AGENDA

For a meeting of the
GOVERNANCE AND AUDIT COMMITTEE
to be held on
MONDAY, 23 JULY 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 Tel: 01476 406152 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 29 JUNE 2012

(Enclosure)

5. UPDATES FROM PREVIOUS MEETING

6. FEEDBACK FROM THE EXECUTIVE

7. INTERNAL AUDIT PROGRESS REPORT

Members will consider the Internal Audit progress report. **(Enclosure)**

8. STATEMENT OF ACCOUNTS 2011/12

Report number FIN202 by the Strategic Director and Head of Finance. **(Enclosure)**

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

MINUTES

GOVERNANCE AND AUDIT COMMITTEE
FRIDAY, 29 JUNE 2012

COMMITTEE MEMBERS PRESENT

Councillor Bob Adams
Councillor Trevor Scott
Councillor Ian Stokes (Chairman)
Councillor Adam Stokes
Councillor Jeff Thompson
Councillor Rosemary H Woolley

OFFICERS

Head of Finance (Richard Wyles)
Property Development Manager (Neil Cucksey) item 8 only
Head of Community Assets (Paul Stokes)
Property and Facilities Service Manager (Liz Banner)
Finance Support Manager (David Scott)
Governance and Risk Officer (Tracey Elliot)
Principal Democracy Officer (Jo Toomey)

AUDIT

Audit Commission District Auditor (Tony Crawley)
Audit Commission Audit Manager (Paula Longden)
RSM Tenon Senior Manager (Rob Barnett)
RSM Tenon Lead Auditor (Kelly Waddoups)

IN ATTENDANCE

Councillor Mark Ashberry

1. MEMBERSHIP

The Committee was notified that Councillor Adams would be substituting for Councillor Bevan and Councillor Adam Stokes would be substituting for Councillor Wilkins. Councillor Ashberry attended the meeting on behalf of Councillor Shorrock. As he had not had the required training, Councillor Ashberry was permitted to attend as an observer and could only participate at the Chairman's discretion.

2. DECLARATIONS OF INTEREST

During the meeting Councillor Adam Stokes declared a personal interest in respect of any discussion on civil parking enforcement because he was a member of Lincolnshire County Council.

3. MINUTES OF THE MEETING HELD ON 15 MARCH 2012

The minutes of the meeting held on 15 March 2012 were agreed as a correct record subject to the following amendments:

- In the list of members present, replace Councillor Scott with Councillor Adams
- In respect of the minute on the Lincolnshire Audit Forum, a note should be added to say that the Chairman contacted the Forum to state he would attend.

4. INTERNAL AUDIT ANNUAL REPORT 2011-12

The Committee considered the Internal Audit annual report for 2011/12. Particular attention was drawn to the three green assurances for 2011/12 on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. There had been progression from 2011/12, when three amber lights were given.

During 2011/12, 19 Internal Audit reviews, six advisory reviews and four follow up reviews were undertaken. These resulted in 14 substantial assurance opinions and five reasonable assurance opinions. There were no recommendations relating to high or medium risk, which were not accepted by management.

Following a question from a Committee member, internal audit agreed to look into the Council's MOT service and its compliance with Vehicle and Operator Services Agency (VOSA) regulations.

Committee members noted the report and were pleased with progress made.

5. INTERNAL AUDIT PROGRESS REPORT

Representatives from internal audit presented the Internal Audit Progress Report, which showed the reports issued in the current year (contract management – ground and tree maintenance and a follow-up report). The report also highlighted work in progress and a timeline for future audit activity.

The Contract Management – Ground and Tree Maintenance resulted in internal audit making three high, 2 medium and 6 low recommendations, which were all agreed by management. The Head of Property Development explained the measures that were put in place as a result of the audit. Actions had been communicated with staff members and a project plan for renewing the contract was in place. The service was working with Procurement Lincolnshire in preparation for putting the new contract, which was due for renewal in January 2013, out to tender.

6. INTERNAL AUDIT FOLLOW-UP REPORT

The Committee noted the internal audit follow up report, which summarised progress made by South Kesteven District Council in implementing previous internal audit recommendations. The review considered 17 recommendations, of which 2 were ‘high’ and 15 were ‘medium’. The review determined that the council was demonstrating good progress in implementing actions. Brief discussion ensued on the follow-up audits in respect of the Council’s pool cars and non-domestic rates.

7. EXTERNAL AUDIT- PROGRESS REPORT

The external audit progress report was presented to the Committee. There were no significant issues raised within the report. External Audit completed its work programme using a planned approach consisting of a mixture of controls and substantive testing.

Audit of the Council’s financial statement would commence on 9 July 2012. Committee members noted that the work would be challenging as the audit would be completed without a key member of staff. The outcome of the audit would be reported to the Committee at its meeting on 25 September 2012.

In discussing future external audit arrangements, members were advised that KPMG had won the contract for the East Midlands however appointment to individual bodies would not take place until July 2012. The new auditor would start from 1 September 2012. Current Audit Commission staff would transfer on 1 November 2012.

A special meeting of the Committee had been called on 23 July 2012, when Councillors would have the opportunity to review and approve the draft Statement of Accounts. Members would be asked to consider any amendments or comments, for incorporation into the final version.

8. DRAFT FINANCIAL OUTTURN 2011-12

Decision:

1. ***Members of the Governance and Audit Committee have reviewed, appraised and approved the Revenue and Capital Outturn report and associated appendices for 2011/12, including the movement and use of reserves detailed in report HOF200.***

2. ***The Committee notes the commentary to the outturn report and has identified no issues of which it would like to make Council and Cabinet aware in relation to the Council’s medium term financial planning arrangements.***

The Head of Finance presented report number HOF200 on the draft financial outturn 2011-12. The Committee was asked to approve the outturn and the proposed movement of reserves. The Budget for 2011/12 saw a reduction in formula grant of £1.27m.

