# AGENDA

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|---|
| For a meeting of the |
| **GOVERNANCE AND AUDIT COMMITTEE** |
| to be held on |
| **TUESDAY, 25 SEPTEMBER 2012** |
| at |
| **1.00 PM** |
| in the |
| **WITHAM ROOM, COUNCIL OFFICES, ST. PETER'S HILL, GRANTHAM. NG31 6PZ** |
| **Beverly Agass**, Chief Executive |

| | |
|---|---|
| Committee Members: | Councillor Jean Bevan (Vice-Chairman), Councillor Trevor Scott, Councillor Rob Shorrock, Councillor Ian Stokes (Chairman), Councillor Jeff Thompson, Councillor Martin Wilkins and Councillor Rosemary H Woolley |
| | |
| Committee Support Officer: | Jo Toomey 01476 406152<br>E-mail: j.toomey@southkesteven.gov.uk |

**Members of the Committee 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. DISCLOSURE OF INTERESTS**

Members are asked to disclose any interests in matters for consideration at the meeting.

**4. MINUTES OF THE MEETING HELD ON 23 JULY 2012**

**(Attached)**

**5. UPDATES FROM PREVIOUS MEETING**

**6. UPDATED FINANCIAL STATEMENTS**

Report number HOF205 by the Head of Finance. **(Enclosure)**

**7. ANNUAL GOVERNANCE REPORT 2011-12**

Report by the Audit Commission. **(Attached)**

**8. STATEMENT OF ACCOUNTS 2011-12**

**(Attached)**

**9. INTERNAL AUDIT PROGRESS REPORT**

Report by Internal Audit. **(Attached)**

**10. INTERNAL AUDIT TRACKING REPORT**

Report by Internal Audit. **(Attached)**

**11. HEALTH AND SAFETY ANNUAL REPORT**

Report number ENV572 of the Green, Healthy and Arts Portfolio Holder.
**(Attached)**

**12. OMBUDSMAN ANNUAL REPORT**

Report number LDS077 by the Head of Legal and Democratic Services.
**(Attached)**

**13. PARTNERSHIPS ANNUAL REPORT**

Report by the Planning Policy and Partnerships Service Manager.
**(To follow)**

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

# MINUTES

**GOVERNANCE AND AUDIT COMMITTEE**
**MONDAY, 23 JULY 2012**

**COMMITTEE MEMBERS PRESENT**

Councillor Trevor Scott
Councillor Rob Shorrock
Councillor Ian Stokes (Chairman)
Councillor Adam Stokes
Councillor Martin Wilkins
Councillor Rosemary H Woolley

**OFFICERS**

Head of Finance (Richard Wyles)
Finance Support Manager (David Scott)
Principal Democracy Officer (Jo Toomey)

**AUDIT**

Rob Barnett (RSM Tenon)

## 14. MEMBERSHIP

The Committee was notified that Councillor Adam Stokes would be substituting for Councillor Bevan for this meeting only.

## 15. APOLOGIES

An apology for absence was received from Councillor Thompson.

## 16. DISCLOSURE OF INTERESTS

No interests were disclosed.

## 17. MINUTES OF THE MEETING HELD ON 29 JUNE 2012

The minutes of the meeting held on 29 June 2012 were proposed, seconded and agreed as a correct record.

## 18. UPDATES FROM PREVIOUS MEETING

A question was raised in respect of the Council's MOT service and its compliance with Vehicle and Operator Services Agency regulations. The Head of Finance said that he would e-mail a reply on behalf of the service to

members of the Committee.

## 19. INTERNAL AUDIT PROGRESS REPORT

The Internal Audit progress report was summarised for the Committee. Two final reports had been issued: elections and licensing. Both audits were given the highest level of assurance. A total of 5 recommendations were made across the two reviews, all of which were accepted by management. Four low risk recommendations were made in respect of elections, while one medium risk recommendation was made in respect of licensing.

There had been two changes to the internal audit work programme, with the addition of two reviews: a three day audit on the bookings systems at the arts centres and a seven day review of the responsive repairs process and procedures. Resourcing for both additional pieces of work came from the Council's contingency budget, which left 7 days unallocated.

Mr Barnett explained that any 'red' assurances were reviewed quarterly. The outcome of these reviews would be reported to the Committee.

## 20. STATEMENT OF ACCOUNTS 2011/12

The Head of Finance presented report number HOF202 on the Draft Statement of Accounts for 2011/12 and summarised the draft statement, which was attached to the report as Appendix A.

It was within the terms of reference of the Committee to approve the statement of accounts on behalf of Council. The Committee would be required to approve the accounts at its next meeting on 25 September 2012 after the audit work is completed.

The Audit Commission started its review of the Accounts on 9 July 2012 and was expected to conclude the majority of the work by 5 August 2012. The accounts had been compiled in accordance with the statutory framework.

The key components within the statement of accounts were:

- Movement in reserves
- Comprehensive income and expenditure statement
- Balance sheet
- Cash flow statement
- Housing Revenue Account
- Collection fund

The statement of accounts also included an explanatory foreword and a glossary of terms.

Both the Cashflow statement and collection fund had been audited at the time

of the meeting and it was pleasing to note that no significant errors or discrepancies were identified. The audit of the movement in reserves and the income and expenditure statement was underway.

The Head of Finance highlighted key features within the draft Statement of Accounts:

- Self-financing arrangements for the Housing Revenue Account (HRA), which took effect for the 2012/13 financial year was included because the transaction took place in March 2012.
- The self-financing of the HRA had an impact on the Movement of Reserves Statement and the balance sheet and also affected the Council's net worth.
- The income and expenditure statement showed a deficit of £128m because of the self-financing of the HRA and actuarial losses and gains.
- The self-financing of the HRA had a material impact on the balance sheet, which also showed the reduction of reserves.
- The cash flow statement was split between revenue and capital and gave the net position of the authority at the end of the financial year. Conversations had taken place with the auditors regarding differences in presentation for cash and cash equivalents; this was a result of changes in the nature of money market funds in which the Council had invested.
- The HRA statement and its income and expenditure statements were both affected by self-financing arrangements.
- There were no entries that needed to be brought to members' attention in respect of the collection fund; however the collection fund would differ from 2013/14 due to the localisation of Council tax benefit.

Committee members questioned the consistency of presentation within the documents; in some instances brackets were used to denote a deficit, while in other parts of the draft statement they denoted a surplus position. Councillors asked whether this could be adjusted to make it easier for readers to understand. If the use of brackets could not be standardised because of accounting requirements, it was suggested that an explanation should be included.

Councillors requested that on page 13, line 1 it should be made clear that the Corn Exchange is in Bourne.

The wording of the explanatory foreword was questioned. Committee members felt that requirements for the self-financing of the HRA should be more clearly explained to help the understanding of members of the public.

A typographical error was highlighted on page 113 under the 'Contingent Liabilities' heading.

The Head of Finance explained that the glossary constituted a key part of the document in helping the understanding of members of the public. He asked the

Committee to consider the glossary before its meeting on 25 September 2012 to make sure that any phrases they might not understand in the statements were included in the glossary and that they were explained in sufficient detail.

The draft Annual Governance Statement was approved at the Committee's meeting on 29 June 2012 and would be formally approved with the statement of accounts on 25 September 2012. The Auditor's report would not get included in draft form until the audit was completed. The Auditor was expected to attend the Committee's meeting on 25 September 2012.

## 21. CLOSE OF MEETING

The meeting was closed at 13:36.

# REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF:** **STRATEGIC DIRECTOR AND HEAD OF FINANCE**

**REPORT NO:** **HOF207**

**DATE:** **25th September 2012**

| | | |
|---|---|---|
| **TITLE:** | Statement of Accounts 2011/12 | |
| **KEY DECISION OR POLICY FRAMEWORK PROPOSAL:** | None | |
| **PORTFOLIO HOLDER: NAME AND DESIGNATION:** | Councillor Mike Taylor<br>Well Run Council Portfolio Holder | |
| **CONTACT OFFICER:** | Daren Turner – Strategic Director Corporate Focus.<br>01476 406301<br>Email: d.turner@southkesteven.gov.uk<br>Richard Wyles –Head of Finance<br>01476 406210<br>Email: r.wyles@southkesteven.gov.uk | |
| **INITIAL IMPACT ANALYSIS:**<br><br>**Equality and Diversity** | Carried out and Referred to in paragraph (7) below<br><br>N/A | Full impact assessment Required:<br><br>No |
| **FREEDOM OF INFORMATION ACT:** | This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk | |
| **BACKGROUND PAPERS** | HOF202 | |

## 1. RECOMMENDATIONS

It is recommended that Members of the Governance and Audit Committee:

a. Approve the revised Statement of Accounts 2011/12
b. Note the commentary on the outcome of the audit work
c. Approve the publication on the summary of accounts and publish the document on the Council's website

## 2. PURPOSE OF THE REPORT/DECISION REQUIRED

**2.1** The purpose of this report is to present the Council's Statement of Accounts for 2011/12. It covers:

- Account and Audit (England) Regulations 2011
- Section 21(2) Local Government Act 2003
- Revised Statement of Accounts
- Commentary on the outcome of the audit of the Statement of Accounts

## 3. DETAILS OF REPORT

### 3.1 Account and Audit Regulations 2011

The Statement of Accounts must be published by 30 September 2012. The District Auditor must complete his audit and issue the relevant audit opinion to ensure the statutory deadline is met. This has been undertaken and his report is a separate item on the agenda.

The purpose of the external audit of the financial statements is to give an opinion on:

a. whether they present a true and fair view the financial position of the audited body and its expenditure and income for the year in question.
b. whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

Auditors must provide reasonable assurance that, subject to the concept of materiality, the financial statements

a. are free from material misstatements, whether caused by fraud or other irregularity or error
b. comply with the statutory and other requirements applicable to the accounts of the audited body, and
c. comply with all relevant requirements for accounting presentation and disclosure.

### 3.2 Section 21(2) Local Government Act 2003

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 (England) 2011. 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

2011/12 based on International Reporting Standards, (the Code) produced by CIPFA[1] which sets out proper accounting practices required for the Statement of Accounts.

### 3.3 Statement of Accounts 2011/12

The Statement of Accounts was originally presented to this Committee at its meeting on 23rd July 2012 (HOF202 report refers). Following the completion of the external audit the Statement of Accounts has been revised to reflect the outcome of this work and has been updated to reflect members comments made at the meeting. An revised set of accounts is presented on the Committee agenda and a commentary setting out the main findings from the audit (and the subsequent amendments made to the accounts) is provided for members consideration and approval.

### 3.4 Audit Adjustments

The audit identified three areas of non-compliance with the CIPFA Code of Practice on Local Authority Accounting and these have been corrected in the attached Statement of Accounts. Specifically these items were:

Misclassification of cash equivalent as short term investments: The Treasury Management Investment Strategy sets out a framework that is followed for investment of cash balances. In order to ensure exposure to risk is minimised whilst attracting competitive interest rates, the Council utilises money market funds (MMF's) in addition to the more traditional banking investments. The characteristics of MMF's enables the Council to withdraw funds from them without notice. Therefore in order to comply with the definition of the Code of Practice, the investments should be classified as cash equivalents.

The service expenditure analysis reported in the Comprehensive Income and Expenditure Statement (CIES) now requires a detailed service expenditure analysis. This had been correctly undertaken for the 2011/12 accounts but required a restatement of the 2010/11 for comparative purposes.

The self financing settlement transactions in respect of the HRA had been correctly shown in the main statements but were omitted from the capital financing and capital expenditure note. This omission has now been rectified.

There has been a review undertaken in respect of the explanatory foreword in order to improve its usefulness to the reader. This has now been updated to explain significant variances that have been identified and to provide a detailed overview of the financial year. It is particularly important that the explanatory foreword is helpful to the reader due to the complexity of the accounts.

### 3.5 Changes to the notes to the Accounts – Overview

The audit work has identified a number of changes that were required to the disclosure notes. Below is a summary listing of the main changes that have been agreed and implemented.

[1] CIPFA – Chartered Institute of Public Finance and Accountancy

Note 1 accounting policies – further explanation of componentisation
Note 2 change of accounting policy – inclusion of table to show balance sheet impact
Note 5 pension liability assumption corrected to reflect actuary report
Notes 8 and 27 adjustments for revaluation and capital expenditure – presentation improvements in respect of impairments
Note 15 Property, Plant and Equipment – correction of the presentation with respect to the treatment of impairments
Note 18 Financial instruments – further clarity in the note to aid the reader
Note 22 – updated following the reclassification of short term investments to cash and cash equivalents
Note 32 officer remuneration – updated to reflect disclosure requirements
Note 33 audit costs – updated to reflect breakdown of audit costs
Note 36 Capital expenditure and capital financing – updated note to include the self financing transactions
Note 47 – new cash flow note disclosure

**3.6 Conclusion**

The report and enclosures represents a detailed picture of the changes made to the Statement of Accounts for 2011/12 following the audit work.

I would like to take the opportunity to thank all staff both from Accountancy Services and supporting services for their hard work in producing the Statement of Accounts.

## 4. OTHER OPTIONS CONSIDERED

Not applicable.

## 5. RESOURCE IMPLICATIONS

There are no specific financial implications arising from this report.

## 6. RISK AND MITIGATION

Risk has been considered as part of this report and any specific high risks are included in the table below:

| Category Risk | Action / Controls |
|---|---|
| Statutory risk | Statement of accounts compiled in accordance with statutory guidance |

## 7. ISSUES ARISING FROM IMPACT ANALYSIS

None

## 8. CRIME AND DISORDER IMPLICATIONS

None

## 9. COMMENTS OF FINANCIAL SERVICES

These are included in the report.

## 10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

In accordance with the Accounts & Audit regulations 2011 the Statement of Accounts must be approved by the Committee by 30th September 2012. The Committee has the opportunity to review the unaudited Statements prior to the statutory deadline.

## 11. COMMENTS OF OTHER RELEVANT SERVICES

None

## 12. APPENDICES:

# Annual governance report

**South Kesteven District Council**

**Audit 2011/12**

audit commission

Agenda Item 7

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# Key messages

**This report summarises the findings from the 2011/12 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

As at 13 September 2012 I expect to issue an unqualified audit opinion.

I identified three material errors in your financial statements and a number of non-trivial misstatements, which have all been corrected by management.

This year there have been more adjustments to the accounts that you presented for audit, reflecting the loss of a key member of the finance team at a crucial time of year. Your finance team recognised the risks, and the greater involvement by the Head of Finance and close working with my audit team ensured that the fieldwork was concluded in line with planned timescales.

## Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

## Certificate

I plan to award the audit certificate by the deadline of 30 September.

# Before I give my opinion and conclusion

**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

## I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2); and
- approve the letter of representation (appendix 3), on behalf of the Council before I issue my opinion and conclusion.

# 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 elected 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

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.

## Corrected errors

All material and non-trivial misstatements identified during the audit have been amended by management. There were some areas of non-compliance with the CIPFA[i] Code of Practice on Local Authority Accounting, which have been corrected. I have set out below the three material corrections.

The Council misclassified £6.5m of cash equivalents as short term investments. Cash equivalents are short-term, highly liquid investments. The Council maintains a proportion of its investments in instant access accounts, which fall within this definition, and so to comply with the Code they have been reclassified as cash equivalents.

The 2010/11 balances in the comprehensive income and expenditure statement (CIES) had not been correctly restated following the required reclassification of the service expenditure analysis. For 2011/12 CIPFA replaced the Best Value Accounting Code of Practice, which sets out the service expenditure analysis for the CIES, with the Reporting Code of Practice for Local Authorities (SeRCOP). This replaced cultural, environment, regulatory and planning services with:

- Cultural and Related Services.
- Environment and Regulatory Services.
- Planning Services:

i Chartered Institute of Public Finance and Accountancy

The Council properly applied the new requirements for 2011/12 balances in its draft financial statements but did not restate the 2010/11 comparators or provide an explanatory note. These omissions have now been rectified.

The impact of the Housing Revenue Account (HRA) settlement was reflected properly in the main financial statements, but not in the on capital expenditure and capital borrowing note to the accounts (see table 1 below).

All significant adjustments are set out in Appendix 2. All other errors identified during our audit were corrected and we have provided the Head of Finance with a full breakdown of them.

## Significant risks and my findings

I reported to you in my February 2012 Audit Plan the significant risk that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against this risk.

Table 1: **Risks and findings**

| Risk as per audit plan | Finding |
|---|---|
| **HRA reform**<br>The government has set out its plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. For South Kesteven DC, this will be through a one-off settlement payment of approximately £122m to central government on or before 28 March 2012. This will adjust the Housing Revenue Account (HRA) debt of the Council. Due to the complexity, magnitude and timing of the reform there is risk of material errors in:<br>■ your disclosures within the HRA; and<br>■ property, plant and equipment (PPE) and borrowing in the balance sheet and supporting financial notes. | The disclosure of the £121.652m self financing settlement was correctly shown in the main statements, but it was omitted from the capital financing and capital expenditure note.<br>I have evaluated management's oversight of HRA reforms and the transactions required by the Council and found that the settlement was successfully transacted in March 2012.<br>I have audited the treatment of the settlement within the financial statements and found that the capital expenditure and the increased borrowing are disclosed correctly in the CIES and the balance sheet, respectively. However, the Council omitted to disclose the capital expenditure and increase in borrowing in note 36, capital expenditure and capital financing. This material omission has been corrected. |

## Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE[i] Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have no weaknesses in internal control to report to you.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

I have no significant matters I wish to report.

There is one matter I want to bring to your attention that has been resolved this year, but should also be considered for future reference. I did discuss with management that the explanatory foreword could be more useful to the reader. The aim of the explanatory foreword is to explain the main features of the financial statements, and it has an important role in local government because of the complexity of the accounts. However, its focus was sometimes on small balances, whereas material variances were not always explained. Management has redrafted it, providing greater focus on significant and material matters, and increased explanation for material variances.

## Whole of Government Accounts

Alongside my work on the financial statements, I review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the NAO. I have no matters to report and expect to report to the NAO by the end of September.

**i** Society of Local Authority Chief Executives and Senior Managers

# Value for money

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

I assess your arrangements against the two criteria specified by the Commission. In my February 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

| Criteria | Findings |
|---|---|
| **1. Financial resilience**<br>The organisation has proper arrangements in place to secure financial resilience.<br>Focus for 2011/12:<br>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. | I am satisfied that the Council has proper arrangements in place to secure financial resilience.<br>I identified no significant risks to this criterion during my audit planning. I have monitored your financial performance during 2011/12; you have maintained a stable financial position through the year and you successfully transacted the HRA self-financing settlement.<br>Your level of earmarked reserves remain relatively high compared to other local authorities and have increased during the year. I have confirmed that plans are in place for these reserves and you should ensure that delivery is achieved within the planned timescales. |

| Criteria | Findings |
| --- | --- |
| **2. Securing economy efficiency and effectiveness**<br>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.<br>Focus for 2011/12:<br>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. | I am satisfied that the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.<br>I identified no significant risks to this criterion during my audit planning. Through my monitoring of your responses to key challenges through the year, in particular the planning and modelling you have carried out in preparation for HRA self financing, localising support for council tax, and business rates retention, I concluded that proper arrangements are in place. |

# Fees

## I reported my planned audit fee in the February Audit Plan.

I will complete the audit within the planned fee.

Table 3: **Fees**

| | Planned fee 2011/12 (£) | Expected fee 2011/12 (£) |
|---|---|---|
| Audit | 103,550 | 103,550 |
| Claims and returns | 18,000 | 18,000 |
| Non-audit work | 0 | 0 |
| **Total** | **121,550** | **121,550** |

The Audit Commission has paid a rebate of £8,284 on the audit fee to reflect the attainment of internal efficiency savings, reducing the net amount payable by South Kesteven District Council to £95,266

# Appendix 1 – Draft independent auditor's report to the members of South Kesteven DC

**Opinion on the Council financial statements**

I have audited the financial statements of South Kesteven District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC[i] Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

As explained more fully in the Statement of the Chief Finance Officer Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

i Local Authority Scotland Accounts Advisory Committee

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

**Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of South Kesteven District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

**Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

**Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Authority and the auditor**

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

**Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, South Kesteven District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

**Certificate**

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

Tony Crawley
District Auditor

Audit Commission.
Unit 10, Whitwick Business Centre,
Whitwick Business Park,
Stenson Road,
Coalville,
LE67 4JP

XX September 2012

# Appendix 2 – Corrected errors

I identified the following errors during the audit which management has addressed in the revised financial statements.

| | | Comprehensive income and expenditure statement | | Balance sheet | |
|---|---|---|---|---|---|
| Item of account | Nature of error | Dr £'000s | Cr £'000s | Dr £'000s | Cr £'000s |
| CIES: new SERCOP headings covering cultural, environmental, regulatory, and planning services. | The 2010/11 comparators had not be restated for the change in classification of cost of services | Expenditure<br>Cultural Services 5,991<br>Environmental Services 8,285<br>Planning Services 3,914 | Cultural, environmental, regulatory and planning services 18,190 | | |
| | | Income<br>Cultural, environmental, regulatory and planning services 5,531 | Cultural Services 1,953<br>Environmental Services 2,521<br>Planning Services 1,057 | | |
| | | Net<br>Cultural Services 4,038<br>Environmental Services 5,764<br>Planning Services | Cultural, environmental, regulatory and planning services 12,659 | | |

| | | Comprehensive income and expenditure statement | | Balance sheet | |
|---|---|---|---|---|---|
| | | 2,857 | | | |
| Balance sheet: cash and cash equivalents | Investment monies lodged in instant access accounts were classified as short term investments whereas, under the Code, they should be classified as cash equivalents.<br>Corresponding adjustments have been made to the cash flow statement. | | | Cash equivalents 6,500 | Short-term investments 6,500 |
| Balance sheet: assets held for sale | Council dwellings where the tenants are exercising their right to buy were not reclassified as held for sale. | | | Assets held for sale 189 | Council dwellings 189 |
| Cash flow statement | Impairment of council dwellings and the payments relating to council dwellings additions were not properly disclosed in the cash flow statement.<br>Note 47 added to the financial statements to explain a material balance in the cash flow statement. | Non-cash movements 4,354 | Downward revaluation (impairment) 4,354 | | |
| Note 8: adjustments between accounting basis and funding basis under regulations | Capital expenditure on council dwellings incorrectly classified within the note. | Revaluation losses on PPE 4,354 | Capital expenditure 4,354 | | |

| | | Comprehensive income and expenditure statement | | Balance sheet | |
|---|---|---|---|---|---|
| Note 15 and HRA note 2: PPE | Brought forward balances for council dwellings and other land and buildings. | | | B/f cost or valuation 4,354 | B/f cumulative depreciation and impairment 4,354 |
| Note 27: capital adjustment account | Capital expenditure and impairments incorrectly classified in the note | Revaluation losses on PPE 4,354 | Capital expenditure 4,354 | | |
| Note 36: capital expenditure and capital financing | HRA self-financing transaction of £121.652m not reflected in the note. | Not applicable note only | | | |
| Note 46: investments | Additional note added to the financial statements to explain material movements in investments. | Not applicable note only | | | |

# Appendix 3 – Draft letter of management representation

**South Kesteven District Council - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors 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 2012.

**Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

**Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

**Internal control**

I have communicated to you all deficiencies in internal control of which I am aware.

**Irregularities**

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

I 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;

- 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; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

**Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

**Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

**Related party transactions**

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

**Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.
Signed on behalf of South Kesteven District Council

I confirm that this letter has been discussed and agreed by the Governance and Audit Committee on 25 September 2012.

Signed

Name

Position

Date

# Appendix 4 – Glossary

**Annual Audit Letter**

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

**Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

**Annual Governance Statement**

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

**Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

**Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

**Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of a Council and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

**Significance**

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

**Those charged with governance**

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Council and its Governance and Audit Committee.

**Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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**0844 798 7070**

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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.

www.audit-commission.gov.uk

**September 2012**

Agenda Item 8

# Statement of Accounts 2011/12

*your council working for you*


**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 2011/2012.

During 2011/12 we took the time to consider our strategic priorities and in October 2011 the Council approved 4 key priority themes which will drive our direction over the next 10 years. These priorities, underpinned by the priority theme of 'Well Run Council' will provide focus and direction and ensure that we deliver key outcomes our residents have said are important to them to help make South Kesteven a better place to live, work and visit.

The four themes are:

- Grow the economy
- Promote leisure, arts and culture
- Support Good Housing for all
- Keep SK clean, green and healthy

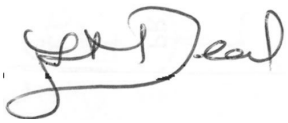
We have already started delivering a number of key projects that will support the overall delivery of the priorities including:

- A promotional campaign, Destination SK
- Supporting Gravity Fields Festival – a week of events and shows celebrating the district's connection with Sir Isaac Newton
- Improving Grantham town centre to attract investment
- Developing an apprenticeship scheme to meet local demands
- Progressing major capital projects including the Southern Quadrant and Station Approach in Grantham and Wherry's Lane in Bourne
- Improving broadband coverage across our district by financially supporting a county wide initiative
- Giving financial support to enable first time buyers to get onto the housing ladder through the Local Authority Mortgage Scheme
- Introducing a community access point in Bourne which will bring together district and county council services under one roof in the town centre

We are also continuing to deliver quality front line services and I am pleased to say we have not reduced any of these despite facing a reduction in our central government grant of £2.25M over a two year period. We have achieved this by careful financial planning over several years coupled with a focussed savings and efficiencies programme that has reduced costs and maximised how we use our resources.

Residents told us that they would be prepared to contribute to some of our key discretionary services, these are services that we provide that are extra and are not paid for directly from council tax, so we have introduced a joining contribution for our green waste service. This additional income will help us continue to provide quality services and invest in the things you have said are important to you.

Finally, I hope the explanatory foreword to these accounts helps you to understand how we have used your money to deliver the priorities that are important to you and I hope that even those of you who are not financial experts find the statement of accounts useful and informative.



**Councillor Linda Neal**
**Leader of the Council**

## EXPLANATORY FOREWORD

### Introduction to the Statement of Accounts – Daren Turner - Strategic Director Corporate Focus

I have great pleasure in writing this explanatory foreword to South Kesteven's Statement of Accounts for 2011/2012.

Following the upheaval of 2010/11 the financial year of 2011/12 was a period of consolidation for the Council. Government spending plans were, as expected, extremely difficult for Local Authorities. Although the size of the grant reductions for Local Government were broadly in line with predicted "worse case scenarios" the level of front loading of the cuts was unprecedented. The new two year settlements, announced by the Department of Communities and Local Government in December 2010, effectively reduced local government spending by an amount which had been initially planned for over four years. Shire district councils, due to the nature of the services they provide were particularly badly affected losing on average 15% of grant in 2011/12 and a further 10.8% in 2012/13 compared to the national average reductions of 9.9% and 7.3%. South Kesteven's grant saw a reduction of some £1.37m in 2011/12 with a further predicted reduction of £917k in 2012/13. Effective planning and robust financial management has enabled the Council to weather the impact of these cuts without impacting on front line services. Difficult decisions have been made by the Council, having regard to the consultation undertaken with our residents. Indeed many of the changes to base budgets have been introduced following the feedback from the consultation work done in the summer of 2010.

Despite the challenges, South Kesteven remains an ambitious Council, and the Cabinet have recognised the need, during these austere times, to continue to invest in the local economy and infrastructure. The Councils General Fund remains in a strong position and contains a fully funded capital programme for the next three years. Council tax remains low (one of the lowest in the Country) and reserves and balances remain prudent and properly targeted.

Significant changes to the Housing Revenue Account (HRA) have been taking place during the year and a huge amount of work on modelling the changes has been undertaken in order to better understand the impact of the Council buying itself out of the existing housing subsidy scheme by taking on £122m of national housing debt. The HRA at South Kesteven has been prudently managed by the Council over the last few years and the housing stock has been effectively managed and maintained. As such, despite taking on a significant amount of debt, the Council is in a strong position for the years ahead to consolidate its housing stock and respond to the housing needs of the district.

In order to comply with International Financial Reporting Standards, councils are now asked to make many technical adjustments in order for the Statements of Accounts to be produced. Supporting notes and information have been included in order to assist you in your understanding of the core financial statements. 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.

Finally, I would like to thank all of the staff involved in producing this years accounts, particularly those in Financial Services who, despite losing key staff during the process, have worked tirelessly to produce an exemplory set of accounts.

**Daren Turner ACCA**
**Strategic Director Corporate Focus**

## 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 square miles. The administrative headquarters are based in Grantham and the area is one of the fastest growing districts in the UK.

Since the 2001 census, there has been an overall increase in the population to 131,200 (Source: 2009 Mid Year Estimate ONS). The overall population size is projected to increase to 151,000 by the year 2021, mainly through a net increase in international and internal migration as well as usual population growth.

Over 78.4% of the total population is economically active but average earnings have recently fallen below the East Midlands and national average. The figures for unemployment of 2.8% are well below the East Midlands and national averages. However, this masks that Grantham in particular is underperforming with figures of 3.4% which is close to the Lincolnshire average.

For the period 1998 to 2010 the growth in business stock increased by 56.2% exceeding the national trends. However, the challenge faced by the District is the percentage of employment in the 'knowledge' driven sectors which is low at 14.3% compared to the East Midlands and national averages.

Growth in the national percentage of public service employment is mirrored in the District with the figure standing at 29.4% of all employment. The number of people employed in low skilled jobs is 32.2%. The challenge we face is to increase the level of higher value roles in relation to East Midlands and national averages.

The range, quality and availability of industrial, commercial and office land and floor-space is important to our ability to attract new and secure existing investment. The levels of industrial and retail floor-space available locally are higher than the East Midlands and national averages; however, the availability of modern high quality business parks, offices and retail units is low.

The estimated size of the retail catchment area for our major urban centre of Grantham is approximately £793 million of which only 26.2% is captured by the town. This provides for enormous potential to grow the town centre economy and attract additional retail and leisure users.

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 within the county of Lincolnshire. 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.

## Political Structure

The Council holds elections for all Members once every four years. The last elections were held in May 2011. Following the election there were 38 Conservatives, 6 Labour, 1 Unaligned and 13 Independent Members.

The Council operates with a Cabinet, three Policy Development Groups, 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 are responsible.

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

**Performance Management**

The Council has an established performance management framework and during the course of the year regular performance reporting has been undertaken. This framework enables the Council to monitor progress in respect of achieving key performance measures and priority actions. The Council has established a Projects and Performance Management Board which meets on a monthly basis to manage the delivery of key projects and put in place corrective measures to ensure their delivery. The Board is supported by a Projects and Performance Management Office who work closely with the project managers to provide support and ensure project methodology is adhered to. Regular reports are also submitted to Cabinet during the course of the year and this is supported by the Scrutiny Committee who review performance and ensure progress is being made. 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 one to one meetings between each Head of Service and a Strategic Director.

**The Statement of Accounts**

We have followed the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom in putting together our Statement of Accounts for the financial year ended 31 March 2012.

The accounts give a true and fair view of South Kesteven's financial position for the financial year 2011/2012. Our accounting policies are outlined in this document and have been fairly and consistently applied. We keep proper and up to date accounting records and take all reasonable steps to prevent and detect fraud and other irregularities.

The Strategic Director (Corporate Focus) is the statutory officer responsible for the proper administration of the Council's financial affairs (referred to in the statement as the Chief Finance Officer). He is required by law to confirm that the Council's system of internal controls can be relied upon to produce an accurate statement of accounts. His statement of assurance for 2011/2012 (known as the Statement of Responsibilities) appears on page 17 of this document.

The main statements included in the accounts consist of:

**Statement of Responsibilities (page 17) -** The Statement of Responsibilities for the Statement of Accounts details the respective responsibilities of the Chief Finance Officer and the Council.

**Movement in Reserves Statement (pages 18-20) -** This statement reconciles the total Comprehensive Income & Expenditure to reserve movements in the year.

**Comprehensive Income & Expenditure Statement (page 21) -** This statement consolidates all the gains and losses experienced by the Council in the financial year and reconciles to the overall movement in net worth.

**Balance Sheet (pages 22-23) -** The Balance Sheet summarises the Council's financial position at 31 March 2012.

**Cash Flow Statement (pages 24-25) -** The cash flow statement summarises the flows of cash that have taken place into and out of the Council's bank accounts over the financial year.

**Notes to the Core Financial Statements (pages 26 - 86)** – Notes to the preceding financial statements, explaining and providing additional information to figures included in these statements.

**Housing Revenue Account (pages 87 - 97)** - This reflects a statutory obligation to account separately for the Council's housing landlord function. It shows the major elements of housing revenue expenditure - maintenance, administration, and capital financing costs, and how these are met by rents, subsidy and other income.

**Collection Fund (pages 98 – 100)** – 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 on behalf of central government 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.

**Annual Governance Statement (pages 101 - 113)** - 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 2007/2008 an Annual Governance Statement is required to meet the requirement of this regulation. The governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities.

**A glossary** is provided **(pages 114 – 121)** 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 is financed from government grants, council tax, council house rents and fees and charges. Capital expenditure is on assets that have a life beyond one year and is financed from proceeds from the sale of assets (capital receipts), capital grants and contributions, the major repairs reserve and direct revenue financing.

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

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- 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 Statement and Movement on the Housing Revenue Account Statement
- 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 total budget requirement for the year was set at £14.671m.

This was set with a Council Tax freeze which gave a Band D Council Tax of £122.76

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

- £8.350m government formula grant (including revenue support grant and redistributed business rates)
- £6.291m council tax income (excluding Parish Precepts of £1.35m)
- £0.005m collection fund surplus

The table below identifies significant variances in service expenditure analysed by service area.

| Service Area | 2011/2012 Estimate £'000 | 2011/2012 Actual £'000 | Variance £'000 |
|---|---|---|---|
| Assets | 3,308 | 1,690 | (1,618) |
| Corporate | 1,493 | 831 | (662) |
| Development & Growth | 2,252 | 2,230 | (22) |
| Environmental Services | 5,640 | 5,580 | (60) |
| Finance | 1,422 | 994 | (428) |
| Housing & Neighbourhoods | 943 | 1,184 | 241 |
| People, Projects & Performance | (19) | 87 | 106 |
| Special Expense Areas | 566 | 662 | 96 |
| Legal & Democratic | 1,345 | 1,184 | (161) |
| **Total Service Expenditure*** | **16,950** | **14,442** | **(2,508)** |

*The actual outturn figure above of £14.442m is distorted by various non-cash accounting adjustments amounting to £1.253m. The re-stated outturn position following removal of the accounting adjustments is £15.695m.

**Explaining the big differences**

Variances from the budget relate to:

1. Assets

   There is a variance of £185K in respect of Bourne Leisure Centre and £111K in respect of Deepings Leisure Centre. These variances are due to a change in accounting treatment for the holding of the asset. This has resulted in a reduction of the depreciation charge. There has also been a change in the calculation of the value of the Grantham Meres Leisure Centre which has created a variance of £793K. This is a notional amount that does not impact directly on the actual outturn position.

