENDED 30TH JUNE 2009	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Assets and Resources Portfolio Holder	
CONTACT OFFICER:	Malcolm Gorringe Interim Service Manager (Finance & Risk) m.gorringe@southkesteven.gov.uk Telephone (01476) 406511	
INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
Equality and Diversity	N/A	No
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	Quarterly Assurance Statements from December 2007; last quarter June 2009.	

1. RECOMMENDATIONS

It is recommended that the Committee review the contents of this report and identify any issues arising.

2. PURPOSE OF THE REPORT/DECISION REQUIRED

Each quarter, service managers are required to complete assurance statements in relation to the effectiveness or otherwise of the systems and controls in operation on a day to day basis. Corporate Heads are required to complete statements every six months; the next statements are due on 30th September. This helps the Council to maintain an effective system of internal control.

This report provides a summary of the specific issues and actions arising from the statements completed by service managers during the last quarter ended 30th June 2009. It is pleasing to note a 100% response rate from service managers. Assurance Statements have been completed since December 2007 and outcomes are reviewed

by the Senior Management Team quarterly as an integral part of the monthly “pit stop” meetings.

3. DETAILS OF REPORT

Areas Covered:

Each quarter, the following areas are reviewed for compliance:

- **Risk management** – risks to the achievement of service objectives have been assessed and appropriate action taken
- Timely completion of **personal development reviews (PDRs)**
- **Risk and counter fraud training** received
- Staff are aware of and have access to: **financial regulations, contract procedure rules, whistle-blowing policy, counter fraud and corruption policy, code of conduct, health and safety policy and complaints procedure**
- Completion of regular **health and safety risk assessments** and appropriate action taken
- Review of the **business continuity plan** and test as appropriate
- Addressing the outcomes of any **external reviews**
- Regular monitoring of **service plans, objectives, risks and actions**
- Compliance with **Corporate Contracts Register** – this was added in June 2009 as a means of ensuring that all goods and services received from suppliers in excess of £20,000 (per contract procedure rules) are identified and covered by a formal contract

Generally, the actions of service managers have helped to improve and strengthen the systems and controls in operation in their respective areas. More recently, the Contracts Register has been brought up to date and there is now greater awareness amongst staff of the need to comply with financial regulations and contract procedure rules, etc. With a developing governance agenda and heightened awareness, it is important that this impetus is maintained as at any given time there will be issues to address and actions required as evidenced by the following table.

Summary of Issues Outstanding as at 30th June 2009

Issue	Action	Implementation Date
Complete risk assessment of 2008/09 service plan in some areas	Risks to be assessed, evidenced reviewed and appropriate action taken	August 2009
Arrange counter fraud training & other governance training for new and existing staff.	Service Manager to review requirements and implement an integrated training plan for roll out to all staff.	From September 2009
Arrange training on finance and procurement issues	As above	From September 2009 and included with budget training and guidance notes

Significant number of outstanding performance appraisals across the Council	Being completed	On-going
Undertake health and safety risk assessments in some areas	Contact made with Corporate H&S Officer for guidance where requested.	Completed – as required, e.g. for new starters
Need to manage long term sickness absence and return to work in a few cases	Temporary cover/overtime in place and further training provided. Referral to occupational health, where appropriate	As required
Review working arrangements to ensure certain staff on shifts can attend training sessions, e.g. CCTV staff	Work patterns amended to allow inclusion in training when available	Completed as required
Implement internal audit recommendations	Review actions and implement	Various and on-going – covered by Tracking Report
Review, update and test business continuity plan in certain areas of the Council's business. Separate arrangements are in place for dealing with flu pandemic	Issues raised shared with business continuity consultant for further advice for managers – then implement	From September 2009
Loan working arrangements require reviewing	Currently under review	On-going
Contracts register to be updated for the whole authority and reviewed monthly	Contracts register up to date – some o/s issues being addressed	On-going monitoring
Issues surrounding application of financial regulations within Repairs & Improvements	Action plan agreed and implemented with regular monitoring – position improving	On-going
Ensure most up to date version of all policies and procedures are accessible to staff on the Intranet	In progress	September 2009
Certain areas have resourcing/capacity issues due to staff movements, etc.	Resourcing under review in each area affected	On-going

4. OTHER OPTIONS CONSIDERED

None

5. RESOURCE IMPLICATIONS

This report has no direct impact on the Council's resources, including finance/ budget, people, land/property etc.

6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA

QUALITY)

None

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

None

8. CRIME AND DISORDER IMPLICATIONS

None

9. COMMENTS OF SECTION 151 OFFICER

The quarterly assurance statements are an important tool in the monitoring and compliance of the corporate approach to ensuring good governance and effective internal control.

10. COMMENTS OF MONITORING OFFICER

Assurance statements are completed by all corporate heads (six monthly) and service managers (quarterly). The information from those returns is collated and forms the actions detailed in this report. These statements are one tool used to assess the state of good corporate governance within the organisation.

11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER

None

12. APPENDICES:

None

Agenda Item 12

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: CORPORATE HEAD, FINANCE & CUSTOMER SERVICES

REPORT NO: CHFCS66

DATE: 24th September 2009

TITLE:	Risk Management Strategy 2009/10	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Assets and Resources Portfolio Holder	
CONTACT OFFICER:	Malcolm Gorringe Interim Service Manager (Finance & Risk) m.gorringe@southkesteven.gov.uk Telephone (01476) 406511	
INITIAL IMPACT ASSESSMENT:	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
Equality and Diversity	N/A	No
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	Risk Management Strategy 2009/10 Risk Management Annual Report 2008/09	

1. RECOMMENDATIONS

The Governance & Audit Committee is requested to:

- Review the Strategy and identify any amendments required.

2. PURPOSE OF THE REPORT/DECISION REQUIRED

Risk management, including the implementation of the strategy is a key element within the annual Use of Resources assessment which forms part of the joint inspectorates' framework for Comprehensive Area Assessment that came into effect from April 2009.

It is a requirement of the Council's approach to risk management that the strategy is regularly reviewed and updated in line with its developing needs and priorities and best practice. This report updates the previous strategy (April 2008) and seeks to clarify the various roles, responsibilities and governance structures.