The general fund revenue account showed an underspend after a number of required accounting transactions. Within this account, the Committee was asked to approve rolling forward specific set asides into 2012/13 budgeted for Property Services, Waste Services and ICT. The Committee was also asked to approve the creation of an 'invest to save' reserve. As there was no pay award for staff in 2011/12, £100k set aside for the purpose was transferred back to reserves.

The report highlighted key variances across the Council's services. Particularly highlighted were car parking, grounds maintenance, leisure centres and the building control trading account.

With the exception of Grantham, all Special Expense Areas maintained costs. There were unforeseen costs for the Grantham SEA as a result of drainage issues at Grantham cemetery. Councillors noted that current works were contained within the SEA and its reserve but financing of future work would need recouping.

The Housing Revenue Account (HRA) had resulted in an overall surplus of £1.284m which had been added to the working balance and will be used to finance future spending programmes.

Performance in respect of dwelling rent income remained strong. Changes to universal credit, bedroom tax (removal of benefit entitlement for tenants that have 'surplus' bedrooms) and the direct payment of benefits to tenants could affect this position in the future. Efficiency savings and changes to staffing levels had contributed to the revenue variance, as had depreciation in the value of the housing stock.

The £4m underspend against the capital accounts was evenly split between the general fund and the Housing Investment Programme (HIP). Several general fund projects, including Bourne Core Area, Bourne Community Access Point and Grantham Growth would roll over into 2012/13. Housing improvement grants were not time bound meaning they could move across financial years.

Councillors asked questions on the report. Discussion ensued on the variance in respect of leisure centres as the District Valuer had updated the valuations which impacted the calculation of the depreciation in asset value.

The Head of Community Assets explained the new process through which the Council commissioned repairs and improvements. Rather than tendering for individual jobs, works were grouped. This led to an initial backlog of work however in the long-run the new framework would lead to the more efficient completion of repairs and improvements.

There had been an overspend on heating and installation because the number of boilers that needed repairing and replacing was greater than anticipated. A rolling improvement programme was underway however officers could not insist tenants accept upgrades. The programme was based on the full stock condition survey completed in 2010. A 10% stock survey was completed annually.

Councillors discussed the insurance reserve. The current policy is to finance any judicial review or planning appeal costs from this reserve to mitigate the impact on the council tax payer. The Council had also moved to an in-house risk profile so that there was less reliance on the external insurer. Officers were reviewing insurance arrangements to optimise the balance between use of internal resources and external arrangements.

The pension reserve allowed the authority to respond to any pension reviews, financing any changes to employer contributions. The priority reserve was a one-off source of funding to pump-prime projects in support of priority outcomes.

The chairman proposed the recommendations, which were agreed by the Committee.

13:30-13:44 – the meeting adjourned.

9. LOCAL CODE OF CORPORATE GOVERNANCE - REVIEW

Decision:

That the Committee approves the updated Local Code of Corporate Governance as attached at appendix 1 of report number HOF196.

The Local Code of Corporate Governance was last reviewed in 2010. Report number HOF196 gave the Committee the opportunity to review and update the code so it reflected recent changes in the Council's priorities and strategic direction.

The Committee was reminded that Council delegated authority to the Committee to approve the Local Code in its entirety. The Committee was required to ensure it was comfortable with the level of transparency and evidence within the document, which was a public statement. A copy of the statement would be put onto the home page of the Council's website.

Representatives from the Audit Commission explained changes to the categories of assurance it could give on the use of resources. The highest assurance it could now give was 'adequate'.

The consensus of the Committee was that a sufficient summary was provided within the principles for good corporate governance and that the full version should be published.

The recommendations in report number HOF196 were proposed by the Chairman and agreed by the Committee.

10. ANNUAL GOVERNANCE STATEMENT

Report number HOF197 on the draft Annual Governance Statement for 2011/12 was presented to the Committee. The document would form one of the key statements in the Annual Statement of Accounts. It gave an assessment of the Council's governance arrangements incorporating key messages from internal and external audit reports.

As the Committee was charged with governance, it was its responsibility to approve a statement which would be incorporated in the annual statement of accounts. Councillors were invited to highlight any messages or observations they felt needed strengthening. No committee member highlighted any issues. The Chairman asked members to raise any points at the Committee's meeting on 23 July 2012. These comments could be incorporated into the accounts that would be presented on 25 September 2012.

11. TREASURY MANAGEMENT ANNUAL REPORT 2011-12

Decision:

The Committee notes report number HOF198 and approves the content of the annual report on Treasury Management Activity for 2011/12.

Report number HOF198 on the annual report on treasury management activity for 2011/12 was summarised by the Finance Support Manager. Production of the report was a requirement of the Local Government Act 2003. A mid-year report was presented to Committee in December 2011. The report summarised the financial position nationally together with the Council's investment performance.

The Committee considered the draft Treasury Management Strategy however the final version was approved by Council because of the significant changes to the prudential indicators required to allow the self-financing of the Housing Revenue Account.

The Council had a number of public works loans which were due for payment within the next five years. Renegotiation would be less cost-effective than letting the loans run their course.

In respect of interest rates, average balances were higher than the budget assumption but the return was slightly lower than projected. Overall the Council had achieved a 1.71% return rate; the average return for other district councils was 1.39%.