   A change in accounting practice has resulted in a number of the car parking assets being re-valued downwards which has resulted in a lower depreciation charge. Car parking income in respect of Grantham is £16K less than budget but Stamford car parks have shown an increase and have exceeded budgeted levels by £94K.

There have been savings of £101K in respect of the grounds maintenance contract, the service has successfully renegotiated terms with the incumbent contractor as part of the Councils efficiency and service review programme. Income received in respect of Grantham markets was £19K less than budgeted following a reduction in the number of regular traders although it is anticipated the number of regular traders will improve following the successful street scene improvement works in and around the Market Place. The trading performance of Stamford Market has remained strong during the financial year.

A revaluation of the Grantham Meres Leisure Centre has been undertaken by the District Valuer as part of the annual revaluation of the Council assets. This has the effect of lowering the annual depreciation capital charge and therefore a variance when compared with budgeted costs.

2. Corporate (includes corporate costs, strategic and operational management costs)

There are two specific provisions within this corporate heading that have not been required during the financial year namely: invest to save and set-aside for a national pay award settlement.

Invest to Save - £500K was incorporated into the 2011/12 budget framework in order to fund any initiatives that required up front resourcing based on a business case of demonstrating payback on the outlay over a defined period of time. Whilst initiatives of this nature have been funded during 2011/12, it has been possible to fund them from in-year savings rather than utilise the provision. These include the purchasing and installation of solar PV energy panels at a number of key Council assets and the installation of software in waste freight vehicles which will lead to the review of rounds to maximise efficiencies. As part of the closedown of the accounts, a specific invest-to-save reserve will be created.

Pay provision - £100K, this provision was put in place pending the national settlement with respect to public sector pay award settlement for 2011/12. The national settlement agreed a pay freeze for the year and therefore the provision will be transferred to the revenue reserve in order for it to be used to support the funding of priority projects.

3. Development and Growth

The Building Control trading account has experienced some trading difficulties and a combined trading deficit of £34k for the financial year will need to be recovered during 2012/13 in order to maintain the required breakeven position over a 3 year rolling period.

4. Environmental services

Overall this service area has no material variances which require an explanation other than an increase in depreciation charges due to the purchase of 2 street sweepers and an on-street hot pavement washer in the year.

5. Finance

The most significant variance is caused by the requirement to make adjustments in relation to the future pension liabilities of staff in order to align with IAS 19. Following the publication of the Lincolnshire Actuaries report in May 2012, there have been a number of adjustments required to reflect the assumptions stated in the report. These adjustments determine the Authority's pension obligations in respect of its employees (both current and former).

6. Housing and Neighbourhoods

The variance in respect of homelessness includes £68k of grant received that will be rolled forward into 2012/13 to be utilised on specific projects.

Private sector housing – there has been a number of expenditure charges made to the service in accordance with accounting requirements (revenue expenditure funded from capital under statute – REFCUS). These include disabled facilities (£496k), empty homes grant (£75k) and better homes grant (£217k). The cost centre has also been credited with grant income of £336k in respect of grants received in-year. In general terms, these are all accounting adjustments that are necessary in order to comply with accounting standards but do not have a detrimental impact on the service.

7. People, Projects & Performance

During the course of the year a new cost centre, Reputation, Communications & Consultation, has been established and the budget has been moved from the Communications cost centre. There is a salary related underspend in Customer Services as a result of the internal temporary service manager arrangement.

8. Legal & Democratic

There have been a number of small variances within the Democratic Representation cost centre including underspends in respect of printing and postage costs.

9. Special Expense Areas

Grantham SEA – there has been an overall overspend for the SEA due to the works undertaken in respect of improvements to the drainage of Grantham Cemetery. The cost of these works will be met from the Grantham SEA over the medium term.

Year End Set-Asides

In order to assist services to continue to deliver specific projects which overrun the financial year, a number of service funds have been created following the closure of the 2011/12 financial year. Specifically these are:

- Property and Facilities £63k
- Information Technology £84k
- Human Resources Learning and Development Programme £170k
- Waste and Recycling £50k

These will be utilised during the financial year 2012/13 in order to continue to fund expenditure items that were originally budgeted for spend in 2011/12.

The service outturn of £14.442m shown in the table on page 7 can be reconciled back to the Comprehensive Income & Expenditure Statement (CIES) Cost of Services total of £138.097m with the following adjustments:

| Heading | £000 | Reason |
|---|---|---|
| Service Expenditure Outturn | 14,442 | |
| Housing Services not in General Fund | 2,305 | Housing services accounted for separately in the HRA |
| Exceptional HRA Self-Financing Transaction | 121,652 | Self-financing payment resulting from the removal from the HRA subsidy arrangements |
| Drainage Board Levies | (609) | Included in Service Outturn in table on page 7 but included in Other Operating Income & Expenditure section below Cost of Services in CIES |
| Trading Accounts | 291 | Included in Service Outturn in table on page 7 but included in Financing & Investment Income & Expenditure section below Cost of Services in CIES |
| Leisure Loan Interest | 16 | Included in Service Outturn in table on page 7 but included in Financing & Investment Income & Expenditure section below Cost of Services in CIES |
| **CIES Cost of Services** | **138,097** | |

**Comparing actual revenue spending to budget in the Housing Revenue Account**

The Council owns council housing and is therefore 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 originally budgeted for a net operating expenditure of £0.712m. The HRA outturn position shows a net operating deficit of £2.042m for the financial year. However, included within the operating expenditure is capital expenditure of £4.244m which has been financed from the major repairs allowance. After applying the allowance, a surplus of £1.240m has been added to the working balance.

| Description | 2011/2012 Estimate £'000 | 2011/2012 Actual £'000 | Variance £'000 |
|---|---|---|---|
| Dwelling Rents & Other Income | (22,708) | (22,962) | (254) |
| Repairs & Maintenance | 6,178 | 5,828 | (350) |
| Supervision & Management | 4,706 | 4,113 | (593) |
| Housing Revenue Account Subsidy | 11,451 | 11,388 | (63) |
| Other Expenditure | 574 | 474 | (100) |
| Capital Expenditure | 0 | 4,244 | 4,244 |
| Major Repairs Allowance | (3,673) | (3,673) | 0 |
| Interest Payable & Similar Charges | 95 | 131 | 36 |
| Interest & Investment Income | (236) | (172) | 64 |
| Capital Charges (including Depreciation) | 4,325 | 2,671 | (1,654) |
| **Deficit/ (Surplus) for the year on the HRA** | **712** | **2,042** | **1,330** |

Overall there are a number of significant issues that have contributed to this outturn position.

**Variance Analysis**

1. Dwelling Rents & Other Income

Dwelling rents and other income– the performance for the collection of rents has improved during the financial year (98.02%) and the remaining rents due will continue to be recovered during 2012/13. The bad debt provision has been credited to reflect the position.

2. Repairs & Maintenance

This budget covers expenditure on a range of work areas including insulation, painting, digital upgrades, water testing and gas servicing. The overall underspend of £350K reflects a number of schemes that have been delivered below budget as a result of savings achieved - these are; insulation (£148K due to external grant being awarded), painting (£42K), gas servicing (£11K) and chimney sweeping (£15K). The disabled adaptations cost centre was underspent by £218K due to a delay with commencing the procurement framework with the contractor. There have been overspends in respect of specified works of £88K and materials of £35K. These are due to an increase in the number of type of repairs required to the housing stock during the year. An analysis of these overspends is underway to determine corrective actions to mitigate a re-occurrence of the situation.

3. Supervision & Management

Compared with a combined budget of £4.706M the outturn is £4.113M which gives an overall variance of £593K. £280K relates to employee related expenditure savings – a review of vacant posts has been completed with 4 of the posts being removed from the establishment. Grounds maintenance achieved an overall saving of £60K following negotiations with the incumbent contractor. A budget allocation of £50K was not required for the introduction of choice based lettings scheme.

4. Depreciation & Impairments

The criteria used by the District Valuer for the valuation of social housing stock has decreased from 50% to 34% which has resulted in a reduced depreciation charge when compared with original budgets. This is due to the valuation change being introduced after the original budgets had been agreed.

**Capital Spending in 2011/2012**

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

**Comparing actual capital spending to budget**

The final capital programme for the year was £7.304m (£4.709m HRA programme and £2.595m General Fund programme). This was £4.033m less than the original budget.

| | Corporate Area | 2011/12 Original Base £'000 | 2011/12 Outturn £'000 | 2011/12 Variance £'000 |
|---|---|---|---|---|
| 1 | Good for Business | 2,150 | 153 | (1,997) |
| 2 | Quality Living | 1,762 | 1,585 | (177) |
| 3 | Customer First | 150 | 20 | (130) |
| 4 | Quality Organisation | 520 | 837 | 317 |
| **5** | **General Fund Sub Total** | **4,582** | **2,595** | **(1,987)** |
| 6 | Housing Revenue Account | 6,755 | 4,709 | (2,046) |
| **7** | **Total Capital Programme** | **11,337** | **7,304** | **(4,033)** |

**Explaining the big differences**

The final spend for the year was £4.033m lower than the revised approved programme. The following explanations are provided as follows:

**Variance Analysis – General Fund**

1. Good for Business

Bourne Core Area (£1.586m) – during the course of the year significant progress has been made to enable the delivery of the Bourne core area project. Work has started during the latter part of 2011/12 and the retail and residential development will be delivered during 2012/13. Funding has been allocated across these financial years to enable the project to progress as planned.

Grantham growth (£370k) continues to be a priority for the Council and funding has been set aside for delivery of key components of the project, specifically these include Station approach and public realm. Servicing land at Station Approach by private treaty has not been successful and this has

resulted in the commencement of compulsory purchase orders. These schemes will therefore continue to receive funding over the period of the medium term financial plan and the underspend in 2011/12 will contribute to the funding proposals.

2. Quality Living

Housing Improvement Grants (£274k) – there are a number of specific schemes within this category that are utilised in accordance with customer demand and compliance with criteria. The underspends for the current year will be carried forward to finance future expenditure within these headings.

3. Customer First

There is an ongoing review of the area office upgrade requirements which complements and supports the Council's customer access strategy. Work is progressing on the conversion of part of the Bourne Corn Exchange building into a Customer Access Point incorporating access to district, library and town council services. The majority of the expenditure will be incurred during 2012/13 with a target opening of Spring 2013. Budget not used during 2011/12 will be made available during 2012/13 to fund the remainder of the works.

4. Quality Organisation

There a number of projects under this heading which have been delivered in accordance with the asset management plan. Specifically these include the introduction of BMS (business management systems) at the leisure centres, the refurbishment of the roof and clock tower at the Guildhall Arts Centre Grantham, ICT infrastructure improvements and the acquisition of replacement pool vehicles.

**Variance Analysis - HRA**

Heating and ventilation – 570 boilers were renewed during 2011/12. There was an overspend of £114K due to the number of condemned boilers in addition to the planned maintenance and improvement programme. A further £1.4M has been allocated to this programme for 2012/13.

Property refurbishments – in total 47 properties were refurbished which resulted in an overspend of £200K due to additional properties requiring refurbishment that was originally envisaged. These were properties that became void during the year and required significant upgrades to meet decent homes standards.

Re-roofing – an underspend of £526K due to the re-profiling of the programme based on geographical areas which will ensure value for money is obtained by the contracts. Comparisons of pricing between roofs completed under both the current and the previous contracts have shown a 23.17% saving due to economies gained in labour, travelling, supervision, scaffolding and procurement.

Re-wiring – an underspend of £279K due to a reduction in the number of properties requiring re-wiring during 2011/12 due to the implementation of a pre inspection testing programme which identified that the wiring is in better condition than the visual inspection indicated.

Kitchen and Bathroom Refurbishments – 146 kitchens and 124 bathrooms were upgraded in 2011/12. There was an underspend of £365K due to difficulties in accessing properties to undertake the works and following the refusal by tenants not wanting the disruption of having works carried out.

Communal door replacement programme – an underspend of £56K due to delays in the commencement of the works. It is anticipated the works will be undertaken during 2012/13 once consultation with leaseholders has been completed.

Disabled adaptations – an underspend of £88K due to the small number of major adaptation schemes being referred to the Council by occupational health.

Chimney works – an underspend of £145K due to re-profiling of the programme based on geographical areas which will ensure value for money is obtained from these contracts. This work is being procured as part of the roofing contract rather than as a separate contract to prevent return visits.

Wall finishes – an underspend of £190K due to re-profiling of the programme based on geographical areas which will ensure value for money is obtained from these contracts. These works will be undertaken during 2012/13. As with the chimney works this work is being procured as part of the roofing contract to avoid return visits.

Essential works – During the year £129k was incurred on the installation of condensate pipes and sound insulation works carried out at Clare Close Stamford. There was an underspend of £166k due to the flat roof programme of £99.5k being included in the roofing contract. The additional £66.5k was not spent as this was originally intended for the refurbishment of Swedish timber properties. Following a survey of these properties, further works are needed and additional funding will be sought for the works to be carried out in 2013/14.

Contingency allocation of £150K was not required during the course of the financial year. This amount will credited to the HRA reserve and used to fund future projects.

Refurbishment of bin stores – an underspend of £67K of which £40K will be spent in 2012/13 due to delays in the commencement of the programme.

DDA compliance works – this programme of works will continue in 2012/13 and £200K has been allocated to support this work.

**Where the money was invested and where the money came from**

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

| **Investment** | **£'000** | **Financed From** | **£'000** |
|---|---|---|---|
| Council Dwellings (Non-Enhancing)** | 4,244 | Capital Reserve | 69 |
| Other Land & Buildings | 109 | Capital Receipts | 1,605 |
| Other Land & Buildings (Non-Enhancing)** | 123 | Direct Revenue Financing | 315 |
| Vehicles, Plant & Equipment** | 1,846 | Major Repairs Reserve | 4,709 |
| Non-Operational Assets | 134 | Capital Grants & Contributions | 658 |
| Revenue Expenditure Funded from Capital Under Statute | 800 | | |
| Intangible Assets | 100 | | |
| | 7,356 * | | 7,356 * |

*This figure includes £52K relating to Playbuilder grant monies awarded from Government to fund the Arnoldfield play equipment. This has not been included in the capital outturn figure of £7.304m.

**Capital expenditure on Council Dwellings totalled £4.244m in respect of improvements to existing stock. However, all of this was charged to revenue in year and did not therefore result in an increase to the balance sheet values. Capital expenditure charged to revenue is also included under the Other Land & Buildings and Vehicles, Plant & Equipment headings.

Several replacement vehicles were purchased and are included in vehicles, plant and equipment. The expenditure on Intangible Assets relates to software purchased to improve efficiency. Revenue expenditure funded from capital under statute includes £496k expenditure on Disabled Facilities Grants and £295k on Home Improvement Grants. The expenditure on non-operational assets relates to purchases of property in Bourne in accordance with investment plans for the area.

**Our Treasury Management Performance**

We exceeded our original investment income budget for the year of £0.230 by £0.169m. This was achieved by higher than anticipated cash balances from lower than budgeted spending on capital which was under spent by £4.033m compared with the original estimate. The benchmark 7-day LIBID (London Interbank Bid rate) rate was 0.48% and the rate of return we achieved of 1.24% was some 0.76% above this benchmark figure.

**Council Tax Collection**

The net collectable amount in respect of 2011/2012 Council Tax was £58.970m of which £57.981m has been received. This represents a collection rate of 98.3% (2010/2011 98.3%), Council Tax arrears (for all years), including costs, amounted to £1.814m as at 31 March 2012.

**Reserves and Balances**

The General Fund working balance at the end of the financial year is £2.370m which will be carried over into 2012/2013 and is equivalent to 14.7% of net original base budget for 2012/2013 (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.

The Housing Revenue working balance of £9.411m represents the existing revenue balance.

The Council's total working balances and reserves have increased by £1.388m and now total £35.009m.

A summary of the specific and earmarked reserve balances as at 31 March 2012 are as follows:

| | |
|---|---|
| • General Fund working balance | £2.370 million |
| • HRA working balance | £9.411 million |
| • GF unapplied capital grants | £0.476 million |
| • General Fund Capital Reserve | £3.061 million |
| • Useable Capital Receipts Reserve | £6.756 million |
| • GF Revenue Reserves | £7.461 million |
| • GF unapplied revenue grants | £0.930 million |
| • Housing Revenue Account Capital Reserve | £4.313 million |
| • Earmarked HRA reserves | £0.231 million |
| **Total** | **£35.009 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.

**Significant Items within the Statement of Accounts**

There is one significant item within the Statement of Accounts for 2011/12. This relates to the Government's decision to end the housing subsidy system, allowing Councils to make their own decisions regarding housing to meet local need. Based on 30 year business plans for the HRA, the Government determined which Councils would receive money from them to pay off HRA debt and which Councils would have to pay towards the self-financing system. South Kesteven, based on the business plan, was required to make a payment and so undertook financial modelling to identify the most advantageous form of financing the debt. This culminated in the Council undertaking a loan from the PWLB (Public Works Loan Board) for £121.652m. The borrowing will be paid off over a period of 30 years. The payment was made to central Government on 28th March 2012. The expenditure is shown as an exceptional item in the Net Cost of Services in the Comprehensive Income & Expenditure Statement, and the borrowing is shown on the Balance Sheet.

**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 406203 or accountancy@southkesteven.gov.uk. In addition, interested members of the public have a statutory right to inspect the accounts before the annual audit is completed. The availability of the accounts for inspection is advertised in the local press and on our website at www.southkesteven.gov.uk

**Daren Turner ACCA**
**Strategic Director – Corporate Focus**
**29 June 2012**

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's Responsibilities

The Council is required to:

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

### The Chief Finance Officer's Responsibilities

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

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

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

The Chief Finance Officer has also:

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

## CHIEF FINANCE OFFICER'S CERTIFICATE

I certify that the accounts set out in this document present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2012.

This Statement of Accounts has been approved by the Governance & Audit Committee at its meeting on 25th September 2012.

**DAREN TURNER ACCA**
**CHIEF FINANCE OFFICER**
**25th September 2012**

**COUNCILLOR IAN STOKES**
**CHAIRMAN OF GOVERNANCE & AUDIT COMMITTEE**
**25th September 2012**

## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income & Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

| | General Fund Balance | Earmarked General Fund Reserves | Housing Revenue Account | Earmarked HRA Reserves | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | **Total Usable Reserves** | Unusable Reserves | **Total Authority Reserves** |
|---|---|---|---|---|---|---|---|---|---|---|
| **2011/2012 Restated** | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | **£'000** | £'000 | **£'000** |
| **Balance b/f** | (2,370) | (8,808) | (8,171) | (229) | (7,951) | (5,348) | (744) | **(33,621)** | (203,110) | **(236,731)** |
| Movement in reserves during 2011/2012 | | | | | | | | | | |
| Surplus or (deficit) on the provision of services | (522) | | 123,696 | | | | | **123,174** | | **123,174** |
| Other Comprehensive Income & Expenditure (see bottom of CIES for | | | | | | | | | 5,349 | **5,349** |
| **Total Comprehensive Income & Expenditure** | **(522)** | **0** | **123,696** | **0** | **0** | **0** | **0** | **123,174** | **5,349** | **128,523** |
| between accounting basis and funding basis under regulations (Note 8) | (2,175) | 0 | (125,003) | 0 | 1,254 | (3,674) | 268 | **(129,330)** | 129,330 | **0** |
| **Net (Increase)/Decrease before Transfers to Earmarked Reserves** | **(2,697)** | **0** | **(1,307)** | **0** | **1,254** | **(3,674)** | **268** | **(6,156)** | **134,679** | **128,523** |
| Transfers to/(from) Earmarked Reserves (Note 9) | 2,697 | (2,644) | 67 | (2) | (59) | 4,709 | 0 | **4,768** | (4,768) | **0** |
| **(Increase)/Decrease in 2011/2012** | **0** | **(2,644)** | **(1,240)** | **(2)** | **1,195** | **1,035** | **268** | **(1,388)** | **129,911** | **128,523** |
| **Balance at 31 March 2012 carried forward** | **(2,370)** | **(11,452)** | **(9,411)** | **(231)** | **(6,756)** | **(4,313)** | **(476)** | **(35,009)** | **(73,199)** | **(108,208)** |

see Notes 26 & 27 for details of reserves

## MOVEMENT IN RESERVES STATEMENT Cont'd

| | General Fund Balance | Earmarked General Fund Reserves | Housing Revenue Account | Earmarked HRA Reserves | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | **Total Usable Reserves** | Unusable Reserves | **Total Authority Reserves** |
|---|---|---|---|---|---|---|---|---|---|---|
| **2010/2011 Restated** | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | **£'000** | £'000 | **£'000** |
| **Bal b/f** | (2,370) | (8,486) | (7,678) | (193) | (7,569) | (6,566) | (616) | **(33,478)** | (270,355) | **(303,833)** |
| Movement in reserves during 2010/2011 | | | | | | | | | | |
| Surplus or (deficit) on the provision of services | (5,081) | | 87,476 | | | | | **82,395** | | **82,395** |
| Other Comprehensive Income & Expenditure (see bottom of CIES for details) | | | | | | | | | (15,293) | **(15,293)** |
| **Total Comprehensive Income & Expenditure** | **(5,081)** | **0** | **87,476** | **0** | **0** | **0** | **0** | **82,395** | **(15,293)** | **67,102** |
| Adjustments between accounting basis and funding basis under regulations (Note 8) | 2,355 | 1,850 | (88,001) | 0 | (302) | (3,662) | 144 | **(87,616)** | 87,616 | **0** |
| **(Increase)/Decrease before Transfers to Earmarked Reserves** | **(2,726)** | **1,850** | **(525)** | **0** | **(302)** | **(3,662)** | **144** | **(5,221)** | **72,323** | **67,102** |
| Transfers to/(from) Earmarked Reserves (Note 9) | 2,726 | (2,172) | 32 | (36) | (80) | 4,880 | (272) | **5,078** | (5,078) | **0** |
| **(Increase)/Decrease in 2010/2011** | **0** | **(322)** | **(493)** | **(36)** | **(382)** | **1,218** | **(128)** | **(143)** | **67,245** | **67,102** |
| **Balance at 31 March 2011 carried forward** | **(2,370)** | **(8,808)** | **(8,171)** | **(229)** | **(7,951)** | **(5,348)** | **(744)** | **(33,621)** | **(203,110)** | **(236,731)** |

see Notes 26 & 27 for details of reserves

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| Restated 2010/2011 Gross Expenditure £'000 | Restated 2010/2011 Gross income £'000 | Restated 2010/2011 Net Expenditure £'000 | | Note | 2011/2012 Gross Expenditure £'000 | 2011/2012 Gross Income £'000 | 2011/2012 Net Expenditure £'000 |
|---|---|---|---|---|---|---|---|
| 9,555 | (8,474) | 1,081 | Central Services to the Public | | 9,898 | (8,629) | 1,269 |
| 5,991 | (1,953) | 4,038 | Cultural and Related Services* | | 4,620 | (2,056) | 2,564 |
| 8,285 | (2,521) | 5,764 | Environmental and Regulatory Services* | | 8,539 | (2,631) | 5,908 |
| 3,914 | (1,057) | 2,857 | Planning Services* | | 3,365 | (1,103) | 2,262 |
| 1,716 | (1,843) | (127) | Highways and Transport Services | | 1,073 | (1,366) | (293) |
| 24,853 | (21,769) | 3,084 | Local Authority Housing (HRA) | | 25,574 | (23,268) | 2,306 |
| 86,868 | 0 | 86,868 | Exceptional downward revaluation on dwellings | | 0 | 0 | 0 |
| 0 | 0 | 0 | Settlement payment to Government for self financing | | 121,652 | 0 | 121,652 |
| 30,788 | (29,384) | 1,404 | Other Housing Services | | 32,722 | (31,869) | 853 |
| 2,430 | (621) | 1,809 | Corporate and Democratic Core | | 2,318 | (748) | 1,570 |
| 219 | (120) | 99 | Non Distributed Costs | | 6 | | 6 |
| (9,093) | 0 | (9,093) | Exceptional past service gain | | 0 | 0 | 0 |
| 165,526 | (67,742) | 97,784 | **Cost of Services** | | 209,767 | (71,670) | 138,097 |
| | | | **Other Operating Income & Expenditure** | | | | |
| | | 145 | (Gain)/Loss on Disposal of Non-Current Assets | | | | (304) |
| | | 1,957 | Precepts & Levies | 10 | | | 1,959 |
| | | 342 | Contribution to Housing Capital Receipts Pool | | | | 475 |
| | | 15 | Other Operating Income & Expenditure | 11 | | | (90) |
| | | 2,459 | | | | | 2,040 |
| | | | **Financing & Investment Income & Expenditure** | | | | |
| | | 317 | Interest payable on debt | | | | 287 |
| | | 5,136 | Pensions interest cost | | | | 4,401 |
| | | (3,808) | Expected return on pensions assets | | | | (3,972) |
| | | (764) | Investment interest income | | | | (589) |
| | | 147 | Inc & Exp & Movement in Fair Value of Investment Properties | 12 | | | 54 |
| | | (382) | (Gain)/Loss on Trading Accounts | | | | (291) |
| | | 646 | | | | | (110) |
| | | | **Taxation & Non-Specific grant Income** | | | | |
| | | (616) | Recognised capital grants & contributions | 13 | | | 0 |
| | | (7,577) | Council tax | | | | (7,645) |
| | | (8,860) | Non-domestic rates | | | | (6,378) |
| | | (1,441) | Non service related government grants | 14 | | | (2,830) |
| | | (18,494) | | | | | (16,853) |
| | | **82,395** | **(Surplus) or Deficit on Provision of Services** | | | | **123,174** |
| | | 426 | (Surplus) or deficit on revaluation of non-current assets | | | | (1,345) |
| | | (15,719) | Actuarial (gains)/losses on pension assets/liabilities | | | | 6,694 |
| | | **(15,293)** | **Other Comprehensive Income & Expenditure** | | | | **5,349** |
| | | **67,102** | **Total Comprehensive Income & Expenditure** | | | | **128,523** |

**These figures have been restated for 2010/11 in accordance with SeRCOP reporting requirements.*

## BALANCE SHEET

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

| Restated 01/04/2010 £'000 | Restated 31/03/2011 £'000 | | Note | 31/03/2012 £'000 |
|---|---|---|---|---|
| 267,817 | 179,259 | Council Dwellings | 15 | 175,909 |
| 48,231 | 45,480 | Other Land & Buildings | 15 | 46,415 |
| 3,497 | 4,551 | Plant, Vehicles & Equipment | 15 | 5,193 |
| 228 | 237 | Surplus Assets not Held for Sale | 15 | 227 |
| 0 | 52 | Assets Under Construction | 15 | 168 |
| 409 | 429 | Heritage Assets | 45 | 429 |
| 2,455 | 2,660 | Investment Property | 16 | 2,590 |
| 94 | 66 | Intangible Assets | 17 | 135 |
| 1,042 | 140 | Non-Current Assets Held for Sale | 23 | 0 |
| 1,000 | 4,000 | Non-Current Investments | 46 | 3,000 |
| 398 | 289 | Non-Current Debtors | | 289 |
| **325,171** | **237,163** | **Long-Term Assets** | | **234,355** |
| 0 | 0 | Current Assets Held for Sale | 23 | 189 |
| 20,223 | 26,323 | Current Investments | 46 | 21,184 |
| 26 | 71 | Inventories | 19 | 62 |
| 6,230 | 5,078 | Current Debtors | 21 | 3,374 |
| 7,310 | 491 | Cash & Cash Equivalents | 22 | 9,390 |
| **33,789** | **31,963** | **Current Assets** | | **34,199** |
| (1,659) | (130) | Current Borrowing | 42 | (3,389) |
| (3,835) | (6,282) | Current Creditors | 24 | (5,695) |
| (589) | (342) | Current Provisions | 25 | (253) |
| **(6,083)** | **(6,754)** | **Current Liabilities** | | **(9,337)** |
| (25) | (18) | Non-Current Provisions | 25 | (44) |
| (2,500) | (2,580) | Non-Current Borrowing | 42 | (120,978) |
| (46,024) | (22,549) | Other Long Term Liabilities | 40 | (29,453) |
| (495) | (493) | Capital Grants Receipts in Advance | 34 | (532) |
| **(49,044)** | **(25,640)** | **Long Term Liabilities** | | **(151,007)** |
| **303,833** | **236,732** | **Net Assets** | | **108,210** |

**BALANCE SHEET Cont'd**

| Restated 01/04/2010 £'000 | Restated 31/03/2011 £'000 | | Note | 31/03/2012 £'000 |
|---|---|---|---|---|
| | | **Usable Reserves** | | |
| 7,569 | 7,951 | Usable Capital Receipts Reserve | 26 | 6,756 |
| 6,566 | 5,348 | Major Repairs Reserve | 26 | 4,313 |
| 6,683 | 7,178 | Earmarked GF Revenue Reserves | 26 | 8,391 |
| 193 | 229 | Earmarked HRA Revenue Reserves | 26 | 231 |
| 1,803 | 1,630 | Earmarked Capital Reserves | 26 | 3,061 |
| 616 | 744 | Capital Grants Unapplied | 26 | 476 |
| 2,370 | 2,370 | General Fund Balance | 26 | 2,370 |
| 7,678 | 8,171 | HRA Balance | 26 | 9,411 |
| **33,478** | **33,621** | | | **35,009** |
| | | **Unusable Reserves** | | |
| 312,377 | 222,370 | Capital Adjustment Account | 27 | 98,165 |
| 4,321 | 3,489 | Revaluation Reserve | 27 | 4,613 |
| (46,024) | (22,549) | Pension Reserve | 27 | (29,453) |
| (494) | (317) | Short-Term Accumulating Absences Acc. | 27 | (201) |
| 73 | 31 | Collection Fund Adjustment Account | 27 | 5 |
| 102 | 87 | Deferred Capital Receipts | 27 | 72 |
| **270,355** | **203,111** | | | **73,201** |
| **303,833** | **236,732** | **TOTAL RESERVES** | | **108,210** |

## CASH FLOW STATEMENT

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

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

| 2010/2011 £'000 | | Note | 2011/2012 £'000 |
|---|---|---|---|
| | **Operating Activities** | | |
| (82,395) | Net surplus or (deficit) on the provision of services | | (123,174) |
| 91,544 | Adjustments to net surplus or deficit on the provision of services for non-cash movements | 47 | 9,186 |
| (954) | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | | (826) |
| (278) | Reversal of operating activity items included in the net (surplus) or deficit on the provision of services that are shown separately below | | (471) |
| (385) | Cash flows from Operating Activities includes Interest paid | | (259) |
| 663 | Interest received | | 730 |
| **8,195** | **Net cash flows from Operating Activities** | | **(114,814)** |
| | **Investing Activities** | | |
| (6,809) | Purchase of property, plant and equipment, investment property and intangible assets | | (6,777) |
| (43,000) | Purchase of short-term and long-term investments | | (22,000) |
| (11) | Other payments for investing activities | | (43) |
| 954 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | | 821 |
| 34,000 | Proceeds from short-term and long-term investments | | 28,000 |
| 1,031 | Other receipts from investing activities | | 105 |
| **(13,835)** | **Net cash flows from Investing Activities** | | **106** |

**CASH FLOW STATEMENT Cont'd**

| 2010/2011 £'000 | | Note | 2011/2012 £'000 |
|---|---|---|---|
| | **Financing Activities** | | |
| 129 | Cash receipts of short- and long-term borrowing | | 121,610 |
| 316 | Other receipts from financing activities | | 2,178 |
| (1,516) | Repayments of short- and long-term borrowing | | (32) |
| (108) | Other payments for financing activities | | (149) |
| **(1,179)** | **Net Cash Flows from Financing Activities** | | **123,607** |
| **(6,819)** | **Net increase or (decrease) in cash and cash equivalents** | | **8,899** |
| 7,310 | Cash and cash equivalents at the beginning of the reporting period | | 491 |
| 491 | Cash and cash equivalents at the end of the reporting period | 22 | 9,390 |

# NOTES TO THE ACCOUNTS

## Note 1 - Accounting Policies

The Statement of Accounts summarises the Council's transactions for the 2011/2012 financial year and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts & Audit (England) Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012* and the *Service Reporting Code of Practice 2011/12,* supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### REVENUE RECOGNITION

Revenue is defined as the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in the Council's net worth. It is measured at the fair value of the amount receivable (except for Financial Assets). Non-contractual, non-exchange transactions such as council tax and business rates are measured at the full amount receivable.

Sale of Goods – revenue is recognised when all of the following conditions have been met:

- The Council has transferred to the purchaser the significant risks and rewards of ownership of the goods.
- The Council retains neither continuing managerial involvement nor effective control over the goods sold.
- The amount of revenue can be reliably measured.
- It is probable that economic benefits or service potential will flow to the Council.
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

Rendering of Services – revenue is measured on the basis of percentage of completion of the service at the reporting date and when the following conditions have been met:

- The amount of revenue can be reliably measured.
- It is probable that economic benefits or service potential will flow to the Council.
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.
- The stage of completion of the transaction can be reliably measured.

Interest – is calculated using the effective interest method and recognised when:

- The amount of revenue can be reliably measured.
- It is probable that economic benefits or service potential will flow to the Council.

Non-Exchange Transactions – revenue is recognised when

- It is probable that economic benefits or service potential will flow to the Council.
- The amount of revenue can be reliably measured.

Where an amount is received that does not meet the recognition criteria above, it is treated as a creditor. When the relevant recognition criteria are met at a later date, revenue equal to the reduction in the carrying amount of the liability shall be recognised.

If an uncertainty arises about the likelihood of collection of an amount already included in revenue, the amount in respect of which recovery has ceased to be probable is recognised as an expense in the Comprehensive Income & Expenditure Statement.

Where an amount has not yet been received, but the revenue meets the recognition criteria above, it is treated as a debtor in the balance sheet.

## 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:

- **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 inventories 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** payable on external borrowings and interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## 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.

## EVENTS AFTER THE REPORTING PERIOD

These are events, both favourable and unfavourable, that occur between the end of the reporting period (31st March) and the date when the Statement of Accounts is authorised for issue. This date is published within the Statement of Accounts. There are two types of events:

- Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events). The Statement of Accounts will be adjusted to reflect these.
- Those which are indicative of conditions that arose after the reporting period (non-adjusting events). If these events would have a material effect, disclosures will be made in the notes of the nature of the event and an estimate of its financial effect.

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

## EXCEPTIONAL ITEMS

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

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

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

when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, the opening balances and comparative amounts for prior periods are adjusted as if the new policy had always been applied.

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

## GOVERNMENT GRANTS & OTHER CONTRIBUTIONS (REVENUE)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised in the Comprehensive Income & Expenditure Statement (CIES) on an accruals basis at the date that the Council satisfies the conditions of entitlement to the grant/contribution and that there is reasonable assurance that the monies will be received. Conditions are stipulations that specify how the grant or contribution is to be used, and if not met require the return of the grants or contribution to the transferor.

If money has been advanced for which conditions have not been satisfied, these are treated as a creditor in the Balance Sheet. The money is transferred to the CIES once the conditions are met. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to Taxation and Non-Specific Grant Income.