3. DETAILS OF REPORT

A full report detailing the activity undertaken during the previous year (2008/09) was considered by this Committee in May 2009. This identified the need to review and update the strategy and align the methodology with best practice. Accordingly, this has been undertaken and officers will continue to keep the Council's approach under review on an annual basis.

The current strategy has brought together all key processes involving risk at strategic and operational level, including partnerships, project management, health and safety, business continuity, etc. The risk management group, established in 2007/08 has continued to meet with discussions centring on reviewing operational/service risks and the development of business continuity plans, health & safety and risk management training, etc. The corporate risk register continues to be reviewed on a quarterly basis by Management Board and the next update will be reported to this Committee at its meeting in December.

Good progress has been made in raising awareness of risk management within all service areas and the embedding of risk management across the authority as a whole. Implementation of the revised and updated strategy will help to improve and strengthen the processes that underpin the Council's overall approach to managing risk.

4. OTHER OPTIONS CONSIDERED

None

5. RESOURCE IMPLICATIONS

This report has no direct impact on the Council's resources, including finance/ budget, people, land/property etc.

6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)

None

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

None

8. CRIME AND DISORDER IMPLICATIONS

None

9. COMMENTS OF SECTION 151 OFFICER

This report provides a revised and updated risk management strategy and looks at the Council's overall approach to managing risk. It is important that Governance and Audit Committee reviews the strategy and identifies any amendments required prior to its adoption throughout the authority.

10. COMMENTS OF MONITORING OFFICER

The strategy has been reviewed to provide a more “user friendly” format. The management of risk involves every single person involved in council business. It is essential it is understood and followed internally and by external contractors. The strategy should be included in the Council’s publication scheme and all employees, members and contractors should be made aware of the contents of the strategy and their responsibilities in accordance with the strategy.

11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER

None

12. APPENDICES:

- Appendix A – Risk Management Strategy 2009/10



Risk Management Strategy

Contents:

	Risk Management Policy
1	Introduction and Background
2	Risk Management Objectives
3	What is Risk?
4	What is Risk Management?
5	Types of Risk
6	Embedding Risk Management
7	Risk Assurance
8	Methodology
9	Roles and Responsibilities
Appendix	
A	Risk Management Procedures
B	Risk Management Process
C	Categories of Risk
D	Roles and Responsibilities

August 2009

RISK MANAGEMENT STRATEGY

Risk Management Policy

The Council is committed to developing its Risk Management Strategy, framework and the necessary supporting processes as part of the Council's on-going improvement programme. This will help to improve and strengthen governance and front-line service delivery throughout the Council. The aim is to minimise the incidence and impact of risk taking activity, improve decision making and increase opportunities for innovation.

The Council undertakes to promote and ensure that:

- i. The management of risk is linked to performance improvement and the achievement of its priorities and service objectives.
- ii. Members and the senior management own, lead and support risk management.
- iii. Ownership and accountability are clearly assigned for the management of risks at all levels throughout the Council.
- iv. There is a commitment to embedding risk management into the Council's culture and organisational processes at all levels including corporate, programme, project, operational and service.
- v. All Members and officers acknowledge and embrace the importance of risk management as a process, by which key risks and opportunities are identified, evaluated, managed and contribute towards good governance. This is reinforced through the delivery of on-going training programmes.
- vi. Effective monitoring and reporting mechanisms are in place to continuously review the Council's exposure to, and management of, risks and opportunities.
- vii. Open and inclusive processes are established and maintained by involving all those associated with the planning and delivery of services, including stakeholders and partners.
- viii. Best practice systems for managing risk are used throughout the Council, including mechanisms for monitoring and reviewing effectiveness against agreed standards and targets.
- ix. Accountability to stakeholders is fully demonstrated through periodic progress reports and an annual statement on the effectiveness of and the added value (benefits) from the Council's risk management strategy, framework and processes.
- x. The Council's approach is regularly benchmarked against high performing public and private sector organisations.

- xi. The Risk Management Strategy is reviewed and updated annually in line with the Council's developing needs and requirements.

1.0 Introduction and background

- 1.1 This Strategy provides an overview of the Council's arrangements for risk management. It updates the previous Strategy (April 2008) and seeks to clarify the various roles, responsibilities and governance structures.
- 1.2 Through priority plans and service objectives, the Council must balance the demands of service users, tax payers; involve communities in service provision; deliver, commission and regulate services; and enter into local and strategic partnerships, sometimes involving complex funding arrangements. Balancing all these competing demands and objectives means that the Council needs a framework that ensures that a pro-active approach is taken and risks are considered before decisions are taken.
- 1.3 Risk management is an essential part of securing the "health" of the Council because it is a crucial part of the overall arrangements for securing effective corporate governance. Risk management can make a difference and enhance performance by:
 - Identifying and preventing the bad things from happening; and
 - Ensuring all the good things we want to do actually happen.
- 1.4 The Council has to comply with various statutory requirements that include issues relating to risk management. Risk management is a key element of the Council's Annual Governance Statement and is included within the annual Use of Resources assessment; it is still a key part of the assessment criteria for 2009 that is integral to the new Comprehensive Area Assessment (CAA).

2.0 Risk Management Objectives

- 2.1 The purpose of this strategy is to set out how we will manage risk throughout the Council and to ensure that risks are identified at the right time to enable good decisions to be made. In particular to:
 - Ensure risk management is part of strategic and operational management decision making, planning and implementation
 - Manage risks in accordance with the Authority's risk management strategy, recognised best practice and to enable good governance
 - Take account of internal and external changes that may impact on the Council's overall risk profile
 - Respond to risk in a balanced way, mindful of the risk level, risk reduction potential, cost/benefit, and relationship to resource constraints
 - Raise awareness of the need for effective risk management

3. What is Risk?

- 3.1 Risk can be defined as anything that poses a threat to the achievement of the Council's objectives, programmes or service delivery to residents, businesses and communities. It can come from inside or outside the organisation; may involve financial loss or gain; physical damage to people or property; customer dissatisfaction; unfavourable publicity; failure of equipment; or fraud, etc. Failure to take advantage of opportunities may also have risks, e.g. not bidding for external funding, etc.