Increases in interest rates were not expected until 2014. Councillors also considered the potential impact of the interest rate dropping to 0.25%.

The recommendation in report number HOF198 were proposed by the Chairman and agreed by the Committee.

12. RISK MANAGEMENT ANNUAL REPORT 2011-12 AND RISK REGISTER UPDATE

Decision:

1. ***The Governance and Audit Committee notes the content of report number HOF 201.***
2. ***The Governance and Audit Committee notes the latest version of the Corporate Risk Register.***

Report number HOF201 asked Committee members to note the contents of the report and the latest version of the Corporate Risk Register. The Committee had received updates throughout the year and had approved the updated strategy in June 2011. It had been agreed that the Committee would review the strategy every two years.

All service managers went through an exercise to identify the service risk profile. This highlighted exceptional risks for each service area which were built into service plans.

Changes had also been made to the risk section on the report template for council, cabinet and committees. This required officers to provide more information on high risks.

Work had been undertaken to review risk around projects, health and safety and partnerships. Performance measures had also been developed. Particularly highlighted was the positive assurance given to the Council's risk processes by internal audit.

The Finance Support Manager highlighted the three changes that had been made to the corporate risk register, which related to IT infrastructure, introduction of Civil Parking Enforcement (CPE) and tree stock condition.

Councillor Adam Stokes declared a personal interest in any discussion on CPE as a member of Lincolnshire County Council.

There was brief discussion on the new additions to the register. Councillors questioned the score apportioned to several risks and their position on the heat map. Some risks scored lower than Councillors expected because control measures were in place to mitigate the risks. The residual risk score for other risks was higher because there were fewer controls that could be put in place.

The recommendations in report number HOF201 were proposed by the Chairman and agreed by the Committee.

13. CLOSE OF MEETING

The meeting was closed at 14:28.

RSM Tenon

SOUTH KESTEVEN DISTRICT COUNCIL

Internal Audit Progress Report (2012/13)

Governance and Audit Committee Meeting – 23rd July 2012

Agenda Item 7

RSM Tenon

CONTENTS

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 two reports relating to the 2012/13 audit plan; these are in the areas of:

- **Elections; and**
- **Licensing.**

3. WORK IN PROGRESS OR PLANNED

3.1 There is currently one report out in draft and awaiting management response, which relates to the Leases review. There are a further 22 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 5 recommendations across the two reviews that are being presented to this committee; no recommendations have been classified as 'High' Risk; one recommendation has been classified as 'Medium' risk and the remaining four 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 bookings systems in place at the Arts Centres for which three audit days have been taken out of the contingency budget, a draft report is currently being produced following this piece of work. In addition, we plan to review the responsive repairs process and procedures which is scheduled to take place week commencing 23/07/12. A total of seven 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														
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
Management	-	-	-	-	-	-	-	5	-	-	-	-	-	-
							Sub total	***28***		***2***	***6***	***10***	***18***	***18***

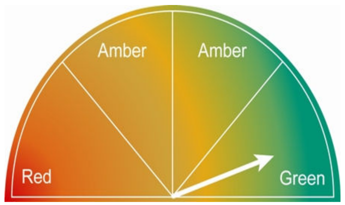
Auditable Area	Start Date	Debrief date	Draft report issued	Responses received	Final report issued	Governance & Audit Committee	Audit approach	Audit Days	Assurance level given	Number of Recommendations Made				
										High	Medium	Low	In Total	Agreed
Work in progress or yet to start (including reports still in draft)														
Leases	11/06/12	14/06/12	27/06/12					(6)						
Asset Management Plan	16/07/12							(6)						
Corporate Governance	23/07/12							(6)						
Creditors & Procurement	30/07/12							(7)						
Debtors	13/08/12							(6)						
Rent Collection & Arrears	13/08/12							(7)						
Follow Up (2)	14/08/12							(4)						
Housing Benefits	03/09/12							(7)						
Council Tax	03/09/12							(5)						
NNDR	03/09/12							(5)						
Insurance	17/09/12							(6)						
Cash & Banking	08/10/12							(6)						
General Ledger/ Main Accounting System	22/10/12							(7)						
Payroll & Expenses	05/11/12							(6)						
Land Charges	05/11/12							(4)						

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
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)						
Anti-Fraud & Corruption – Bribery Act	TBC							(7)						
Data Security	TBC							(7)						
Contingency (Arts Centre) (Repairs)	-	-	-	-	-	-	-	(17) 3 7	-	-	-	-	-	-
Management	-	-	-	-	-	-	-	(10)	-	-	-	-	-	-
							Sub total	***(162)***						
							Total	***190***						

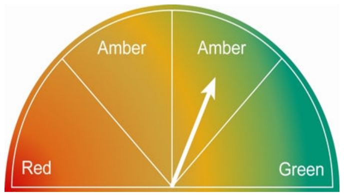
Recommendation Categorisation		
Our findings and recommendations are categorised as follows:		
High (H): *action is imperative to ensure that the objectives for the area under review are met.*	**Medium (M):** *requires action to avoid exposure to significant risks in achieving the objectives for the area under review.*	**Low (L):** *action advised to enhance control or improve operational efficiency.*

ASSURANCE OPINIONS

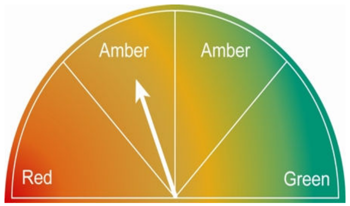
Our opinion will be graphically represented as a speedometer (see below). We have provided guidelines for each segment of the speedometer to provide the Governance & Audit Committee (or equivalent) with some context behind each of the ratings.