If money has been advanced for a specific purpose, conditions are met, but expenditure has not yet been incurred, these amounts are transferred to earmarked reserves in the balance sheet to meet future 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 *Service Reporting Code of Practice 2011/12 (SeRCOP)* (for example, charges are based on estimated or actual time allocations with the exception of administrative building costs – floor area basis). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate & Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in SeRCOP (Service Reporting Code of Practice) and have been accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

## EMPLOYEE BENEFITS

**Benefits Payable During Employment:** include wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits for current employees. A liability to pay employee benefits is recognised as an expense in the Comprehensive Income & Expenditure Statement on an accruals basis.

Paid annual leave, flexi-time, maternity and paternity pay that have been earned but not taken by the reporting date and which employees can carry forward into the next financial year are measured as the additional amount the Council expects to pay and are recognised as an accrual in Surplus or Deficit on Provision of Services. These amounts are reversed out in the Movement in Reserves Statement so that they are charged to revenue in the financial year in which the holiday absence occurs.

Bonuses and similar payments are recognised when the Council has a present obligation to make such payments as a result of past events and a reliable estimate of the amount due can be made.

**Termination Benefits:** are payable as a result of the Council's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the relevant service line in the Comprehensive Income & Expenditure Statement.

Termination benefits are recognised as a liability and an expense when the Council is committed to either terminate the employment or to provide termination benefits. The commitment will be demonstrated by a detailed formal plan and there is no realistic possibility of withdrawal.

When termination benefits are in the form of pension enhancements they will be treated as pension costs.

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

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 forecasting of projected earnings for current employees. Financial assumptions are based on market expectations at the reporting date for the period over which they are to be settled. The scheme assets and liabilities are subject to a formal actuarial valuation every three years. Between these formal valuations, values are estimated at each balance sheet date using latest membership data.

- Liabilities are discounted to their value at current prices, using a discount rate calculated by the Actuaries (based on the indicative rate of return on the Bond yields and inflation rates).

- The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the balance sheet at their fair value:

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

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – charged in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked

- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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 the Financing & Investment Income & Expenditure line in the Comprehensive Income and Expenditure Statement.

- 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 the Financing & Investment Income & Expenditure line in the Comprehensive Income and Expenditure Statement.

- 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 or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement 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 Other Comprehensive Income & Expenditure and recognised in the Pensions Reserve.

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the future liabilities calculated according to the relevant accounting standards. If the amount charged to Surplus or Deficit on the Provision of Services is larger than the actual contributions paid into the pension fund in the year, the General Fund Balance will be credited with the difference, with the opposing entry to the Pension Reserve. If the amount charged is smaller the General Fund Balance will be debited with the difference.

**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.

**NON-CURRENT ASSETS**

**INTANGIBLE ASSETS**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one financial year. Expenditure on the development of the Council's website is not capitalised. Where expenditure on intangible assets qualifies as capital expenditure any transactions relating to them are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Intangible assets are initially measured and are subsequently carried at amortised cost as there is no active market. They are amortised to the relevant service revenue accounts over the life of the investment on a straight line basis. The amount in the balance sheet is the cost net of amortisation. Any gain or loss arising on the disposal of an intangible asset will be posted to the Other Operating Income & Expenditure line in the Comprehensive Income & Expenditure Statement.

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

**PROPERTY, PLANT & EQUIPMENT**

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others or for administrative purposes on a continuing basis.

**Recognition**: Expenditure on the acquisition, creation or enhancement of non-current 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 standard of performance of an asset (e.g. repairs & 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. Where the total cost of an asset is higher than £10,000 but only part of the expenditure has occurred within a financial year, that expenditure would be included in the balance sheet even if it was below the de-minimis level.

**Measurement**: Assets are initially measured at cost on an accruals basis, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Dwellings – fair value determined using the basis of existing use value for social housing (EUV-SH). The social housing discount applied in 2011/12 is 34%.
- Community assets and assets under construction –historical cost.
- Plant, Vehicles & Equipment – depreciated historical cost
- All other classes of assets – fair value, unless there is no market-based evidence of fair value because of the specialist nature of the asset. In this case fair value is estimated using the Depreciated Replacement Cost method.

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

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

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

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

**Impairment**: At the end of each reporting period an assessment takes place as to whether there is any indication that assets are carried in the balance sheet at higher values than their recoverable amounts. If this occurs it is requires the recognition of an impairment loss.

The impairment loss is first written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve and any further impairment is charged to the relevant service revenue account in the Comprehensive Income & Expenditure Statement.

When the assessment identifies that a previous impairment loss no longer exists or has decreased, any previous loss charged to the Comprehensive Income & Expenditure Statement is reversed up to the original carrying amount of the asset and any subsequent increase is taken to the Revaluation Reserve.

Impairment losses and their reversal are not proper charges to the General Fund, so any such charge taken to Surplus or Deficit on Provision of Services is then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

**Derecognition**: an asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. When an asset is disposed of or decommissioned, the difference between the net disposal proceeds and the carrying amount of the asset is the gain or loss on disposal, which is included in Surplus or Deficit on the Provision of Services within the Comprehensive Income & Expenditure Statement. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received on disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are reported in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are reported in the Movement in Reserves Statement.

**Depreciation**: This is provided for on all Property, Plant & Equipment assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- Land is not depreciated as it will not have a finite life.
- Council Dwellings and Other Buildings are depreciated using the straight line method. The finite useful life is assessed by the District Valuer at the time of revaluation but for Council Dwellings is usually 50 years, and for other buildings is between 1 and 60 years.
- Plant & Equipment are also depreciated by the straight line method. Useful life is assessed by the Chief Finance Officer at the time of acquisition, usually between 3 and 10 years. Some assets have a longer life span, up to 30 years.
- Vehicles are depreciated using the reducing balance method at a rate of 25% per annum.
- Non-current assets held-for sale are not depreciated.
- Assets under construction and newly acquired assets are depreciated from the date they are brought into use.
- Investment Properties are not depreciated.
- Assets to be disposed of are depreciated until they are reclassified as non-current assets held-for-sale.

Where an asset has major components with different estimated useful lives, these are depreciated separately if this would materially affect the amount of depreciation charged on that asset.

**Componentisation**: Only assets with a carrying amount more than or equal to £500,000 at the beginning of the financial year are considered for componentisation. To be recognised as a component the value of the part of the asset being considered must be more than or equal to 10% of the value of the asset, and have a life less than or equal to half that of the main asset. When a component is replaced, the carrying amount of the old component is derecognised and the new component is recognised. If the carrying amount of the old component is not known, this is estimated by indexing back from the cost of the new component and

adjusting for depreciation and impairment over the old component's useful life. The Building Costs Index will be used.

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

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

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

**Capital Grants and Contributions** are recognised when there is reasonable assurance that:

- The Council will comply with the conditions attached to them
- The grant or contribution will be received.

They are accounted for on an accruals basis, and recognised immediately in the Comprehensive Income & Expenditure Statement unless any conditions attached to their receipt have not been met.

Where conditions have been met, but the expenditure has not yet been incurred, the grant is transferred from the Comprehensive Income & Expenditure Statement to the Government Grants Unapplied Account and the movement is reported in the Movement in Reserves Statement. When the expenditure is eventually incurred, the grant is transferred to the Capital Adjustment Account and again this is reported in the Movement in Reserves Statement.

Where conditions remain outstanding at the Balance Sheet date, the grant is recognised as a Capital Receipt in Advance. Once the conditions have been met, the grant will be recognised as income in the Comprehensive Income & Expenditure Statement.

## INVESTMENT PROPERTY

An investment property is one that is solely used to earn rentals or for capital appreciation or both. Property that is used to facilitate service delivery as well as earn income or appreciate is classed as Property, Plant & Equipment.

Investment property is recognised initially at cost as for property, plant and equipment and subsequently at fair value which should reflect market conditions at the Balance Sheet date. An investment property is recognised when:

- It is probable that the future economic benefits associated with the property will flow to the Council.
- The cost of the fair value of the property can be reliably measured.

Subsequent capital expenditure is recognised as for property, plant and equipment.

A revaluation gain or loss arising from a change in the fair value of an investment property is recognised in the Surplus or Deficit on Provision of Services in the period in which it arises. It is not a proper charge to the General Fund and is transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Investment properties are not depreciated.

Derecognition of investment properties occurs on disposal or retirement. Gains or losses are recognised in the Surplus or Deficit on Provision of Services and reported in the Movement in Reserves Statement. Gains are treated as capital receipts and taken to the Useable Capital Receipts Reserve with the opposing entry to the Capital Adjustment Account.

Rentals received from investment properties are credited to the Surplus or Deficit on Provision of Services.

## NON-CURRENT ASSETS HELD-FOR-SALE

The following criteria must all be met for an asset to be classified as held for sale:

- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable – the appropriate level of management must be committed to a plan to sell the asset, and an active programme to locate a buyer must have been initiated.
- The asset must be actively marketed for a sale at a reasonable price.
- The sale must be expected to be completed within one year.

Assets held for sale are measured at the lower of carrying amount when initially reclassified as held for sale and fair value less costs to sell. Fair value is interpreted as market value. The carrying amount will be compared to the fair value less costs to sell at both the beginning and end of the reporting period.

Revaluation gains when assets are reclassified as held for sale are only recognised to the extent that they reverse previous impairment or revaluation losses charged to Surplus or Deficit on Provision of Services. Any gain above this amount will be recognised as part of a gain on disposal. Revaluation losses or impairments of assets held for sale are charged to the Surplus or Deficit on Provision of Services. Any such charges are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Assets classified as Held-For-Sale are not depreciated.

If any of the criteria cease to be met the asset will be reclassified and valued at the lower of its carrying amount before it was classified as held for sale and its recoverable amount at the date of the decision not to sell.

## HERITAGE ASSETS

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

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

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

## REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. These items are generally grants. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment

Account is made and reported in the Movement in Reserves Statement so there is no impact on the level of council tax.

## CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

## LEASES (where the Council is Lessee)

Leases of land and buildings are considered as separate elements. When the land has an indefinite economic life it is classified as an operating lease unless ownership would pass to the lessee at the end of the lease term.

**Finance Leases**: leases where substantially all the risks and rewards of ownership relating to the leased property transfer to the lessee. Property, plant and equipment held under finance leases are initially recognised on the Balance Sheet at the fair value of the property. A liability equal to the present value of the minimum lease payments is also recognised. The discount rate used in the calculation is the interest rate implicit in the lease. Rental payments under finance leases are apportioned between the finance cost and the reduction of the outstanding obligation. The finance cost is charged to revenue over the term of the lease. Property, plant and equipment held under finance leases are depreciated in accordance with the council's depreciation policy over the shorter of the lease term and the assets useful economic life. They are also subject to revaluation. Contingent rents are charged as expenses in the periods in which they are incurred.

**Operating Leases**: are leases which do not meet the definition of finance leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

## LEASES (where the Council is Lessor)

Where the Council acts as Lessor, assets let under a **finance lease** are recognised as a receivable on the balance sheet. When an asset is let on a finance lease this is treated as a disposal and the gain or loss on disposal is charged to the Comprehensive Income & Expenditure Statement. Payments received are split between repayment of principal and interest. Interest is recognised in the Comprehensive Income & Expenditure Statement. The principle element received in repayment of the lease is treated as a capital receipt, except in the case of leases that were already in existence at 31/03/2010 but were treated as Operating Leases under previous accounting rules. For these leases the principle element continues to be treated as revenue income.

Income from **operating leases** is recognised in the Comprehensive Income & Expenditure Statement on a straight-line basis over the lease term. Assets held for leasing under an operating lease are depreciated in accordance with the council's depreciation policy over the shorter of the lease term and the assets useful economic life. They are also subject to revaluation.

## CURRENT ASSETS

**Inventories & Long Term Contracts:** Inventories are measured at the lower of cost and net realisable value. Where the output is in the form of a service rather than goods, work in progress is measured at the cost of its production, primarily consisting of the labour and other personnel costs incurred in providing the service.

**Cash & Cash Equivalents:** Cash is defined as cash in hand; cash held in instant access accounts; money market funds and bank overdrafts integral to cash management. Cash equivalents are balances held in accounts which require up to 30 days notice for withdrawal. They are readily convertible to a known amount of cash, hold insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment.

The Council also uses 30 day notice accounts for short-term investments when they provide a better rate of interest than a 3 month deposit. In this case these amounts are classified as investments. An analysis of 30 day notice accounts is done at the balance sheet date to determine the classification relevant to each account.

## PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

**Provisions**: are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made of the amount of the obligation, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (eg from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

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

**Contingent Assets:** are not recognised in the financial statements but are disclosed as a note to the accounts. They are disclosed when an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence of uncertain future events not within the control of the Council.

**Contingent Liabilities:** are not recognised in the financial statements but are disclosed as a note to the accounts. They are disclosed when an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not within the control of the Council. Contingent liabilities may also arise where a provision would otherwise be made, but either it is not probable that an outflow of resources will be required or the amount cannot be reliably measured.

## RESERVES

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

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

## FINANCIAL INSTRUMENTS

**Financial Liabilities** are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement for interest payable are based on the carrying amount of the liability multiplied by the effective rate of interest for the instrument. For all of the borrowing that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principle repayable (plus accrued interest) and interest charged to the Income & Expenditure Account is the amount payable for the year in the loan agreement.

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

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

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

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income & Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest of the instrument. For all of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principle receivable (plus accrued interest) and interest credited to the Comprehensive Income & Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

The Council does not hold any Available-for-Sale assets.

## PRINCIPAL & AGENT TRANSACTIONS

In its capacity as a billing authority the Council acts as an agent - council tax income is collected and distributed by the Council both on its own behalf and as an agent for Lincolnshire County Council and Lincolnshire Police Authority. Non Domestic Rate (NDR) income is collected on behalf of the Government.

Where the Council is acting as an agent, transactions are not reflected in the financial statements, except where cash is collected or expenditure is incurred on behalf of the other bodies. In this case a debtor or creditor will be raised.

Council Tax income is included in the Comprehensive Income & Expenditure Account on an accruals basis.

**Note 2 – Change in Accounting Policy**

FRS30 Heritage Assets has been adopted fully for the 2011/2012 Statement of Accounts. An accounting policy relating to Heritage Assets has been added to Note 1 - Accounting Policies. When a change is made to accounting policies, IAS8 – Accounting Polices, Accounting Estimates & Errors requires that a restated balance sheet is presented as at the start of the comparative accounting period to show the effect of the change. A line has been added to the Balance Sheet to show the value of Heritage Assets held as at 01 April 2010 and at 31 March 2011, as well as at 31 March 2012. These balances were not included in the 2010/11 accounts as the policy change was introduced after this date. Note 45 – Heritage Assets provides information on the assets held and their values. The table below shows the line items in the statements affected by this change.

| Balance Sheet | Original 01/04/2010 £'000 | Adjustments Made £'000 | Original 31/03/2011 £'000 | Adjustments Made £'000 |
|---|---|---|---|---|
| Heritage Assets | 0 | 409 | 0 | 429 |
| Revaluation Reserve | 0 | (409) | 0 | (429) |

**Note 3 – Accounting Standards that have been Issued but not yet Adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in relation to amendments to IFRS 7 Financial Instruments Disclosures (transfers of financial assets) which will need to be adopted fully by the Council in the 2012/2013 financial statements.

Where the Code adopts a new standard or changes to a standard that has been issued but is not required to be applied until future accounting periods, the Council is required to disclose information relating to the impact of the accounting change on the financial statements. As is set out above, full adoption of the standard will be required for the 2012/2013 financial statements. However, the Council is required to make disclosure of the estimated effect of the new standard in these (2011/2012) financial statements. The changes to IFRS 7 will require that disclosures are made for all transferred financial assets existing at the reporting date. A transfer of a financial asset is deemed to have taken place when either of the following occurs:

- The Council transfers the contractual rights to receive the cash flows of that financial asset or;
- The Council retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

The Council has made no such transfers during the 2011/12 financial year and has no plans to make any transfers during 2012/13. If this is still the case at 31 March 2012, no disclosures will be required in the 2012/13 Statement of Accounts.

**Note 4 – Critical Judgement in applying Accounting Policies**

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

a) There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of the need to close facilities and reduce levels of service provision.
b) Investments with banks and other financial institutions are secure and will not suffer impairments.
c) The Council has no relationships with other entities which take the form of a parent/subsidiary, associate or joint control arrangement

d) No contracts with other bodies need to be accounted for as a service concession or contain an embedded lease.
e) No substantial legal claims or appeals will be made against the Council in the next financial year.

**Note 5 – Assumptions made about the future and other major sources of estimation uncertainty**

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

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Property, Plant & Equipment

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

If the useful life of assets is reduced, depreciation increases and the carrying amount falls. It is estimated that the annual depreciation charge for buildings and council houses would increase by £84,000 for every year that useful lives had to be reduced.

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Actuaries are engaged by Lincolnshire County Council who administer the pension fund to provide expert advice about the assumptions to be adopted.

The effects on the net pensions liability of changes in individual assumptions can be measured and are shown below

| Change in Assumptions used at year ended 31/03/2012 | Approximate Increase in Employer Liability |
|---|---|
| 0.5% decrease in Real Discount Rate | £8.493m |
| 0.5% increase in the Salary Increase Rate | £2.430m |
| 0.5% increase in the Pension Increase Rate | £6.002m |
| 1 year increase in member life expectancy | £2.629m |

Arrears

At 31 March 2012 the Council had a balance of short-term debtors of £3.374m. A review of these debts suggested that an impairment for doubtful debts of approx 30.5% was appropriate, totalling £1.481m. This impairment is included in the net amount shown on the balance sheet. The impairment is calculated based on the different types of debt included (council tax, business rates, rents, trade debtors etc). However, in the current economic climate there is no certainty that this allowance will be sufficient.

If collection rates were to deteriorate, a doubling of the amount of the impairment for doubtful debts would require an additional £1.481m to be set aside for this allowance.

## Note 6 – Material items of Income & Expenditure

There is one exceptional item of expenditure included within the Financing & Investment Income & Expenditure section of the Comprehensive Income & Expenditure Statement. This relates to the Council buying out of the HRA subsidy system.

Over recent years the subsidy system had become unworkable with 75% of Councils paying amounts over to the Government every year. The Government decided to end the system by redistributing the debt across all Councils. This resulted in the Council being required to pay £121.652 million to central government. In order to pay this, the Council borrowed money from PWLB on 28th March 2012. This loan will be paid back over thirty years. The borrowing is shown within Short-term and Long-Term Liabilities on the Balance Sheet.

## Note 7 – Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Strategic Director – Corporate Focus on 25 September 2012. Events taking place after this date are not reflected in the financial statements or notes.

## Note 8 – Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

General Fund Balance

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

Housing Revenue Account Balance

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

Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve which controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year-end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance

historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes as at the year-end.

Capital Grants Unapplied

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

| 2011/12 | General Fund | HRA | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Earmarked revenue Reserves | Unusable Reserves |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | | |
| Depreciation of non-current assets | (2,397) | | | (3,674) | | | 6,071 |
| Excess of MRA over depreciation | | 949 | | | | | (949) |
| Amortisation of intangible assets | (30) | | | | | | 30 |
| Revaluation gains/losses on PPE | 929 | (372) | | | | | (557) |
| Impairments charged to CIES | (110) | (4,244) | | | | | 4,354 |
| Movements in market value of investment properties | (55) | (15) | | | | | 70 |
| Revenue expenditure funded from capital under statute (REFCUS) | (800) | | | | | | 800 |
| Financing of REFCUS | 381 | | | | 220 | | (601) |
| Capital expenditure | 336 | | 1,606 | | 48 | | (1,990) |
| HRA Self-Financing | | (121,652) | | | | | 121,652 |
| Statutory provision for financing of capital investment | 193 | | | | | | (193) |
| Profit/Loss on disposal of non-current assets | (24) | 328 | (827) | | | | 523 |
| **Adjustments primarily involving the Collection Fund Adjustment Account** | | | | | | | 0 |
| Adjustment to council tax income | (26) | | | | | | 26 |
| **Adjustments primarily involving the Pension Fund** | | | | | | | 0 |
| Adjustment of IAS 19 retirement entries for actual contributions | (135) | (75) | | | | | 210 |
| **Adjustments primarily involving the Accumulating Compensated Absences Account** | | | | | | | 0 |
| Accrual for accumulating compensated absences | 38 | 78 | | | | | (116) |
| **Adjustments between Usable Reserves** | | | | | | | 0 |
| Payments to Housing Capital Receipts Pool | (475) | | 475 | | | | 0 |
| **Total Adjustments** | **(2,175)** | **(125,003)** | **1,254** | **(3,674)** | **268** | **0** | **129,330** |

**Note 8 Contd.**

| 2010/2011 | General Fund | HRA | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Earmarked Revenue Reserves | Unusable reserves |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | | |
| Depreciation of non-current assets | (2,377) | | | (3,662) | | | 6,039 |
| Excess of HRA depreciation over MRA | | 981 | | | | | (981) |
| Amortisation of intangible assets | (28) | | | | | | 28 |
| Revaluation gains/losses on PPE | 12 | (86,655) | | | | | 86,643 |
| Movements in market value of investment properties | (184) | 5 | | | | | 179 |
| Revenue expenditure funded from capital under statute (REFCUS) | (708) | | | | | | 708 |
| Financing of REFCUS | 428 | | 164 | | | | (592) |
| Capital expenditure | (39) | (4,685) | 128 | | 144 | 1850 | 2,602 |
| Statutory provision for financing of capital investment | 201 | | | | | | (201) |
| Profit/Loss on disposal of non-current assets | (378) | 233 | (936) | | | | 1,081 |
| **Adjustments primarily involving the Collection Fund Adjustment Account** | | | | | | | |
| Adjustment to council tax income | (43) | | | | | | 43 |
| **Adjustments primarily involving the Pension Reserve** | | | | | | | |
| Adjustment of IAS 19 retirement entries for actual contributions | 5,638 | 2,118 | | | | | (7,756) |
| **Adjustments primarily involving the Accumulating Compensated Absences Account** | | | | | | | |
| Accrual for accumulating compensated absences | 175 | 2 | | | | | (177) |
| **Adjustments between Usable Reserves** | | | | | | | |
| Payments to Housing Capital Receipts Pool | (342) | | 342 | | | | |
| **Total Adjustments** | **2,355** | **(88,001)** | **(302)** | **(3,662)** | **144** | **1,850** | **87,616** |

## Note 9 – Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2011/2012.

| 2011/2012 | General Fund | HRA | Usable Capital Receipts | Earmarked GF Reserves | HRA Revenue Reserves | Major Repairs Reserve | Unapplied Gapital Grants | Unusable Reserves |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Amounts set aside to provide for future expenditure** | | | | | | | | |
| Insurance provision | 10 | 57 | | (66) | (2) | | | |
| Special Expense Area provision | 46 | | | (46) | | | | |
| Transfer Surplus to reserves | 2,899 | | | (2,899) | | | | |
| Unapplied government grants | | | | | | | | |
| Repaid mortgages | | | (34) | | | | | 34 |
| Other Long-Term Debtor receipts | | 10 | (25) | | | | | 15 |
| **Amounts transferred from reserves to support in year expenditure** | | | | | | | | |
| Application of other grants | (214) | | | 214 | | | | |
| Finance Building Control deficit | (34) | | | 34 | | | | |
| Revenue Contributions to Capital | (10) | | | 119 | | 4,709 | | (4,818) |
| **Total Transfers To/(From) Earmarked Reserves** | **2,697** | **67** | **(59)** | **(2,644)** | **(2)** | **4,709** | **0** | **(4,768)** |

**Note 9 Contd.**

| 2010/2011 | GF | HRA | Usable Capital Receipts | Earmarked GF Reserves | HRA Revenue Reserves | Major Repairs Reserve | Unapplied Capital Grants | Unusable Reserves |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Amounts set aside to provide for future expenditure** | | | | | | | | |
| Insurance provision | 44 | | | (8) | (36) | | | |
| Special Expense Area provision | 10 | | | (10) | | | | |
| Transfer Surplus to reserves | 2,743 | | | (2,743) | | | | |
| Unapplied government grants | 401 | | | | | | (401) | |
| Repaid mortgages | | 32 | (32) | | | | | |
| Other Long-Term Debtor receipts | | | (48) | | | | | 48 |
| **Amounts transferred from reserves to support in year expenditure** | | | | | | | | |
| Application of Area Based Grant and Local Authority Business Growth Incentive financing | (57) | | | 57 | | | | |
| Application of other grants | (215) | | | 216 | | | | (1) |
| Finance Building Control deficit | (200) | | | 200 | | | | |
| Revenue Contributions to Capital | | | | 116 | | 4,880 | 129 | (5,125) |
| **Total Transfers To/(From) Earmarked Reserves** | **2,726** | **32** | **(80)** | **(2,172)** | **(36)** | **4,880** | **(272)** | **(5,078)** |

## Note 10 – Precepts & Levies

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| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 1,350 | Parish Council Precepts | 1,350 |
| 607 | Drainage Board Levies | 609 |
| 1,957 | | 1,959 |

## Note 11 – Other Operating Income & Expenditure

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 0 | Refund of Overpaid VAT | 0 |
| (32) | Repaid Right-to-Buy Discounts | (10) |
| 0 | Repaid Grant | (80) |
| 47 | Movements in Fair Value of Assets Held for Sale | 0 |
| 15 | | (90) |

## Note 12 – Income & Expenditure & Movement in Fair Value of Investment Properties

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| (36) | Income & Expenditure from investment properties | (16) |
| 183 | Movements in relation to changes in the fair value of investment properties | 70 |
| 147 | | 54 |

## Note 13 - Recognised Capital Grants & Contributions

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 0 | Dept of Culture Capital Reward Grant | 0 |
| (474) | Regional Housing Capital Pot Grant | 0 |
| (75) | Ground Source Heat Pumps Grant | 0 |
| (67) | Playbuilder Grant | 0 |
| (616) | | 0 |

## Note 14 – Non-Service-Related Government Grants

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| (98) | Area Based Grant | 0 |
| 0 | New Homes Bonus | (666) |
| 0 | Council Tax Freeze Grant | (157) |
| (56) | Performance Reward Grant | (26) |
| 0 | S106 Contribution | (10) |
| (1,287) | Revenue Support Grant | (1,971) |
| (1,441) | | (2,830) |

**Note 15 – Property, Plant & Equipment**

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

| Movement in 2011/2012 | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Eqpt | Surplus Assets | Assets Under Construction | Total PPE |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation at 01/04/2011** | **186,499** | **47,146** | **10,578** | **245** | **52** | **244,520** |
| Additions | 4244 | 233 | 1,811 | 0 | 187 | **6,475** |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (19) | 366 | | (4) | | **343** |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services | (7,739) | 404 | | (4) | | **(7,339)** |
| Derecognition - Disposals | (261) | | (412) | | | **(673)** |
| Assets reclassified (to)/from Assets Under Construction | | | 71 | | (71) | **0** |
| Assets reclassified (to)/from Held for Sale (see Note 23) | (189) | | | | | **(189)** |
| **At 31/03/2012** | **182,535** | **48,149** | **12,048** | **237** | **168** | **243,137** |
| **Accumulated Depreciation & Impairment at 01/04/2011** | **(7,240)** | **(1,666)** | **(6,027)** | **(8)** | **0** | **(14,941)** |
| Depreciation charge | (2,511) | (1,482) | (1,118) | (10) | | **(5,121)** |
| Depreciation written out to the Revaluation Reserve | | 839 | | | | **839** |
| Accumulated depreciation and impairment written out on revaluation | 7,368 | 685 | | 8 | | **8,061** |
| Impairment losses recognised in the Surplus/Deficit on Provision of Services | (4,244) | (110) | | | | **(4,354)** |
| Derecognition - Disposals | 1 | | 290 | | | **291** |
| **At 31/03/2012** | **(6,626)** | **(1,734)** | **(6,855)** | **(10)** | **0** | **(15,225)** |
| **Net Book Value At 31/03/2012** | **175,909** | **46,415** | **5,193** | **227** | **168** | **227,912** |
| **At 31/03/2011** | **179,259** | **45,480** | **4,551** | **237** | **52** | **229,579** |

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

**Note 15 Contd**

| Movement in 2010/2011 | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Eqpt | Surplus Assets | Assets Under Construction | Total PPE |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation at 01/04/2010** | **271,631** | **49,802** | **8,625** | **235** | **0** | **330,293** |
| Additions | 4685 | 140 | 2,069 | | 52 | **6,946** |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (4,747) | 472 | - | 9 | - | (4,266) |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit | (84,894) | (3,268) | - | 1 | - | (88,161) |
| Derecognition - Disposals | (176) | - | (116) | - | - | (292) |
| **At 31/03/2011** | **186,499** | **47,146** | **10,578** | **245** | **52** | **244,520** |
| **Impairment at 01/04/2010** | **(3,814)** | **(1,570)** | **(5,127)** | **(7)** | **0** | **(10,518)** |
| Depreciation charge | (2,555) | (1,530) | (964) | (8) | - | (5,057) |
| Depreciation written out to the Revaluation Reserve | - | 855 | - | 6 | - | 861 |
| Depreciation written out to the Comprehensive Income & Expenditure Statement | 3,814 | 708 | - | 1 | - | 4,523 |
| Impairment losses recognised in the Surplus/Deficit on Provision of Services | (4,685) | (129) | - | - | - | (4,814) |
| Derecognition - Disposals | - | - | 64 | - | - | 64 |
| **At 31/03/2011** | **(7,240)** | **(1,666)** | **(6,027)** | **(8)** | **0** | **(14,941)** |
| **Net Book Value** | | | | | | |
| **At 31/03/2011** | **179,259** | **45,480** | **4,551** | **237** | **52** | **229,579** |
| **At 31/03/2010** | **267,817** | **48,231** | **3,497** | **228** | **0** | **319,773** |

## Note 16 – Investment Properties

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

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| (39) | Rental income from investment property | (22) |
| 4 | Direct operating expenses arising from investment property | 6 |
| (35) | | (16) |

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

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

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 2,455 | **Balance at start of year** | 2,660 |
| 383 | Additions - Purchases | |
| (178) | Net gains/losses from fair value adjustments | (70) |
| 2,660 | **Balance at end of year** | 2,590 |

## Note 17 – Intangible Assets

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

All licences are given a finite useful life, based on assessments of the period the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are:

| | |
|---|---|
| 3 Years | Event Pro Box office Software |
| 5 Years | Microsoft Windows |
| | Microsoft Office |
| | Academy |
| | Protectdrive |
| | Safego |
| | Northgate NDR |
| | Bartec Waste Management System |
| 10 Years | Cedar Financial System |

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £31k charged to revenue in 2011/2012 was charged to Business Transformation & Info Management; Accountancy, NDR Admin & Enforcement, Grantham Guildhall and Waste Management cost centres. The amounts charged to Business Transformation & Info Management were then absorbed as an overhead across all the service headings in the Net Expenditure of Services. For these services it is not possible to say exactly how much of the amortisation is attributable to each service heading. The charge to NDR Admin & Enforcement cost centre is included in Central Services to the Public line in the Net Expenditure of Services. The amount charged to this cost centre was £2k (2010/2011 £3k). The charge in respect of the box office system is included in the Cultural Services line in the Net Expenditure of Services. The amount charged to this cost centre was less than £200. This was new software acquired in 2011/12. The charge to

Waste Management is included in the Environmental Services line in the Net Expenditure of Services. The amount charged to this cost centre was less than £50. This was new software acquired in 2011/12.

Movements on Intangible Assets during the year were as follows:

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| | Balance at start of year: | |
| 274 | Gross carrying amount | 274 |
| (180) | Accumulated amortisation | (208) |
| 94 | Net carrying amount at start of year | 66 |
| 0 | Additions | 100 |
| (28) | Amortisation for the period | (31) |
| (28) | | 69 |
| 66 | Net carrying amount at end of year | 135 |
| Comprising | | |
| 274 | Gross carrying amount | 374 |
| (208) | Accumulated amortisation | (239) |
| 66 | | 135 |

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

**Note 18 – Nature and Extent of Risk Arising from Financial Instruments**

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

**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 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 the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations;
- ✓ by approving annually in advance prudential and treasury indicators for the following three years limiting:

- ✓ the Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum for exposures within the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.
- ✓ by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

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

The annual treasury management strategy for 2011/2012 which incorporates the prudential indicators was approved by Council on 3 March 2011 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011/2012 was initially set at £18m and revised to £148m in December 2011 to allow for the HRA Self-Financing borrowing. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was initially expected to be £3m. This was also revised for the HRA borrowing to £133m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at £7m and £2m based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are:

Table a) Maturity structure

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

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

**Credit risk**

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

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

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

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to give early warning of likely changes in credit ratings.

The full Investment Strategy for 2011/2012 was approved by Full Council on 3 March 2011 and is available on the Council's website.

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

The Council's maximum exposure to credit risk in relation to its investments in banks, building societies and money market funds of £33 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of not being able to recover applies to all of the Council's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

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

Table b) Analysis of Investment by Credit Ratings (not including Money Market funds

| Deposits with banks and financial institutions | Amount at 31/03/2012 £'000 | Historical Experience % | Adjustment for market conditions % | Estimated Maximum exposure to default £'000 |
|---|---|---|---|---|
| | a) | b) | c) | (a * c) |
| AAA rated counterparties | 6,610 | 0.00% | 0.00% | 0 |
| AA rated counterparties | 0 | 0.03% | 0.03% | 0 |
| A rated counterparties | 26,579 | 0.08% | 0.08% | 21 |
| BBB rated counterparties | 0 | 0.24% | 0.24% | |
| Other counterparties | 0 | 0.00% | 0.00% | 0 |
| Trade debtors (not including statutory debtors) | 275 | Local Experience | Local Experience | 0 |
| Total | 33,464 | | | 21 |

All of the investments with AAA rated counterparties are held in Money Market Funds and are shown within Cash & Cash Equivalents on the Balance Sheet. Of the £26.579m investments held with A-rated counterparties, £3m is a non-current investment due to be held for more than one year and the remainder are current investments. The trade debtors balance is held within current debtors on the Balance Sheet.

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

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

The Council does not generally allow credit for its trade debtors, such that £243k of the trade debtors balance is past its due date for payment. The past due amount can be analysed by age as follows:

Table c) Aged Debtor Analysis

| | 31/03/2012 £000 | 31/03/2011 £000 | 31/03/2010 £000 |
|---|---|---|---|
| <30 days | 32 | 110 | 118 |
| 30-60 days | 106 | 4 | 81 |
| 60-90 days | 15 | 146 | 52 |
| 90 days + | 122 | 191 | 138 |
| Total | 275 | 451 | 389 |

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 CIPFA 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 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.

The maturity analysis of financial assets is as follows:

Table d) Maturity Analysis of Financial Assets by Carrying Amount

| | 31/03/2012 £000 | 31/03/2011 £000 | 31/03/2010 £000 |
|---|---|---|---|
| Less than one year | 30,142 | 27,688 | 28,898 |
| Between one and two years | 3,047 | 4,045 | 1,073 |
| Between two and three years | | 0 | 0 |
| More than three years | | 0 | 0 |
| Total | 33,189 | 31,733 | 29,971 |

These amounts comprise non-current investments of £3m, current investments of £23m, accrued interest of £184k and balances on instant access accounts amounting to £7.005m which are contained within the figure for cash & cash equivalents. Accrued interest of £47k which relates to Non-Current Investments is included within the figure for Current Investments on the Balance Sheet as it will be received by the Council within one year. All trade and other receivables due to be paid within 1 year are not shown here.

