

# AGENDA



For a meeting of the
<b>GOVERNANCE AND AUDIT COMMITTEE</b>
to be held on
<b>FRIDAY, 23 SEPTEMBER 2016</b>
at
<b>1.00 PM</b>
<b><u>PLEASE NOTE START TIME</u></b>
in the
<b>WITHAM ROOM - COUNCIL OFFICES, ST. PETER'S HILL, GRANTHAM. NG31 6PZ</b>
<b>Beverly Agass, Chief Executive</b>

Committee Members:	Councillor Matthew Lee, Councillor David Mapp, Councillor Nick Neilson (Chairman), Councillor Jacky Smith, Councillor Brian Sumner and Councillor Paul Wood
Committee Support Officer:	Jo Toomey Tel: 01476 406152 E-mail: <a href="mailto:j.toomey@southkesteven.gov.uk">j.toomey@southkesteven.gov.uk</a>

**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 28 JULY 2016**

(Enclosure)

*Your council working for you*

**5. UPDATES FROM PREVIOUS MEETING**

- Aids and adaptations
- Tenancy management

**6. ANNUAL GOVERNANCE REPORT 2015/16**

Report of External Audit. (Enclosure)

**7. STATEMENT OF ACCOUNTS 2015/16**

Report number CFM384 of the Strategic Director and Corporate Finance Manager. (Enclosure)

**8. INTERNAL AUDIT PROGRESS REPORT**

Report number CFM388 of the Corporate Finance Manager. (Enclosure)

**9. DELIVERING GOOD GOVERNANCE**

Report number CFM382 of the Corporate Finance Manager. (Enclosure)

**10. COUNTER FRAUD ANNUAL REPORT 2015/16**

Report number CFM383 of the Corporate Finance Manager. (Enclosure)

**11. OMBUDSMAN ANNUAL REPORT 2015/16**

Report number LDS184 of the Executive Manager, Corporate. (Enclosure)

**12. EXTERNAL AUDIT PROCUREMENT ARRANGEMENTS**

Report number CFM385 of the Corporate Finance Manager. (Enclosure)

**13. TREASURY MANAGEMENT STRATEGY AMENDMENT**

Report number CFM386 of the Corporate Finance Manager. (Enclosure)

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



# MINUTES

## GOVERNANCE AND AUDIT COMMITTEE

THURSDAY, 28 JULY 2016



---

### COMMITTEE MEMBERS PRESENT

Councillor Matthew Lee  
Councillor David Mapp  
Councillor Nick Neilson (Chairman)

Councillor Jacky Smith  
Councillor Brian Sumner  
Councillor Paul Wood

### OFFICERS

Strategic Director (Daren Turner)  
Corporate Finance Manager (Richard Wyles)  
Executive Manager, Environment (Ian Yates)  
Business Manager, Street Care Services (Keith Rowe)  
Financial Accountant, Team Leader (Amy Oliver)  
Governance and Risk Officer (Tracey Elliott)  
Principal Democracy Officer (Jo Toomey)

### OTHER MEMBERS

Councillor Mrs Frances Cartwright (Executive Member, Governance)  
Councillor Nick Craft (Executive Member, Environment)  
Councillor Adam Stokes

### EXTERNAL AUDIT

Mike Norman (Audit Manager, KPMG)

---

### 11. APOLOGIES

Apologies for absence were received from Councillor Bob Adams, the Executive Member, Growth and Councilor Teri Bryant, the Executive Member, Resources.

### 12. DISCLOSURE OF INTERESTS

No interests were disclosed.

### 13. MINUTES OF THE MEETING HELD ON 30 JUNE 2016

The minutes of the meeting held on 30 June 2016 were proposed, seconded and agreed as a correct record.

*Your council working for you*

#### **14. UPDATES FROM PREVIOUS MEETING**

At the Committee's meeting on 30 June 2016, members received an Internal Audit follow-up report. The report gave details of a number of outstanding Internal Audit recommendations with an implementation date of 30 June 2016 so a progress update was requested for the next Committee meeting.

##### Section 106 Agreements

Members were assured that a log of notifications was maintained and receipts were monitored meaning the recommendation had now been fully implemented.

##### Building Control

Reconciliation between the Finance System for both the South Kesteven and Rushcliffe parts of the building control partnership had been completed. Reconciliation of information from Newark and Sherwood was still underway; this was taking longer because a different system was in use.