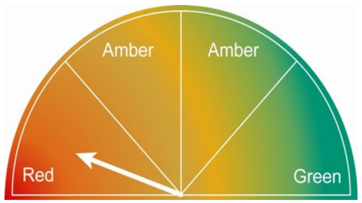
Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.



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.



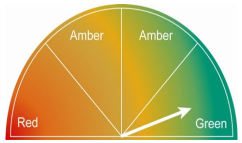
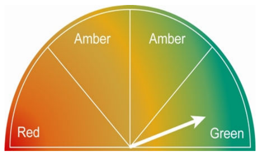
Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.



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)
<u>Elections – (03.11/12):</u> An audit of Elections was undertaken as part of the approved internal audit plan and resulted in four 'Low' risk recommendations. All of which were accepted by management.		4 (4)	0	January 2013	Electoral and Democratic Services Team Leader
<u>Licensing – (04.11/12):</u> An audit of Licensing was undertaken as part of the approved internal audit plan and resulted in one 'Medium' risk recommendation. This recommendation was in relation to: ➢ Each year, when the new fees and charges have been approved, a member of the Licencing staff should independently check that the correct figures have been entered into the Customer Services system for calculating charges for the transfer of vehicle licenses.		1 (1)	0	April 2013	Community Safety and Licensing Service Manager

REPORT TO GOVERNANCE AND AUDIT COMMITTEE

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

REPORT NO: **HOF202**

DATE: **23 July 2012**

TITLE:	Statement of Accounts 2011/12	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Councillor Mike Taylor Well Run Council Portfolio Holder	
CONTACT OFFICER:	Daren Turner – Strategic Director Corporate Focus. 01476 406301 Email: d.turner@southkesteven.gov.uk Richard Wyles –Head of Finance 01476 406210 Email: r.wyles@southkesteven.gov.uk	
INITIAL IMPACT ANALYSIS: **Equality and Diversity**	Carried out and Referred to in paragraph (7) below N/A	Full impact assessment Required: 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	None	

1. RECOMMENDATIONS

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

a. Review the Statement of Accounts 2011/12 and raise any issues which may need consideration before the accounts are approved at the meeting on 25 September 2012.

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
- Statement of Accounts
- Commentary on financial statements

3. DETAILS OF REPORT

3.1 Account and Audit Regulations 2011

The Account and Audit Regulations were changed for the 2011/12 financial year, so that there is no longer a requirement for the Governance & Audit Committee to approve the Statement of Accounts by 30 June of each year. The new requirement is that they are approved by the officer with responsibility for the Council's financial affairs (s151 Officer) by 30 June (which has been undertaken) and that after completion of the audit, the accounts must then be approved by those charged with governance by 30 September 2012. It is however, considered good practice for the Governance & Audit Committee to review the draft Statement of Accounts before the audit is complete.

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.

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.

Auditors' opinions on the accounts are added to the Statement of Accounts. Further detail of the audit findings is provided through the annual audit letter to the Council.

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

The Statement of Accounts will be published following the annual audit by the Audit Commission which is due to commence on 9th July 2012. The accounts and associated papers meet the requirements of the Accounts and Audit Regulations 2011 and comply with the requirements of the Code.

The published accounts of the Council are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. In my role as Chief Finance Officer, I have to:

a. ensure the regularity of transactions, by putting in place systems of internal control to ensure that financial transactions are lawful
b. maintain proper accounting records, and
c. prepare financial statements that give a true and fair view of the financial position of the body and its expenditure and income.

The Statement of Accounts include an explanatory foreword and a 'review of the year' section which provides interested parties with a guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the Council's financial position and assists with the accounting statements. It also contains a commentary on the major influences affecting the Council's income and expenditure and cash flow, and information on the financial needs and resources of the Council.

3.4 Changes for 2011/12

This is the second year the Council has prepared and presented the Statement of Accounts following International Financial Reporting Standards (IFRS), instead of UK Generally Accepted Accounting Practice (UK GAAP).

All of the accounting policies have been reviewed and updated and the Committee, at its meeting on 15 March, approved the accounting policies that have been used in respect of the 2011/12 accounts. As there were only a small

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

number of changes to the accounting policies required for the accounts for 2011/12 and therefore they follow a very similar format to the 2010/11 accounts.

One new accounting policy has been added in respect of heritage assets. This is shown at note 45 of the statement of accounts.

The prime statements comprise of:

- Movement in Reserves Statement: this statement shows the changes that have occurred in the Council's reserves during the year and reconciles these movements back to the Comprehensive income & Expenditure Statement.

- Comprehensive Income & Expenditure Statement: this statement shows the income and expenditure under SeRCOP (service reporting code of practice) headings. It also presents unrealised gains and losses that have occurred in the year.

- Balance Sheet: continues to present the financial position of the Council at the end of the financial year being reported.

- Cash Flow Statement: continues to summarise the flows of cash into and out of the Council's bank accounts during the financial year.

Other Significant Items in the Statement of Accounts

The most significant item in the statement of accounts relates to the payment made by the Council in respect of the self financing arrangements for the Housing Revenue Account (HRA). The Council borrowed £121.652m from the PWLB (Public Works Loan Board) on 28th March 2012 and this transaction is shown in the accounts. The loan will be repaid over a 30 year period and is a combination of a maturity loan of £25m over a 9 year profile and the balance of the loan over a 30 year EIP (equal instalments of principal). This transaction in reflected in the balance sheet under the current and long term liabilities.