4. What is Risk Management?

- 4.1 Risk management is the management of risk in a manner consistent with the virtues of economy, efficiency and effectiveness. It is about making the most of opportunities (making the right decisions) and about achieving objectives once such decisions are made.
- 4.2 There is no such thing as a risk free environment, but many risks can be avoided, reduced or eliminated through good risk management – something managers do every day as part of their normal work.
- 4.3 There are many benefits to making sure that risk management is considered and applied at all levels in the Council, including:
- Allowing managers to focus on issues that really matter;
 - Managers are focussed on doing the right things in the right way;
 - Fewer surprises;
 - More likely to achieve business objectives;
 - More likely that new developments can be delivered on time and on budget;
 - More informed risk taking and decision making

5.0 Types

- 5.1 To aid the management of risk we have set out the following categories:
- Corporate risk
 - Operational risk, which includes service delivery, project management and health and safety.
 - Financial risk
 - Business continuity and disaster recovery
 - Reputational risk
- 5.2 **Corporate risks** are those high level and cross cutting risks which need to be taken into account in judgements about the Council's priorities, plans and objectives. These are identified as part of the process of preparing the corporate plan and other related strategies, e.g. the Medium Term Financial Plan. Members and officers are involved in the identification, assessment and

treatment of those risks. The identified risks are recorded on an electronic database and monitored by members and officers during the year.

- 5.3 All reports to members include a risk management assessment.
- 5.4 **Operational risks** are those risks which managers and staff will encounter in the daily course of their work and impact on front line service delivery.
- 5.5 As part of the annual cycle of service plan preparation, all service plans include a risk assessment of the service area actions which are provided by service managers and approved by corporate heads.
- 5.6 We are committed to ensuring that we comply with the necessary Health & Safety legislation to ensure the safety of our members, workforce, visitors and contractors whilst on our premises and those who use any of our facilities.
- 5.7 **Financial risks** may result from a breakdown in the Council's financial systems or there may be risks arising from the credit crunch and economic downturn, e.g. on investments, debt management, etc.
- 5.8 **Business continuity** and disaster recovery are associated with those risks which prevent the Council from delivering critical services to its customers. These risks are identified for all critical services and are reviewed on an annual basis which meets the Council's obligations under the Civil Contingencies Act 2004. Business continuity plans are included in the risk action plan scrutinised by the Governance & Audit Committee. A business continuity group remains established within the Council.
- 5.9 **Reputational risks** are those risks that may undermine the confidence that partners, customers, staff and the public have in the Council, e.g. adverse news articles.
- 6.0 Embedding risk management**
 - 6.1 The Portfolio Holder and the Senior Management Team are jointly responsible for ensuring that risk management is embedded throughout the Council.
 - 6.2 It is the responsibility of all Corporate Heads and Service Managers to ensure that within their directorate and service areas, risks are being effectively managed.
 - 6.3 The Governance & Audit Committee is responsible for scrutinising our risk management systems.
 - 6.4 It is important that this Strategy covers bodies working in partnership with the Council and the arrangements for managing risk are clearly understood.
 - 6.5 The Finance & Risk Team will provide advice and assurance on a day to day basis.

7.0 Risk assurance

7.1 We will obtain assurance that our risk management processes are working effectively by:-

- Examination and review providing general review of the function;
- These procedures are set out in appendix A

8.0 Methodology

8.1 We use the methodology set out in appendices B and C when undertaking risk assessments.

9.0 Roles and Responsibilities

9.1 All officers and members have a key responsibility to ensure that risk management is effective across the whole of the authority's operations. Specific roles and responsibilities are set out in Appendix D.

Appendix A – Risk Procedures

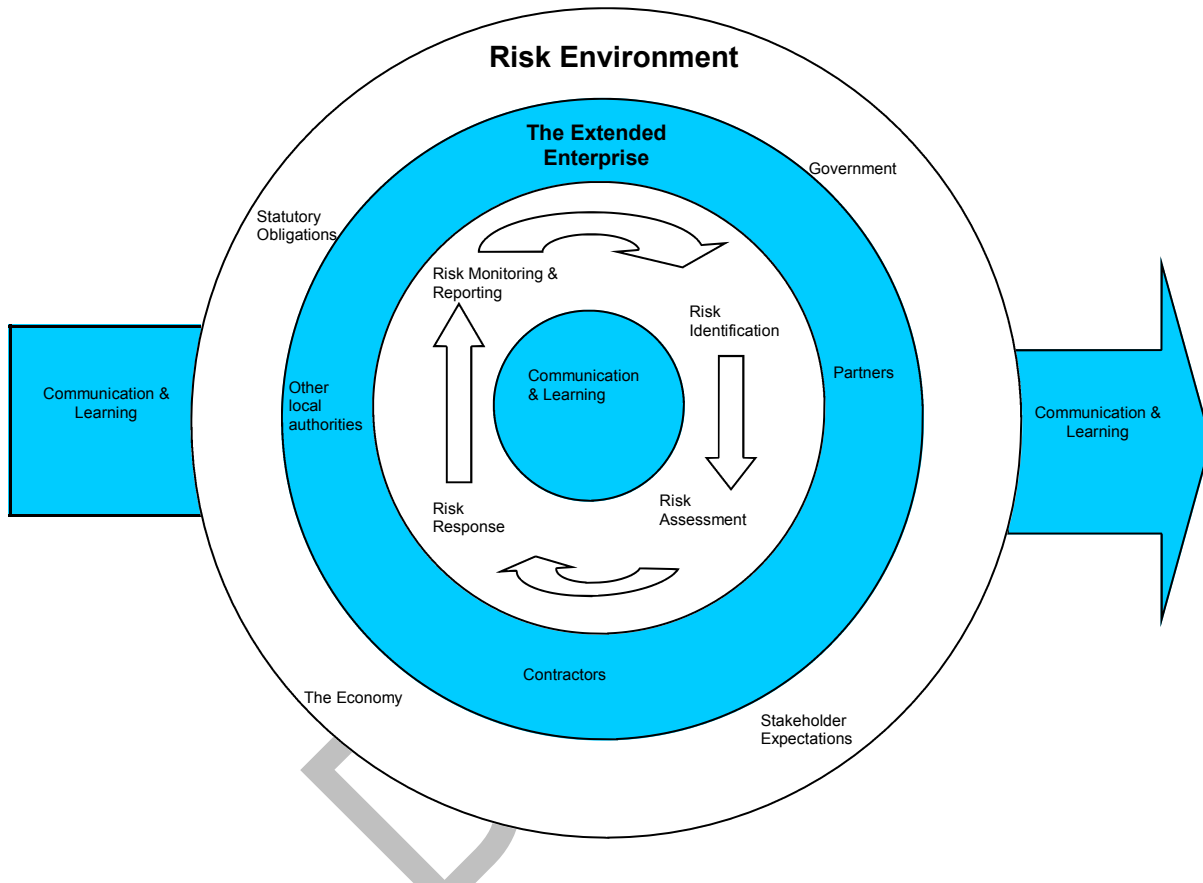
	Corporate Risk Register (includes strategic partnership)		Business continuity and disaster recovery	Operational Risk Register		
	Existing	New activities, policies and projects		Service planning (including any partnership arrangements	Projects	Health & Safety
Identification	Monthly review by Management Team, officers and Members.	Included in all reports to Members	Corporate review to be undertaken in 2009/2010	Annual review by service managers as part of the service planning process.	Part of the project planning management cycle	Through the Corporate Health & Safety Advisor and service health and safety assessors
Assessment	Management Team	Corporate Head for Directorate	Business Continuity Group, Management Team and/or Risk Man Group.	Service Managers Risk Management Group	Project/Programme managers	Internal trained Health & Safety assessors
Addressing	Risk, treatment, owner, reporting mechanism identified and details recorded in Corporate Risk register.	As agreed by Members and recorded in minutes	Production of service business continuity plans along with actions and tracking reports.	Risk, treatment, owner, reporting mechanism identified and details recorded in Covalent.	Actions recorded on project risk logs	Actions reported to Corporate Health & Safety Advisor for guidance.
Reviewing and reporting	Regular risk management reports to Monthly Governance Meeting (includes SMT) & Governance & Audit Committee.	As agreed by Members and recorded in minutes	Reports to be made to Management Team and Members	Strategic Directors and Members	Appropriate project/monitoring boards and steering groups	Corporate Management Team meeting groups
Assurance	Annual Governance Statement, Review by External Audit	Determined by report quality	Desk top exercises to determine robustness of plans	Quarterly Assurance Statements Review by internal audit	Appropriate reports to project boards	Annual external inspection.