#### **15. HEALTH AND SAFETY ANNUAL REPORT 2015/16**

The Business Manager, Street Care Services presented report number ENV642, which provided an overview of health and safety management performance within South Kesteven District Council in 2015/16. The annual report summarised progress made and identified key areas of focus to ensure the Council maintained and improved health and safety management performance. Members' attention was drawn to a reduction in the rate of accidents and incidents during the year.

Members queried which of the Council's areas of business carried the greatest health and safety-related risks, they were: waste collection, street cleansing and direct works. This was a result of the waste collection and street cleansing team working on the public highway and the equipment used by staff members in all three high risk areas. To mitigate the risk to staff and members of the public, high levels of health and safety compliance were a primary focus of induction. Safe systems of work were also used. Practical measures including beacons on vehicles and high-visibility clothing were also useful.

Discussion moved to the district's leisure centres, with questions being raised about the checks that were in place to ensure that the contractor's health and safety policies were robust and being implemented. Members also asked about the level of liability that would sit with the Council in the event of an accident at a leisure centre. Officers advised that the contractor was responsible for the health and safety of customers in the leisure centres. They had safe systems of work, which were monitored regularly by officers from the Leisure and Amenities Team; this included water monitoring activity. It was brought to members' attention that while accident rates in leisure centres had increased, the throughput of customers had also risen. Activity was also subject to periodic

audit. Health and safety activity fell within the remit of the Executive Member, Environment, who stated that he had no doubts in the competence of measures that were in place. Officers also reassured members that if there was any concern arising from monitoring, then remedial action would be taken.

Members asked questions about the practices in place to protect team members who are exposed to noise and vibration. Members were reassured that work had been undertaken with workshop personnel and direct works. Measurements had been taken of the amount of time spent using hand-tools with measures in place to ensure that the recommended working time was not exceeded. Noise had also been logged on waste vehicles and as a result walk behind operatives had been supplied with ear protection. The Committee noted that while the level of noise made by the vehicles was below the level at which ear protection must be supplied, it was within the limit at which it should be offered. The ear defenders that were supplied took out high level noise while allowing ambient noise to permeate; this meant that users could still hear their colleagues and traffic.

Committee members identified that health and safety audits in relation to gas servicing and asbestos were planned; it was noted that Internal Audit had recently carried out audits on both areas of business, each receiving positive assurances. Officers were asked what different or additional information was anticipated as a result of further audit work. Members were advised that the additional work had been commissioned because of how high the potential risks were that were associated with both areas. Consequently full confidence was sought and it was felt appropriate to get an independent check of the Internal Audit work to ensure that the results given on paper reflected the reality on the ground.

A final question was asked in relation to ensuring that an holistic approach was taken in managing health and safety risk. Members wanted assurance that action taken to mitigate one risk would not generate a risk of its own, for example, they did not want a situation where legionella was found in fire fighting equipment, which was subsequently condemned, creating a fire protection risk. Reassurance was given that the holistic view was provided by the corporate health and safety team, which meant that no action should be taken in isolation.

The Chairman thanked officers for the report, the contents of which were noted by members.

## **16. TREASURY MANAGEMENT ANNUAL REPORT 2015-16**

### **Decision:**

**That the Committee approves the contents of the annual report on Treasury Management Activity for 2015/16.**

Report number CFM379 was presented by the Financial Accountant Team Leader and primarily concentrated on the Council's borrowing and investment

portfolios as at 31 March 2016. As the expected base rate increase had not occurred during 2015/16 returns therefore stayed low. Markets had also been uncertain pending the outcome of the Referendum on the UK's membership of the European Union. Appendix 1 to the report showed the prudential and treasury indicators for the year, which had all been met.

The net treasury position at the end of 2015/16 was £61.270m, which comprised £109.765m of debt against £48.495m of investments. Appendix 1 of the report also showed the authorised limits to the total long-term borrowing and the operational boundary. Changes to those limits would come before the Committee during the year or full Council as part of budget-setting if they were required

Committee members asked about contingencies that were in place given recent indications that the base rate would reach a negative position. The situation was kept under review with Capita, the Council's treasury advisors; more detail would be provided by them as the situation developed. In the interim the Council was looking at diversifying its portfolio where possible and making shorter-term investments than when there was market certainty.