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3.5 Movement in Reserves Statement

The overall movement in reserves held on the bottom of the balance sheet as at 31st March 2012, has been a decrease of £128.522m. This reduction is due, in part, to the significant borrowing the Council has undertaken in respect of the HRA self-financing arrangements that resulted in borrowing being undertaken on 28th March 2012.

3.6 Comprehensive Income & Expenditure Statement

This statement is fundamental to understanding the Council's activities, in that it reports the net cost for the year of all functions for which the Council is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

The service expenditure is in accordance with the 'Service Reporting Code of Practice' and includes the line 'settlement payment to Government for self financing'.

The Council's Income and Expenditure Account shows a deficit of £128.523m, compared to a deficit of £67.102m (restated) in 2010/11. To better understand this change it should be considered as two elements:

a) Surplus or Deficit on provision of Services: £123.174m deficit in 2011/12 (£82.395m deficit in 2010/11). This element represents the net cost of providing services in the year, offset against income raised from Council Tax and Government Grants. The large deficit in 2011/12 is a result of the self financing payment in respect of the HRA. This is however reversed out through the Movement in reserves Statement so has no impact on Council Tax.
b) Other Comprehensive Income & Expenditure: a movement of £22.413m in respect of pension liabilities attributed to SKDC. This large variance is due, in part, to the surplus that was created in the 2010/11 accounts as a result of the Government changes to the pension calculations – specifically these related to the change of future pension increases being linked to CPI rather than RPI. As CPI is generally 0.5% - 1% lower than RPI this had decreased the value of the pension liabilities and therefore resulted in a positive gain in the accounts. Therefore this change has distorted the 2010/11 when comparing the two years.

3.7 <u>Balance Sheet</u>

The Balance sheet is fundamental to the understanding of the Council's financial position at the year end. It shows the balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

The Council's net worth was £108.210m as at 31st March 2012 which represents a decrease of £128.522m on the previous financial year. The key reasons for this are explained in the paragraphs above detailing the movements in reserves and the comprehensive income & expenditure.

3.8 <u>Cash Flow Statement</u>

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand, cash held in instant access accounts and money markets funds less overdrafts repayable on demand.

3.9 <u>Housing Revenue Account</u>

The Housing Revenue Account (HRA) is 'ringfenced' from the general fund.
This reflects the statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government

and Housing Act 1989. It includes credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year.

The amounts included in the HRA differ from the amounts in respect of the HRA services included in the Income and Expenditure Account for the authority as a whole, which includes income and expenditure in accordance with the Code rather than in accordance with statute and non-statutory proper practices. For this reason the HRA has two parts:

a. HRA Income and Expenditure Account
b. Movement on the Housing Revenue Account Statement

The HRA shows a deficit of £123.692m for 2011/12 compared with a deficit position of £87.476m for 2010/11. The key reason for this deficit is the self financing borrowing the Council has undertaken.

3.10 Collection Fund

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

3.11 Conclusion

The report and enclosures represents a detailed picture of the Council's financial activity for 2011/12 and which can be used as a base for medium term financial planning.

Finally, I would like to express my gratitude to colleagues in Accountancy services for producing the Statement of Accounts within the prescribed timescales.

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:

Appendix A - Statement of Accounts 2011/12

C O N T E N T S

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 programmes 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, 7 Labour 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 - 83) – Notes to the preceding financial statements, explaining and providing additional information to figures included in these statements.

Housing Revenue Account (pages 84 - 94) - 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 95 – 97) – 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 98 - 110) - 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 111 – 118)** 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)
- £0.030 m 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	1,691	(1,617)
Corporate	1,493	830	(663)
Development & Growth	2,252	2,231	(21)
Environmental Services	5,640	5,578	(62)
Finance	1,422	993	(429)
Housing & Neighbourhoods	943	1,184	241
People, Projects & Performance	(19)	87	106
Special Expense Areas	566	663	97
Legal & Democratic	1,345	1,185	(160)
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.

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 re-valuation 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 Development Management service has undertaken a review of its staffing arrangements and introduced a new method of delivering the service to the customer. In addition to this, the service has undertaken a programme of back scanning its information to enable it to be available electronically for staff when dealing with cases and to improve the responsiveness to customer enquiries. This planned work has resulted in costs which have been met from overall savings within the Head of Service area.

There has been an underspend in respect of Local Strategic Partnerships cost centre following the streamlining of the LSP during 2011/12. There has also been an underspend in respect of the Local Development Framework programme as a result of the Inspector delaying the start of the examination process until Autumn 2012. The LDF is funded by Housing Planning Delivery Grant monies which will be utilised in 2012/13.

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.

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

The service outturn of £14.442m shown in the table on page 8 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 8 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 8 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 8 but included in Financing & Investment Income & Expenditure section below Cost of Services in CIES
CIE 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 non-enhancing capital expenditure 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.

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

Variance Analysis

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.

Repairs and 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.

Supervision and 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.

Depreciation and 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.

Explaining the big differences

The final spend for the year was £4.033m lower than the revised approved programme for the following key reasons:

<u>Variance Analysis – General Fund</u>

Bourne Core Area – 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 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.

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

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 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.

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 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 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 of 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 Authority 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 by the 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 by the 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 treated as non-enhancing capital expenditure and did not result in an increase to the balance sheet values. 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 been increased by £1.770m and now total £35.391m.