Appendix B - Risk Management Process

1.0 The risk management process

1.1 The process used will incorporate the following steps:

- a. Identification of the risk
- b. Assessment of the risk
- c. Address the risk – the risk control mechanism
- d. Assignment of risk ownership
- e. Reviewing and reporting the risk
- f. Providing assurance



2. Identification of the risk

2.1 There is no single solution to identify risks. Here are some examples:-

- a. Where risk management is becoming established, e.g. corporate risks, existing risks are reviewed quarterly and amended according to changes in the corporate plan priorities.
- b. Other risks, e.g. when considering new activities, risks may be identified by comparison against the categories listed in appendix C.
- c. Business continuity will be identified by events that can be foreseen which prevent service delivery, based around Lincolnshire's community risk register and internal business risks.
- d. Health and safety risks are usually, but not exclusively, identified by trained health & safety assessors within the authority.

3.0 Assessment of risk

- 3.1 Risk is assessed by the combination of two factors, the likelihood of something happening and the impact if it does happen. This can be represented graphically on a simple 4 x 4 matrix as shown below.

IMPACT	CRITICAL	4	4	8	12	16
	MAJOR	3	3	6	9	12
	MINOR	2	2	4	6	8
	NEGLIGIBLE	1	1	2	3	4
			1	2	3	4
			ALMOST NEVER	UNLIKELY	LIKELY	ALMOST CERTAIN
			LIKELIHOOD			

- 3.2 As an alternative the authority could adopt a 5 x 5 matrix for a more sophisticated assessment.

- Impact – insignificant / minor / moderate / major / catastrophic
- Likelihood – rare / unlikely / possible / likely / almost certain

- 3.3 Definition of risk level

KEY		
9-16	High	Unacceptable level of risk exposure which requires extensive management
4-8	Medium	Risk management measures need to be put in place and monitored
1-3	Low	Acceptable level of risk subject to regular monitoring

- **High Risk**
These risks will have an extreme effect on the operation of the business or its service delivery, resulting in significant financial loss, major service disruption or significant impact on the public e.g. major system failure, major flood or fire. These risks require immediate comprehensive action with senior management involvement,
- **Medium Risk**
Managed by specific monitoring or response procedures. These risks will have a noticeable effect on service provision, causing a degree of disruption and impinging on budgets e.g. fraud/theft, system failure or fire. Consequences of the risk materialising would be severe but not extreme. Some immediate action is required and the development of an action plan.
- **Low Risk**
The consequences of these risks are not severe and they will be managed using routine monitoring procedures, unlikely you need specific or significant application of resources. Individually such risks will have a negligible effect on service provision and any associated loss is relatively small, but if left untreated these risks could have a more significant cumulative effect e.g. missed deadlines, minor incidents or service disruption.

4.0 Addressing the risk

4.1 There are three key stages to be taken when addressing a risk, they are:

- a. Decide how you are going to deal with the risk (see 5.1 for definition)
- b. If necessary what action is going to be taken to treat or control the risk (see 5.2 for definition)
- c. Identify the person responsible for controlling the risk (see 5.3 for definition)

5.0 Deal with the risk

5.1 There are five courses of action for dealing with the risk:-

- a. Tolerate the risk and take no further action
- b. Treat the risk. This is the most used option (see below for ways to treat risk)
- c. Transfer the risk by taking out insurance or involving a third party
- d. Terminate the risk by stopping doing what is causing the risk
- e. Take the opportunity. This encourages thoughts about additional opportunities that may arise if you decide to tolerate, treat or transfer the risk.