**Re-financing and Maturity Risk**

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

The approved treasury indicator limits for the maturity structure of debt and the limits 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:

Table e) Maturity Analysis of Financial Liability by Carrying Amount

| | 31/03/2012 £000 | 31/03/2011 £000 | 31/03/2010 £000 |
|---|---|---|---|
| Less than one year | 0 | 130 | 1,561 |
| Between one and two years | 1,041 | 32 | 0 |
| Between two and five years | 521 | 1,548 | 1,042 |
| Between five and ten years | 1,036 | 1,000 | 1,556 |
| More than 10 years | 121,690 | 0 | 0 |
| Total | 124,288 | 2,710 | 4,159 |

These amounts comprise long-term and short-term borrowing.

**Market risk –** the Council is not exposed to Market risk

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

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

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

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

The risk of interest rate loss is 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:

Table f) Sensitivity Analysis of interest rate change of 1%

| | £000 |
|---|---|
| Increase in interest payable on variable rate borrowings | 0 |
| Increase in interest receivable on variable rate investments | (147) |
| Impact on Surplus or Deficit on the Provision of Services | (147) |
| | |
| Increase in interest payable on variable rate borrowings | 0 |
| Increase in Government grant receivable for financing costs | 82 |
| Share of overall impact debited to the HRA | 82 |
| | |
| Decrease in fair value of fixed rate investment assets | 43 |
| | |
| Impact on Other Comprehensive Income & Expenditure | 0 |
| | |
| Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income & Expenditure) | 12,576 |

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

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

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

The Balance Sheet is required to have a minimum of four balances relating to financial instruments:

- ✓ Long-term investments
- ✓ Current assets – investments
- ✓ Current liabilities – borrowings repayable on demand or in less than 12 months
- ✓ Borrowing repayable within a period in excess of 12 months

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

Table g) Financial Instruments Balance

| | Long-Term | | | Current | | |
|---|---|---|---|---|---|---|
| | 31/03/2012 £'000 | 31/03/2011 £'000 | 31/03/2010 £'000 | 31/03/2012 £'000 | 31/03/2011 £'000 | 31/03/2010 £'000 |
| Financial Liabilities (principal) | 120,978 | 2,580 | 2,500 | 3,254 | 32 | 1,500 |
| Accrued Interest (will be short-term) | - | - | - | 135 | 98 | 159 |
| Financial Liabilities at amortised cost | 120,978 | 2,580 | 2,500 | 3,389 | 130 | 1,659 |
| **Total Borrowings** | 120,978 | 2,580 | 2,500 | 3,389 | 130 | 1,659 |
| Loans & Receivables (principal) | 3,000 | 4,000 | 1,000 | 30,005 | 27,410 | 27,675 |
| Accrued interest | 46 | 45 | 73 | 137 | 274 | 151 |
| Loans & receivables at amortised cost | 3,046 | 4,045 | 1,073 | 30,142 | 27,684 | 27,826 |
| **Total Investments** | 3,046 | 4,045 | 1,073 | 30,142 | 27,684 | 27,826 |

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

Note 2 – Fair value has been measured by:

- ✓ Direct reference to published price quotations in an active market and/or
- ✓ Estimating using a valuation technique.

Note 3 – The carrying values of current loans and receivables shown above does not match directly to values shown on the balance sheet, because an element of the financial instruments is treated as cash & cash equivalents on the balance sheet (see Note 22) and accrued interest for long-term loans and receivables is included within the current loans and receivables total as it would normally be received in the next financial year.

**Financial instruments Gains/Losses**

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

Table h) Financial Instruments Gains and Losses

| 2011/2012 | Financial Liabilities | Financial Assets | Total |
|---|---|---|---|
| | Liabilities Measured at Amortised Cost '£000 | Loans & Receivables '£000 | £000 |
| Interest expense | 287 | - | 287 |
| **Total Expense in Surplus or Deficit on the Provision of Services** | **287** | **-** | **287** |
| Interest income | - | (589) | (589) |
| **Total Income in Surplus or Deficit on the Provision of Services** | **-** | **(589)** | **(589)** |
| **Net gain/(loss) for the year** | **287** | **(589)** | **(302)** |

| 2010/2011 | Financial Liabilities | Financial Assets | Total |
|---|---|---|---|
| | Liabilities Measured at Amortised Cost '£000 | Loans & Receivables '£000 | £000 |
| Interest expense | 318 | - | 318 |
| **Total Expense in Surplus or Deficit on the Provision of Services** | **318** | **-** | **318** |
| Interest income | - | (741) | (741) |
| **Total Income in Surplus or Deficit on the Provision of Services** | **-** | **(741)** | **(741)** |
| **Net gain/(loss) for the year** | **318** | **(741)** | **(423)** |

**Fair value of Assets and Liabilities carried at Amortised Cost**

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

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

The fair values calculated are as follows:

Table i) Fair Value of Assets & Liabilities at Amortised Cost

| | 31/03/2012 | | 31/03/2011 | | 31/03/2010 | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| PWLB debt | 124,287 | 129,074 | 2,558 | 3,339 | 4,158 | 5,064 |
| Non-PWLB debt | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total debt** | **124,287** | **129,074** | **2,558** | **3,339** | **4,158** | **5,064** |
| Trade creditors | 3,117 | 3,117 | 4,647 | 4,647 | 3,491 | 3,491 |
| **Total financial liabilities** | **127,404** | **132,191** | **7,205** | **7,986** | **7,649** | **8,555** |
| Money market loans < 1 year | 30,142 | 32,923 | 27,679 | 27,724 | 27,675 | 27,675 |
| Money market loans > 1 year | 3,047 | 3,089 | 4,045 | 4,071 | 1,000 | 1,065 |
| Trade debtors | 275 | 275 | 451 | 451 | 389 | 389 |
| **Total loans & receivables** | **33,464** | **36,287** | **32,175** | **32,246** | **29,064** | **29,129** |

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

The fair value 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.

The fair values for loans and receivables have been determined by reference to the Public Works Loans 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 19 – Inventories**

Details of inventories held by the Council as at 31 March 2012 are provided below:

**Consumable Stores**

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 0 | Balance at start of year | 8 |
| 47 | Purchases | 34 |
| (39) | Recognised as an expense in year | (33) |
| 0 | Written off balances | 0 |
| 8 | Balance outstanding at year end | 9 |

**Postage**

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 0 | Balance at start of year | 7 |
| 12 | Purchases | 21 |
| (5) | Recognised as an expense in year | (23) |
| 0 | Written off balances | 0 |
| 7 | Balance outstanding at year end | 5 |

**Housing Repairs & Maintenance Materials**

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 26 | Balance at start of year | 14 |
| 328 | Purchases | 153 |
| (340) | Recognised as an expense in year | (160) |
| 0 | Written off balances | 0 |
| 14 | Balance outstanding at year end | 7 |

**Vehicle Repairs & Maintenance Materials**

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 0 | Balance at start of year | 42 |
| 359 | Purchases | 340 |
| (317) | Recognised as an expense in year | (361) |
| 0 | Written off balances | 0 |
| 42 | Balance outstanding at year end | 21 |

**Fuel Tank**

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 0 | Balance at start of year | 0 |
| 0 | Purchases | 619 |
| 0 | Recognised as an expense in year | (599) |
| 0 | Written off balances | 0 |
| 0 | Balance outstanding at year end | 20 |

Stock relating to fuel was not measured in previous financial years.

**Note 20 – Capital Commitments**

There is an outstanding commitment with Moore Facilities Management amounting to £85k for updates to the Councils sheltered housing stock.

There is a total value of £92k outstanding with Brook & Mayo for electrical rewires in the housing stock.

The contract with Moores Facilities Management Ltd to carry out works under the Disability Discrimination Act has an outstanding commitment of £90k.

Work in progress to upgrade kitchens and bathrooms in the housing stock has a future commitment of £316k with CLC Ltd, D Brown Building Contractors Ltd and Musson Joinery.

Work is being undertaken to provide hard-wired fire alarms in the housing stock. Outstanding contracts with Tunstall healthcare and Sirrus amount to £226k.

Other capital contracts still outstanding at 31 March are £51k with Seddons; £70k with Bartek Auto ID and £60k with Advantage Motor Group.

Major capital commitments at 31 March 2012 are in respect of the above

| | £'000 |
|---|---|
| Improvement to Council Dwellings | |
| - Kitchens & Bathrooms | 316 |
| - Sheltered Housing Upgrades | 85 |
| - Electrical rewires | 92 |
| - Fire Alarms | 226 |
| - Other improvement works | 51 |
| Vehicle Purchases & improvements | 130 |
| Disability Discrimination Act compliance | 90 |
| Contract commitments at 31 March 2012 | 990 |

**Note 21 – Short-Term Debtors**

An analysis of Debtors is shown below:

| 01/04/2010 £'000 | 31/03/2011 £'000 | | 31/03/2012 £'000 |
|---|---|---|---|
| 4,643 | 3,359 | Government Departments | 1,084 |
| 283 | 388 | Other Local Authorities | 499 |
| 24 | 16 | NHS | 24 |
| 1,280 | 1,315 | Other entities and individuals | 1,767 |
| 6,230 | 5,078 | **Total Short-term Debtors** | 3,374 |

**Note 22 – Cash and Cash Equivalents**

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

| 31/03/2010 £'000 | 31/03/2011 £'000 | | 31/03/2012 £'000 |
|---|---|---|---|
| 12 | 18 | Cash held by the authority | 27 |
| (377) | (937) | Bank current accounts | 358 |
| 2,674 | 1,410 | Instant Access accounts | 9,005 |
| 5,001 | 0 | Short term deposits with building societies | 0 |
| 7,310 | 491 | **Total Cash & Cash Equivalents** | 9,390 |

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

**Note 23 – Assets Held for Sale**

As at 31/03/2012, there are 6 Council Dwellings that are in the process of being sold and these are classified as current as Current Assets Held for Sale in the Balance Sheet.

| 2010/2011 £'000 | **Non-Current Assets Held for Sale** | 2011/2012 £'000 |
|---|---|---|
| 1,042 | Balance at start of year | 140 |
| | Assets newly classified as held for sale: | |
| 142 | Property, Plant & Equipment | 689 |
| (47) | Revaluation losses | 0 |
| 0 | Revaluation gains | 0 |
| 0 | Impairment losses | 0 |
| | Assets declassified as held for sale: | |
| 0 | Property, Plant & Equipment | 0 |
| (997) | Assets sold | (829) |
| 0 | Transfers from non-current to current | 0 |
| 0 | Other movements | 0 |
| 140 | Balance at end of year | 0 |
| | **Current Assets Held for Sale** | |
| 0 | Balance at start of year | 0 |
| 0 | Assets newly classified as held for sale: | 189 |
| 0 | | 189 |

**Note 24 – Short-Term Creditors**

An analysis of Creditors is shown below:

| 01/04/2010 £'000 | 31/03/2011 £'000 | | 31/03/2012 £'000 |
|---|---|---|---|
| 268 | 1,050 | Government Departments | 824 |
| 76 | 578 | Other Local Authorities | 73 |
| 0 | 7 | NHS bodies | 0 |
| 3,491 | 4,647 | Other entities and individuals | 4,798 |
| 3,835 | 6,282 | **Total** | 5,695 |

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

**Note 25 – Provisions**

| 2011/2012 | Injury & Damage Compensation Claims £'000 | Other Provisions £'000 | Total £'000 |
|---|---|---|---|
| Balance at 01/04/2011 | 44 | 317 | 361 |
| Additional provisions made in 2011/2012 | 77 | 25 | 102 |
| Amounts used in 2011/2012 | (8) | (116) | (124) |
| Unused amounts reversed in 2011/2012 | (17) | (25) | (42) |
| **Total** | 96 | 201 | 297 |

| | |
|---|---|
| Split between: | |
| Short-term provisions | 253 |
| Long-term provisions | 44 |
| | 297 |

| 2010/2011 | Injury & Damage Compensation Claims £'000 | Other Provisions £'000 | Total £'000 |
|---|---|---|---|
| Balance at 01/04/2010 | 72 | 542 | 614 |
| Additional provisions made in 2010/2011 | 0 | 0 | 0 |
| Amounts used in 2010/2011 | (21) | (225) | (246) |
| Unused amounts reversed in 2010/2011 | (8) | 0 | (8) |
| **Total** | 43 | 317 | 360 |

| | |
|---|---|
| Split between: | |
| Short-term provisions | 342 |
| Long-term provisions | 18 |
| | 360 |

All of the injury & damage compensation claims are individually insignificant. They relate to personal injuries sustained where the Council is alleged to be at fault (e.g. through a failure to repair a pavement properly). Provision is made for those claims where it is deemed probable that the Council will have to make a settlement, based on past experience of court decisions about liability and the amount of damages payable. Of the £96K provided at 31/03/12 £51K is expected to be settled in 2012/2013. The Council may be reimbursed by its Insurers, but until claims are actually settled no income is recognised as the insurers will only reimburse amounts above a £10,000 excess.

The other provisions relate to money set aside to pay for accrued employee benefits earned but not taken at the balance sheet date.

**Note 26 – Usable Reserves**

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

| 2011/2012 | Balance at 01/04/2011 £'000 | Transfer To Reserve in 2011/2012 £'000 | Transfer From Reserve in 2011/2012 £'000 | Balance at 31/03/2012 £'000 |
|---|---|---|---|---|
| General Fund Balance | 2,370 | | | 2,370 |
| GF Unapplied Capital Grants | 744 | | (268) | 476 |
| GF Capital Reserve | 1,630 | 1,500 | (69) | 3,061 |
| Usable Cap Receipts Reserve | 7,951 | 886 | (2,081) | 6,756 |
| GF Revenue Reserves | 6,035 | 2,128 | (702) | 7,461 |
| General Fund Unapplied Revenue Grant | 1,143 | 134 | (347) | 930 |
| Housing Revenue Account Balance | 8,171 | 1,240 | | 9,411 |
| Major Repairs Reserve | 5,348 | 3,674 | (4,709) | 4,313 |
| Earmarked HRA Reserves | 229 | 2 | | 231 |
| | 33,621 | 9,564 | (8,176) | 35,009 |

| 2010/2011 | Balance at 01/04/2010 £'000 | Transfer To Reserve in 2010/2011 £'000 | Transfer From Reserve in 2010/2011 £'000 | Balance at 31/03/2011 £'000 |
|---|---|---|---|---|
| General Fund Balance | 2,370 | 0 | 0 | 2,370 |
| GF Unapplied Capital Grants | 616 | 401 | (273) | 744 |
| GF Capital Reserve | 1,803 | 1,630 | (1,803) | 1,630 |
| Usable Cap Receipts Reserve | 7,569 | 1,016 | (634) | 7,951 |
| GF Revenue Reserves | 6,048 | 1,224 | (1,237) | 6,035 |
| General Fund Unapplied Revenue Grants | 635 | 887 | (379) | 1,143 |
| Housing Revenue Account Balance | 7,678 | 493 | 0 | 8,171 |
| Major Repairs Reserve | 6,566 | 3,662 | (4,880) | 5,348 |
| Insurance Reserve-Dwellings | 193 | 36 | 0 | 229 |
| **Totals** | 33,478 | 9,349 | (9,206) | 33,621 |

**Note 27 – Unusable Reserves**

| Restated 01/04/2010 £'000 | Restated 31/03/2011 £'000 | | 31/03/2012 £'000 |
|---|---|---|---|
| 4,321 | 3,489 | Revaluation Reserve | 4,613 |
| 312,377 | 222,370 | Capital Adjustment Account | 98,165 |
| (46,024) | (22,549) | Pensions Reserve | (29,453) |
| 73 | 31 | Collection Fund Adjustment Account | 5 |
| (494) | (317) | Accumulating Compensated Absences Adjustment Account | (201) |
| 102 | 87 | Deferred Capital Receipts | 72 |
| 270,355 | 203,111 | | 73,201 |

Revaluation Reserve

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

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

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

| Restated 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 4,321 | Balance at start of year | 3,489 |
| 2,500 | Upward revaluation of assets | 1,313 |
| (2,926) | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services | (33) |
| 3,895 | Surplus/Deficit on revaluation of non-current assets not posted to Surplus/Deficit on Provisition of Services | 4,769 |
| (51) | Difference between fair value depreciation and historical cost depreciation | (153) |
| (355) | Accumulated gains on assets sold or scrapped | (3) |
| (406) | Amounts written off to the Capital Adjustment Account | (156) |
| 3,489 | Balance at end of year | 4,613 |

Capital Adjustment Account

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

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

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 312,378 | Balance at start of year | 222,370 |
| | **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement** | |
| (5,058) | Charges for depreciation of non-current assets | (5,121) |
| (4,813) | Charges for impairment of non-current assets | (4,354) |
| (88,285) | Revaluation losses on Property, Plant & Equipment charged to the Comprehensive Income & | (2,764) |
| 1,280 | Expenditure Statement | 3,392 |
| (28) | Amortisation of intangible assets | (31) |
| (708) | Revenue expenditure funded from capital under statute | (800) |
| (759) | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement | (556) |
| 0 | HRA Self-Financing Transaction | (121,652) |
| 214,007 | | 90,484 |
| 51 | Adjusting amounts written out of the Revaluation Reserve | 153 |
| 214,058 | Net written out amount of the cost of non-current assets consumed in the year | 90,637 |
| | **Capital financing applied in the year** | |
| 293 | Use of the Capital Receipts Reserve to finance new capital expenditure | 1,605 |
| 4,880 | Use of the Major Repairs reserve to finance new capital expenditure | 4,709 |
| 521 | Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing | 10 |
| 416 | Application of grants to capital financing from the Capital Grants Unapplied Account | 268 |
| 201 | Statutory provision for the financing of capital investment charged against the General Fund & HRA balances | 193 |
| 1,803 | Self-financed capital expenditure | 118 |
| 15 | Capital expenditure charged against the General Fund and HRA balances | 695 |
| 8,129 | | 7,598 |
| 183 | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement | (70) |
| 222,370 | Balance at end of year | 98,165 |

Pensions Reserve

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

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| (46,024) | Balance at 1 April | (22,549) |
| 15,719 | Actuarial gains or losses on pensions assets & liabilities | (6,694) |
| 5,464 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on Provision of Services | (2,381) |
| 2,292 | Employer's pensions contributions and direct payments to pensioners payable in the year | 2,171 |
| (22,549) | Balance at 31 March | (29,453) |

Collection Fund Adjustment Account

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

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 73 | Balance at 1 April | 31 |
| (42) | Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated in accordance with statute | (26) |
| 31 | Balance at 31 March | 5 |

Accumulating Compensated Absences Adjustment Account

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

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 494 | Balance at 1 April | 317 |
| (211) | Settlement or cancellation of accrual made at the end of the preceding year | (24) |
| 34 | Amounts accrued at the end of the current year | (92) |
| 317 | Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statute | 201 |
| 317 | Balance at 31 March | 201 |

Deferred Capital Receipts

These relate to capital loans and leases made by the Council that will be repaid over a period of time. The majority of the balance relates to council house mortgages (£57K at 31 March 2012) with the remainder amounts owing on a finance lease (£15K at 31 March 2012).

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 102 | Balance at 1 April | 87 |
| (15) | Repayments received in year | (15) |
| 0 | New receipts deferred | 0 |
| 87 | | 72 |

**Note 28 – Amounts reported for Resource Allocation Decisions**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across corporate area. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- The income & expenditure relating to the HRA is reported to Cabinet entirely separately from that for the General Fund, whereas in the Comprehensive Income & Expenditure Statement it is included as a service line within the Cost of Services.

- Drainage board levies are included within the expenditure reported under the Finance corporate area in the reports provided to Cabinet, but in the Comprehensive Income & Expenditure Statement, they are included within Other Operating Expenditure below the Cost of Services analysis.

- Income & expenditure relating to trading services (markets and industrial estates which are run on a commercial basis) is included within the Assets corporate area in Cabinet reports, but in the Comprehensive Income & Expenditure Statement, it is included within Other Operating Expenditure below the Cost of Services analysis.

- Interest received on loans made to bodies providing leisure services is also reported within the Assets corporate area in Cabinet reports, but in the Comprehensive Income & Expenditure Statement, it is included within Financing & Investment Income & Expenditure below the Cost of Services analysis.

The income and expenditure of the Council's corporate areas recorded in the budget reports for the year is as follows:

| Corporate Area Income & Expenditure 2011 /2012 | Assets | Corporate | Development & Growth | Environmental Services | Finance | Housing & Neighbourhoods | HR & Customer Services | Legal & Democratic | Special Expense Areas | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | | | | | | |
| Fees Charges & other service income | (4,200) | (59) | (1,191) | (1,944) | (961) | (986) | | (181) | (89) | (9,611) |
| Interest & investment income | (16) | | | | (10) | | | | | (26) |
| Government Grants & Contributions | (121) | | (57) | | (38,333) | (507) | | | | (39,018) |
| Support Recharge Income | (1,584) | (1,287) | | (414) | (2,558) | | (1,918) | (493) | | (8,254) |
| Total Income | (5,921) | (1,346) | (1,248) | (2,358) | (41,862) | (1,493) | (1,918) | (674) | (89) | (56,909) |
| Expenditure | | | | | | | | | | |
| Employee Expenses | 1,666 | 1,116 | 1,870 | 3,156 | 2,433 | 1,143 | 1,208 | 584 | 0 | 13,176 |
| Other Service Expenses | 4,501 | 359 | 944 | 2,940 | 39,424 | 412 | 446 | 719 | 485 | 50,230 |
| Support Service Recharges | 977 | 702 | 657 | 1,086 | 867 | 288 | 350 | 555 | 110 | 5,592 |
| Depreciation, amortisation & Impairment | 467 | 0 | 7 | 756 | 132 | 834 | 1 | 0 | 156 | 2,353 |
| Total Expenditure | 7,611 | 2,177 | 3,478 | 7,938 | 42,856 | 2,677 | 2,005 | 1,858 | 751 | 71,351 |
| Net Expenditure | 1,690 | 831 | 2,230 | 5,580 | 994 | 1,184 | 87 | 1,184 | 662 | 14,442 |

| Corporate Area Income & Expenditure 2010/2011 | Assets | Corporate | Development & Growth | Environmental Services | Finance | Housing & Neighbourhoods | HR & Customer Services | Legal & Democratic | Special Expense Areas | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | | | | | | |
| Fees Charges & other service income | (4,044) | (46) | (915) | (2,458) | (1,010) | (1,070) | 0 | (162) | (106) | (9,811) |
| Interest & investment income | (18) | | | | (4) | | | | | (22) |
| Government Grants & Contributions | (228) | | (224) | | (35,932) | (569) | | | | (36,953) |
| Support Recharge Income | (463) | (1,384) | | (364) | (2,814) | | (2,055) | (513) | | (7,593) |
| Total Income | (4,753) | (1,430) | (1,139) | (2,822) | (39,760) | (1,639) | (2,055) | (675) | (106) | (54,379) |
| Expenditure | | | | | | | | | | |
| Employee Expenses | 1,614 | 1,198 | 1,549 | 3,253 | (3,848) | 1,556 | 1,164 | 525 | 0 | 7,011 |
| Other Service Expenses | 4,770 | 338 | 766 | 3,364 | 38,188 | 794 | 505 | 691 | 501 | 49,917 |
| Support Service Recharges | (4) | 773 | 632 | 1,128 | 1,018 | 388 | 383 | 609 | 104 | 5,031 |
| Depreciation, amortisation & Impairment | 1,330 | 0 | 7 | 611 | 132 | 830 | 3 | 0 | 41 | 2,954 |
| Total Expenditure | 7,710 | 2,309 | 2,954 | 8,356 | 35,490 | 3,568 | 2,055 | 1,825 | 646 | 64,913 |
| Net Expenditure | 2,957 | 879 | 1,815 | 5,534 | (4,270) | 1,929 | 0 | 1,150 | 540 | 10,534 |

The reconciliation below shows how the figures in the analysis of corporate area income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement:

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 10,534 | Net expenditure in the Service Analysis | 14,442 |
| 87,458 | Local Authority Housing HRA | 2,305 |
| | Exceptional HRA Self-Financing Transaction | 121,652 |
| (607) | Drainage Board Levies | (609) |
| 382 | Trading Services | 291 |
| 17 | Leisure Grants & Loans Income | 16 |
| 97,784 | Cost of Service in Comprehensive Income & Expenditure Statement | 138,097 |

The reconciliation below shows how the figures in the analysis of corporate area income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

| 2011/2012 | Corporate Area Analysis £'000 | Amounts not reported to management for decision making £'000 | Amounts not included in I&E £'000 | Total £'000 |
|---|---|---|---|---|
| Income | | | | |
| Fees Charges & other service income | (9,611) | 0 | | (9,611) |
| Interest & investment income | (26) | 0 | | (26) |
| Government Grants & Contributions | (39,018) | 0 | | (39,018) |
| Taxation & Non-Specific Grant Income | 0 | (16,853) | | (16,853) |
| Support Recharge Income | (8,254) | 0 | | (8,254) |
| Total Income | (56,909) | (16,853) | 0 | (73,762) |
| | | | | |
| Expenditure | | | | |
| Employee Expenses | 3 | 0 | | 3 |
| Other Service Expenses | 13,175 | 0 | | 13,175 |
| Support Service Recharges | 50,228 | 0 | | 50,228 |
| Depreciation, amortisation & Impairment | 5,592 | 0 | | 5,592 |
| Financing | 2,353 | 197 | | 2,550 |
| Parish Precepts | 0 | 1,350 | | 1,350 |
| Local Authority Housing HRA | 0 | 2,306 | | 2,306 |
| Payments to the housing capital receipts pool | 0 | 475 | | 475 |
| Gain or loss on disposal of non-current assets | 0 | (303) | | (303) |
| Other Operating Income & Expenditure | 0 | (90) | | (90) |
| Total Expenditure | 71,351 | 3,935 | 0 | 75,286 |
| | | | | |
| Surplus or deficit on the provision of services | 14,442 | (12,918) | 0 | 1,524 |

| 2010/2011 | Corporate Area Analysis<br>£'000 | Amounts not reported to management for decision making<br>£'000 | Amounts not included in I&E<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| Income | | | | |
| Fees Charges & other service income | (9,811) | | | (9,811) |
| Interest & investment income | (21) | | | (21) |
| Government Grants & Contributions | (36,954) | | | (36,954) |
| Taxation & Non-Specific Grant Income | | (18,494) | | (18,494) |
| Support Recharge Income | (7,592) | | | (7,592) |
| Total Income | (54,378) | (18,494) | 0 | (72,872) |
| | | | | |
| Expenditure | | | | |
| Employee Expenses | 7,011 | | | 7,011 |
| Other Service Expenses | 49,916 | | | 49,916 |
| Support Service Recharges | 5,031 | | | 5,031 |
| Depreciation, amortisation & Impairment | 2,954 | | | 2,954 |
| Financing | | 1,045 | | 1,045 |
| Parish Precepts | | 1,350 | | 1,350 |
| Local Authority Housing HRA | | 87,458 | | 87,458 |
| Payments to the housing capital receipts pool | | 342 | | 342 |
| Gain or loss on disposal of non-current assets | | 145 | | 145 |
| Other Operating Income & Expenditure | | 15 | | 15 |
| Total Expenditure | 64,912 | 90,355 | 0 | 155,267 |
| | | | | |
| Surplus or deficit on the provision of services | 10,534 | 71,861 | | 82,395 |

## Note 29 – Trading Operations

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

| 2010/2011 | | | | 2011/2012 | |
|---|---|---|---|---|---|
| £'000 | £'000 | | | £'000 | £'000 |
| | (532) | The letting of Industrial Units located | Turnover | (518) | |
| | 132 | within the District | Expenditure | 197 | |
| (400) | | | (Surplus)/Deficit | | (321) |
| | (289) | Markets held weekly at Bourne, Grantham | Turnover | (281) | |
| | 368 | and Stamford | Expenditure | 335 | |
| 79 | | | (Surplus)/Deficit | | 54 |
| (321) | | (Surplus)/Deficit | | | (267) |

On the face of the Comprehensive Income & Expenditure Statement the trading operations show a surplus of £291k. This figure includes revaluation gains totalling £24k which have been credited to the trading operations. They have been excluded from the figures above as they are purely accounting entries and are fully reversed in the Statement of Movement on the General Fund Balance. The net impact of the trading operations in 2011/2012 was an increase to the General Fund working balance of £267k.

## Note 30 – Agency Services

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

| 2010/2011 | | 2011/2012 |
|---|---|---|
| £'000 | | £'000 |
| | **Travellers Site Expenditure** | |
| 27 | Management & Maintenance | 33 |
| (27) | Income from Rent & Other Charges | (30) |
| | **Total Reimbursement by/(to)** | |
| 0 | **Lincolnshire County Council** | 3 |

| 2010/2011 | | 2011/2012 |
|---|---|---|
| £'000 | | £'000 |
| | **Grass Cutting Expenditure** | |
| 81 | Premises & Support Costs | 85 |
| (81) | Income from Lincolnshire County Council | (85) |
| 0 | **Net Service Costs** | 0 |

## Note 31 – 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 and expenses paid during the year amounted to £357,719 (2010/2011 £380,024). The figure includes basic allowance, special responsibility, and other related allowances.

**Note 32 – Officer Remuneration**

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

| 2010/2011 No. of officers | Remuneration Band | 2011/2012 No. of officers |
|---|---|---|
| 2 | £50,000 - £54,999 | 1 |
| 0 | £55,000 - £59,999 | 1 |
| 0 | £60,000 - £64,999 | 1 |
| 3 | £65,000 - £69,999 | 2 |
| 5 | | 5 |

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

| | | Salary, Fees and Allowances £'000 | Bonuses £'000 | Expenses Allowances £'000 | Compensation for Loss of Employment £'000 | Employers Pension contribution £'000 | Any other emolument £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Chief Executive | 2011/2012 | 111 | - | - | - | 23 | - | 134 |
| | 2010/2011 | 111 | - | - | - | 23 | - | 134 |
| Strategic Director | 2011/2012 | 89 | - | 1 | - | 19 | - | 109 |
| | 2010/2011 | 89 | - | 1 | - | 18 | - | 108 |
| Strategic Director | 2011/2012 | 89 | - | - | - | 19 | - | 108 |
| | 2010/2011 | 85 | - | - | - | 18 | - | 103 |
| Strategic Director (S151 Officer) | 2011/2012 | 89 | - | - | - | 19 | - | 108 |
| * New post from 28 October 2010 | 2010/2011 | - | - | - | - | - | - | - |
| Monitoring Officer | 2011/2012 | 62 | - | - | - | 13 | - | 75 |
| | 2010/2011 | 61 | - | - | - | 13 | - | 74 |
| Head of Finance | 2011/2012 | | - | - | - | | - | - |
| *S151 Officer until 28 October 2010 | 2010/2011 | 38 | - | - | - | 8 | - | 46 |

**Note 33 – Audit Costs**

The following fees were incurred in 2011/2012 relating to external audit and inspection:

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 113 | Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor. | 103 |
| 10 | Fees payable to the Audit Commission in respect of Statutory Inspection. | 0 |
| 31 | Fees payable to the Audit Commission for the certification of grant claims and returns. | 19 |
| 0 | Fees payable to the Audit Commission in respect of any other services provided | 0 |
| 154 | | 122 |

**Note 34 – Grant Income**

The Council credited the following grants and contributions to the Cost of Services in the Comprehensive Income & Expenditure Statement in 2011/2012:

| 2010/2011 £'000 | **Credited to Services** | 2011/2012 £'000 |
|---|---|---|
| 120 | Regional Housing Grant | 0 |
| 88 | LCC 2nd Homes Funding | 108 |
| 288 | Disabled Facilities Grant | 332 |
| 82 | Arts Council Grant | 61 |
| 96 | Free Swimming Grant | 0 |
| 398 | Concessionary Travel Grant | 0 |
| 0 | Support for Children & Young People | 15 |
| 19 | Play Strategy Grant | 0 |
| 6 | Discretionary Housing Grant | 26 |
| 887 | Housing Benefits Admin Grant | 845 |
| 192 | NDR Cost of Collection | 186 |
| 161 | Homelessness Grant | 106 |
| 17 | Habitats Directive Funding | 0 |
| 10 | Business Rates Deferral grant | 4 |
| 15 | ATLAS Project Funding | 6 |
| 34 | Land Charges Reimbursement Grant | 0 |
| 0 | Preventing Repossession | 68 |
| 0 | Other Grants | 30 |
| 2,413 | | 1,787 |

The Authority has received a number of grants and contributions that have yet to be recognised as

income as they have conditions attached to them that will require the money to be returned to the giver. The balances at the year end are as follows:

| 2010/2011 £'000 | **Capital Grants Receipts in Advance** | 2011/2012 £'000 |
|---|---|---|
| 493 | S106 Contributions | 532 |

**Note 35 – 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 Notes 13, 14 & 34 relating to grant income.

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

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

Payments made during the year were as follows:

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 1,350 | Town and Parish Councils | 1,350 |
| 101 | Upper Witham Drainage Board | 103 |
| 56 | Black Sluice Drainage Board | 56 |
| 450 | Welland and Deepings Drainage Board | 450 |
| 1,957 | | 1,959 |

**Note 36 –Capital Expenditure and Capital Financing**

Capital expenditure and financing activities during the year were as follows:

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 7,078 | **Opening Capital Finance Requirement** | 7,016 |
| | Capital Investment | |
| 11 | Other land & buildings | 123 |
| 2,069 | Vehicles, plant & equipment | 1,865 |
| 383 | Investment properties | 0 |
| 52 | Assets under construction | 134 |
| 4,813 | Capital expenditure | 4,353 |
| 0 | Intangible Assets | 100 |
| 708 | Revenue expenditure charged to capital under statute | 800 |
| 0 | HRA Self-Financing transaction | 121,652 |
| | **Sources of Finance** | |
| (293) | Capital receipts | (1,605) |
| (937) | Capital grants & contributions | (659) |
| (6,868) | Sums set aside from revenue | (5,300) |
| 7,016 | **Closing Capital Financing Requirement** | 128,479 |
| | Explanation of movements in year | |
| (62) | Increase/(Decrease) in underlying need to borrow | 121,463 |

This amount relates to an increase in PWLB borrowing of £121.652m to pay for the HRA Self-Financing transaction and a reduction of £189k which is required to be set aside by statutory regulations to finance other debt.

**Note 37 – Leases**

**Council as Lessee**

Finance Leases

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

| 31/03/2011 £'000 | **Carrying Value** | 31/03/2012 £'000 |
|---|---|---|
| 1,999 | Other Land & Buildings | 2,038 |

None of these properties are sublet.