Specific and earmarked reserve balances as at 31 March 2012 are as follows:

- General Fund Capital Reserve £3.061 million
- Insurance Reserve £0.719 million
- Pensions (former & current employees) Reserves £1.793 million
- Priority Themes & Service Improvement Reserve £4.651 million
- Useable Capital Receipts Reserve £6.756 million
- Housing Revenue Account Capital Reserve £4.313 million
- Building Control Reserve (£0.034 million)
- Special Expense Area Reserve £0.080 million
- Service Specific Funds £0.367 million
- Invest to Save Reserve £0.500 million

The remainder of the reserves (£1.405 million) relate to unapplied government grants for which conditions have been met, and which will be applied in future years.

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	**COUNCILLOR IAN STOKES**
CHIEF FINANCE OFFICER	**CHAIR OF GOVERNANCE & AUDIT COMMITTEE**
25th September 2012	**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.

2011/2012	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	**Total Usable Reserves £'000**	Unusable Reserves £'000	**Total Authority Reserves £'000**
Balance b/f	(2,370)	(8,808)	(8,171)	(229)	(7,951)	(5,348)	(744)	**(33,621)**	(203,111)	**(236,732)**
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									5,348	**5,348**
Total Comprehensive Income & Expenditure	**(522)**	**0**	**123,696**	**0**	**0**	**0**	**0**	**123,174**	**5,348**	**128,522**
Adjustments between accounting basis and funding basis under	(2,556)	0	(125,003)	0	1,254	(3,674)	268	**(129,711)**	129,711	**0**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**(3,078)**	**0**	**(1,307)**	**0**	**1,254**	**(3,674)**	**268**	**(6,537)**	**135,059**	**128,522**
Transfers to/(from) Earmarked Reserves (Note 9)	3,078	(3,026)	67	(2)	(59)	4,709	0	**4,767**	(4,767)	**0**
(Increase)/Decrease in 2011/2012	**0**	**(3,026)**	**(1,240)**	**(2)**	**1,195**	**1,035**	**268**	**(1,770)**	**130,292**	**128,522**
Balance at 31 March 2012 carried forward	**(2,370)**	**(11,834)**	**(9,411)**	**(231)**	**(6,756)**	**(4,313)**	**(476)**	**(35,391)**	**(72,819)**	**(108,210)**

see Notes 26 & 27 for details of reserves

MOVEMENT IN RESERVES STATEMENT Cont'd

2010/2011 Restated	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**
	£'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									(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)**	**(203,111)**	**(236,732)**

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)		25,816	(23,510)	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**		210,009	(71,912)	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	176,098
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		3,000
398	289	Non-Current Debtors		289
325,171	**237,163**	**Long-Term Assets**		**234,544**
20,223	26,323	Current Investments		27,683
26	71	Inventories	19	62
6,230	5,078	Current Debtors	21	3,374
7,310	491	Cash & Cash Equivalents	22	2,891
33,789	**31,963**	**Current Assets**		**34,010**
(1,659)	(130)	Current Borrowing		(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	8,773
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**			**35,391**
		Unusable Reserves		
312,377	222,370	Capital Adjustment Account	27	97,783
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**			**72,819**
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)
87,903	Adjustments to net surplus or deficit on the provision of services for non-cash movements		4,680
(936)	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)
	Cash flows from Operating Activities includes		
(385)	Interest paid		(259)
663	Interest received		730
4,572	**Net cash flows from Operating Activities**		**(119,320)**
	Investing Activities		
(2,394)	Purchase of property, plant and equipment, investment property and intangible assets		(2,270)
(43,000)	Purchase of short-term and long-term investments		(57,995)
(11)	Other payments for investing activities		(28)
944	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		57,495
159	Other receipts from investing activities		67
(10,302)	**Net cash flows from Investing Activities**		**(1,910)**

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
644	Other receipts from financing activities		2,216
(1,516)	Repayments of short- and long-term borrowing		(32)
(346)	Other payments for financing activities		(164)
(1,089)	**Net Cash Flows from Financing Activities**		**123,630**
(6,819)	**Net increase or (decrease) in cash and cash equivalents**		**2,400**
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	2,891

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 projections 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. 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 Authority’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 charge and the reduction of the outstanding obligation. The finance charge 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. Note 45 – Heritage Assets provides information on the assets held and their values.

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

[redacted]

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 to 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.

2011/2012	**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)
Movements in market value of investment properties	(55)	(15)					70
Revenue expenditure funded from capital under statute (REFCUS)	(800)						800
Financing of REFCUS					220		(220)
Capital expenditure	226	(4,244)	1606		48		2,364
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							
Adjustment to council tax income	(26)						26
Adjustments primarily involving the Pension Fund							
Adjustment of IAS 19 retirement entries for actual contributions	(135)	(75)					210
Adjustments primarily involving the Accumulating Compensated Absences Account							
Accrual for accumulating compensated absences	38	78					(116)
Adjustments between Usable Reserves							
Payments to Housing Capital Receipts Pool	(475)		475				
Total Adjustments	**(2,556)**	**(125,003)**	**1,254**	**(3,674)**	**268**	**0**	**129,711**

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 Capital Grants	Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amounts set aside to provide for future expenditure								
Insurance provision	10	57		(67)	(2)			
Special Expense Area provision	46			(46)				
Transfer Surplus to reserves	3,280			(3,280)				
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		(4,816)
Total Transfers To/(From) Earmarked Reserves	**3,078**	**67**	**(59)**	**(3,026)**	**(2)**	**4,709**	**0**	**(4,767)**

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
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