5.2 Treat/Control the risk

- a. If you decide to treat the risk a control mechanism must be put in place. You should consider four types of control:-

- Preventative controls – Designed to limit the possibility of something undesirable happening e.g. separation of duties in a financial system to reduce the risk of fraud occurring
- Corrective controls – Designed to limit the damage/impact should the risk arise e.g. effective contingency planning
- Directive controls – Designed to ensure a particular outcome is achieved e.g. insistence that workers wear protective clothing to help reduce the likelihood of harm
- Detective controls – designed to identify an undesirable outcome that has arisen e.g. stock takes alert to the fact theft has possibly taken place

5.3 Identify the owner

The owner of the risk should be the person who is best placed to inform and monitor the risk. Delegation for monitoring the risk and any associated /resulting actions may be undertaken however, overall responsibility for the risk remains with the risk owner. All risks must have an owner to ensure they are controlled effectively.

6.0 Monitor and review

6.1 Risks need to be reviewed and reported upon

- To identify if risks are changing
- To gain assurance that risk management is effective.

7.0 Assurance

7.1 Assurance will be provided that the Council's approach to risk management is working by:

- Setting up systems which include the reporting of :
 - risks identified
 - risk owners
 - risk treatment
 - reporting mechanism
- Review of the risk management system by:
 - Governance and Audit Committee
 - Internal audit
 - Risk Management Group
 - External audit

Appendix C - CATEGORIES OF RISK

CORPORATE Risks which need to be taken account of in judgements about the long term goals and objectives of the Council.	OPERATIONAL/BUSINESS CONTINUITY Risks which managers and staff will encounter in the course of their daily work.
Political Associated with failure to deliver either local or central government policy, or to meet the local manifesto commitments.	Professional Associated with the particular nature of each profession.
Economic Affecting the ability of the council to meet its financial commitments e.g. internal budgetary pressures, failure to purchase adequate insurance provision, external macro level economic changes and consequences of investment decisions.	Financial Associated with financial planning and control and the adequacy of insurance cover.
Social Relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to deliver its objectives.	Legal Relating to possible breaches of legislation.
Technological Associated with the capacity of the Council to deal with the pace/scale of technological changes, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures in the Council's ability to deliver its objectives.	Physical Relating to fire, security, accident prevention and health and safety. This would also include staff shortages and knowledge shortage.
Legislative Associated with current law or potential changes in National or European Law.	Contractual Associated with the failure of contractors to deliver services or products to the agreed cost or specification (including fuel suppliers).
Environmental Relating to the environmental consequences of progressing the Council's strategic objectives e.g. energy efficiency, pollution, recycling, landfill requirements and emissions etc.	Technological Relation to reliance on operational equipment e.g. IT systems (loss of data or loss of access to data) or equipment and machinery.
Competitive Affecting the competitiveness of the service (in terms of cost and quality) and/or ability to deliver Added Value.	Environmental Relating to pollution, noise or energy efficiency of ongoing service operations and weather related disruption.
Customer Associated with failure to meet the current and changing needs and expectations of customers/clients/citizens.	
Partnership Associated with working with other councils, agencies and the private and voluntary sector to deliver the Council's objectives.	
Sustainability Associated with maintaining and improving South Kesteven as a place to live, work or visit.	
Reputational Relating to the confidence or otherwise that partners, customers, staff and the public have in the Council.	

Risk Management Roles & Responsibilities – Appendix D

All officers and members have a responsibility to ensure that risk management is effective across the whole of the Authority's operations. Specific roles and responsibilities are set out below:

The Cabinet

- Determine the overall approach and attitude to risk management
- Approval of the risk management strategy
- Provide assurance to members that high risks are being identified and managed
- Review and monitoring of the corporate risk register

Portfolio Holder (Assets & Resources)

- Strategic endorsement of the overall approach and attitude to risk management
- Champion risk management

Governance and Audit Committee

- Recommend approval of the risk management strategy and policy
- Monitor the implementation of the strategy
- Review the Annual Governance Statement, including effectiveness of risk management
- Provide assurance to members that high risks are being identified and managed
- Scrutiny of the system of internal control, including risk management arrangements and assurance statements from service managers and corporate heads
- Receive quarterly reports on risk management including any significant changes to the Authority's risk profile

Chief Executive

- Strategic leadership that endorses the implementation of the risk management strategy across the Council

The s151 Officer (Corporate Head of Finance & Customer Services)

- Champion risk management
- Overall responsibility for maintenance and delivery of risk management across the Authority
- Promulgate and promote the strategy.

Management Board (Strategic Management Team & Operational Management Team)

- Monitor the corporate risk register
- Take ownership, as appropriate, of the identified corporate risks
- Receive regular reports from the Risk Management Group

- Raise awareness of risk with members and staff as appropriate

Strategic Directors/Corporate Heads/Service Managers

- Communicating the Risk Management approach and strategy throughout the Council;
- Developing an open and transparent culture for the identification and management of risk, and encouraging employees to instil risk awareness in their behaviour;
- Identification, assessment and communication of risks within their sphere of responsibility, including updating of the risk register
- Regularly reviewing the risk management process in their area of responsibility – feeds into the assurance statements.
- Provide assurance statements – quarterly summary to Governance & Audit Committee
- Providing support and assistance to all employees in fulfilling their individual risk management duties.

Risk Management Group

- Provide a forum for the discussion of risk management issues
- Review and monitor the operational risk register
- Escalate emerging risks for Management Board attention where appropriate
- Monitoring implementation of risk management action plans

Service Manager Finance & Risk Management, including Risk Management Team

- Operational responsibility for supporting and guiding the risk management process across the Council
- To be a centre of excellence on risk management issues
- Facilitate discussion of risk at local and corporate level, including risk identification and assessment workshops;
- Ensuring, by means of regular communication, that employees are aware of the key risk issues facing the Council;
- Maintenance of the corporate risk register
- Provide managers with practical techniques for identifying and assessing risks and designing control and mitigation strategies
- Provide continuous training and support to Members and Officers

Risk Owner

- Responsibility for ensuring that each risk assigned to them is managed effectively.
- Reporting any significant changes to the Risk Management Team/Group
- Implementation of actions arising from risk assessments

Staff

- All staff have a responsibility to manage risk effectively and report opportunities and threats to their managers.
- Contribute to minimising risk when ever possible