One member asked about the structure of the Council's debts and whether consideration was given to the re-structuring of those debts. Two smaller areas of debt had been considered but based on the date the loans were due, restructure was not cost-effective. The debt associated with the Housing Revenue Account had been structured based on treasury advice at the time of self financing.

Members also asked questions about whether councils were permitted to lend to one another; it was possible to engage in this however rates or return were lower than those offered by banks or other funds but this was assessed when considering any investment opportunity..

It was noted that the treasury performance of South Kesteven District Council was favourable when compared with other local authorities in the benchmarking group.

It was proposed, seconded and agreed that the contents of the annual report on Treasury Management Activity for 2015/16 be approved.

## **17. ANNUAL GOVERNANCE STATEMENT**

The Corporate Finance Manager introduced report number CFM380 on the Annual Governance Statement (AGS) 2015/16. Members of the Committee were asked to review its contents and provide feedback to ensure it accurately reflected the last financial year. The final version of the AGS would be presented to the Committee for approval at its meeting on 23 September 2016 with the final Statement of Accounts. The draft document was compiled in accordance with the necessary regulations. Members were advised that the format of the AGS was being reviewed to reflect a pending review of corporate governance arrangements.

The Governance and Risk Officer highlighted the key sections of the document:

- A summary of consultation and communication work
- Quality of service for users
- Corporate governance
- The role of the Chief Financial Officer
- The role of the Governance and Audit Committee
- Risk management
- Managing the risk of fraud

Reference was made to Internal Audit comments that indicated that the Council's framework for risk management, governance and internal control arrangements was adequate and effective. Members questioned whether the Council should be aiming for a better assessment and what the likely timescale would be for that enhancement. Officers advised that the form of wording was standard; no reports were 'red' and the direction of travel was positive. It was suggested that there might be a reluctance to give an opinion that exceeded 'adequate' because Internal Audit had made recommendations in a number of audits to improve systems and bolster the control framework.

Discussion turned to the Internal Audit provider, which had delivered this service for the Council for a number of years and had recently been awarded a further contract. Members wanted assurance that there were checks in place to confirm the quality and reliability of the work of Internal Audit. The company would have to be accredited against the Internal Audit Standards; while this work may rely on a sample of audits carried out on South Kesteven District Council for evidence the assessment would not specifically be based on their work with the Council. Members also clarified that despite the length of time the company had provided the Internal Audit service for the Council, there had been a healthy turnover of staff.

Specific questions were put which related to the content of the report. Members asked why the policy development groups were not included in the review of effectiveness of the Council's governance framework and the use of social media by the communications team and opportunities it might present to support those people for whom English was not their first language.

The contents of the report were noted.

## **18. DRAFT STATEMENT OF ACCOUNTS 2015/16**

In presenting the draft Statement of Accounts, appended to report number CFM376, the Financial Accountant Team Leader stated that members were asked to consider the contents to ensure the draft was a true and fair representation of the accounts for 2015/16.

Members queried the variance in the report related to the provision for bad debts in the HRA. A large provision had been budgeted because of the



potential impact of universal credit. The anticipated levels of bad debt had not, as yet, come to fruition, which was why the actual was significantly lower than the budgeted figure.

Comments were then made in relation to HRA capital expenditure and the slippages against projects. Disappointment was expressed about the level of slippages; members were then advised that there were a number of contributory factors which meant that the full project had not been deliverable in-year, including weather, access to properties and better value achieved through the tendering process than anticipated. Members of the committee agreed to keep a watching brief on slippages in relation to the HRA Capital Programme.

The Audit Manager from KPMG was asked to give a brief summary of progress made to date on the 2015/16 audit of accounts. The audit was in progress, having started two weeks prior to the meeting of the Committee. The schedule of working papers had been agreed. At this stage of the audit there were no issues to bring to the attention of the Committee (where there was any uncertainty or material misstatement). In The final opinion on the audit would be presented to the Governance and Audit Committee at its meeting on 23 September 2016. In response to a question from members, the Audit Manager confirmed that the working papers supplied so far had been delivered on time, were understandable and provided the requested information.

The Committee noted the draft Statement of Accounts 2015/16.

## **19. EXTERNAL AUDIT PROCUREMENT ARRANGEMENTS**

The Corporate Finance Manager gave members a brief overview of changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of transitional arrangements at the conclusion of the 2017/18 audits.