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 £'000	Other Land & Buildings £'000	Vehicles, Plant & Eqpt £'000	Surplus Assets £'000	Assets Under Construction £'000	Total PPE £'000
Cost or Valuation at 01/04/2011	**181,814**	**47,017**	**10,578**	**245**	**52**	**239,706**
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	(2,910)	404		(4)		**(2,510)**
Derecognition - Disposals	(277)		(412)			**(689)**
Assets reclassified (to)/from Held for Sale			71		(71)	**0**
At 31/03/2012	**182,852**	**48,020**	**12,048**	**237**	**168**	**243,325**
Accumulated Depreciation & Impairment at 01/04/2011	**(2,555)**	**(1,537)**	**(6,027)**	**(8)**	**0**	**(10,127)**
Depreciation charge	(2,511)	(1,482)	(1,118)	(10)		**(5,121)**
Depreciation written out to the Revaluation Reserve		839				**839**
Depreciation written out to the Surplus/Deficit on Provision of Services	2,555	685		8		**3,248**
Impairment losses recognised in the Surplus/Deficit on Provision of Services	(4,244)	(110)				**(4,354)**
Derecognition - Disposals	1		290			**291**
						0
At 31/03/2012	**(6,754)**	**(1,605)**	**(6,855)**	**(10)**	**0**	**(15,224)**
Net Book Value						
At 31/03/2012	**176,098**	**46,415**	**5,193**	**227**	**168**	**228,101**
At 31/03/2011	**179,259**	**45,480**	**4,551**	**237**	**52**	**229,579**

Please note that the figure for council dwelling additions was all non-enhancing capital expenditure and is therefore recognised as 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**	**319,775**

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	99
(28)	Amortisation for the period	(31)
(28)		68
66	Net carrying amount at end of year	134
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 set 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 £30 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	0	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	26,854			21

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	3,046	4,045	1,073
Between two and three years		0	0
More than three years		0	0
Total	33,188	31,733	29,971

These amounts comprise long-term debtors, short-term debtors and balances on instant access accounts which are contained within the figure for cash & cash equivalents.

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			
	31/03/2012	31/03/2011	31/03/2010	31/03/2012
	£'000	£'000	£'000	£'000
Financial Liabilities (principal)	120,978	2,580	2,500	3,254
Accrued Interest (will be short-term)	-	-	-	135
Financial Liabilities at amortised cost	120,978	2,580	2,500	3,389
Total Borrowings	120,978	2,580	2,500	3,389
Loans & Receivables (principal)	3,000	4,000	1,000	30,005
Accrued interest	46	45	73	137
Loans & receivables at amortised cost	3,046	4,045	1,073	30,142
Total Investments	3,046	4,045	1,073	30,142

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 and Statement of Total Recognised Gains & Losses (STRGL) 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	Available For Sale Assets '£000	Fair Value through the I&E '£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	Available For Sale Assets '£000	Fair Value through the I&E '£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	3,046	3,089	4,045	4,071	1,000	1,065
Trade debtors	275	275	451	451	389	389
Total loans & receivables	**33,463**	**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

All inventories held by the Council are consumable stores held for repair and maintenance of Council assets and postage. Prior to this financial year, stocks held relating to postage and all consumables other than those relating to housing repairs and maintenance were not held in sufficient amounts to warrant a year-end stock take. Larger stocks are now held to improve efficiency and have therefore been accounted for.

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		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	28
(377)	(937)	Bank current accounts	358
2,674	1,410	Instant Access accounts	2,505
5,001	0	Short term deposits with building societies	0
7,310	491	**Total Cash & Cash Equivalents**	2,891

Note 23 – Assets Held for Sale

As at 31/03/2011 and 31/03/2012, all assets held for sale were non-current.

2010/2011 £'000		2011/2012 £'000
1,042	Balance at start of year	140
	Assets newly classified as held for sale:	
142	Property, Plant & Equipment	0
(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	(140)
0	Transfers from non-current to current	0
0	Other movements	0
140	Balance at end of year	0

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:

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

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	2,510	(702)	7,843
General Fund Unapplied Revenue Grants	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	9,946	(8,176)	35,391

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
312,378	222,370	Capital Adjustment Account	97,783
(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		72,819

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 & impairment of non-current assets	(5,121)
(88,285)	Revaluation losses on Property, Plant & Equipment	(2,834)
1,280	Revaluation gains reversing previous impairments charged to the Comprehensive Income & 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)
218,820		94,768
51	Adjusting amounts written out of the Revaluation Reserve	153
218,871	Net written out amount of the cost of non-current assets consumed in the year	94,921
	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
(4,798)	Capital expenditure charged against the General Fund and HRA balances	(4,039)
3,316		2,864
183	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	
222,370	Balance at end of year	97,785

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 £'000	Corporate £'000	Development & Growth £'000	Environmental Services £'000	Finance £'000	Housing & Neighbourhoods £'000	HR & Customer Services £'000	Legal & Democratic £'000	Special Expense Areas £'000	Total £'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	Amounts not reported to management for decision making	Amounts not included in I&E	Total
	£'000	£'000	£'000	£'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			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 £'000		2011/2012 £'000
	Travellers Site Expenditure	
27	Management & Maintenance	33
(27)	Income from Rent & Other Charges	(30)
0	**Total Reimbursement by/(to) Lincolnshire County Council**	3

2010/2011 £'000		2011/2012 £'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 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

The Property Development Manager started on 03/01/12. The annualised salary for this post is £58,428 and their pro rata salary is not therefore included above. The Head Of People Projects and Performance started on 06/02/12. The annualised salary for this post is £66,822 and their pro rata salary is also not included above.