- Attend relevant training

Internal Audit

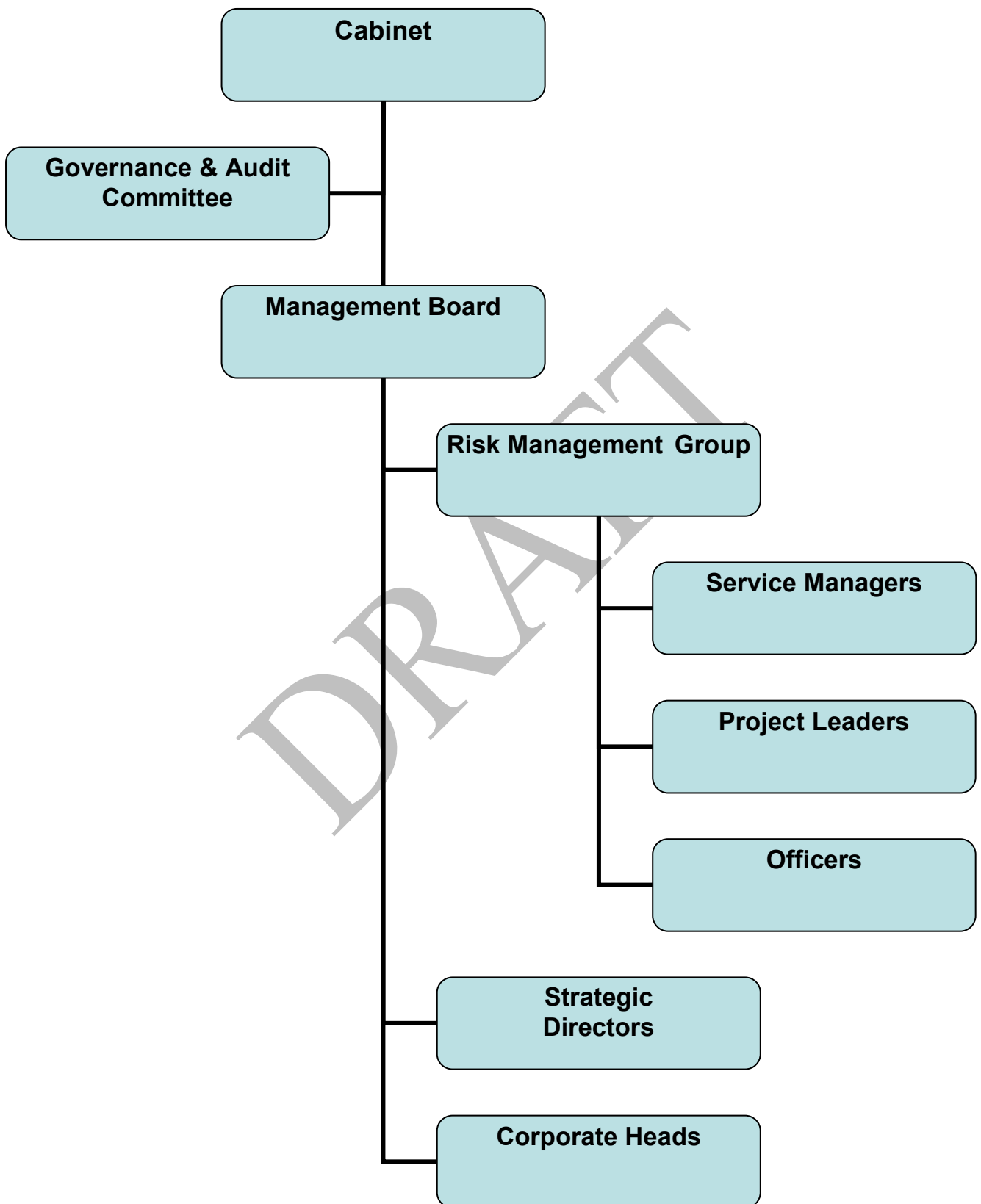
Internal audit provides an independent and objective assurance to management and members on the effectiveness of risk management. They normally provide assurance on the following areas:

- Risk management processes, both their design and how well they are working;
- Management of those risks classified as 'key', including effectiveness of the controls and other responses to them;
- Reliable and appropriate assessment of risks and reporting of risk and control status.
- Report on the relationship between risk and control

The outputs from the risk management process can also be used internally to help inform the annual internal audit programme.

DRAFT

The following diagram illustrates the reporting and monitoring arrangements.



REPORT TO GOVERNANCE AND AUDIT COMMITTEE

REPORT OF: LUCY YOULES LEGAL SERVICES MANAGER
(MONITORING OFFICER)

REPORT NO: LEG054

DATE: 24TH SEPTEMBER 2009

TITLE:	LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL LETTER
FORWARD PLAN ITEM:	NO
DATE WHEN FIRST APPEARED IN FORWARD PLAN:	NOT APPLICABLE
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	NOT APPLICABLE

COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:	CORPORATE GOVERNANCE – COUNCILLOR PAUL CARPENTER	
CORPORATE PRIORITY:	CORPORATE GOVERNANCE	
CRIME AND DISORDER IMPLICATIONS:	NON APPLICABLE	
FREEDOM OF INFORMATION ACT IMPLICATIONS:	THIS REPORT IS PUBLICLY AVAILABLE ON THE COUNCIL'S WEBSITE www.southkesteven.gov.uk via the local democracy link	
INITIAL EQUALITY IMPACT ASSESSMENT	Carried out and appended to report? Not applicable	Full impact assessment required? No
BACKGROUND PAPERS:	NONE	

1. INTRODUCTION

- 1.1** Each year the Local Government Ombudsman for this district produces an annual review. The annual review for the period from the 1st April 2008 to the 31st March 2009 is attached to this report as the **Appendix**.
- 1.2** The Ombudsman's annual review provides a summary of the complaints received about this Council. It does not provide details of individual complaints but gives an overview to assist the Council in determining how customers experience and perceive the services of the Council. Generally, no trends or themes are evident from the nature of complaints which cause the Ombudsman cause for concern.

2. RECOMMENDATIONS

It is recommended that the Governance and Audit Committee note the Local Government Ombudsman's annual letter for the period up to the 31st March 2009.