Operating Leases

The Council has acquired various buildings and its waste vehicle fleet under operating leases. The future minimum lease payments and sublease receipts due under non-cancellable leases in future years are shown below, together with the net expenditure charged to the various lines within the Comprehensive Income & Expenditure Statement during the year. Only one of the buildings is sublet as at 31 March 2012.

| 31/03/2011 £'000 | **Future Minimum Lease Payments Due** | 31/03/2012 £'000 |
|---|---|---|
| 0 | Not later than one year | 30 |
| 19 | Between one & five years | 51 |
| 0 | Later than 5 years | 7 |
| 19 | | 88 |

| | **Future Minimum Sublease Receipts Due** | |
|---|---|---|
| 14 | Not later than one year | 14 |
| 33 | Between one & five years | 33 |
| 0 | Later than 5 years | 0 |
| 47 | | 47 |

| 31/03/2011 £'000 | **Expenditure charged to Comprehensive Income & Expenditure Account** | 31/03/2012 £'000 |
|---|---|---|
| 1 | Cultural Services | 0 |
| 78 | Environmental Services | 0 |
| 19 | Planning Services | 19 |
| 11 | Central Services | 23 |
| 5 | Trading Accounts | 0 |
| (14) | Sub-lease payments receivable | (14) |
| 100 | | 28 |

**Council as Lessor**

Finance Leases

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

settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

| 31/03/2011 £'000 | **Gross Investment in the Lease** Finance Lease Debtor (net present value of minimum lease payments) | 31/03/2012 £'000 |
|---|---|---|
| 0 | Current | 0 |
| 15 | Non-Current | 15 |
| 63 | Unearned finance income | 61 |
| 1,740 | Unguaranteed residual value of property | 1,740 |
| 1,818 | Gross Investment in the Lease | 1,816 |

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

| At 31/03/2012 | Gross Investment in the Lease | | Minimum Lease Payments | |
|---|---|---|---|---|
| | 31/03/2012 £'000 | 31/03/2013 £'000 | 31/03/2012 £'000 | 31/03/2013 £'000 |
| Not later than one year | 1 | 1 | 0 | 0 |
| Between one & five years | 5 | 5 | (1) | (1) |
| Later than 5 years | 1,810 | 1,811 | 16 | 17 |
| | 1,816 | 1,817 | 15 | 16 |

| At 31/03/2011 | Gross Investment in the Lease | | Minimum Lease Payments | |
|---|---|---|---|---|
| | 31/03/2011 £'000 | 31/03/2012 £'000 | 31/03/2011 £'000 | 31/03/2012 £'000 |
| Not later than one year | 1 | 1 | 0 | 0 |
| Between one & five years | 5 | 5 | (1) | (1) |
| Later than 5 years | 1,811 | 1,812 | 17 | 17 |
| | 1,817 | 1,818 | 16 | 16 |

No allowance for uncollectible amounts has been set aside as at 31 March 2012.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 no contingent rents were receivable by the Council.

Operating Leases

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

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

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

| 31/03/2011 £'000 | | 31/03/2012 £'000 |
|---|---|---|
| 571 | Not later than one year | 572 |
| 2,065 | Between one & five years | 1,692 |
| 752 | Later than 5 years | 666 |
| 3,388 | | 2,930 |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 no contingent rents were receivable by the Council.

**Note 38 – Impairment Losses**

The Council recognised no impairment losses during 2011/2012.

**Note 39 – Termination Benefits**

The Council terminated the contracts of a number of employees in 2011/2012, incurring liabilities of £62,000. These were payable to four officers who were made redundant as part of the Council's review of services and one to ill health retirement. All payments were made before 31 March 2012 and no commitments were outstanding at the year end.

**Note 40 – Defined Benefit Pension Schemes**

**Participation in Pension Scheme**

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

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

**IAS 19 Accounting Entries**

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

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| | **Comprehensive Income and Expenditure Statement** | |
| | **Cost of Services** | |
| 2,217 | - Current Service Cost | 1,952 |
| (9,093) | - Past Service Cost/ (Gains) | 0 |
| 84 | - Curtailments and Settlements | 0 |
| | **Financing & Investment Income & Expenditure** | |
| 5,136 | - Interest Cost | 4,401 |
| (3,808) | - Expected return on assets in the scheme | (3,972) |
| (5,464) | **Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services** | 2,381 |
| | **Other Post Employment Benefit charged to the Comprehensive Income & Expenditure Statement** | |
| (15,719) | - Actuarial gains & losses | 6,694 |
| (21,183) | **Total Post Employment Benefit charged to the Comprehensive Income & Expenditure Statement** | 9,075 |
| | **Movement in Reserves Statement** | |
| 5,464 | - reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (2,381) |
| (36,902) | | 15,769 |
| | **Actual amount charged against the General Fund Balance for pensions in the year.** | |
| 2,292 | - Employers' contributions payable to scheme. | 2,171 |

The estimated employers' contributions payable in 2012/2013 are £2,073,000

**Assets and Liabilities in Relation to Retirement Benefits**

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 100,544 | Opening Balance at 1 April | 80,340 |
| 2,217 | Current Service Cost | 1,952 |
| 5,136 | Interest on Obligation | 4,401 |
| 671 | Contributions by Members | 649 |
| (16,090) | Actuarial Losses/(Gains) | 3,563 |
| (9,093) | Past Service Costs/(Gains) | 0 |
| 84 | Losses/(Gains) on Curtailments | 0 |
| (66) | Estimated Unfunded Benefits Paid | (67) |
| (3,063) | Estimated Benefits Paid | (3,192) |
| 80,340 | | 87,646 |

Reconciliation of fair value of the scheme assets:

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 54,520 | Opening Balance at 1 April | 57,791 |
| 3,808 | Expected return on assets | 3,972 |
| (371) | Actuarial gains/(losses) | (3,131) |
| 2,226 | Contributions by the employer | 2,104 |
| 66 | Contributions in respect of Unfunded Benefits | 67 |
| 671 | Contributions by scheme participants | 649 |
| (66) | Estimated Unfunded Benefits Paid | (67) |
| (3,063) | Estimated Benefits paid | (3,192) |
| 57,791 | Closing Balance at 31 March | 58,193 |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was 1.5% (2010/11 6.2%)

Scheme History

| | 31/03/2008 £'000 | 31/03/2009 £'000 | 31/03/2010 £'000 | 31/03/2011 £'000 | 31/03/2012 £'000 |
|---|---|---|---|---|---|
| Present Value of Liabilities | (63,118) | (61,963) | (100,544) | (80,340) | (87,646) |
| Fair Value of Assets in the Local Government Pension Scheme | 51,131 | 41,856 | 54,520 | 57,791 | 58,193 |
| Surplus/(deficit) in the scheme | (11,987) | (20,107) | (46,024) | (22,549) | (29,453) |

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement benefits). The total liability of £87.646m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £29.453m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the scheme will be made good by increased contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary.

There are no material prepaid or accrued pension contributions at 31 March 2012.

**Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The 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 2010. The next full valuation of the scheme is due in March 2013.

The principal assumptions used by the actuary have been:

| | 2011/2012 | 2010/2011 |
|---|---|---|
| **Long term expected rate of return on assets in the scheme:** | | |
| Equity Investments | 6.2% | 7.5% |
| Bonds | 4.4% | 4.9% |
| Property | 4.4% | 5.5% |
| Cash | 3.5% | 4.6% |
| **Mortality Assumptions** | | |
| Longevity at 65 for current pensioners: | | |
| Men | 21.2 years | 21.2 years |
| Women | 23.4 years | 23.4 years |
| Longevity at 65 for future pensioners: | | |
| Men | 23.7 years | 23.7 years |
| Women | 25.7 years | 25.7 years |
| Rate of inflation | 3.6% | 3.0% |
| Rate of increase in salaries | 4.8% | 5.1% |
| Rate of increase in pensions | 2.5% | 2.8% |
| Rate for discounting scheme liabilities | 4.8% | 5.5% |
| Take-up of option to convert annual pension into retirement lump sum | | |
| Pre-April 2008 service | 25% | 25% |
| Post-April 2008 service | 63% | 63% |

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

| 31 March 2011 % | | 31 March 2012 % |
|---|---|---|
| 76.0 | Equities | 74.0 |
| 12.0 | Bonds | 13.0 |
| 11.0 | Property | 12.0 |
| 1.0 | Cash | 1.0 |
| 100.0 | | 100.0 |

History of Experience Gains & Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012

| | 2007/08 % | 2008/09 % | 2009/10 % | 2010/11 % | 2011/12 % |
|---|---|---|---|---|---|
| Difference between the expected and actual return on assets | (13.4) | (32.2) | 17.7 | (0.6) | (5.4) |
| Experience gains and losses on liabilities | (5.4) | 0.0 | 0.0 | 4.5 | (1.3) |
| Changes in assumptions underlying the Present Value of the scheme liabilities | 16.5 | 9.2 | (35.0) | 15.5 | (2.8) |

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 41 – Contingent Assets & Liabilities

There are no material contingent assets or liabilities as at 31 March 2012.

## Note 42 –Borrowing

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

| 2010/2011 £'000 | Analysis of Loans by Source | 2011/2012 £'000 |
|---|---|---|
| 2,500 | PWLB | 120,930 |
| 80 | Salix Financing | 48 |
| **2,580** | | **120,978** |

| £'000 | Analysis of Loans by Maturity | £'000 |
|---|---|---|
| 32 | Between 1 and 2 Years | 1,048 |
| 1,548 | Between 2 and 5 Years | 500 |
| 1,000 | Between 5 and 10 Years | 26,000 |
| 0 | Between 10 and 15 Years | 93,430 |
| **2,580** | | **120,978** |

Current Borrowing represents borrowing repayable within one year.

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| 1,659 | Balance at start of year | 130 |
| 0 | Borrowing taken out during year | 3,222 |
| (1,659) | Borrowing repaid during year | (130) |
| 32 | Transferred from Non-Current Borrowing | 32 |
| 0 | Revaluations | 0 |
| 0 | Impairments | 0 |
| 98 | Accrued interest at end of year | 135 |
| **130** | Balance at end of year | **3,389** |

## Note 43 – Authorisation of Accounts for Issue

The date that the Statement of Accounts was authorised for issue was 25th September 2012. This is the date up to which events after the Balance Sheet date have been considered. The name of the person who gave the authorisation was Daren Turner (Chief Finance Officer).

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## Note 44 – 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 2011/2012 a contribution was taken from the reserve amounting to £0.04m, bringing the total to £0.080m.

## Note 45 – Heritage Assets

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

| | Assets held at value | | Assets held at cost | Total Assets |
|---|---|---|---|---|
| | Antiques £'000 | Miscellaneous Artifacts £'000 | Orrery £'000 | £'000 |
| **Cost or Valuation** | | | | |
| 1st April 2010 | 216 | 193 | 0 | 409 |
| Additions | 0 | 0 | 20 | 20 |
| Disposals | 0 | 0 | 0 | 0 |
| Revaluations | 0 | 0 | 0 | 0 |
| Impairment Losses/(reversals) recognised in the Revaluation Reserve | 0 | 0 | 0 | 0 |
| Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services | 0 | 0 | 0 | 0 |
| Depreciation | 0 | 0 | 0 | 0 |
| 31st March 2011 | 216 | 193 | 20 | 429 |
| **Cost or Valuation** | | | | |
| 1st April 2011 | 216 | 193 | 20 | 429 |
| Additions | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 |
| Revaluations | 0 | 0 | 0 | 0 |
| Impairment Losses/(reversals) recognised in the Revaluation Reserve | 0 | 0 | 0 | 0 |
| Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services | 0 | 0 | 0 | 0 |
| Depreciation | 0 | 0 | 0 | 0 |
| 31st March 2012 | 216 | 193 | 20 | 429 |

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

### Antiques

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

**Miscellaneous Artefacts**

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

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

**Orrery**

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

**Historic**

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

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

Currently the Council has no intangible Heritage Assets

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

## Note 46 – Investments

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

**Non-Current Investments**

| 2010/11 | | 2011/12 |
|---|---|---|
| £'000 | | £'000 |
| 1,000 | Balance at start of year | 4,000 |
| 4,000 | Investments made during year | 3,000 |
| 0 | Investments redeemed during year | 0 |
| (1,000) | Transferred to Current Investments | (4,000) |
| 0 | Revaluations | 0 |
| 0 | Impairments | 0 |
| **4,000** | Balance at end of year | **3,000** |

Current investments are held for periods less than one year.

**Current Investments**

| | | |
|---|---|---|
| 20,223 | Balance at start of year | 26,323 |
| 48,000 | Investments made during year | 27,000 |
| (43,223) | Investments redeemed during year | (36,323) |
| 1,000 | Transferred from Non-Current Investments | 4,000 |
| 0 | Revaluations | 0 |
| 0 | Impairments | 0 |
| 323 | Accrued interest at end of year | 184 |
| **26,323** | Balance at end of year | **21,184** |

## Note 47 – Cash Flow Statement

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

| 2010/11 | | 2011/12 |
|---|---|---|
| £'000 | | £'000 |
| 5,057 | Depreciation | 5,121 |
| 91,527 | Impairment & downward valuations | 3,793 |
| 28 | Amortisation | 31 |
| (19) | Increase/(decrease) in impairment for bad debts | 220 |
| 1,572 | Increase/Decrease in Creditors | (433) |
| 1,090 | Increase/Decrease in Debtors | (485) |
| (45) | Increase/Decrease in Stock | 9 |
| (7,756) | Movement in pension liability | 210 |
| 1,081 | Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised | 522 |
| (991) | Other non-cash items charged to the net surplus or deficit on the provision of services | 198 |
| 91,544 | | 9,186 |

## HOUSING REVENUE ACCOUNT
## INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

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

| 2010/2011 | | | 2011/2012 | |
|---|---|---|---|---|
| £'000 | £'000 | | £'000 | £'000 |
| | | **Income** | | |
| | | Gross Rental Income | | |
| (19,654) | | - Dwelling Rents | | (21,379) |
| (257) | | - Non-Dwelling Rents | | (261) |
| (1,193) | | Charges for Services and Facilities | | (1,259) |
| (56) | | Other Income | | (369) |
| (2,494) | | Pensions Past Service Gain | | 0 |
| (19) | | Increase/Decrease in Prov'n for Doubtful Debts | | 0 |
| (23,673) | | | | (23,268) |
| | | **Expenditure** | | |
| | 5,868 | Repairs and Maintenance | 6,142 | |
| | 4,319 | Supervision and Management | 4,114 | |
| | 0 | Rent, rates, taxes and other charges | 0 | |
| | 6,587 | Housing Revenue Account Subsidy | 7,717 | |
| | 0 | Increase/Decrease in Prov'n for Doubtful Debts | 29 | |
| | 94,004 | Depreciation and impairment of Non-Current Assets | 7,244 | |
| | 23 | Debt Management Costs | 22 | |
| | 37 | Subsidy Limitation - Transfer to the General Fund | 10 | |
| 110,838 | 0 | Self Financing Borrowing | 121,652 | 146,930 |
| 87,165 | | **Net Cost of HRA Services** | | 123,662 |
| 293 | | HRA share of Corporate and Democratic Core | | 296 |
| 87,458 | | **Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement** | | 123,958 |
| (233) | | (Gain)/loss on sale of HRA assets | | (328) |
| (32) | | Other Operating Income (Repaid RTB Discount) | | (10) |
| 114 | | Interest payable and similar charges | | 131 |
| (195) | | Interest and Investment Income | | (174) |
| 364 | | Pension Interest Costs and Expected Return on Assets | | 117 |
| **87,476** | | **(Surplus)/Deficit for the year on HRA services** | | **123,694** |

## MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

| 2010/2011 Net £'000 | | Note | | 2011/2012 Net £'000 |
|---|---|---|---|---|
| (7,678) | Balance on the HRA at the end of the previous year | | | (8,171) |
| 87,476 | (Surplus)/Deficit for the year on the HRA Income & Expenditure Statement | | 123,694 | |
| (88,001) | Adjustments between Accounting Basis and Funding Basis under statute | 8 | (125,003) | |
| (525) | Net (increase) or decrease before transfers to or from reserves | | (1,307) | |
| 32 | Transfers to or (from) reserves | 8 | 67 | |
| (493) | (Increase)/Decrease in year | | | (1,240) |
| (8,171) | Balance on HRA at the end of the current year | | | (9,411) |

## NOTES TO THE HOUSING REVENUE ACCOUNT

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

### Note 1 – Housing Stock

The Council was responsible for managing on average 6,261 dwellings during 2011/2012. The housing stock and changes during the year are as follows:

| **Analysis of housing stock** | As at 1 April 2011 | Additions | Disposals/ Sales | As at 31 March 2012 |
|---|---|---|---|---|
| Rentable Stock | | | | |
| - Houses | 3,445 | - | 7 | 3,438 |
| - Bungalows | 1,514 | - | 1 | 1,513 |
| - Flats | 1,280 | - | 0 | 1,280 |
| Shared Ownership | 26 | - | 0 | 26 |
| **Total** | 6,265 | 0 | 8 | 6,257 |

**Note 2 – Land, Houses and Other Property**

| Analysis of housing fixed assets | Operational Assets | | | Non Operational Assets | Total |
|---|---|---|---|---|---|
| | Dwellings £'000 | Other Land and Buildings £'000 | Vehicles, Plant & Equipment £'000 | Surplus Assets £'000 | £'000 |
| Cost or Valuation at 1 April 2011 | 186,499 | 2,923 | 970 | 679 | 191,071 |
| Additions | 4,244 | 0 | 465 | 0 | 4,709 |
| Revaluation increases/(decreases recognised in the Revaluation Reserve | (19) | 77 | 0 | 0 | 58 |
| Revaluation increases/(decreases recognised in the Surplus/Deficit on Provision of Services | (7,739) | (24) | 0 | (15) | (7,778) |
| Assets reclassified as Held for Sale | (189) | 0 | | | (189) |
| Derecognitions - Disposals | (261) | 0 | (346) | 0 | (607) |
| **Gross Book Value as at 31/3/2012** | 182,535 | 2,976 | 1,089 | 664 | 187,264 |
| **Depreciation & Impairments** | | | | | |
| At 1 April 2011 | (7,240) | (81) | (383) | 0 | (7,704) |
| Charge for 2011/2012 | (2,511) | (91) | (126) | 0 | (2,728) |
| Depreciation written out to the Revaluation Reserve | | 57 | 0 | 0 | 57 |
| Accumulated depreciation and impairment written out on revaluation | 7,368 | 23 | | | 7,391 |
| Impairment losses recognised in the Surplus/Deficit on Provision of Services | (4,244) | | 0 | 0 | (4,244) |
| Derecognition - Disposals | 1 | | 263 | | 264 |
| **At 31 March 2012** | (6,626) | (92) | (246) | 0 | (6,964) |
| **Balance Sheet Amount at 31 March 2012** | **175,909** | **2,884** | **843** | **664** | **180,300** |
| **Balance Sheet Amount at 31 March 2011** | **179,259** | **2,842** | **587** | **679** | **183,367** |

The vacant possession value of dwellings at 1 April 2011 was £520.9m (£531.991m at 1 April 2010). 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 CLG. 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 34%.

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

Due to accounting rules, the Revaluation Reserve was set up with an opening balance of zero at 1 April 2007. The closing position on the Reserve at 31 March 2012 therefore only shows revaluation gains accumulated since 1 April 2007 together with depreciation adjustments to comply with accounting rules. Any revaluation gains (and losses) on non-current assets prior to 1 April 2007 are accounted for in the Capital Adjustment Account.

| 2010/2011 £'000 | **Revaluation & Impairment Losses & Depreciation charged to HRA Income & Expenditure** | 2011/2012 £'000 |
|---|---|---|
| 2,680 | Depreciation | 2,728 |
| 86,644 | Revaluation Loss/(Gain) | 272 |
| 4,685 | Impairment Losses | 4,244 |
| 94,009 | | 7,244 |

**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:

| 2010/2011 | | **Major Repairs Reserve** | 2011/2012 | |
|---|---|---|---|---|
| £'000 | £'000 | | £'000 | £'000 |
| 6,566 | | Opening balance on the Major Repairs Reserve | | 5,348 |
| 2,680 | | Transfer to the Major Repairs Reserve - Capital Adjustment Account | | 2,725 |
| | | Transfer from the Major Repairs Reserve to the Housing Revenue Account | | |
| | (121) | - Non Dwelling depreciation | (208) | |
| 982 | 1,103 | - Shortfall of depreciation on dwellings over Major Repairs Allowance | 1,157 | 949 |
| (4,880) | | Financing of Capital Expenditure | | (4,709) |
| **5,348** | | **Closing balance on the Major Repairs Reserve** | | **4,313** |

**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:

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| | **Expenditure** | |
| 0 | - Land | 0 |
| 4,685 | - Council Dwellings | 4,244 |
| 0 | - Other property | 0 |
| 270 | - Plant and Equipment | 465 |
| 4,955 | **Total** | 4,709 |
| | **Financed from:** | |
| 75 | - Government Grants | 0 |
| 4,880 | - Major Repairs Reserve | 4,709 |
| 0 | - Revenue Contributions | 0 |
| 0 | - Capital Receipts Reserve | 0 |
| 4,955 | | 4,709 |

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 | 0 | 0 | 0 | 0 |
| Sale of Council Dwellings | 621 | (12) | (457) | 152 |
| Repayment of discounts | 10 | 0 | (8) | 2 |
| Mortgage Repayments | 15 | 0 | (11) | 4 |
| Total | 646 | (12) | (476) | 158 |

* 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 2011/2012 is shown below:

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| | **Income** | |
| 19,777 | - Rents | 21,084 |
| 3 | - Interest on Receipts | 3 |
| **19,780** | **Total** | **21,087** |
| | **Expenditure** | |
| 8,909 | - Management and Maintenance Allowance | 8,999 |
| 3,662 | - Major Repairs Allowance | 3,673 |
| 744 | - Capital Charges | 634 |
| 0 | - Additional Self Financing Interest | 43 |
| 0 | - Other Items | 0 |
| **13,315** | **Total** | **13,349** |
| **6,465** | **Housing Subsidy Payable** | **7,738** |

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

| 2010/2011 £'000 | | 2011/2012 £'000 |
|---|---|---|
| (6,465) | Housing Subsidy receivable/(payable) for the year | (7,738) |
| (122) | Prior year adjustment | 27 |
| (6,587) | | (7,711) |

**Note 7 – Pension Costs**

Note 40 to the Core Financial Statements provide a detailed explanation of the accounting requirements for pension costs.

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

| 2010/2011 £'000 | Housing Revenue Account Pension Cost | 2011/2012 £'000 |
|---|---|---|
| | **Net Cost of Services** | |
| 608 | - Current Service Cost | 532 |
| (2,494) | - Past Service Cost/(Gain) | 0 |
| | **Net Operating Expenditure** | |
| 1,409 | - Interest Cost | 1,199 |
| (1,045) | - Expected return on assets in the scheme | (1,082) |
| (1,522) | | 649 |
| | **Statement of Movement of the Housing Revenue Balance** | |
| 1,522 | - Reversal of net charges made for retirement benefits in accordance with IAS19 | (649) |
| | **Actual amount charged to revenue accounts for Pensions in the year** | |
| 596 | - Employers' contributions payable to the scheme | 574 |

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

| 2010/2011 £'000 | Movement on the Housing Revenue Account Statement | 2011/2012 £'000 |
|---|---|---|
| | **Adjustments between Accounting and Funding Basis:** | |
| 1,522 | - IAS 19 | (649) |
| 595 | - Pension Costs Charged to Rent Income | 574 |
| (4,685) | - Non-Enhancing Capital Expenditure | (4,244) |
| 233 | - Gains/losses on disposal of non current assets | 328 |
| (86,650) | - Revaluations | (387) |
| 982 | - Excess of MRA over Depreciation | 949 |
| 0 | - Self Financing Borrowing | (121,652) |
| 2 | - Accrued Employee Benefits | 78 |
| (88,001) | | (125,003) |
| | **Transfers to/from Earmarked Reserves:** | |
| 0 | - Insurance Surplus | 57 |
| 32 | - Transfer to Unapplied Capital Receipts | 10 |
| 32 | | 67 |

**Note 9 – Rent Arrears**

An analysis of rent arrears is shown below:

| 31 March 2011 £'000 | Rent Arrears | 31 March 2012 £'000 |
|---|---|---|
| 427 | Current Tenants | 437 |
| 400 | Former Tenants | 419 |
| **827** | **Gross Rent Arrears** | **856** |
| **(553)** | **Bad Debt Impairment** | **(583)** |

A bad debt impairment has been made in the accounts for potentially uncollectable 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 2011/2012 on average rents increased by 6.67% (a maximum increase of 5.1% 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 comprised of plots, garages, HRA shops and wayleaves. Rent on garages and plots were increased by 4.6% for 2011/2012.

- 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 4.6% for 2011/2012.

- 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 2011/2012 the allowance was £963.39 per property.

| **Repairs and Maintenance** | Original Budget 2011/2012 £ | Revised Budget 2011/2012 £ | Actuals 2011/2012 £ | Subsidy Allowance 2011/2012 £ |
|---|---|---|---|---|
| Expenditure | £6,178,056 | £6,178,056 | £5,828,529 | |
| Number of Properties (as at 1 April 2011) | 6239 | 6239 | 6239 | |
| Average cost per dwelling | £990.23 | £990.23 | £934.21 | £963.39 |

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 2011/2012 the allowance was £473.87 per property.

| **Supervision and Management** | Original Budget 2011/2012 £ | Revised Budget 2011/2012 £ | Actuals 2011/2012 £ | Subsidy Allowance 2011/2012 £ |
|---|---|---|---|---|
| Expenditure | £2,704,574 | £2,704,574 | £2,321,415 | |
| Number of Properties (as at 1 April 2011) | 6265 | 6265 | 6265 | |
| Average cost per dwelling | £431.70 | £431.70 | £370.54 | £473.87 |

(N.B. 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 2012

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

| 2010/2011 £'000 | 2010/2011 £'000 | | 2011/2012 £'000 | 2011/2012 £'000 |
|---|---|---|---|---|
| | | **Income** | | |
| 58,141 | | Council Tax | | 58,777 |
| | | Transfers from General Fund | | |
| 7,204 | | - Council Tax Benefits | | 7,286 |
| 35,109 | | Business Ratepayers | | 37,249 |
| 100,454 | | | | 103,312 |
| | | **Expenditure** | | |
| | | Precepts and demands | | |
| | 49,290 | - Lincolnshire County Council | 49,815 | |
| | 8,292 | - Lincolnshire Police Authority | 8,354 | |
| 65,159 | 7,577 | - South Kesteven District Council | 7,641 | 65,810 |
| | | Business Rates | | |
| | 34,926 | - Payment to national pool | 37,066 | |
| 35,109 | 183 | - Costs of collection | 182 | 37,248 |
| | | Impairments of debts | | |
| 149 | | - Write Offs | | 287 |
| 37 | | - Allowance for impairment | | (68) |
| | | Contributions towards previous years' Collection Fund Surplus | | |
| | 209 | - Lincolnshire County Council | 193 | |
| | 46 | - Lincolnshire Police Authority | 32 | |
| 298 | 43 | - South Kesteven District Council | 30 | 255 |
| 100,752 | | | | 103,532 |
| (298) | | **Movement on Fund Balance** | | (220) |
| 559 | | **Balance at start of year** | | 261 |
| 261 | | **Balance at end of year, before allocation** | | 41 |
| | | **Allocations** | | |
| (198) | | - Lincolnshire County Council | | (31) |
| (33) | | - Lincolnshire Police Authority | | (5) |
| 30 | | **Balance at end of year (applicable to this Council)** | | 5 |

## 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, £1,396.53 (2010/2011 £1,396.44), 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 | 15003.75 | 6/9 | 10002.5 |
| B | 11774.75 | 7/9 | 9158.1 |
| C | 9490.00 | 8/9 | 8435.6 |
| D | 7919.50 | 9/9 | 7919.5 |
| E | 4814.00 | 11/9 | 5883.8 |
| F | 2433.00 | 13/9 | 3514.3 |
| G | 970.50 | 15/9 | 1617.5 |
| H | 62.25 | 18/9 | 124.5 |
| Band A entitled to Disabled Relief Reduction | 28.00 | 5/9 | 15.6 |
| | | | 46671.4 |
| Ministry of Defence Properties | | | 63.0 |

### 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 2011/2012 there are two multipliers, the small business non-domestic rating multiplier of 42.6p and the non-domestic rating multiplier of 43.3p. 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 2012 was £101.937m (31 March 2011 £101.205m).

**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:

| | 2011/2012 £'000 |
|---|---|
| Lincolnshire County Council | 31 |
| Lincolnshire Police Authority | 5 |
| South Kesteven District Council | 5 |
| | 41 |

**Note 5 – Significant Precept or Demand on the Fund**

| | 2011/2012 £'000 |
|---|---|
| Lincolnshire County Council | 49,815 |
| Lincolnshire Police Authority | 8,354 |
| | 58,169 |

**SOUTH KESTEVEN DISTRICT COUNCIL**
**ANNUAL GOVERNANCE STATEMENT 2011/2012**

## Introduction

The Council is committed to ensuring good governance principles and management practices are adopted throughout the Council. This Annual Governance Statement (AGS) conforms with the governance requirements of the CIPFA Statement on the Role of the Chief Financial officer in Local Government as set out in the Application Note to the "Delivering Good Governance in Local Government: Framework" and meets the statutory requirement set out in Regulation 4(3) of the Accounts and Audit (England) Regulations 2011.

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 into account reports by Internal Audit together with a wide range of external sources, including the Audit Commission's Annual Audit Letter and Annual Governance Report that feature the results of the annual audit of the accounts and the Council's arrangements for securing value for money in its use of resources. The statement has also been prepared by taking into account assurances from both Heads of Service and Service Managers from across the organisation together with regular reviews of risk management. In preparing this statement account has been taken of both the statutory codes and the ethical governance tool-kit produced by the IDEA[1] 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 Council and outcomes for the community and creating and implementing a vision for the local area
- 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

[1] IDEA – Improvement and Development Agency

- 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 has approved and adopted a Local Code of Corporate Governance the most recent version was reviewed, updated and approved by the Governance and Audit Committee at its meeting on 29th June 2012. The 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 Council is directed and controlled and through which it accounts to, engages with, and leads the community. It enables the Council to monitor the extent to which it has delivered on its corporate priorities and to consider whether this has led to the delivery of appropriate cost-effective services.

The Council's system of internal control is a significant part of that 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 2012 and continues to be in place up to the date of the approval of the Statement of Accounts.

## The Governance Framework

During the year the Council has realigned it visions and priorities for the future by establishing a 2021 vision for South Kesteven which is a place that has vibrant communities where people want to live, work and invest (healthier, wealthier, happier, safer people). Underpinning the Councils vision is the new corporate plan for 2011-15 which was approved by Council at its meeting on 3rd March 2012 and provides the strategic direction over the coming years.

Putting customers at the heart of all we do is the focus of the Council's priorities which encompass 4 themes: Grow the Economy, Keep SK Clean, Green and Healthy, Promote Leisure, Arts and Culture and Support Good Housing for All. These 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 we focus on creating the right environment to deliver the Councils vision which is all underpinned by the ethos of a Well Run Council.

Progress against these priorities is monitored by both the Cabinet and the Management Team, through a process of regular monitoring and reviewing key performance measures and data. A Programme and Performance board has been established, strengthening performance management for all Council activities. This will take ownership for the achievement of the Business Transformation Plan objectives, and will also address the Corporate Priority Programme as it progresses. Governance arrangements have been developed to ensure that the necessary controls and assurance processes are in place to support successful delivery of the Programme. The Programme and Performance Management Office (PMO) provides monitoring, control and reporting across the programmes of activity

The Council publishes an Annual Review which provides an overall view of performance. Feedback on the report is encouraged and the form and content is changed taking into account the needs of local residents. In addition, a summary of accounts is produced annually that is simple for residents to understand.

**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 new Corporate Service Plans. Satisfaction surveys are undertaken by key services following the provision of services. In the preparation of the corporate service plans, Head of Service and Service Managers have established a key number of value for money monitor the efficiency of service delivery. Alongside this all service areas have undertaken Equality Impact Assessments on delivery of their services with high impact customer focused areas having been through a peer challenge undertaken by the Community Focus Forum. The Council has also been through a self assessment and peer challenge were it successfully gained an *achieving* level standard as set out in the Equality Framework for Local Government.

The Council also has in place a customer feedback process which monitors the level of both positive and negative comments from residents in the delivery of council services. This is tracked through the corporate performance management system in order to provide meaningful data to the management team. The added benefit of using this system is to identify common themes, specific areas of improvement but to also celebrate success in the positive way we do things. During 2012/13 the Council is looking to enhance and compliment this through the development of an over arching Customer Access Strategy.

The budget process for 2012/13 built on the detailed public consultation undertaken during 2010 and was supplemented by community drop in sessions during the early part of 2012 which was designed to establish the areas that local people were most likely to agree to service changes should the need arise. This also gave the Council important and detailed information on what services were most valued by its customers. As a result of the listening to residents feedback when formulating the councils plans the ‘Cleaner, Greener, Safer’ campaign came out as a key focus area which has subsequently become one of our four key priorities under the ‘Keep SK Clean, Green and Healthy’.

Against the background of the economic downturn, recession and the increasing demand for its services, the financial position of the Council remains challenging. Following the 2010 Comprehensive Spending Review, the Council suffered a significant reduction in central government funding together with a reduction in income from fees and charges and growth in costs in some areas. In addition, the impact of the economic climate continues to place a higher demand on particular services in relation to social care and well being, specifically benefit advice and support and homelessness. Despite this and the prospect of further cuts in government funding in future years with the proposals around Business Rate retention and Universal credit, the Council is doing everything it can to continue to provide high quality services to local residents whilst maintaining a sound financial base. For 2012/13, a balanced budget was achieved with zero council tax increase (for the second year in a row) and no reduction in the level or quality of services.

According to the Audit Commission in its 2010/11 Annual Audit Letter published in December 2011, “the Council has demonstrated leadership in a difficult economic climate and has responded positively to the Comprehensive spending review. The financial resilience is robust and has taken appropriate action through the year to maintain an appropriate medium term financial plan.”
Despite a large cut in the Councils grant from central government the Council has been working hard to minimise the impact on local people through a carefully managed programme of spending reduction. There have been substantial changes to the way we operate, streamlining management and ‘back office’ costs, as well as delivering services differently, including joining up with the other councils to share management

expertise. The regeneration of our towns (growing the economy) continues to be an important focus with over £5m being allocated to redevelopment of projects within Grantham and Bourne. Some of our key achievements are:

- Improved street and environmental cleanliness
- 96% of Council homes are now classed as meeting decent standard which exceeded the target for the year and was a 5% improvement on the previous year.
- 94% of customers are now seen within 10 minutes of their appointment time.
- All levels of planning applications have seen a significant increase in their processing times compared to 2010/11
- Over 387,000 people visited the council's website during 2011/12 which was a 74% increase on the previous year.
- There has been a 6.5% increase in the number of visitors to the councils leisure centres
- A survey of leisure centre users found that 95% are satisfied with their facilities
- Nearly 90% of all local suppliers are paid within 10 working days which again is an improvement when compared to 2010/11

The Council has established an ambitious Corporate Plan which sets out our Strategic direction over the coming years and reflects the four focus priorities areas. A copy of the corporate is available on our website at www.southkesteven.gov.uk. We will also continuously monitor our progress against delivery to ensure ongoing service quality and value for money in the delivery of local services. In order to support the successful achievement of our ambitions the Councils has strengthened its performance management framework through the establishment of a Performance Programme Board.