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.	86
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.	29
0	Fees payable to the Audit Commission in respect of any other services provided	0
154		115

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	Non-enhancing capital expenditure	4,353
0	Intangible Assets	100
708	Revenue expenditure charged to capital under statute	800
	Sources of Finance	
(293)	Capital receipts	(1,605)
(937)	Capital grants & contributions	(659)
(6,868)	Sums set aside from revenue	(5,304)
7,016	**Closing Capital Financing Requirement**	6,823
	Explanation of movements in year	
(62)	Increase/(Decrease) in underlying need to borrow	(193)

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	31/03/2013	31/03/2012	31/03/2013
	£'000	£'000	£'000	£'000
Not later than one year	1	1	0	0
Between one & five years	5	5	(1)	(1)
Later than 5 years	1,810	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	31/03/2012	31/03/2011	31/03/2012
	£'000	£'000	£'000	£'000
Not later than one year	1	1	0	0
Between one & five years	5	5	(1)	(1)
Later than 5 years	1,811	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
(3,129)	Estimated benefits Paid	(3,259)
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)Contributions by the employer	(3,131)
2,226	Contributions by the employer	2,104
671	Contributions by scheme participants	649
(3,063)	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 – Long-Term Borrowing

Long Term 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**

Note 43 – Authorisation of Accounts for Issue

The date that the Statement of Accounts was authorised for issue was 30 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	Miscellaneous Artifacts	Orrery	
	£'000	£'000	£'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.

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		(21,378)
(257)		- Non-Dwelling Rents		(261)
(1,193)		Charges for Services and Facilities		(1,259)
(56)		Other Income		(54)
(2,494)		Pensions Past Service Gain		0
(19)		Increase/Decrease in Prov'n for Doubtful Debts		0
(23,673)				(22,952)
		Expenditure		
	5,868	Repairs and Maintenance	5,828	
	4,319	Supervision and Management	4,113	
	0	Rent, rates, taxes and other charges	0	
	6,587	Housing Revenue Account Subsidy	7,715	
	0	Increase/Decrease in Prov'n for Doubtful Debts	29	
	94,004	Depreciation and impairment of Non-Current Assets	7,243	
	23	Debt Management Costs	22	
	37	Subsidy Limitation - Transfer to the General Fund	10	
110,838	0	Self Financing Borrowing	121,652	146,612
87,165		**Net Cost of HRA Services**		123,660
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**		123,956
(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**		**123,692**

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

(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		123,692	
(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	181,814	2,923	1,007	679	186,423
Additions	4244	0	450	0	4,694
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	(2,910)	(13)	0	(15)	(2,938)
Reclassifications	(277)	0	0	0	(277)
Derecognitions - Disposals	0	0	(346)	0	(346)
31/3/2012	182,852	2,987	1,111	664	187,614
Depreciation & Impairments					
At 1 April 2011	(2,555)	(81)	(525)	0	(3,161)
Charge for 2011/2012	(2,511)	(91)	(126)	0	(2,728)
Depreciation written out to the Revaluation Reserve	2,555	35	0	0	2,590
Impairment losses recognised in the Surplus/Deficit on Provision of Services	(4,244)	46	0	0	(4,198)
Derecognition - Disposals	1		263		264
At 31 March 2011	(6,754)	(91)	(388)	0	(7,233)
Balance Sheet Amount at 31 March 2012	**176,098**	**2,896**	**723**	**664**	**180,381**
Balance Sheet Amount at 31 March 2011	**179,259**	**2,842**	**482**	**679**	**183,262**

The vacant possession value of dwellings at 1 April 2010 was £520.9m (£532.0m at 1 April 2009). 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%. This has been changed this year by CLG and was previously 50%.

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 2011 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	2,724
86,644	Revaluation Loss/(Gain)	389
4,685	Impairment Losses	4,244
94,009		7,357

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 £'000	2010/2011 £'000	**Major Repairs Reserve**	2011/2012 £'000	2011/2012 £'000
6,566		Opening balance on the Major Repairs Reserve		5,348
		Transfer to the Major Repairs Reserve		
2,680		- Capital Adjustment Account		2,724
		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**		**4,312**

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	23
(6,587)		(7,715)

Note 7 – Pension Costs

Note 38 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	- Asset Disposals	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

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 composed 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

[1] IDEA – Improvement and Development Agency

- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability.

Scope of responsibility

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

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

The Council 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 Report 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

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

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).

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

Internal audit files and reports for key financial systems are reviewed annually by the Audit Commission in order for them to place reliance on this work. As in previous years, it is expected that they will be able to place full reliance on the work of internal audit and any recommendations made by the 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; 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. o Financial, performance and risk management of service delivery within the Budget and Policy Framework set by Council o At least monthly public meetings o Monthly briefings and development days

Governance and Audit Committee	o Five scheduled meetings per annum to:
	    o review Financial Regulations and Contract Procedure Rules
	    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
	    o review the arrangements for managing risk throughout the Council
	    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

	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 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)	o Overseeing financial strategy and operations and contributing to the effective corporate management and governance of the Council
Internal Audit	o Set overall internal audit strategy to meet the Council's overall strategic direction o Undertake an annual programme of audits o Present progress reports against the plan o Make recommendations for improvement in systems and controls and value for money

Management Team	o Monthly review of budget, performance and risk management
	o Consider issues arising out of:
	    o the assurance statements
	    o review of risk registers

Performance and Programme Board	o Monthly review of projects including:
	    o Progress against milestones
	    o Resource allocation
	    o Risks
	    o Performance measures
	o Evaluation of new and emerging projects

Risk Management Group	o Officer meetings (membership drawn from service areas) to review operational risks and business continuity
Service Managers & Heads of Service	o 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. 31^{st} 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

7Potential 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.

LABGI

Local Authority Business Growth Incentive. A grant from central government paid as a reward for business growth in the Council's area.

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.