3. DETAILS OF REPORT

- 3.1** From the **Appendix** attached, you will see that the Ombudsman received a total of 27 enquiries and complaints about this Council during the period the 1st April 2008 to 31st March 2009. Of those 27 enquiries, 11 were forwarded to the Ombudsman for consideration, 8 required advice from the Ombudsman and 8 were forwarded to the Council to deal with as premature complaints. Of the 11 complaints considered for investigation, 4 complaints were resubmitted premature complaints. During that period the Ombudsman concluded 12 complaints (including one complaint from the complaints investigated during the period 2007/2008) with the following decisions:-

Local Settlements - 2
Findings of no maladministration - 4
Outside jurisdiction - 5
Ombudsman discretion not to pursue - 1

- 3.2** Comparisons with previous years statistics are difficult with a change in the way the Ombudsman has operated this year. This years statistics include the number of enquiries received where advice is given to allow enquirers to make the decision whether or not to complain. Such advice was given in 8 cases where no subsequent complaint was made. Last year 17 complaints were received.
- 3.3** The Council made good progress last year in the number of days taken to respond to complaints with an average of 18.5 days. This has slipped to 35 days. This clearly requires attention.

- 3.4** Both matters where local settlements were made related to housing issues. One related to a request to be re-housed where the applicant accepted the offer of accommodation as satisfactory settlement and the other to an application for disabled facilities grant where an apology was accepted for the delay in dealing with an application. No compensation was awarded in either case.

4. OTHER OPTIONS CONSIDERED AND ASSESSED

Members are asked to consider any appropriate action they would wish to see taken to address the issues raised in the annual letter.

5. COMMENTS OF SECTION 151 OFFICER

The annual letter refers to 2 local settlements. Both of the local settlements had no financial implications. There is no financial implication arising from this report.

6. COMMENTS OF MONITORING OFFICER

The Monitoring Officer will attend committee to deliver this report and provide further information relating to the complaints received if required.

7. COMMENTS OF OTHER RELEVANT SERVICE MANAGER

Any comments received will be reported to the committee.

8. CONCLUSION/SUMMARY

This report informs members of the Ombudsman's annual review. It is given for information and consideration of further action.

9. CONTACT OFFICER

Lucy Youles – Legal Services Manager (Monitoring Officer) 01476 406106
l.youles@southkesteven.gov.uk

LY/OMB/14661/REPORTS

Local Government OMBUDSMAN

**The Local Government Ombudsman's
Annual Review**

South Kesteven District Council

**for the year ended
31 March 2009**

The Local Government Ombudsman (LGO) provides a free, independent and impartial service. We consider complaints about the administrative actions of councils and some other authorities. We cannot question what a council has done simply because someone does not agree with it. If we find something has gone wrong, such as poor service, service failure, delay or bad advice, and that a person has suffered as a result, the Ombudsmen aim to get it put right by recommending a suitable remedy. The LGO also uses the findings from investigation work to help authorities provide better public services through initiatives such as special reports, training and annual reviews.

Contents of Annual Review

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Section 1: Complaints about South Kesteven District Council 2008/09

Introduction

This annual review provides a summary of the complaints we have dealt with about South Kesteven District Council.

I hope that the review will be a useful addition to other information the Council holds on how people experience or perceive its services.

Two appendices form an integral part of this review: statistical data for 2008/09 and a note to help the interpretation of the statistics.

Changes to our way of working and statistics

A change in the way we operate means that the statistics about complaints received in 2008/09 are not directly comparable with those from 2007/08. Since 1 April 2008 the new LGO Advice Team has been the single point of contact for all enquiries and new complaints. The number of telephone calls to our service has increased significantly since then to more than 3,000 a month. Our advisers now provide comprehensive information and advice to people who telephone, write or e-mail. It enables citizens to make informed decisions about whether to put their complaint to us.

This means that direct comparisons with some previous year-statistics are difficult and could be misleading. So this annual review focuses mainly on the 2008/09 statistics without drawing those comparisons.

Enquiries and complaints received

This year the Council received a total of 27 enquiries and complaints about the Council. Our Advice Team gave advice on eight occasions and determined that eight potential complaints to me were in fact premature in the sense that the Council appeared not to have been given a reasonable opportunity of addressing the concerns of the citizens involved. In these cases we either, sent the complaint to the Council with the request that the matter be put through the Council's own complaints procedure or, we advised the complainant to approach the Council directly. Eleven complaints were forwarded to me for consideration. Of these, four were complaints re-submitted by people unhappy with the way in which the Council had considered their complaint while seven were complaints new to me.

No trends or themes emerged during the year, in terms of the nature of complaints sent to me, to cause me any concerns.

Complaint outcomes

I determined 12 complaints during the year a figure which differs from the number of complaints received because of work in hand at the beginning of the year. Five of these complaints were in fact not within my jurisdiction while in one case I exercised the general discretion available to me not to pursue the matter. I found no evidence of maladministration by the Council in four cases and the Council agreed to settle the remaining two complaints accepting in one case that something had gone wrong and that it was right to offer some form of remedy and in the other case that it was right to assist the complainant even though it was clear that there had been no maladministration. In neither case was the payment of compensation appropriate. One case was

settled by the agreement by the Council to award the complainant greater priority for a housing application and in the other it was simply a matter of the Council providing information sought by the complainant about progress with a disabled facilities grant.

We will often discontinue enquiries into a complaint when a council takes or agrees to take action that we consider to be a satisfactory response – we call these local settlements. In 2008/09, 27.4% of all complaints the Ombudsmen decided and which were within our jurisdiction were local settlements.

Reports

I issued no public reports during the year.

Liaison with the Local Government Ombudsman

I ask all authorities to respond to my formal enquiries within 28 calendar days. Although I only made formal enquiries of the Council on two occasions this year, the Council took 35 days to respond in each case. This is a disappointment especially when compared with the previous year when the Council took on average only 18.5 days to respond to my enquiries. I would not make too much of a statistic derived from just two cases but I would ask the Council to make every effort to respond to my enquiries within the 28 day target.

Training in complaint handling

I would to remind the Council that part of our role is to provide advice and guidance about good administrative practice. We offer training courses for all levels of local authority staff in complaints handling and investigation. All courses are presented by experienced investigators. They give participants the opportunity to practise the skills needed to deal with complaints positively and efficiently. We can also provide customised courses to help authorities to deal with particular issues and occasional open courses for individuals from different authorities.

We have extended the range of courses we provide and I have enclosed some information on the full range of courses available together with contact details for enquiries and bookings.