*Value for Money*

During 2011, the Audit Commission assessed the Council's corporate arrangements and concluded that, overall, the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. More specifically, it reported that the Council:

- Have a history of good financial controls and have maintained these arrangements
- Demonstrated leadership in a difficult economic climate and responded positively to the Comprehensive Spending Review
- Has a clear understanding of the financial position and a number of cost saving initiatives have been successfully implemented
- Has significant reserves in place to help it deliver its plans
- The medium term financial plan is in line with Councils Strategy
- Understands the impact of reductions in government funding and has plans in place to respond
- Resources are prioritised in line with the vision, using consultation and reporting
- Benchmarking data shows South Kesteven to be a low cost council
- Decision making is underpinned by good financial information and reporting
- Works well in partnership and is exploring new ways to help meet the future funding gaps

The Council has plans in place to secure continuous improvement in all these areas. It is tackling the issues that local people recognise as priorities and has plans in place for improving services and performance that are actively monitored. As part of the new corporate service plans developed by Heads of Service these contain VFM indicators to measure the efficiency of service areas. Performance and progress is also monitored in monthly one to ones meetings between each Head of Service and a Strategic Director.

Alongside the performance measures outlined in the corporate service plans a suite of performance measures are also being collated as part of the SK Business Plan which is being developed and are aligned to each of the priorities they will be used monitor our performance to ensure our direction of travel is moving positively towards improving our district. The Council's Corporate Performance Management system is being effectively used as a tool to manage performance data; risk; and the project management of key projects.

**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. There is a specific area on the council's website on 'becoming a councillor' which contains information on what they do and the role of councillors in general.

**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 currently monitored by the Standards Committee. With the announcement that the Standards Board regime is to be abolished during 2012 (although we are still awaiting the final details regarding regulations etc), the Council will ensure appropriate arrangements are put in place at a local level to maintain high levels of conduct and ethical behaviour amongst its members. This includes adopting a new code of conduct which is consistent with the 7 principles of standards in public life and the introduction of 'Disclosable Pecuniary Interests'.
The Council has approved and adopted a Local Code of Corporate Governance. The most recent version was reviewed, updated and approved by the Governance and Audit Committee at its meeting in June 2012.

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

The Council's Constitution is reviewed and updated to ensure it remains fit for purpose and reflects legislative change, etc. Various amendments have been considered and approved by the Council based on the recommendations of the Constitution Committee. In April 2011, the Committee considered a number of amendments to the terms of reference of the Governance & Audit Committee. These were approved by Council in May 2011.

The Council's Financial Regulations are regularly reviewed and updated by the Head of Finance to ensure they remain fit for purpose. These were updated during the course of 2011 with the proposed amendments being endorsed by the Governance and Audit Committee prior to formal sign off by Council at its meeting on the 20th October 2011.

During 2011/12 the council also took the opportunity to update its Contract and Procurement Procedure Rules to ensure they were in line with current best practice and supported the Council in making efficient and effective procurement decisions. Again these proposed amendments were endorsed by the Governance and Audit Committee prior to formal sign off by Council at its October 2011 meeting.

Both of the polices reviewed above were rolled out to the relevant officers via the councils corporate policy management software.

**Ensuring the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)**

The Council's financial management arrangements complied in all respects with the governance requirements of the above Statement. In particular:

- the role of the Chief Financial Officer (CFO) was undertaken by the Strategic Director – a professionally qualified accountant with direct access to the Chief Executive, Leader of the Council and other Cabinet Members. They also have direct access to the Governance and Audit Committee and external audit

- through the Head of Finance, who is also a professionally qualified accountant, the CFO has a line of professional accountability for all finance staff and the finance function is fit for purpose
- the Council has established robust arrangements to manage its finances, including, a Medium Term Financial Plan, annual budget process and compliance with CIPFA's Codes and Guidance on a Prudential Framework for Capital Finance; Treasury Management; and the management of reserves, etc.
- the Council maintains an effective internal audit service and an effective risk management system is in place

**Undertaking the core functions of an 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 CIPFA[2]. The key areas covered by the committee's terms of reference are Audit Activity; Risk Management, Governance, Regulatory Framework; Accounts and Financial Reporting; and Ombudsman. More recently, further amendments to the terms of reference were approved by Council in May 2011 in order to bring them into line with best practice and the Council's developing needs. These included:

- The committee, led by the chairman may request private meetings with both the internal and external auditors (a private meeting with Internal Audit was held in December 2011)
- Incorporate the changes regarding the Bribery Act 2010 as part of its Counter Fraud remit
- Review an annual report for Health & safety, Business Continuity and partnerships.
- To produce a Chairman's Annual Report on the activities of the Committee and present to Council (this was presented to Council at its meeting on 3rd May 2012)
- To consider the outcome of a self-assessment of the effectiveness of the Committee's work (at least bi-annually)

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 line with its revised terms of reference, members of the Committee have also received training during the course of the year in specific areas, including treasury management, risk management and counter fraud.

At the meeting of Council in May 2012, members considered the Chairman of the Committee's Annual Report on the key outcomes arising from the work of the Governance and Audit Committee for 2011/12. Members acknowledged that these outcomes had helped to improve and strengthen the Council's overarching control environment and governance arrangements. In line with best practice and to ensure that Members become better informed and therefore engaged with the work of the Committee, an indicative annual work plan and timetable was also presented to Council in May 2011. It was also noted by the Audit Commission in their Annual Governance Report that the Governance and Audit Committee provides robust challenge of financial assumptions and plans.

**Compliance with laws, regulations and internal policies and procedures**

Matters arising in respect of Governance regularly received and discussed with senior offices fo the council at its management team meetings. Reports to Council, Cabinet, Policy and Development Groups, Governance and Audit Committee, Scrutiny Committee and Portfolio holders for non key decisions contain comments from Legal & Democratic Services and from Financial Services. Reports are also reviewed for compliance with internal policies. The Member Report Template for key and non-key decisions is regularly reviewed and updated to ensure it remains fit for purpose.

The Council has procedures in place to identify and implement new and changing legislation. More specifically, changes to policies and procedures as a result of the Localism Act (2011) are being closely monitored at service and corporate level which actions being taken to implement the requirements. These include the publishing of a pay policy statement and the abolition of the Housing Revenue Account (HRA).

[2] Audit Committees – Practical Guidance for Local Authorities published 2005

Service managers and corporate heads have continued to complete Quarterly Assurance Statements in relation to the effectiveness or otherwise of the systems and controls in operation on a day to day basis. The outcomes of these are discussed in the monthly one to one meetings with heads of service and strategic directors. Where required these will escalated to management team by exception.

**Whistle-blowing and Investigating complaints from the public.**

The Council's Counter Fraud, Corruption & Bribery Framework was reviewed, updated and approved by the Governance & Audit Committee in March 2011 with specific reference to the new requirements relating to the Bribery Act 2010 and the addition of a fraud response plan. This incorporated the following 5 key elements:

- Seven principles of public life
- Whistle-blowing Policy
- Housing Benefit & Council Tax – Counter Fraud Policy
- Fraud Response Plan
- Anti-Money Laundering Policy (revised June 2009)

The Council's whistle-blowing policies and any complaints from the public regarding governance matters are considered, where appropriate, by the Management Team. Training is provided as part of the Induction programme for new employees on Counter Fraud and Whistle blowing. The latest version of the framework was rolled out to all staff via the council's policy management software to ensure they have been read and understood.

During 2011/12, the Council completed the implementation of the final recommendations arising from a fraud thematic review previous undertaken by internal audit which showed that compared to good practice, the Council's arrangements are sound. They also suggested areas which the council look at which would strengthen further the current arrangements, including fraud awareness. This was achieved through the launch of a new intranet site specified focused on Governance and Risk issues and in particular a whole section around Counter Fraud.

The Council 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.

A range of customer information is produced, including the level of customer feedback received in connection with various services in order that issues of concern can be addressed and lessons learnt. The number of enquiries and complaints received by the Ombudsman has fallen to a relatively low level in recent years of which the last report stated there were no findings of maladministration. There has also been a marked improvement in response times with the Council recognising that it needs to do all that it can to ensure enquiries are dealt with efficiently and effectively and complaints resolved as quickly as possible.

**Training for members and senior officers**

During 2011/12 relevant members of Council Committees have attended training courses that deal with corporate governance as well as other corporate issues. The Council has recognised that it is important to ensure that all Members are actively engaged in helping to improve and strengthen the Council's governance arrangements in all areas of their work for the local community. In May 2011 the council saw an influx of new members following the elections which required them to undertake core mandatory training as part of their new roles and also induction training for the 24 newly elected members

The training needs of all employees are formally assessed through their Performance Development Reviews with specific training has been provided for officers in respect of risk management and understanding the governance framework.

**Communication and consultation**

Under the Localism Act (2011), there is a greater requirement for consultation and engagement with local communities. One of the main provisions resulting from the act is the ability for the public to require a local referendum to be held on any issue that they thought important, specifically around Council Tax increases.

The Council is already committed to consulting and engaging with the local community and has a Consultation Strategy and toolkit in place to facilitate this. There is a clear framework for consulting with its communities through resident drop in sessions held during the year which have also been supplemented by specific consultation events on key issues such as the Southern Quadrant. There are also various community events which the Council attend to provide an opportunity to engage with residents which are all outlined in the councils Consultation Calendar.

Following the call on local authorities to provide greater openness and transparency, all elements of the transparency agenda, including the publishing of payments to suppliers over £500, member's allowances and headcount of staff are now published on the website each month so that the public can access the information.

The Council's newspaper "SK Today" is the principal method for communicating with the Council's 131,200 residents on the roles and responsibilities of the Council. According to the Audit Commission, the Council communicates well with residents, as it uses consultation with stakeholders to prioritise resources in line with South Kesteven vision. Telephone answering has improved with more calls being answered with 28 seconds by staff thanks to targeted training which has meant the customer services team answered over 162,000 calls. A joint customer access point is being set up with partners in Bourne which will provide customers with a range of council services alongside the County Council and Town Council.

The Council's improved communications with tenants has been maintained and the resident involvement strategy has been updated. Involvement of all individuals is monitored and check against base line tenant data to ensure they are representative and any under-represented groups are identified and targeted to ensure that there is a fair access for all customers. No barriers to involvement were identified in a recent equality impact assessment. Work is ongoing to comply with the localism act and tenant scrutiny obligations and increase on-line remote accessibility.
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. It will also continue to improve the way information is made more accessible to customers by developing its website publication scheme and consulting on the form and content of the information provided.

**Governance arrangements for partnerships**

The Council has participated in a number of partnerships aimed at improving the services it provides to the community such as the South Lincolnshire Community Safety Partnership, Grantham Growth Point and Town Centre Management Partnerships.

The Council has incorporated the impact of joint plans and partnerships within the Medium Term Financial Plan (MTFP) which was reviewed as part of the 2012/13 budget setting process.

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 Protocol on Partnerships was approved by the Governance and Audit Committee and adopted in December 2008.

The Council routinely reviews the performance of partnerships to ensure that they are achieving their aims and objectives but further work is required to ensure they are providing good value for money and remain fit for purpose. The Lincolnshire Bridge partnership tool is used for assessing partnerships and the Council produces an annual report on the performance of partnerships, including an action plan.

The Council has in place procedures for assessing the risks of partnerships, including the compilation of joint plans and joint risk registers. Following a recommendation by Internal Audit the Council also

strengthened its reporting arrangement on partnerships with the production of a Partnerships Annual Report. This was reviewed by Governance and Audit Committee at its meeting on the 30th June 2011.

With the gradual introduction of Local Enterprise Partnerships, some of the Council's partnership arrangements may be subject to change. Governance, performance reporting, data quality and information sharing for significant partnerships will continue to be reviewed in light of future requirements.

**Internal and External Audit**

During 2011/12 External Audit relied upon the work of Internal Audit in respect of Non-domestic Rates, council Tax and Housing Benefit in order for them to place reliance on these key financial systems. As in previous years, it is expected that they will be able to place full reliance on the work of internal audit and any recommendations made by the Audit Commission will be consistent with those made by internal audit.

New arrangements for the recording, tracking and follow-up of internal audit recommendations have been introduced through the implementation of a recommendation tracking software. This has facilitated more accurate monitoring and reporting of the progress made by service managers in implementing audit recommendations. It is also used by our Internal Auditors to support a more efficient follow up review process with service areas.

The Council has responded to the Government's Consultation Paper on the future of local public audit following the planned abolition of the Audit Commission in 2012/13. Members of the Governance and Audit Committee have been kept informed of developments throughout the year and were also involved in the formulating the consultation response.

In January 2012 DCLG published the government's response to the consultation, which confirmed there was still some further work to do in a number of areas. In the Queen's Speech in May 2012 the government confirmed its intention to publish a draft Bill on the future arrangements for local public audit for further scrutiny and comment. The draft Bill will outline how the current audit regime and the Audit Commission will be replaced.

In July 2011 DCLG confirmed their preference for transferring the Audit Commission's in-house Audit Practice to the private sector by outsourcing contracts. Subsequently a procurement exercise has been undertaken which means all of the Commission's in-house work will be outsourced in time for the audit of 2012/13 accounts.

**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 revised and updated and approved by the Governance & Audit Committee in June 2012.

There are risk registers in place for corporate, 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 June 2012 together with an updated version of the Corporate Risk Register. This report details the activity undertaken and provides a summary of the direction risk management will take for the financial year 2011/12. The committee also received regular updates on risk management during the course of the year

During 2011/12 the risk management group met on a number of occasions with discussions focusing on implementing the Risk Management Road Map covering areas such as corporate risk intelligence and prioritisation, benchmarking and maintaining the service risk profile.

The Council has a service level agreement (SLA) with the Lincolnshire County Council Emergency Planning Unit for the provision of an emergency planning service; this provides the council with a dedicated officer who carries out Emergency Planning and Business Continuity work. The SLA also makes provisions for the

support of the County Emergency Planning Team during emergencies and exercises, including gold standard training for strategic level officers.

No significant Business Continuity or Declared Emergency incidents arose during the year 2011/12 During 2012/13 there is a focus on ensuring service managers are committed to the continual review of their business plan. Business Continuity plans are currently being reviewed to ensure that the council is able to respond in the event of an incident. The councils Emergency Plan has also recently been reviewed and updated and is due to be issued in June 2012. During the course of the year a Business Continuity Annual Report was presented to the Governance and Audit Committee at its meeting on the 30th June 2011.

**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, 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 | o Approve Constitution including Codes of Conduct;<br>o Approve the budget and policy framework |
| Cabinet | o Priority setting in line with the council's vision and recommending the budget proposals to council that underpin their delivery.<br>o Financial, performance and risk management of service delivery within the Budget and Policy Framework set by Council<br>o At least monthly public meetings<br>o Monthly briefings and development days |
| Governance and Audit Committee | o Five scheduled meetings per annum to:<br>o review Financial Regulations and Contract Procedure Rules<br>o 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<br>o review the arrangements for managing risk throughout the Council<br>o scrutinise and approve the Financial Statements on behalf of the Council |
| Scrutiny Committee | o To provide a "critical friend" challenge to the Executive as well as external authorities and agencies<br>o To reflect the voice and concerns of the public and its communities |
| Standards Committee (subject to change following announcement of abolishment during 2012/13) | o Consider allegations of breaches to the Member Code of Conduct<br>o Undertake the statutory functions of the Standards Committee as set out in the Local Government Act 2000 |

| | |
|---|---|
| Strategic Director (s151 Officer) and Head of Finance (Deputy s151 Officer) | ○ Overseeing financial strategy and operations and contributing to the effective corporate management and governance of the Council |
| Internal Audit | ○ Set overall internal audit strategy to meet the Council's overall strategic direction<br>○ Undertake an annual programme of audits<br>○ Present progress reports against the plan<br>○ Make recommendations for improvement in systems and controls and value for money |
| Management Team | ○ Monthly review of budget, performance and risk management<br>○ Consider issues arising out of:<br>  ○ the assurance statements<br>  ○ review of risk registers |
| Performance and Programme Board | ○ Monthly review of projects including:<br>  ○ Progress against milestones<br>  ○ Resource allocation<br>  ○ Risks<br>  ○ Performance measures<br>○ Evaluation of new and emerging projects |
| Risk Management Group | ○ Officer meetings (membership drawn from service areas) to review operational risks and business continuity |
| Service Managers & Heads of Service | ○ 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) of the issues highlighted in his Annual Report to the Governance & Audit Committee in June 2012.

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 2012 comprising 19 reviews (plus 6 advisory reviews and 4 follow-up reviews. Overall, this resulted in 14 'Substantial' assurance opinions (green) and 5 'Reasonable' assurance opinions (amber-green). From the 19 reports a total of 63 recommendations were put forward of which all were accepted by management.

Accordingly, based on the work undertaken, the HIA opinion regarding the adequacy and effectiveness of the Council's arrangements for governance, risk management and internal control is as follows:

- **Governance** – the Council received effective assurance in relation to its governance arrangements as only 3 'low' recommendations were identified as part of the committee and reporting structure review. In addition, the assurance opinion on governance is assessed according to the extent to which recommendations are accepted and implemented by management. During 2011/12 the council has continued to make progress to implement the recommendations made by internal audit.
- **Risk Management** – the Council received effective assurance. An advisory Risk Maturity review was undertaken which resulted in no recommendations being made with the key findings showing the Council is achieving Risk Managed Status.
- **Control** – based on the 19 reviews undertaken of the control environment, the Council received effective assurance overall. More specifically, this resulted in 14 positive assurance opinions and no negative assurance opinions. Compared to the previous year which had 2 'no' assurance and 3 with only 'some' assurance opinions the HIA has recognised the marked improvement made during 2011/12

The HIA also commented on their satisfaction with the support given by the Council to internal audit in order to allow then to deliver the plan and provide their overall formal opinion which they have granted permission to use within this AGS.

**Other Issues**

In addition, the review underpinning this Governance Statement has identified the following key areas for improvement and these will be addressed during 2012/13. Accordingly, there is a need to:

- Keep under review the relationship between performance and costs as part of Medium Term Financial Planning and further potential cuts in Government grant funding.
- Further improve the procurement of goods and services in accordance with the Council's contract procedure rules and through engagement with Procurement Lincolnshire on the delivery of their 2012/13 work plan.
- Strengthen the links between the overarching corporate plan and service delivery plans with the development of an annual South Kesteven Business Plan to support officers internally in delivery of the required outcomes.
- Further improve the learning and development of members and staff - linked to corporate priorities and staff roles in the 'unlocking their potential' programme.
- Continue to improve and strengthen the engagement and service delivery models to meet customer demand and expectation through the development of a customer access strategy.
- Take into account and respond to the outcome of the review on the Local Code of Corporate Governance which is currently being undertaken by CIPFA.
- Improve the arrangements for tackling fraud by engaging with the Fighting Fraud Locally initiative which has been developed through a Local Government Fraud Strategy.
- Keep under review the issues flowing from the Localism Act and consider the impact on the Council's policies and procedures
- Keep under review the proposed changes featured in the Government's Consultation Papers on Localisation of Business Rates and Universal credit.

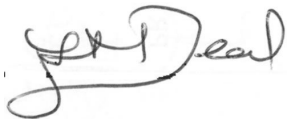
- Continue to monitor the outcomes of the Future of public audit requirements following the abolition of the Audit Commission

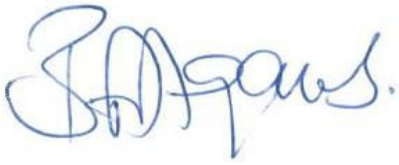
**Our commitment to continuous improvement**

The challenges and changes faced by the Council over the next few years will require the maintenance of sound and effective governance arrangements. The overarching assurance framework, including the Governance & Audit Committee is working well but improvements can still be made to further enhance and mitigate the risks of further significant change and uncertainty.

Against this background, 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:**  **B. Agass, Chief Executive**

## GLOSSARY OF TERMS

**Accounting Period**

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

**Accounting Policies**

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

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

**Accrual Concept**

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

**Actuarial Gains and Losses**

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

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

**Amortisation**

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

**Annual Governance Statement**

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

**Asset**

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

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

**Audit of Accounts**

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

**Bad Debt**

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

**Balance Sheet**

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

**Budget**

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

**BVACOP**

The CIPFA Best Value Accounting Code of Practice 2010.

**CAA**

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

**Capital Charges**

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

**Capital Expenditure**

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

**Capital Receipts**

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

**Carrying Amount**

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

**Cash Flow Statement**

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

**CIES**

Comprehensive Income & Expenditure Statement

**CIPFA**

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

**Code (the)**

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

**Collection Fund**

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

**Community Assets**

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

**Current Service Cost**

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

**Curtailment**

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

**Contingent Liabilities**

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

**Council Tax**

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

**Creditors**

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

**Current Liabilities**

Amounts payable that become due during the next financial year.

**DCLG**

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

**Debtors**

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

**Deferred Charges**

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

**Deferred Credits**

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

**Deferred Grants**

Amounts received or receivable that has been used to finance capital expenditure. Under the capital accounting arrangements, those amounts will be released to offset depreciation in respect of the non-current assets to which they relate.

**Depreciation**

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

**Emoluments**

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

**Earmarked Reserves**

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

**Expected Rate of Return**

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

**Explanatory Foreword**

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

**Finance Leases**

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

**Financial Year**

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

**FRS**

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

**General Fund**

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

**GGD**

Government Grants Deferred. These were grants relating to capital items that were held on the Balance Sheet and released throughout the life of the asset to offset amounts charged as depreciation. This accounting entry is no longer required under IFRS and such grants are now accounted for in the Comprehensive Income & Expenditure Statement when they are received.

**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.

**IAS**

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

**IFRS**

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

**Income**

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

**Impairment**

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

**Intangible Assets**

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

**Interest on Pension Scheme Liabilities**

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

**Investments**

Cash deposits with approved institutions.

**Key Prudential Indicator**

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

**Liability**

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

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

**Long Term Debtor**

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

**Materiality**

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

**Minimum Revenue Provision**

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

**MIRS**

Movement in Reserves Statement

**MRA**

Major Repairs Allowance. Funding from central government to support major improvements to the Council's housing stock.

**Net Book Value**

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

**Non Distributed Costs**

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

**Non Domestic Rates**

Tax charged on the rateable value of non-domestic properties (business properties). The rate of tax is set by the Government. The proceeds are pooled nationally and are redistributed on the basis of a fixed amount per head of population.

**Non-Exchange Transactions**

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

**Non-Operational Assets**

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

**Operational Assets**

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

**Operating Leases**

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

**Past Service Cost**

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

**Pension Fund**

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

**Performance Management**

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

**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.

**PPE**

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

**Precepts**

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

**Provisions**

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

**PWLB**

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

**Related Party Transactions**

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

**Reserves**

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

**Revaluation Reserve**

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

**Revenue Expenditure**

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

**Revenue Expenditure Funded from Capital Under Statute**

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

**Revenue Support Grant**

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

**SeRCOP**

The Service Reporting Code of Practice.

**Treasury Management**

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

**UK GAAP**

United Kingdom Generally Accepted Accounting Practice. The rules under which our Statement of Accounts was prepared prior to the change to International Financial Reporting Standards.

RSM Tenon

SOUTH KESTEVEN DISTRICT COUNCIL

# Internal Audit Progress Report (2012/13)

Governance and Audit Committee Meeting – 25th September 2012

Agenda Item 9

RSM Tenon

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The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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# 1. INTRODUCTION

1.1 The periodic internal audit plan for 2012/13 was approved by the Governance and Audit Committee on the 15th March 2012. 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 six reports relating to the 2012/13 audit plan; these are in the areas of:

- **Leases;**
- **Asset Management;**
- **Corporate Governance;**
- **Creditors & Procurement;**
- **Repairs; and**
- **Follow-Up (2)**

2.2 The Follow Up (2) report is being presented to Members as a separate agenda item.

# 3. WORK IN PROGRESS OR PLANNED

3.1 There are currently two reports out in draft and awaiting management response, which relate to the Rent Collection & Arrears and Debtors reviews. The fieldwork has just been completed for a further three reviews; being Council Tax, Housing Benefit and NNDR There are a further 13 reviews planned to take place before the financial year end of 31st March 2013. Details are shown in Appendix A.

# 4. FINDINGS FROM INTERNAL AUDIT WORK

4.1 We have raised 27 recommendations across the two reviews that are being presented to this committee; six recommendations have been classified as 'High' Risk; 14 recommendations have been classified as 'Medium' risk and the remaining seven recommendations have been classified as 'Low' risk. Details of the key findings are shown in Appendix B.

# 5. LIAISON WITH MANAGEMENT

5.1 Meetings are held with the Head of Finance, Finance Support Manager (Finance & Risk) and the Governance & Risk Officer on a regular basis, as well

as other senior management to discuss the progress of the internal audit work.

## 6. CHANGES TO OUR PLAN

6.1 We have recently undertaken an audit on the responsive repairs process and procedures for which seven days have been taken out of the contingency budget, the findings of which are being presented to this Committee. In addition, we plan to review the potential fire risk at Council owned properties which is scheduled to take place week commencing 01/10/12. A total of three days from the contingency budget will be used for this review.

# APPENDIX A: OPERATIONAL PLAN PERFORMANCE 2012/13 – CURRENT REPORTS

Detailed below is a summary of the work undertaken in 2012/13 to date, showing the levels of assurance given and the number of recommendations arising. Reports being considered at this Committee are shown in ***bold and 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 & Audit Committee | Audit approach | Audit Days | Assurance level given | Number of Recommendations Made | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | High | Medium | Low | In Total | Agreed |
| **Current Reports** | | | | | | | | | | | | | | |
| ***Leases*** | ***11/06/12*** | ***14/06/12*** | ***27/06/12*** | ***14/08/12*** | ***23/08/12*** | ***Sept 2012*** | ***Risk Based*** | ***6*** | ***RED*** | ***3*** | ***3*** | ***0*** | ***6*** | ***6*** |
| ***Asset Management Plan*** | ***16/07/12*** | ***20/07/12*** | ***31/07/12*** | ***28/08/12*** | ***29/08/12*** | ***Sept 2012*** | ***Risk Based*** | ***6*** | ***GREEN*** | ***0*** | ***0*** | ***2*** | ***2*** | ***2*** |
| ***Corporate Governance*** | ***23/07/12*** | ***26/07/12*** | ***30/07/12*** | ***14/08/12*** | ***29/08/12*** | ***Sept 2012*** | ***Risk Based*** | ***6*** | ***GREEN*** | ***0*** | ***1*** | ***0*** | ***1*** | ***1*** |
| ***Creditors & Procurement*** | ***30/07/12*** | ***03/08/12*** | ***08/08/12*** | ***05/09/12*** | ***06/09/12*** | ***Sept 2012*** | ***Risk Based*** | ***7*** | ***GREEN / AMBER*** | ***0*** | ***2*** | ***3*** | ***5*** | ***5*** |
| ***Follow Up (2)*** | ***14/08/12*** | ***16/08/12*** | ***29/08/12*** | ***07/09/12*** | ***10/09/12*** | ***Sept 2012*** | ***Follow Up*** | ***4*** | ***GOOD PROGRESS*** | ***0*** | ***2*** | ***0*** | ***2*** | ***2*** |
| ***Repairs*** | ***23/07/12*** | ***01/08/12*** | ***09/08/12*** | ***06/09/12*** | ***11/09/12*** | ***Sept 2012*** | ***Risk Based*** | ***7*** | ***RED*** | ***3*** | ***6*** | ***2*** | ***11*** | ***11*** |
| Elections | 28/05/12 | 31/05/12 | 11/06/12 | 25/06/12 | 26/06/12 | July 2012 | Risk Based | 6 | GREEN | 0 | 0 | 4 | 4 | 4 |
| Licensing | 11/06/12 | 15/06/12 | 21/06/12 | 04/07/12 | 06/07/12 | July 2012 | Risk Based | 6 | GREEN | 0 | 1 | 0 | 1 | 1 |
| Contract Management – Ground & Tree Maintenance | 30/04/12 | 11/05/12 | 21/05/12 | 12/06/12 | 13/06/12 | June 2012 | Risk Based | 7 | RED | 2 | 2 | 6 | 10 | 10 |
| Follow Up (1) | 08/05/12 | N/A | 15/05/12 | 30/05/12 | 30/05/12 | June 2012 | Follow Up | 4 | GOOD PROGRESS | 0 | 3 | 0 | 3 | 3 |
| Advisory Reviews | - | - | - | - | - | - | - | 10 | - | 0 | 6 | 17 | 23 | 23 |

| Auditable Area | Start Date | Debrief date | Draft report issued | Responses received | Final report issued | Governance & Audit Committee | Audit approach | Audit Days | Assurance level given | Number of Recommendations Made | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | High | Medium | Low | In Total | Agreed |
| Management | - | - | - | - | - | - | - | 5 | - | - | - | - | - | - |
| | | | | | | | ***Sub total*** | ***74*** | | ***8*** | ***26*** | ***34*** | ***68*** | ***68*** |

| Auditable Area | Start Date | Debrief date | Draft report issued | Responses received | Final report issued | Governance & Audit Committee | Audit approach | Audit Days | Assurance level given | Number of Recommendations Made | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | High | Medium | Low | In Total | Agreed |
| ***Work in progress or yet to start (including reports still in draft)*** | | | | | | | | | | | | | | |
| Debtors | 13/08/12 | 16/08/12 | 29/08/12 | | | | | (6) | | | | | | |
| Rent Collection & Arrears | 13/08/12 | 20/08/12 | 29/08/12 | | | | | (7) | | | | | | |
| Housing Benefits | 03/09/12 | 07/09/12 | | | | | | (7) | | | | | | |
| Council Tax | 03/09/12 | 07/09/12 | | | | | | (5) | | | | | | |
| NNDR | 03/09/12 | | | | | | | (5) | | | | | | |
| Insurance | 17/09/12 | | | | | | | (6) | | | | | | |
| Cash & Banking | 08/10/12 | | | | | | | (6) | | | | | | |
| Payroll & Expenses | 05/11/12 | | | | | | | (6) | | | | | | |
| Land Charges | 05/11/12 | | | | | | | (4) | | | | | | |
| Programme Management | 26/11/12 | | | | | | | (7) | | | | | | |
| Refuse Collection & Bulky Waste | 26/11/12 | | | | | | | (7) | | | | | | |
| Green Waste | 03/12/12 | | | | | | | (5) | | | | | | |
| Follow Up (3) | 12/12/12 | | | | | | | (4) | | | | | | |
| Risk Management | 07/01/13 | | | | | | | (4) | | | | | | |
| Flexible Working Arrangements | 04/02/13 | | | | | | | (6) | | | | | | |

| Auditable Area | Start Date | Debrief date | Draft report issued | Responses received | Final report issued | Governance & Audit Committee | Audit approach | Audit Days | Assurance level given | Number of Recommendations Made | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | High | Medium | Low | In Total | Agreed |
| General Ledger/ Main Accounting System | 04/02/13 | | | | | | | (7) | | | | | | |
| Data Security | TBC | | | | | | | (7) | | | | | | |
| Contingency<br>(Fire Risk Implications) | - | - | - | - | - | - | - | (7)<br>3 | - | - | - | - | - | - |
| Management | - | - | - | - | - | - | - | (10) | - | - | - | - | - | - |
| | | | | | | | ***Sub total*** | ***(116)*** | | | | | | |
| | | | | | | | ***Total*** | ***190*** | | | | | | |

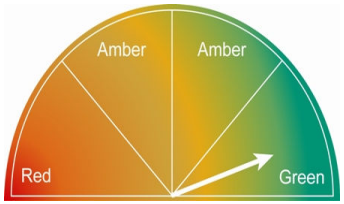
## Recommendation Categorisation

Our findings and recommendations are categorised as follows:

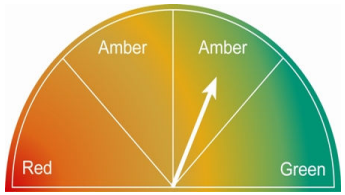
| | | |
|---|---|---|
| **High (H):** *action is imperative to ensure that the objectives for the area under review are met.* | **Medium (M):** *requires action to avoid exposure to significant risks in achieving the objectives for the area under review.* | **Low (L):** *action advised to enhance control or improve operational efficiency.* |

## ASSURANCE OPINIONS

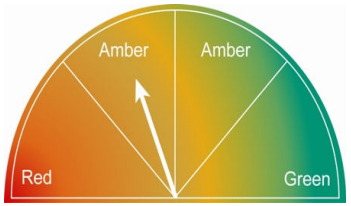
Our opinion will be graphically represented as a speedometer (see below). We have provided guidelines for each segment of the speedometer to provide the Governance & Audit Committee (or equivalent) with some context behind each of the ratings.



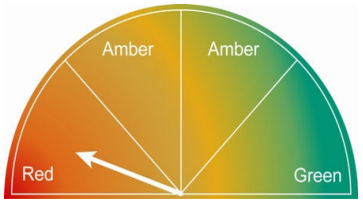

Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.




Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.
However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.



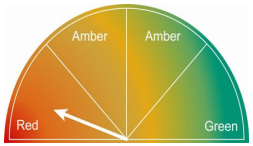

Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.

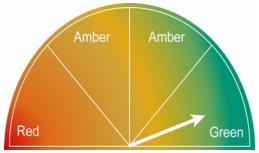
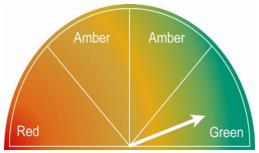
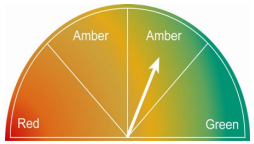


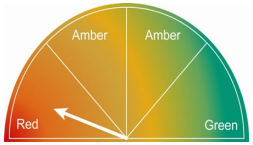

Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.
Action needs to be taken to ensure this risk is managed.

The Amber assurance level is split into two so that we are able to give you a clear indication of whether we consider the assurance to be "above or below the line". We hope this will help draw attention to those reports where we are highlighting that although not a negative opinion, the Authority does need to take action to ensure the risk is managed. Similarly the above the line amber opinion reflects that although a positive opinion, there is still room for improvement. During the year our progress reports to Governance & Audit Committee will reflect the opinions given and build up a picture of our findings so that there will be no surprises in our year end annual opinion.

# APPENDIX B: REPORTS FINALISED – SUMMARY OF KEY FINDINGS

| Summary of Audit Findings | Assurance Level | No. of Recs. Made and (Accepted) | No. of Recs. Categorised As High Risk | Final Date for Impl. of All Recs | Responsible Officer (s) |
|---|---|---|---|---|---|
| **Leases – (05.12/13):**<br>An audit of Leases was undertaken as part of the approved internal audit plan and resulted in three 'High' and three 'Medium' risk recommendations.<br>This High risk recommendations were in relation to:<br>➢ Reviewing all systems within the Council to identify potential leases and licenses with the aim of compiling a list of all current leases and licenses. The Council may also wish to work with and outside agency, such as the Land Registry, in an attempt to confirm records and identify potential discrepancies in Council records; however this would incur additional costs to the Council.<br>➢ The tenancy schedule from the Council's appointed contractor should be reviewed at each management meeting to identify any discrepancies or errors between the records maintained by the contractor and those maintained by the Council.<br>➢ A record of all leases and licences issued by the Council should be established and maintained; allowing the expiry of leases and licences to be monitored.<br>The medium risk recommendations made were in relation to:<br>➢ Documenting procedures for the management of leases and licences.<br>➢ Updating the Scheme of Delegation ensuring consistency with the current structure and a decision is required as to whether the new process for determining market rent is acceptable.<br>➢ To undertake a monthly reconciliation of the properties for which lease income is received to the revenues system. |  | 6(6) | 3 | March 2013 | Property Development Officer and Team Leader - Assets |

| | | | | | |
|---|---|---|---|---|---|
| **Asset Management Plan – (08.12/13):**<br>An audit of the Asset Management Plan was undertaken as part of the approved internal audit plan and resulted in two 'Low' risk recommendations being made; both of which were accepted by management. |  | 2(2) | 0 | Nov 2012 | Property Development Manager |
| **Corporate Governance – (07.12/13):**<br>An audit of Corporate Governance was undertaken as part of the approved internal audit plan and resulted in one 'Medium' risk recommendation.<br>This recommendation was in relation to:<br>➢ Making attendance a key part of the scope when undertaking the next Governance & Audit Committee self-assessment review and improving the attendance of appointed members to ensure greater continuity. |  | 1(1) | 0 | Dec 2012 | Finance Support Manager (Finance & Risk) |
| **Creditors & Procurement – (09.12/13):**<br>An audit of Creditors & Procurement was undertaken as part of the approved internal audit plan and resulted in two 'Medium' risk recommendations and three 'Low' risk recommendations.<br>The Medium risk recommendations made were in relation to:<br>➢ Ensuring that the authorisation limits within the system reflect the limits and per the Authorised Signatory List and suspending access in a timely manner for those staff leaving Council employment.<br>➢ Retaining the new Supplier Form used to support the evidence for all new suppliers set up on the system and obtaining confirmation of supplier bank details. Also to establish if an audit report can be produced to identify all changes made to supplier standing data. |  | 5(5) | 0 | October 2012 | Finance Support Manager (Finance & Risk) |

| | | | | | |
|---|---|---|---|---|---|
| **Repairs – (10.12/13):**<br><br>The audit of Repairs was designed to focus upon those areas of the Repairs process which could lead to an increased number of insurance claims being made, or where failure to act in an appropriate manner could lead to the Council being held liable for claims. Our work resulted in three 'High' risk recommendations and six 'Medium' risk recommendations.<br><br>The High risk recommendations were in relation to:<br><br>➢ Ensuring that repairs are prioritised/categorised with the evidence to support prioritisation being documented.<br><br>➢ Recording and monitoring completion of work identified as a result of risk assessments.<br><br>➢ Correctly coding repairs that fall within the 'Right to Repair scheme' on the system and ensuring there is documented evidence should a repair fall under this scheme but not be classed as urgent.<br><br>The Medium risk recommendations were in relation to:<br><br>➢ Ensuring there is adequate resource to complete the appointments within the assigned target completion date and producing a list of repairs which may have a high likelihood of resulting in an insurance claim to assist in scheduling jobs.<br><br>➢ Coding of identified follow on work and scheduling this work based on urgency of repair.<br><br>➢ Undertaking the target number of inspections and quality checks required to assess the quality of works.<br><br>➢ Undertaking an analysis comparing full time equivalent resource available within the repairs department.<br><br>➢ Monitoring of daily work schedules to identify possible opportunities to allocate further work.<br><br>➢ Effective communication and response to tenants, wardens or staff who report repairs as to the status off the repair. |  | 11(11) | 3 | April 2013 | Service Manager – Property Services (HRA) |

RSM Tenon

South Kesteven District Council

# Follow-up of Previous Internal Audit Recommendations

Internal Audit Report (11.12/13)

September 2012

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| | | | |
|---|---|---|---|
| Debrief meeting: | 16 August 2012 | Auditors: | Chris Williams, Partner<br>Robert Barnett, Senior Manager<br>Alan Hetherington, Lead Internal Auditor |
| Officer Debriefed: | David Scott | | |
| Draft report issued: | 29 August 2012 | | |
| Responses received: | 07 September 2012 | Client sponsor: | Richard Wyles, Head of Finance |
| Final report issued: | 10 September 2012 | Distribution: | Richard Wyles, Head of Finance<br>David Scott, Finance Support Manager<br>Tracey Elliott, Governance and Risk Officer |

This review has been performed using RSM Tenon's bespoke internal audit methodology, **i-RIS**.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Members and senior management of South Kesteven District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

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# 1 EXECUTIVE SUMMARY

## 1.1 INTRODUCTION

As part of the approved internal audit periodic plan for 2012/13 we have undertaken a review to follow up progress made by South Kesteven District Council to implement previous internal audit recommendations.

Recommendations with dates for implementation not yet due will be followed up later in the year.

At management's request, we have only followed up those recommendations classified as High and Medium risk. Recommendations categorised as Low risk are to be followed up separately by Council staff. It was also agreed that recommendations made in 'Advisory' reviews would not be followed up.

The following audits were considered as part of the follow-up review:

- 23.11/12 Development Control
- 26.11/12 MOT Services
- 29.11/12 Follow-up of Previous Internal Audit Recommendations

The following reviews had no recommendations meeting the criteria for follow-up:

- 25.11/12 Corporate Governance
- 28.11/12 Risk Maturity

The following Advisory reviews were excluded from the follow-up:

- 24.11/12 Housing Allocations for Persons with Housing Related Debts
- 27.11/12 ICT Strategy

The 9 recommendations considered in this review comprised two 'high', and seven 'medium' recommendations.

Staff members responsible for the implementation of recommendations were interviewed to determine the status of agreed actions. Where appropriate, audit testing has been completed to assess the level of compliance with this status and the controls in place.

## 1.2 CONCLUSION

**Taking account of the issues identified in the remainder of the report and in line with our definitions set out in Appendix A, in our opinion South Kesteven District Council has demonstrated good progress in implementing actions agreed to address internal audit recommendations.**

**We have reiterated recommendations where these have not yet been implemented; these are detailed in the action plan.**

## 1.3 LIMITATIONS TO THE SCOPE OF THE AUDIT

This review only covered audit recommendations previously made and did not review the whole control framework of the areas listed above. Therefore, we are not providing assurance on the entire risk and control framework of those areas.

The follow-up has covered only those recommendations rated High or Medium risk.

Recommendations made as part of advisory reviews have not been followed up.

Where testing has been undertaken, our samples have been selected over the period since actions were implemented or controls enhanced.

Our work does not provide any guarantee or absolute assurance against material errors, loss or fraud.

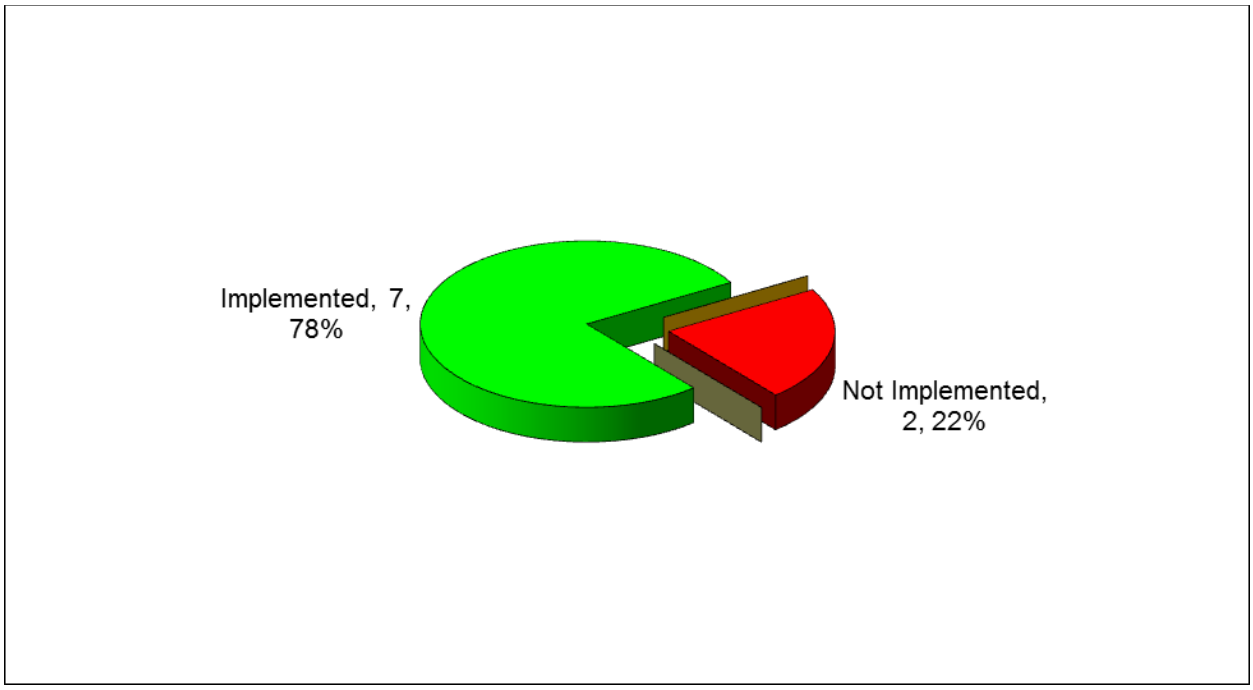
## 1.4 RECOMMENDATIONS TRACKING

Recommendation tracking enhances an organisation's risk management and governance processes. It provides management with a method to record the implementation status of recommendations made by assurance providers, whilst allowing the Audit Committee to monitor actions taken by management.

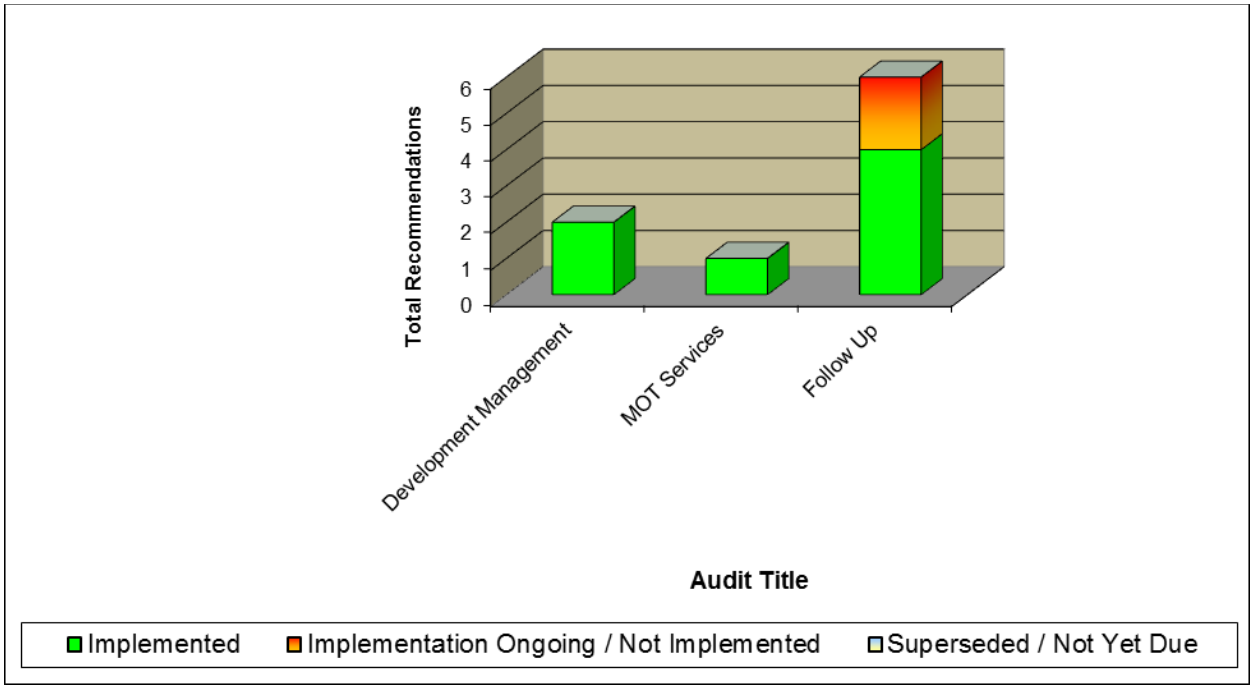
Recommendation tracking is undertaken by South Kesteven District Council's management on a regular basis, with an update provided to the Audit Committee at each meeting. As part of our Follow-up review, we have verified this information and completed audit testing to confirm the level of implementation stated and compliance with controls.

## 1.5 ADDITIONAL FEEDBACK

The pie chart below provides an overview of the status of recommendations that have been followed up as part of this review.




The bar chart below provides an overview of the status of recommendations that have been followed up as part of this review, grouped according to audit area:



## 2 ACTION PLAN

The priority of the recommendations made is as follows:

| Priority: | High | Medium | Low | Suggestion |
|---|---|---|---|---|
| Description: | Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses. | | | These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider. |

| Ref | Recommendation | Categorisation | Accepted Y/N | Management Comment | Implementation Date | Manager Responsible |
|---|---|---|---|---|---|---|
| 3.3 | **29.11/12 Follow-up of Previous Internal Audit Recommendations** | | | | | |
| 3.3.1 | **29.10/11 Communication**<br>The Corporate Communications Strategy should be reviewed and updated on a periodic basis to reflect the Council's current aims and priorities.<br>In addition performance against the strategy and action plan should be reviewed and reported to an appropriate committee on a periodic basis. | Medium | Y | The Strategy will be reviewed and updated by the end of the year. | 31 December 2012 | Reputation, Communication & Consultation Service Manager |
| 3.3.4 | **37.10/11 ICT Resilience**<br>The Disaster Recovery arrangements with the external support provider should be formally rehearsed on an annual basis and an appraisal of each test undertaken. | Medium | Y | The Disaster recovery contract has been recently renewed and this is being renewed as part of arrangements with Lincolnshire. We have a DR rehearsal planned for January and also we have arranged consultancy on DR planning. | 31 January 2012 | ICT Service Manager |

# 3 FINDINGS AND RECOMMENDATIONS

Each recommendation followed up has been categorised in line with the following:

| Status | Detail |
|---|---|
| 1 | The entire recommendation has been fully implemented. |
| 2 | The recommendation has been partly though not yet fully implemented. |
| 3 | The recommendation has not been implemented. |
| 4 | The recommendation has been superseded and is no longer applicable. |
| 5 | The agreed date for implementing the recommendation has not yet been reached. |

| 3.1 | 23.11/12 DEVELOPMENT MANAGEMENT | | | | FINDINGS | |
|---|---|---|---|---|---|---|
| | Original Recommendation | Original Category | Original Impl'n Date | Manager Responsible | Status | Comments / Implications / Recommendations |
| 3.1.1 | The Development Management Service Manager should ensure an appropriate procedure is implemented to evidence site visits.<br>All site visit evidence should be signed and dated by the responsible Planning Officers and retained on file for a complete audit trail purpose. | Medium | February 2012 | Development Management Service Manager | 1 | A new Site Visit Record Sheet has been introduced and as from the beginning of August 2012 is in use. |
| 3.1.2 | The Development Management Service Manager should ensure that the Validation Checklist is reviewed so that it is relevant and fit for purpose. This will improve the efficiency of processing each planning application. | Medium | April 2012 | Development Management Service Manager | 1 | The Validation Checklist has been reviewed and updated to represent current processing requirement. |

| 3.2 | 26.11/12 MOT Services | | | | Findings | |
|---|---|---|---|---|---|---|
| | **Original Recommendation** | **Original Category** | **Original Impl'n Date** | **Manager Responsible** | **Status** | **Comments / Implications / Recommendations** |
| **3.2.1** | a) On a monthly basis the MOT Test Log report should be obtained from the VOSA VTS Device and reconciled back to Council records, the MOT Diary, the completed monthly MOT Test Sheet and receipted payments as per the Finance report ensuring that all MOTs performed can be accounted for.<br><br>b) Any discrepancies should be investigated and resolved in a timely manner following month-end.<br><br>c) The MOT Test Log should be signed to certify that the reconciliation has been agreed, independently reviewed and then retained with other corresponding documentation. | Medium | February 2012 | Business Support Team Leader | 1 | Testing of the records for MOTs completed in April, May and June 2012 found that the reconciliations had been completed and signed. |

| 3.3 | 29.11/12 Follow-up of Previous Internal Audit Recommendations | | | | Findings | |
|---|---|---|---|---|---|---|
| | **Original Recommendation** | **Original Category** | **Original Impl'n Date** | **Manager Responsible** | **Status** | **Comments / Implications / Recommendations** |
| 3.3.1 | **29.10/11 Communication**<br>The Corporate Communications Strategy should be reviewed and updated on a periodic basis to reflect the Council's current aims and priorities.<br>In addition performance against the strategy and action plan should be reviewed and reported to an appropriate Committee on a periodic basis. | Medium | June 2012 | Reputation, Communication & Consultation Service Manager | 3 | The department has been heavily involved with the Gravity Fields Festival (to take place in September), and this has taken priority.<br>It is planned to review the Strategy after the festival is over with an aim to have it published by the end of December 2012.<br>**Recommendation restated.** |
| 3.3.2 | **33.10/11 Compliance with Information Security Policies**<br>All IT Security policies should be subject to regular approval by a relevant management Committee. | High | Implemented | ICT Service Manager | 1 | Policies were formally reviewed in February 2012 and procedures for the review and approval of IT Policies have been documented. |
| 3.3.3 | **33.10/11 Compliance with Information Security Policies**<br>A procedure for third party access should be documented and appropriate approval should be recorded. A register of all approved third party access should be collated and maintained.<br>Third parties with access to sensitive data should be required to agree to a non-disclosure agreement and third party contracts should be updated to include compliance with the Council's IT security policies. | High | Implemented | ICT Service Manager | 1 | It was confirmed that Services Managers have been emailed and that compliance with ICT policies was included as part of the documentation for the Election Software. |
| 3.3.4 | **37.10/11 ICT Resilience**<br>The Disaster Recovery arrangements with the external support provider should be formally rehearsed on an annual basis and an appraisal of each test undertaken. | Medium | August 2012 | ICT Service Manager | 3 | The planned rehearsal was not undertaken due to Olympic commitments on the supplier's side.<br>**Recommendation restated.** |

| 3.3 | 29.11/12 Follow-up of Previous Internal Audit Recommendations | | | | Findings | |
|---|---|---|---|---|---|---|
| | **Original Recommendation** | **Original Category** | **Original Impl'n Date** | **Manager Responsible** | **Status** | **Comments / Implications / Recommendations** |
| 3.3.5 | **04.11/12 Insurance**<br>The Waste & Recycling department should ensure that a copy of the accident claim form for all motor claims is retained on file along with any supporting evidence and correspondence received from the insurance provider. | Medium | Implemented | Waste & Recycling Service Manager | 1 | Testing of accident claims that occurred in the period April to July 2012 found that Accident Claim Forms were on file for five of the six accidents recorded.<br>For the other accident, the majority of the information had been passed to the Police, due to the severity of the accident. |
| 3.3.6 | **06.11/12 Housing Benefits**<br>The form used to request write-offs of overpayment should be used in all cases.<br>For LA Error overpayments, the request should be completed by the Benefits Assessors before being processed by the Team Co-ordinators/Benefits Manager within delegated limits. | Medium | 31 March 2012 | Revenues & Benefits Service Manager | 1 | The Revenues & Benefits Service Manager confirmed that electronic authorisation for all write-offs are now in place.<br>The Officer requesting the write-off cannot also authorise the same write-off.<br>Limits have also been set up based on the value of the write-off as follows:<br>▪ Co-ordinator - £500<br>▪ Benefits Manager - £5,000<br>▪ Revenues & Benefits Service Manager - £25,000<br>▪ For £25,000+ Cabinet approval is required. |

# APPENDIX A: DEFINITIONS FOR PROGRESS MADE

The following opinions are given on the progress made in implementing recommendations.

This opinion relates solely to the implementation of those recommendations followed up and not does not reflect an opinion on the entire control environment.

| Progress in implementing recommendations | Overall number of recommendations fully implemented | Consideration of fundamental/high recommendations | Consideration of significant/medium recommendations | Consideration of merits attention/low recommendations |
|---|---|---|---|---|
| Good | 75% + | None outstanding. | None outstanding. | All merits attention/low recommendations outstanding are in the process of being implemented. |
| Adequate | 51 - 75% | None outstanding. | 75% of significant/medium recommendations made are in the process of being implemented. | 75% of merits attention/low recommendations made are in the process of being implemented. |
| Little | 30 - 50% | All fundamental/high recommendations outstanding are in the process of being implemented. | 50% of significant/medium recommendations made are in the process of being implemented. | 50% of merits attention/low recommendations made are in the process of being implemented. |
| Poor | < 30% | Unsatisfactory progress has been made to implement fundamental/high recommendations. | Unsatisfactory progress has been made to implement significant/medium recommendations. | Unsatisfactory progress has been made to implement merits attention/low recommendations. |

# APPENDIX B: DATA TO SUPPORT OUR OPINION

## IMPLEMENTATION STATUS BY REVIEW

| Review | Total No. of recs agreed. | Status of Recommendation | | | | | Audit work confirmed as completed or no longer necessary | No of recs carried forward for follow up at next review |
|---|---|---|---|---|---|---|---|---|
| | | Not due for implementation | Implemented | Implementation Ongoing | Not Implemented | Superseded | | |
| | | (5) | (1) | (2) | (3) | (4) | (1)+(4) | (2)+(3)+(5) |
| 23.11/12 Development Management | 2 | 0 | 2 | 0 | 0 | 0 | 2 | 0 |
| 26.11/12 MOT Services | 1 | 0 | 1 | 0 | 0 | 0 | 1 | 0 |
| 29.11/12 Follow-up | 6 | 0 | 4 | 0 | 2 | 0 | 4 | 2 |
| **Total** | **9** | **0** | **7** | **0** | **2** | **0** | **7** | **2** |
| | **100%** | **0%** | **78%** | **0%** | **22%** | **0%** | **78%** | **22%** |

## IMPLEMENTATION STATUS OF RECOMMENDATIONS BY CATEGORY

| Review | Total No. of recs agreed. | Status of Recommendation | | | | | Audit work confirmed as completed or no longer necessary | No of recs carried forward for follow up at next review |
|---|---|---|---|---|---|---|---|---|
| | | Not due for implementation | Implemented | Implementation Ongoing | Not Implemented | Superseded | | |
| | | (5) | (1) | (2) | (3) | (4) | (1)+(4) | (2)+(3)+(5) |
| High | 2 | 0 | 2 | 0 | 0 | 0 | 2 | 0 |
| Medium | 7 | 0 | 5 | 0 | 2 | 0 | 5 | 2 |
| **Total** | **9** | **0** | **7** | **0** | **2** | **0** | **7** | **2** |
| | **100%** | **0%** | **78%** | **0%** | **22%** | **0%** | **78%** | **22%** |

# APPENDIX C: REVIEW OF COMPLETENESS

## 2011/12 REPORTS FOLLOWED UP

| Review | Total Number of Agreed Recommendations | Follow-up Report Reference | Number of Recommendations Followed Up |
|---|---|---|---|
| 01.11/12 Grants for Better Warmer Homes | 3 | 29.11/12 | 1* |
| 02.11/12 Follow-up - Markets | 3 | 13.11/12 | 3 |
| 03.11/12 Pollution Control - Contaminated Land | 3 | 29.11/12 | 2* |
| 04.11/12 Insurance | 6 | 29.11/12 | 3* |
| 05.11/12 Retention and Redeployment | 1 | 29.11/12 | 0* |
| 06.11/12 Housing Benefits | 6 | 29.11/12 | 3* |
| 07.11/12 Budgetary Control and Budget Setting | 1 | 29.11/12 | 0* |
| 08.11/12 Carbon Management | 5 | 29.11/12 | 0 (Advisory) |
| 09.11/12 Follow-up (August 2011) | 6 | 01.12/13 | 6 |
| 10.11/12 Officer Travel & Subsistence | 6 | 01.12/13 | 2* |
| 11.11/12 NNDR | 5 | 01.12/13 | 2* |
| 12.11/12 Partnerships | 1 | 01.12/13 | 0* |
| 13.11/12 Markets | 2 | 01.12/13 | 1* |
| 14.11/12 Health & Safety | 11 | 01.12/13 | 0 (Advisory) |
| 15.11/12 Follow-up (October 2011) | 3 | 01.12/13 | 3 |
| 16.11/12 Council Tax | 2 | 01.12/13 | 1* |
| 17.11/12 Treasury Management | 0 | 01.12/13 | 0 |
| 18.11/12 Disabled Facilities Grants | 3 | 01.12/13 | 0* |
| 19.11/12 Building Control | 4 | 01.12/13 | 1* |
| 20.11/12 Payroll | 4 | 01.12/13 | 0* |
| 21.11/12 Cash & Banking | 2 | 01.12/13 | 1* |
| 22.11/12 Change Management | 8 | 01.12/13 | 0 (Advisory) |
| 23.11/12 Development Control | 9 | This Review | 2* |
| 24.11/12 Housing Allocations | 2 | This Review | 0 (Advisory) |
| 25.11/12 Corporate Governance | 3 | This Review | 0* |
| 26.11/12 MOT Service | 2 | This Review | 1* |
| 27.11/12 ICT Strategy | 2 | This Review | 0 (Advisory) |
| 28.11/12 Risk Maturity | 0 | This Review | 0 |
| 29.11/12 Follow-up | 6 | This Review | 6 |

* As per the agreement with management, only those recommendations categorised as High and Medium have been followed up. Low recommendations will be followed up as part of the Council's internal recommendation tracking process.

# Recommendation(s) to be followed up as part of the review of the audit area included in the Internal Audit Strategic Plan for 2012/13.

## 2012/13 REPORTS YET TO BE FOLLOWED UP

| Review | Total Number of Agreed Recommendations | Follow-up Report Reference | Number of Recommendations To Be Followed Up |
|---|---|---|---|
| 01.12/13 Follow-up | 3 | N/A | 3 |
| 02.12/13 Contract Management - Ground & Tree Maintenance | 10 | N/A | 4* |
| 03.12/13 Elections | 4 | N/A | 0* |
| 04.12/13 Licensing | 1 | N/A | 1 |
| 05.12/13 Leases | Only at Draft Stage | N/A | |
| 06.12/13 Bookings System - Arts Centre | 5 | N/A | 5 |
| 07.12/13 Corporate Governance | Only at Draft Stage | N/A | |
| 08.12/13 Asset Management Plan | Only at Draft Stage | N/A | |

* As per the agreement with management, only those recommendations categorised as High and Medium have been followed up. Low recommendations will be followed up as part of the Council's internal recommendation tracking process.

# Recommendation(s) to be followed up as part of the review of the audit area included in the Internal Audit Strategic Plan for 2012/13.

# REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF:** Green, Healthy and Arts Portfolio Holder

**REPORT NO:** ENV572

**DATE***:* 25 September 2012

| | | |
|---|---|---|
| **TITLE:** | **Corporate Health and Safety Annual Report** | |
| **KEY DECISION OR POLICY FRAMEWORK PROPOSAL:** | N/A | |
| **PORTFOLIO HOLDER: NAME AND DESIGNATION:** | Cllr John Smith – Green, Healthy and Arts Portfolio Holder | |
| **CONTACT OFFICER:** | David Price Environmental Health Services Manager<br>Helen Kettle Corp. Health and Safety Advisor | |
| **INITIAL IMPACT ANALYSIS:**<br><br>**Equality and Diversity** | Carried out and Referred to in paragraph (7) below<br>N/A | Full impact assessment Required:<br>N/A |
| **FREEDOM OF INFORMATION ACT:** | This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk | |
| **BACKGROUND PAPERS** | | |

## 1. RECOMMENDATIONS

1.1 That the content of the Corporate Health and Safety Annual Report be noted.

## 2. PURPOSE OF THE REPORT

2.1 To provide the Governance and Audit Committee with an overview of the council's performance in respect of health and safety during the period April 2011 to March 2012, and to set out the plan for 2012-13.

## 3. DETAILS OF REPORT

3.1 The report confirms the policies and procedures in place as well as reviews and revisions that are planned.

3.2 A comprehensive section on training outlines formal training carried out during the period and that *e learning* is also being used. A close working relationship with the learning and development adviser in HR is also stated are given and a significant reduction of 25 from the previous total of 109 (2010-11) to 84 is confirmed.

3.3 The figures for reports made under Reporting of Injuries , Diseases and Dangerous Occurrences ( RIDDOR) are provided and these confirm a slight increase, however it is noted that the criteria for notification under these regulations has now changed and a significant reduction is anticipated next year.

3 4 Accidents notified at the leisure centres are greatly reduced from 682 (2010-11) to 560.

3.5 A review of the action plan is stated and this confirms the completion of the majority of proposed actions, as well as involvement in other unplanned areas of activity such as the Olympic Torch run etc.

3.6 An advisory audit was carried out in the period with a focus on asbestos, lone working and fire safety in specific services .This audit confirmed positive findings.

3.7 A forward plan is shown together with identified leads and start and completion dates. In particular, health and safety performance and culture will be placed at the heart of the council's operating culture. Best practice will be sought from other organisations, and various tools evaluated to enable this. Appropriate performance measures will be adopted. This process will dovetail with and help to embed better management of health and safety issues within the council's ongoing corporate initiatives such as *Unlocking our Potential*.

## 4. OTHER OPTIONS CONSIDERED

4.1 The achievement of good health and safety standards is a key part of a well run council and reduces the risk of injury and illness arising from council activity as well as minimising the risk of legal action against the council.

## 5. RESOURCE IMPLICATIONS

5.1 This will be dependent on systems adopted for the cultural change project but is not thought to be significant. There is already budget available to enable the employment of the interim health and safety advisor for approximately 3 months after the safety advisor returns from maternity leave thus providing additional capacity for this important area of development . Better health and safety will reduce costs such as insurance claims.

## 6. RISK AND MITIGATION

6.1 Risk has been considered as part of this report and any specific high risks are included in the table below:

| Category Risk | Action / Controls |
|---|---|
| | |
| | |

## 7. ISSUES ARISING FROM IMPACT ANALYSIS

7.1 Not applicable

## 8. CRIME AND DISORDER IMPLICATIONS

8.1 Not applicable

## 9. COMMENTS OF FINANCIAL SERVICES

9.1 Members are reminded that the terms of reference for the Governance and Audit Committee include the responsibility to review the annual report and the effectiveness of the Council's health and safety arrangements. Risk management and health and safety are closely aligned and preventative actions and control measures should be regularly reviewed to ensure arrangements are operating effectively.

## 10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

10.1 The report is for note and feedback. The Committee have been given delegated authority by Council to review the report and consider the effectiveness of the Council's health and safety arrangements. From the information in this report and the Corporate Health and Safety Annual report attached the Committee should be able to determine whether or not those arrangements in place are effective.

## 11. COMMENTS OF OTHER RELEVANT SERVICES

11.1 Not applicable.

## 12. APPENDICES:

12.1 Appendix 1 - Annual Corporate Health &Safety Report 2012

# CORPORATE HEALTH AND SAFETY ANNUAL REPORT

## 1 April 2011 to 31 March 2012

## Contents

1. Introduction

2. Policies and Procedures

3. Training

4. Accident/Incident Recording and Reporting

5. Progress Towards Achieving Health & Safety Goals

6. Forward Plan 2012/13 and performance measures

7. Conclusion

## 1. INTRODUCTION

This annual report summarises South Kesteven District Council's corporate health and safety performance during the year 1 April 2011 to 31 March 2012. The purpose of the report is to:

- Provide an update regarding the performance of the council in the management of health and safety.
- Highlight corporate health and safety areas for additional focus to drive further improvement.

## 2. POLICIES AND PROCEDURES

In line with its health and safety duties and responsibilities the council holds a number of policies, procedures and guidelines to support effective health and safety management. These are as follows:

**Existing**

- Health & Safety Policy – revised June 2011
- Risk Assessment Manual & Procedure – matrix and form revised December 2011
- Unacceptable Behaviour Policy – revised January 2012
- Lone Worker Operational Procedure – March 2011
- Asbestos Management Policy – revised July 2010

**New**

- Contractor Health & Safety Managers Guidance & Evaluation Procedure – June 2011
- Corporate Fire Safety Policy – July 2012 (Operational procedures already in place)

**Pending / Under Review**

- Risk Assessment Manual – 2008 - under review. ( individual risk assessments have continued to be reviewed and revised)
- Emergency Procedure (Bomb Threat / Suspicious Delivery) – June 2004 – to be revised.
- Hypodermic Needles/Blood Borne Viruses Employee Guidance – Jan 2001 – to be revised.

The policies and procedures help to ensure robust and proactive measures are in place to support and protect both staff and where appropriate those who may be affected by the business of the Council. They also assist in ensuring that service managers and employees are aware of their role in health and safety. The policies and procedures are further supported, where appropriate, by service specific arrangements and documentation, also training. Policies, procedures and guidelines are reviewed every 2 years or as deemed necessary through legislative changes with revisions made where appropriate.

## 3. TRAINING

Health and safety training needs are identified under policies and procedures, following health and safety audit and/or through other processes such as PDR, 121s. The corporate health and safety adviser assists with the appropriate development and presentation of such training in order to provide consistency and

compliance with the duties and legal responsibilities. A recent development has been the use of e. learning for subjects such as display screen equipment and fire safety. This has proved popular with staff and is convenient for those with computer access. A further benefit is easy identification of those who have received training. This e learning supplements an extensive more traditional training programme.