Conclusions

I welcome this opportunity to give the Council my reflections about the complaints my office has dealt with over the past year. I hope that the Council finds the information and assessment provided useful when seeking improvements to its services.

Mrs A Seex
Local Government Ombudsman
Beverley House
17 Shipton Road
YORK
YO30 5FZ

June 2009

Section 2: LGO developments

Introduction

This annual review also provides an opportunity to bring councils up to date on developments – current and proposed – in the LGO and to seek feedback. It includes our proposal to introduce a 'statement of reasons' for Ombudsmen decisions.

Council First

From 1 April 2009, the LGO has considered complaints only where the council's own complaints procedure has been completed. Local authorities have been informed of these new arrangements, including some notable exceptions. We will carefully monitor the impact of this change during the course of the year.

Statement of reasons: consultation

The Local Government and Public Involvement in Health Act 2007 made provision for the LGO to publish statements of reasons relating to the individual decisions of an Ombudsman following the investigation of a complaint. The Ombudsmen are now consulting local government on their proposal to use statements of reasons. The proposal is that these will comprise a short summary (about one page of A4) of the complaint, the investigation, the findings and the recommended remedy. The statement, naming the council but not the complainant, would usually be published on our website.

We plan to consult local authorities on the detail of these statements with a view to implementing them from October 2009.

Making Experiences Count (MEC)

The new formal, one stage complaint handling arrangement for adult social care was also introduced from 1 April 2009. The LGO is looking to ensure that this formal stage is observed by complainants before the Ombudsmen will consider any such complaint, although some may be treated as exceptions under the Council First approach. The LGO also recognises that during the transition from the existing scheme to the new scheme there is going to be a mixed approach to considering complaints as some may have originated before 1 April 2009. The LGO will endeavour to provide support, as necessary, through dedicated events for complaints-handling staff in adult social care departments.

Training in complaint handling

Effective Complaint Handling in Adult Social Care is the latest addition to our range of training courses for local authority staff. This adds to the generic Good Complaint Handling (identifying and processing complaints) and Effective Complaint Handling (investigation and resolution), and courses for social care staff at both of these levels. Demand for our training in complaint handling remains high. A total of 129 courses were delivered in 2008/09. Feedback from participants shows that they find it stimulating, challenging and beneficial in their work in dealing with complaints.

Adult Social Care Self-funding

The Health Bill 2009 proposes for the LGO to extend its jurisdiction to cover an independent complaints-handling role in respect of self-funded adult social care. The new service will commence in 2010.

Internal schools management

The Apprenticeship, Skills, Children and Learning Bill (ASCL) 2009 proposes making the LGO the host for a new independent complaints-handling function for schools. In essence, we would consider the complaint after the governing body of the school had considered it. Subject to legislation, the new service would be introduced, in pilot form, probably in September 2010.

Further developments

I hope this information gives you an insight into the major changes happening within the LGO, many of which will have a direct impact on your local authority. We will keep you up to date through LGO Link as each development progresses but if there is anything you wish to discuss in the meantime please let me know.

**Mrs A Seex
Local Government Ombudsman
Beverley House
17 Shipton Road
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YO30 5FZ**

June 2009

LGO Advice Team

Enquiries and complaints received	Adult care services	Housing	Public Finance inc. Local Taxation	Planning and building control	Other	Total
Formal/informal premature complaints	1	5	0	1	1	8
Advice given	0	5	0	0	3	8
Forwarded to investigative team (resubmitted premature)	0	1	2	1	0	4
Forwarded to investigative team (new)	0	2	1	1	3	7
Total	1	13	3	3	7	27

Investigative Team

Decisions	MI reps	LS	M reps	NM reps	No mal	Omb disc	Outside jurisdiction	Total
01/04/2008 / 31/03/2009	0	2	0	0	4	1	5	12

Average local authority response times 01/04/2008 to 31/03/2009

Response times	FIRST ENQUIRIES	
	No. of First Enquiries	Avg no. of days to respond
1/04/2008 / 31/03/2009	2	35.0
2007 / 2008	6	18.5
2006 / 2007	9	35.7

Types of authority	<= 28 days %	29 - 35 days %	> = 36 days %
District councils	60	20	20
Unitary authorities	56	35	9
Metropolitan authorities	67	19	14
County councils	62	32	6
London boroughs	58	27	15
National park authorities	100	0	0

Appendix 1: Notes to assist interpretation of the statistics 2008/09

Introduction

This year, the annual review only shows 2008/09 figures for enquiries and complaints received, and for decisions taken. This is because the change in the way we operate (explained in the introduction to the review) means that these statistics are not directly comparable with statistics from previous years.

Table 1. LGO Advice Team: Enquiries and complaints received

This information shows the number of enquiries and complaints received by the LGO, broken down by service area and in total. It also shows how these were dealt with, as follows.

Formal/informal prematures: The LGO does not normally consider a complaint unless a council has first had an opportunity to deal with that complaint itself. So if someone complains to the LGO without having taken the matter up with a council, the LGO will usually refer it back to the council as a 'premature complaint' to see if the council can itself resolve the matter. These are 'formal premature complaints'. We now also include 'informal' premature complaints here, where advice is given to the complainant making an enquiry that their complaint is premature. The total of premature complaints shown in this line *does not include* the number of resubmitted premature complaints (see below).

Advice given: These are enquiries where the LGO Advice Team has given advice on why the Ombudsman would not be able to consider the complaint, other than the complaint being premature. For example, the complaint may clearly be outside the Ombudsman's jurisdiction. It also includes cases where the complainant has not given enough information for clear advice to be given, but they have, in any case, decided not to pursue the complaint.

Forwarded to the investigative team (resubmitted prematures): These are cases where there was either a formal premature decision, or the complainant was given informal advice that their case was premature, and the complainant has resubmitted their complaint to the Ombudsman after it has been put to the council. *These figures need to be added to the numbers for formal/informal premature complaints (see above) to get the full total number of premature complaints. They also needed to be added to the 'forwarded to the investigative team (new)' to get the total number of forwarded complaints.*

Forwarded to the investigative team (new): These are the complaints that have been forwarded from the LGO Advice Team to the Investigative Team for further consideration. The figures may include some complaints that the Investigative Team has received but where we have not yet contacted the council.