A training programme has been produced which is linked to the corporate health and safety action plan and corporate training budget. The following health and safety and related training was delivered between 1 April 2011 and 31 March 2012.

| Training | Provider | No. of attendees |
|---|---|---|
| IOSH Managing Safely – mandatory for Service Managers and where appropriate Team Leaders | Jardine Lloyd | 12 |
| Health & Safety for Employees – mandatory induction for all levels of employees | Corporate H&S Adviser | 27 |
| Workstation Safety Plus – e-learning & assessment programme – mandatory for all Display Screen Equipment (DSE) users | Corporate H&S / Cardinus | 429 |
| Workstation Safety Plus – administrator training – mandatory provision for all service areas | Corporate H&S / Cardinus | 49 |
| Fire Safety Plus for all Staff e-learning package | Corporate H&S / Cardinus | 353 |
| Evac Chair – Train the Trainer – enabling in house roll out to key staff in the location of the evacuation chairs | Evac Chair | 4 |
| Construction Skills Certification Skills (CSCS) – Health & Safety Training for works operatives | Corporate H&S | 32 |
| Safety Pass Alliance (SPA) - Passport to Safety – works and property officers | Browns Health & Safety | 32 |
| Health & Safety for Market Operatives | Corporate H&S | 22 |
| Health & Safety Awareness for Councillors | Corporate H&S | 22 |
| Accident Investigation & Reporting Workshop – Waste & Recycling manager & supervisors | Corporate H&S | 4 |
| Conflict Management & Lone Worker – identified through the Lone Worker Operational Procedure | Greenfield PST | 36 |
| Work with Non Licensed Asbestos – specific to works operatives and project officers | Jason Borley – Global Environmental Consultancy Ltd | 9 |

| Training | Provider | No. of attendees |
|---|---|---|
| First Aid at Work Certificate – either to fulfil site or job role needs | British Red Cross | 3 |
| First Aid – refresher training to maintain the first aid at work certificate | | 3 |

The following training is available on a needs basis:

- Drugs & Drug Paraphernalia Awareness
- Alcohol Awareness
- Asbestos Awareness Management

Corporate health and safety works closely with the learning and development adviser in HR&OD to develop and maintain a comprehensive health and safety and wellbeing programme of training. The training web pages on the intranet will be developed further to ensure that service managers and employees have access to corporate training courses.

The training programme is also supported by significant on the job and job specific training within service areas and in particular where training needs are identified as part of the risk assessment process.

## 4. ACCIDENT/INCIDENT RECORDING AND REPORTING

All service areas hold an accident book and service managers are required to investigate record and report accidents in accordance with the council's Accident Investigation and Reporting Procedure. Copies of all accident reports are provided to the corporate health & safety adviser and recorded.

The following table gives a numerical breakdown of completed accident report forms received. These figures include staff and the public but do not include numbers for the leisure centres.

| | 20010/11 | 2011/2012 |
|---|---|---|
| Waste & Recycling | 25 | 14 |
| Works Team | 14 | 15 |
| Art Centres | 20 | 26 |
| All Other service areas | 50 | 29 |
| **Total** | **109** | **84** |

Matters of note from the table:

**Waste & Recycling** indicates there has been a decrease in the numbers of accidents reported. Sixty-three percent of these accidents (which did not cause injuries) were connected with driving. This accident category is new for 2011 so there are no previous figures for comparison.

Waste and Recycling have recently updated the near miss accident/incident reporting procedure. As a result, it is anticipated that the number of reports from this service area will increase due to the inclusion of near miss reports

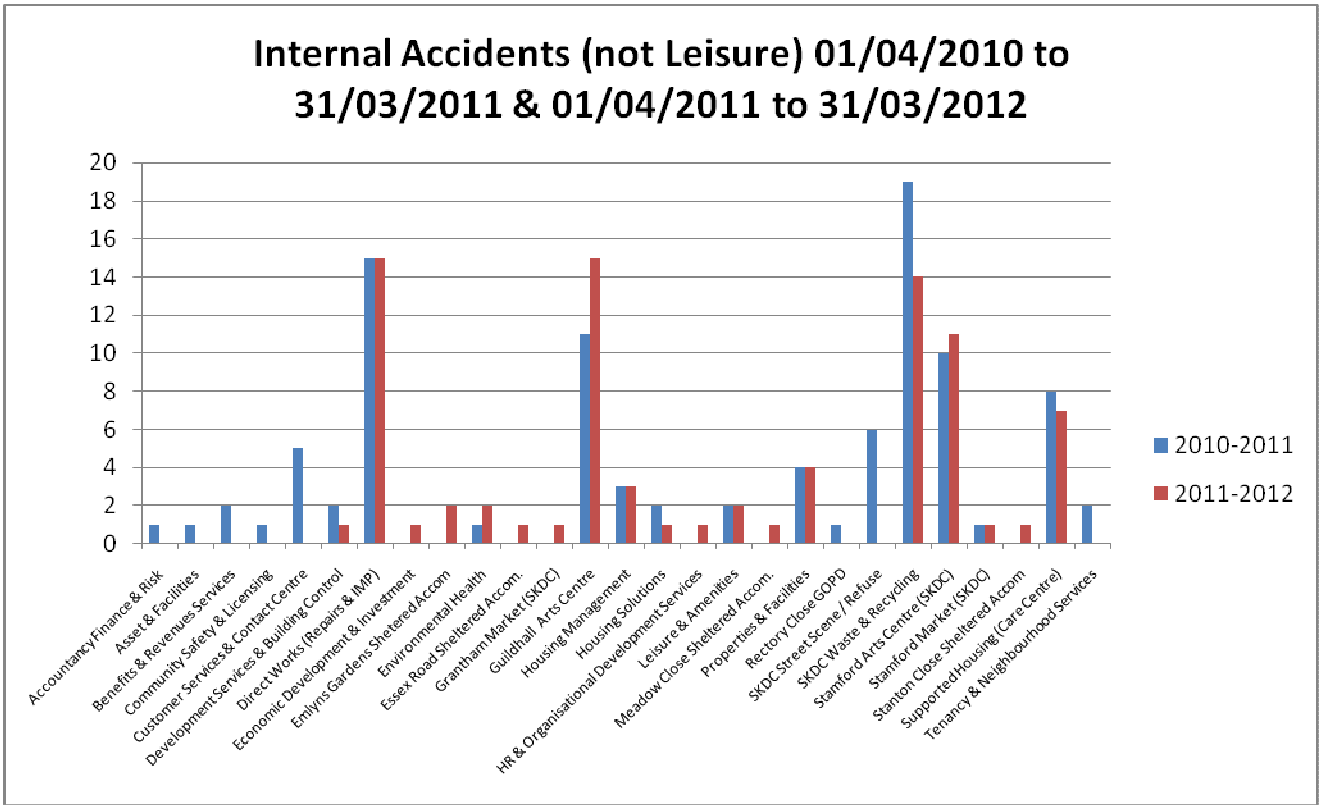
**Works Team (Property & Facilities)** confirms very similar numbers to the previous year. Most reports this year relate to manual handling leading to musculoskeletal issues. Focus within the Works Team during 2011/12 was around asbestos and work at height and the team have been working to further develop and review their risk assessments and associated safe systems of work. The provision of specific refresher manual handling training is planned for 2012/13.

**Art Centres** have shown a small increase in numbers reported with the majority of these involving slips and trips to members of the public .The art centres have wide and varied activities and visitor types including children's events. None of the accident reports involving members of the public required reporting to HSE under the RIDDOR requirements. During 2011/12 there was a combined throughput of approximately 800,000 public for the Guildhall and Stamford Art Centres. When considering the throughput and activities against the number of accident reports this is an extremely low percentage.

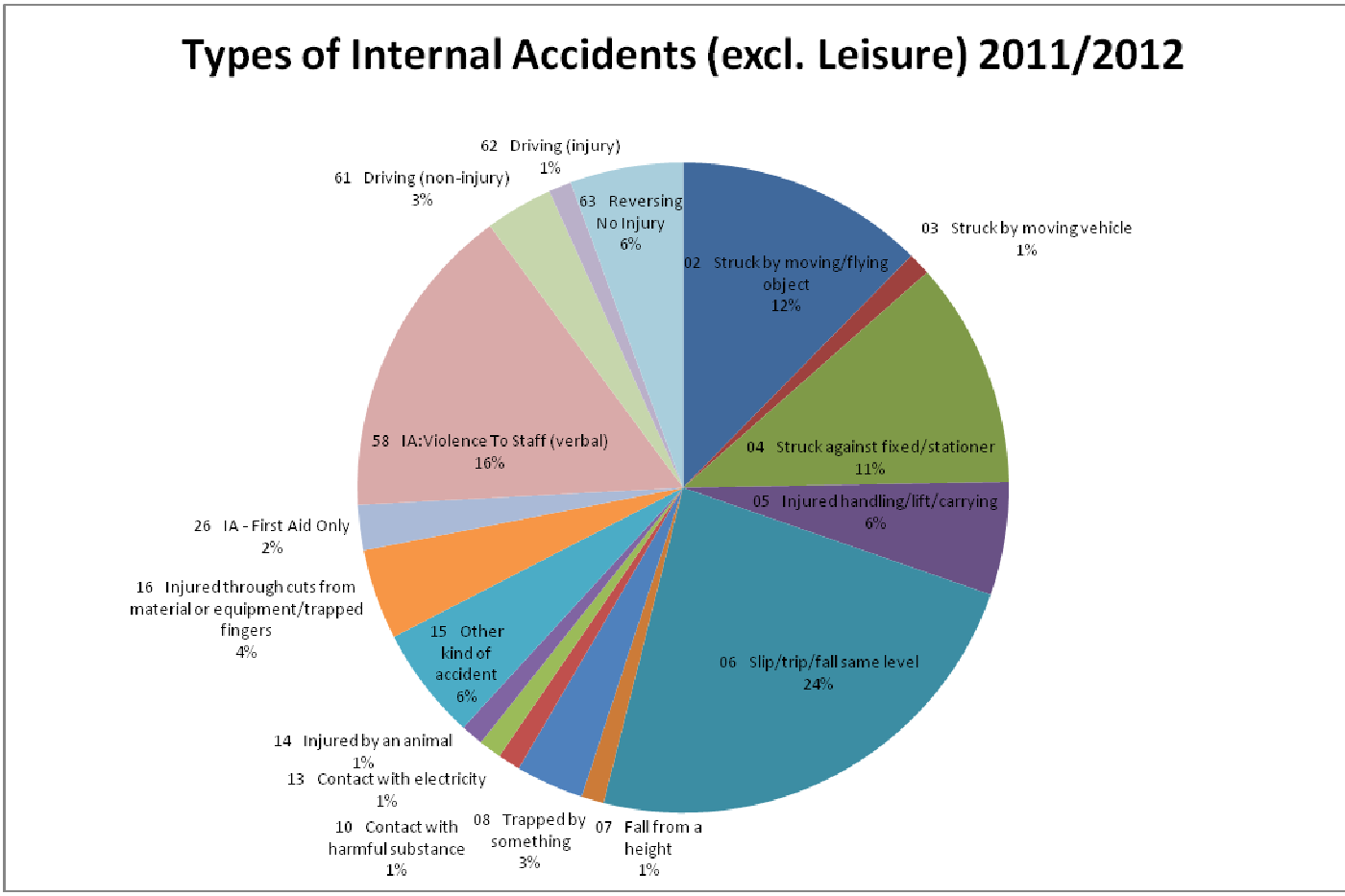
This will be an area of focus for 2012/13 identifying any further measures that can be taken in the public areas to reduce slips and trips.

Some areas of council activity are intrinsically of a higher risk nature due to the work carried out. We are working closely with these areas to drive further improvement in health and safety performance. To assess continued improvement measures have been developed. These are identified in the forward plan.

The following chart summarises the accidents involving staff and members of the public by service area/ premises.



The following chart identifies the types of accidents by category from the 2011/12 total of 84 completed accident reports.




The types of accidents are as expected within a diverse work environment with members of the public accidents impacting on a number of categories. The slip/trip/fall same level category is the largest area of public accidents associated with public areas such as the art centres and sheltered accommodation.

**Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR).**

These regulations require the reporting of certain specified accidents, ill health and dangerous occurrences. They previously covered:

- Fatalities and major injuries
- Incapacity to work for more than 3 days
- Specified diseases
- Dangerous occurrences

The numbers of RIDDOR notifications made to the enforcing authority were as follows:

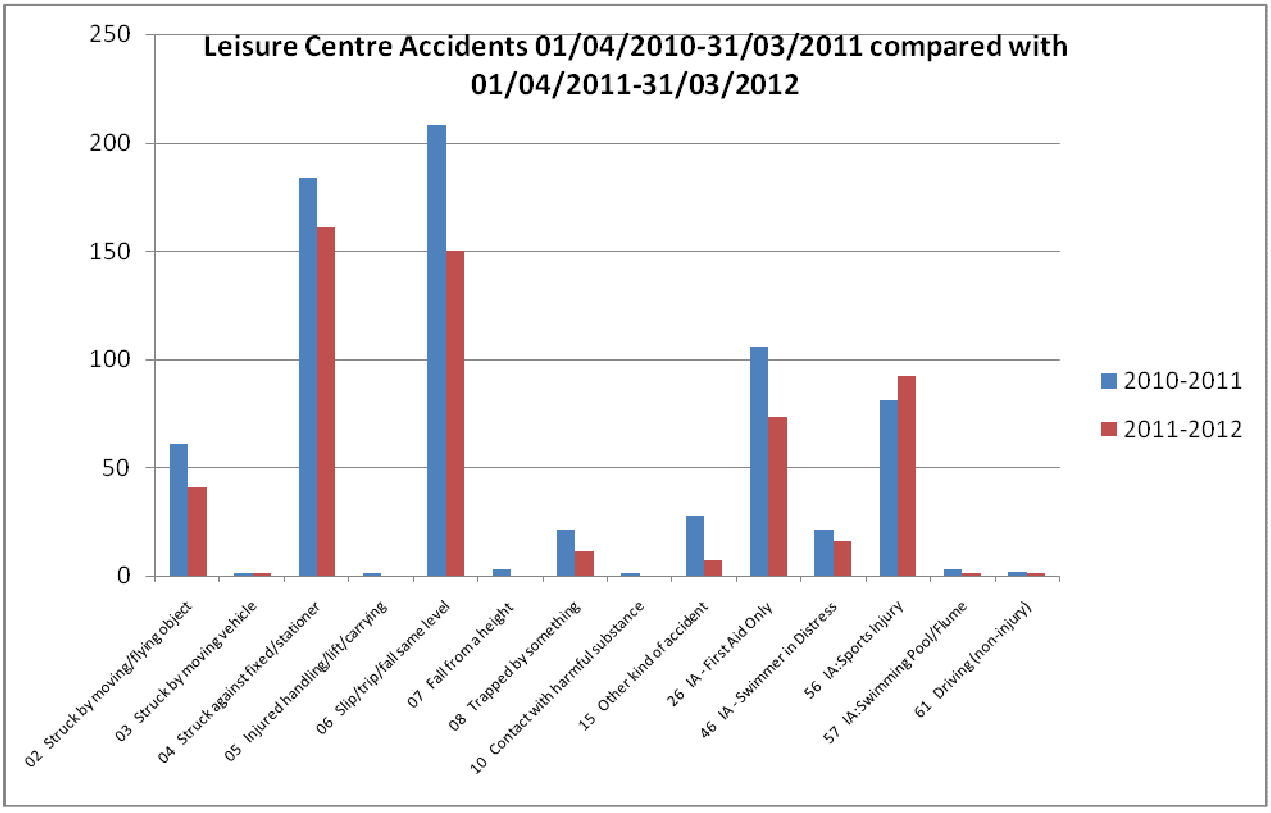
| Type | 2010/2011 | 2011/2012 |
|---|---|---|
| **Fatality** | 0 | 0 |
| **Major Injury** | 0 | 0 |
| **Over 3 day** | 1 | 3 |
| **Member of Public To Hospital** | 3 | 3 |
| **Total** | 4 | 6 |

The criteria for reporting accidents under RIDDOR changed on 6th April 2012. The over-three-day reporting requirement for people injured at work changed to injuries that lead to a worker being incapacitated for **more than seven consecutive days** as the result of an occupational accident or injury. It is anticipated that the number of RIDDOR notifications will fall in 2012/13 as a result of the changes.

**Leisure Centres**

The leisure centres (Grantham Meres, Stamford, Bourne and The Deepings) are under contract to Leisure Connection and consequently responsibility for the management of health and safety lies with that company. As part of the client monitoring arrangements, the council receives copies of all completed accident reports from each centre. The accidents are assessed, monitored and where appropriate discussed with the site management prior to recording.

**The following are the total numbers of accidents for all four leisure centres**.



As can be seen from the graph above there was a decrease in the number of accidents reported throughout the incident categories except for sports injuries. In total there were 560 accidents reported for 2011/12 compared to 682 for the previous year 20010/11. Seven of the accidents were reported by Leisure Connection to the HSE under RIDDOR. The numbers of accidents are an extremely low percentage based upon throughput for the leisure centres. As an indication the throughput for all four sites for 2011/12 was 755,644 when compared to the total number of accidents for that year of 560 (0.072%), which confirms the extremely low percentage.

In addition the contractor, Leisure Connection maintains their own accident records and carries out analysis of total accidents together with compiling company statistics.

A health and safety audit of the 4 leisure centres by the corporate health and safety adviser forms part of the forward plan for corporate health and safety for 2012/13.

## 5. PROGRESS TOWARDS ACHIEVING HEALTH & SAFETY GOALS

During 2011 the Corporate Health and Safety Action Plan was reviewed, developed and endorsed through the Management Team. The action plan forms the focus point for proactive health and safety and delivery is in the main through the corporate health and safety adviser.

### Update of the Corporate Health & Safety Action Plan 2011/12

The majority of planned activities were completed during the year. A number of events in addition to planned activities were managed during the year including planning for the Olympic Torch Relay, Diamond Jubilee celebrations and the Gravity Fields Festival.

1. *Health & Safety Audits* – **All health and safety self audits have been returned.**

2. Review the Corporate Health and Safety Policy – **completed and distributed**

3. *Risk Assessments* –- **completed**.

4. *Health & Safety Training* – develop and deliver health & safety workshops in order to provide refresher and increased awareness to all existing staff **- in 2012/13 plan.** Secure an additional IOSH Managing Safely training session to capture new service managers and relevant team leaders - **complete**. Review, update and deliver a Health & Safety training session for the Management Team and Cabinet - **in 2012/13 plan.** Develop and deliver basic health and safety awareness sessions for councillors - **completed**

5. *Asbestos* – review management arrangements within the Property & Facilities service areas – **completed.**

6. *Contractors* –**completed**

7. *Unacceptable Behaviour* – **completed**

8. *Fire Safety at Work* – Review arrangements .Set up arrangements for the delivery of the on-line basic fire safety awareness to all staff **– completed. Draft Policy prepared and awaiting approval.**

9. *Display Screen Equipment (DSE)* – **completed**

10. *Lone Working* –**completed**

11. *Waste & Recycling* – continue the review and monitoring of this key service area, oversee the work of the service area health and safety co-ordinator and guide as appropriate **– ongoing with regular input from corp. health and safety**

**Advisory Audit**
This was carried out, in order to gain an overall assessment of a number of key areas of health and safety namely asbestos, lone working and fire safety. The assessment was focussed on specific areas. The outcome of the review was extremely positive with no matters of significance identified. Any minor matters were addressed through the Corporate H&S action plan and directly with service management. Any future audits of services will include legionnaires disease control where relevant, to assess the comprehensive training and control arrangements that are in place.

## 6. FORWARD PLAN 2012/13

The corporate health and safety action plan outlines the work activity for 2012/13. This has been developed with input from the Health & Safety Group and the Management Team. Recent focus has been on the review and updating of existing policies, procedures and systems of work together with an ongoing commitment to the delivery of general and service specific training. Whilst this approach helps to keep the organisation on track further improvements to performance are only likely if effective health and safety management is placed at the heart of the operating culture. A review of the experience of others organisation's approaches to developing positive health and safety cultures will be carried out during the year to learn from best practice. In addition opportunities to embed the management of health and safety issues will be considered as part of the delivery of key corporate programmes and initiatives such as Unlocking our Potential and plans to enhance staff wellbeing.

The following table contains the key elements of the 2012/13 action plan

| Actions | Lead | Start date | Completion date |
|---|---|---|---|
| *Waste & Recycling - focus on managing out risks associated with waste collection as part of round review project.* | Pat Swinton | May 2012 | December 2012 |
| *Workplace Transport – review existing arrangements and* further develop the corporate | David Price | September 2012 | December 2012 |

| Actions | Lead | Start date | Completion date |
|---|---|---|---|
| workplace transport policy | | | |
| Risk Assessments – incorporate of the health & safety risk assessments into the Council's risk management database. | Helen Kettle | September 2012 | December 2012 |
| Fire Safety Policy – complete approval. | Helen Kettle | September 2012 | September 2012 |
| *Event management planning* – Continue to provide technical health and safety support and guidance for event safety including Gravity Fields Festival 2012<br>Mid Lent Fairs 2013 | David Mather, Susie McCahon | On going | On going during the year |
| Arts Centres<br>Review both Grantham and Stamford art centres in order to develop and update where appropriate action plans | Graham Burley | September 2012 | January 2013 |
| Evaluate the benefit of using health and safety tools such as Health and Safety Laboratory 'Climate safety tool' to engage directly with all SKDC employees on health and safety. | David Price | August 2012 | October 2012 |
| | | | |
| **Training** | | | |
| Manual Handling training for waste and repairs teams | Pat Swinton<br>Liz Banner<br>Helen Kettle | On going | On going with review October 2012 |
| Needle- stick Training for front line staff | Pat Swinton | September 2012 | October 2012 |
| Health & safety refresher training workshops for existing employees | Helen Kettle | September 2012 | Ongoing & review March 2013 |
| Fire safety – specific training for fire check staff- 1 per service | Helen Kettle | September 2012 | October 2012 |
| General – health and safety topics delivered through e-learning | Helen Kettle | September 2012 | Ongoing with review March 2013 |

- **Performance Measures**

  Measurement of health and safety performance will form a key part of the ongoing health and safety arrangements at the council. Depending on the

*culture and performance* tools adopted, a suite of measures will be identified to measure and assist in driving forward performance. In addition the following data will be assessed to provide a baseline against which to measure progress and provide opportunities to learn and revise relevant operating factors.

- A targeted reduction in accidents by 10% within waste services.
- Attendance at corporate induction health and safety training - target of 100% within 6 months of starting work (service specific health and safety induction is provided by line managers in accordance with service requirements)
- Percentage of managers and required team leaders holding IOSH managing safely qualifications
- Near miss incident reports
- Requests for advice made to corporate health and safety
- Lost time due to accidents at work notified via internal accident procedures
- Numbers of slips and trips in the arts centres
- Number of RIDDOR notifications
- Number of employers liability insurance claims
- Number of waste and recycling staff holding an NVQ level 2 in waste operations.

## 7. CONCLUSION

Levels of awareness and commitment in relation to the management of health and safety remain high. This is not only through the staff and management but also within the council's dealings with contractors and partners. The council has also taken a lead within a number of health and safety matters through the Lincolnshire wide health and safety related groups.

The level of input into both reactive and planned activities has further demonstrated and highlighted to staff and management the importance of health and safety and the absolute commitment of the Council in embedding an effective health and safety culture at all levels of the Council.

# REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF:** HEAD OF LEGAL AND DEMOCRATIC SERVICES

**REPORT NO: LDS077**

**DATE**: 28TH SEPTEMBER 2012

| | | |
|---|---|---|
| **TITLE:** | LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW | |
| **KEY DECISION OR POLICY FRAMEWORK PROPOSAL:** | N/A | |
| **PORTFOLIO HOLDER: NAME AND DESIGNATION:** | Councillor Paul Carpenter – Portfolio Holder for Governance and Communication | |
| **CONTACT OFFICER:** | Lucy Youles<br>Head of Legal and Democratic Services<br>l.youles@southkesteven.gov.uk<br>Tel:01476 406105 | |
| **INITIAL IMPACT ANALYSIS:**<br><br>**Equality and Diversity** | Carried out and Referred to in paragraph (7) below<br>N/A | Full impact assessment Required:<br>Not applicable |
| **FREEDOM OF INFORMATION ACT:** | This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk | |
| **BACKGROUND PAPERS** | None applicable | |

## 1. RECOMMENDATIONS

It is recommended that Governance and Audit Committee note the Ombudsman's annual review and statistics attached to this report as **Appendix 1** for the period from 1st April 2011 up to the 31st March 2012.

## 2. PURPOSE OF THE REPORT

The purpose of the report is to highlight the annual review and statistics and obtain feedback from Members

## 3. DETAILS OF REPORT

3.1 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 should cause the Council cause for concern. The Ombudsman has confirmed there are no issues arising from the complaints which they would wish to bring to our attention. The Ombudsman's guidance on statistics is attached at **Appendix 2** for information.

3.2 The number of complaints received by the Ombudsman at 29 is up on the previous year when 21 were received. The number of premature complaints where complaints are made direct to the Ombudsman before the Council is aware of the complaint accounts for 15 of those complaints. Of those 15 complaints, 14 were subsequently dealt with through the Council's complaint system without further reference to the Ombudsman.

3.3 During the year there have been no findings of injustice from investigations carried out. The time for response to first enquires has improved from the previous year, however, there continues to be room for improvement.

## 4. OTHER OPTIONS CONSIDERED

No other options have been considered.

## 5. RESOURCE IMPLICATIONS

There are no resource implications relating to the proposals.

## 6. RISK AND MITIGATION

Risk has been considered as part of this report and any specific high risks are included in the table below:

| Category Risk | Action / Controls |
|---|---|
| No significant risks | |
| | |

## 7. ISSUES ARISING FROM IMPACT ANALYSIS

Equality impact analysis not required

## 8. CRIME AND DISORDER IMPLICATIONS

No crime and disorder implications

## 9. COMMENTS OF FINANCIAL SERVICES

There are no financial implications relating to the amendments.

## 10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

The comments of the Head of Legal and Democratic Services are included in the report

## 11. COMMENTS OF OTHER RELEVANT SERVICES

None relevant

## 12. APPENDICES:

Appendix 1 – Ombudsman Annual Review
Appendix 2 – Guidance on Statistics

22 June 2012

Local Government
OMBUDSMAN

Ms B Agass
Chief Executive
South Kesteven District Council
Council Offices
St Peters Hill
GRANTHAM NG32 6PZ

Dear Ms Agass

**Annual Review Letter**

I am writing with our annual summary of statistics on the complaints made to me about your authority for the year ended 31 March 2012. I hope the information set out in the enclosed tables will be useful to you.

The statistics include the number of enquiries and complaints received by our Advice Team, the number forwarded by the Advice Team to my office, and decisions made on complaints about your authority. The decision descriptions have been changed to more closely follow the wording in our legislation and to give greater precision. Our guidance on statistics provides further explanation (see our website).

The statistics also show the time taken by your authority to respond to written enquiries.

Last year I commented on the Council's unsatisfactory response times to my enquiries. As you will see from the statistics, there has been a great improvement. I thank you and your staff for responding so positively. There are no issues arising from the complaints that I want to bring to your attention.

***Changes to our role***

I am also pleased to have this opportunity to update you on changes to our role. Since April 2010 we have been exercising jurisdiction over the internal management of schools on a pilot basis in 14 local authority areas. This was repealed in the Education Act 2011 and the power restored to the Secretary of State for Education. During the short period of the pilot we believe we have had a positive impact on the way in which schools handle complaints. This was endorsed by independent research commissioned by the Department for Education which is available on their website.

Our jurisdiction will end in July 2012 and all complaints about internal school matters will be completed by 31 January 2013.

From April 2013, as a result of the Localism Act 2011, local authority tenants will take complaints about their landlord to the Independent Housing Ombudsman (IHO). We are working with the IHO to ensure a smooth transition that will include information for local authority officers and members.

/....

***Supporting good local public administration***

We launched a new series of Focus reports during 2011/12 to develop our role in supporting good local public administration and service improvement. They draw on the learning arising from our casework in specific service areas. Subjects have included school admissions, children out of school, homelessness and use of bankruptcy powers. The reports describe good practice and highlight what can go wrong and the injustice caused. They also make recommendations on priority areas for improvement.

We were pleased that a survey of local government revenue officers provided positive feedback on the bankruptcy focus report. Some 85% said they found it useful.

In July 2011, we also published a report with the Centre for Public Scrutiny about how complaints can feed into local authority scrutiny and business planning arrangements.

We support local complaint resolution as the most speedy route to remedy. Our training programme on effective complaint handling is an important part of our work in this area. In 2011/12 we delivered 76 courses to councils, reaching 1,230 individual learners.

We have developed our course evaluation to measure the impact of our training more effectively. It has shown that 87% of learners gained new skills and knowledge to help them improve complaint-handling practice, 83% made changes to complaint-handling practice after training, and 73% said the improvements they made resulted in greater efficiency.

Further details of publications and training opportunities are on our website.

***Publishing decisions***

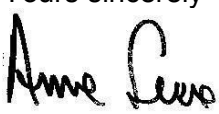
Following consultation with councils, we are planning to launch an open publication scheme during the next year where we will be publishing on our website the final decision statements on all complaints. Making more information publicly available will increase our openness and transparency, and enhance our accountability.

Our aim is to provide a comprehensive picture of complaint decisions and reasons for councils and the public. This will help inform citizens about local services and create a new source of information on maladministration, service failure and injustice.

We will publish a copy of this annual review with those of all other English local authorities on our website on 12 July 2012. This will be the same day as publication of our Annual Report 2011/12 where you will find further information about our work.

We always welcome feedback from councils and would be pleased to receive your views. If it would be helpful, I should be pleased to arrange a meeting for myself or a senior manager to discuss our work in more detail.

Yours sincerely



Anne Seex
Local Government Ombudsman

# Local authority report - South Kesteven DC for the period - 01/04/2011 to 31/03/2012

## LGO advice team

| Enquiries and complaints received | Benefits & Tax | Environmental Services & Public Protection & Regulation | Highways & Transport | Housing | Planning & Development | Total |
|---|---|---|---|---|---|---|
| Advice given | 1 | 0 | 1 | 0 | 1 | 3 |
| Premature complaints | 2 | 3 | 1 | 3 | 6 | 15 |
| Forwarded to Investigative team (resubmitted) | 1 | 0 | 0 | 0 | 0 | 1 |
| Forwarded to Investigative team (new) | 0 | 1 | 0 | 3 | 6 | 10 |
| Total | 4 | 4 | 2 | 6 | 13 | 29 |

## Investigative team - Decisions

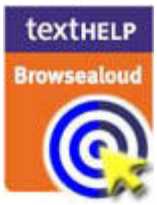
| Not investigated | | | Investigated | | | Report | Total |
|---|---|---|---|---|---|---|---|
| No power to investigate | No reason to use exceptional power to investigate | Investigation not justified & Other | Not enough evidence of fault | No or minor injustice & Other | Injustice remedied during enquiries | | |
| 1 | 0 | 1 | 6 | 6 | 0 | 0 | 14 |

| | No of first enquiries | Avg no of days to respond |
|---|---|---|
| Response times to first enquiries | 4 | 23.0 |

Local Government
OMBUDSMAN



Local Government
OMBUDSMAN

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# Note on interpretation of local authority statistics

## Complaints and enquiries received

For **2008/09 - 2011/12** statistics, this information shows the number of complaints and enquiries received by the LGO Advice Team broken down by service area and in total, and how they were dealt with. A change in the way we operate from April 2008 means that these statistics are not directly comparable with statistics from previous years. How complaints and enquiries were dealt with is explained as follows:

- **Premature complaints:** 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 prematures (see below).
- **Advice given:** These are enquiries where the LGO Advice Team has given advice on why the LGO would not be able to consider the complaint, other than the complaint is premature. For example, the complaint may clearly be outside the LGO'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 LGO 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 have received but where we have not yet contacted the council.

**Services areas:** In **2010/11**, we have changed our category system, so these are slightly different from previous years.

For **2007/08** statistics, this information shows the number of complaints received by the LGO, broken down by service area and in total within the periods given. These figures include complaints that are made prematurely to the LGO (see above for more explanation) and that we send to the council to consider first. The figures may include some complaints that we have received but where we have not yet contacted the council.

# Investigative team decisions

This information records the number of decisions made by the LGO Investigative Team, broken down by outcome, within the periods given. **This number will not be the same as the number of complaints forwarded from the LGO Advice Team (or the number of complaints received in 2007/08)** because some complaints are made in one year and decided in the next. Below we set out a key explaining the outcome categories.

For **all complaints in 2011/12** they are:

***Not investigated***

These are cases where the Ombudsman has decided not to investigate for one of the following reasons:

- **No power to investigate**: There are some things the law does not allow them to investigate, such as personnel matters, and matters that affect all or most of the people living in a council's area.
- **No reason to use exceptional power to investigate**: For some matters, while the law says the Ombudsmen should generally not investigate, it gives an exceptional power to do so.
- **Investigation not justified and other**: In addition to the law not allowing the LGOs to investigate certain matters, there will be some complaints where the LGOs use their general power not to pursue the complaint. This can be for a variety of reasons, including that the injustice claimed does not warrant the public expense of the LGO's involvement or that another organisation could deal with the matter better.

***Investigated***

These are cases where we have discontinued an investigation for one of the following reasons:

- **Not enough evidence of fault:** Decisions where the Ombudsman found insufficient evidence that the body complained against was at fault.
- **Injustice remedied during enquiries:** Decisions where, during the course of the investigation, the body complained against remedied or agreed to remedy any injustice caused, and the Ombudsman was satisfied with the action taken or agreed.
- **No or minor injustice and other:** Decisions where the Ombudsmen used their general power to discontinue the investigation. This can be for a variety of reasons,

but the most common is that any injustice caused does not justify the public expense of pursuing the matter further.

***Report issued***

Where the LGO has issued a report on a completed investigation. Almost all reports issued in 2011/12 had findings of maladministration causing injustice.

For **adult social care complaints in 2010/11** they are:

- Out of jurisdiction
- Not to initiate an investigation (formerly Ombudsman's discretion)
- To discontinue investigation injustice remedied (formerly local settlement)
- To discontinue investigation (formerly Ombudsman's discretion)
- Investigation complete, satisfied with authority's actions, not appropriate to issue report
- Investigation complete – report issued.

For **2007/08 - 2010/11** statistics (excluding adult social care statistics in 2010/11):

- **MI reps:** where the LGO has concluded an investigation and issued a formal report finding maladministration causing injustice.
- **LS (local settlements):** decisions by letter discontinuing our investigation because action has been agreed by the authority and accepted by the LGO as a satisfactory outcome for the complainant.
- **M reps:** where the LGO has concluded an investigation and issued a formal report finding maladministration but causing no injustice to the complainant.
- **NM reps:** where the LGO has concluded an investigation and issued a formal report finding no maladministration by the council.
- **No mal:** decisions by letter discontinuing an investigation because we have found no, or insufficient, evidence of maladministration.
- **Omb disc:** decisions by letter discontinuing an investigation in which we have exercised the LGO's general discretion not to pursue the complaint. This can be for a variety of reasons, but the most common is that we have found no or insufficient injustice to warrant pursuing the matter further.
- **Outside jurisdiction:** these are cases which were outside the LGO's jurisdiction.
- **Premature complaints:** the 2007/08 statistics include figures for premature complaints which would equate to 'formal prematures' as explained above.

# Response times

These figures record the average time the council takes to respond to our first enquiries on a complaint. We measure this in calendar days from the date we send our letter/fax/email to the date that we receive a substantive response from the council. The council's figures may differ somewhat, since they are likely to be recorded from the date the council receives our letter until the despatch of its response.

# Average local authority response times

This table gives comparative figures for average response times by authorities in England, by type of authority, within three time bands. (Not available for 2011/12.)

Date Updated: 11/07/12

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