There were three options for the Council to consider, prior to making an appointment by 31 December 2017:

1. To make a standalone appointment (in this instance a new independent auditor panel established by the Council would be responsible for selecting the auditor)
2. A joint audit panel or local joint procurement arrangements
3. Opt-in to a selector-led body

It was anticipated that the most straight-forward and cost-effective solution would be opting-in to a selector-led body. Members were advised that the Council had been asked to submit a non-binding expression of interest in this option, which officers had done on members' behalf. This ensured that the council would be kept up-to-date with any developments.

Members had asked where responsibility for making the appointment would sit. They were advised that it would rest with the Governance and Audit Committee as the Statement of Accounts constituted a significant part of the Committee's work.

It was hoped that updated information would be brought to the Committee's meeting in December 2016 to determine its preferred option.

The contents of the report were noted.

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

The Chairman advised members of a potential training opportunity that had arisen. Members' interest was canvassed and a provisional date identified.

**21. CLOSE OF MEETING**

The meeting was closed at 15:38.



# External Audit Report 2015/16

**South Kesteven District Council**

—  
September 2016



Agenda Item 6

# Contents

**The contacts at KPMG  
in connection with this  
report are:**

**John Cornett**  
*Director*

*KPMG LLP (UK)*

Tel: **07468 749927**  
john.cornett@kpmg.co.uk

**Mike Norman**  
*Manager*

*KPMG LLP (UK)*

Tel: **07500 125105**  
michael.norman@kpmg.co.uk

**Kerry Sharma**  
*Assistant Manager*

*KPMG LLP (UK)*

Tel: **07920 710881**  
Kerry.sharma@kpmg.co.uk

**Page**

**Report sections**

— Introduction	3
— Headlines	5
— Financial statements	9
— VFM Conclusion	17

**Appendices**

1. Key issues and recommendations	22
2. Audit differences	25
3. Materiality and reporting of audit differences	26
4. Declaration of independence and objectivity	27
5. Audit fees	29

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Cornett, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



# Section one: Introduction



## This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and
- Our assessment of the Authority's arrangements to secure value for money.

## Scope of this report

This report summarises the key findings arising from:

- Our audit work at South Kesteven District Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

## Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016 2015, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

## VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

## Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



# Section two: Headlines



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with the latest guidance issued by CIPFA/SOLACE.
<b>Audit adjustments</b>	Our audit has not identified any material misstatements within the financial statements. There are no uncorrected non-material differences that we need to report to you. We have summarised the audit misstatements and adjustments at Appendix 2.
<b>Key financial statements audit risks</b>	<p>We identified the following key financial statements audit risk in our <i>External Audit Plan 2015/16</i> presented to the Governance and Audit Committee in March 2016.</p> <ul style="list-style-type: none"> <li>— On-going issues around the level of provisioning for Business Rate appeals exists, driven by increases in the number of both speculative and nationally driven appeals. Local authorities have little control over the level of appeals and their outcome. It is difficult to anticipate the financial impact of successful appeals as the potential change in rateable value cannot be predicted. Also, there is usually no indication of timescales to settle an appeal, making it hard to measure when the financial impact will fall. These appeals create uncertainty and have a direct impact on the share of collection fund balances distributable.</li> </ul> <p>We have also considered the standard risks required per professional standards regarding revenue recognition and management override of controls</p> <p>We have worked with officers throughout the year to discuss these risks and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in this key risk area.</p>





This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<b>Accounts production and audit process</b>	<p>The Authority has established processes in place for the production of the accounts. We received complete draft accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are overall in line with the requirements of the Code.</p> <p>We were provided with the specified working papers at the start of our audit visit. Officers dealt efficiently with audit queries as they arose and additional working papers were provided when requested.</p> <p>The Authority has made progress in relation to the recommendations in our <i>ISA 260 Report 2014/15</i> relating to the financial statements.</p> <p>As in previous years, we will debrief with the accountancy team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process.</p>
<b>VFM conclusion and risk areas</b>	<p>We identified the following area of focus in our <i>External Audit Plan 2015/16</i> issued in March 2016, and as part of our ongoing risk assessment.</p> <p>— Your medium term financial planning arrangements</p> <p>We have worked with officers throughout the year to discuss this and other issues relevant to our risk assessment and our findings are summarised in section 4 of this report.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.</p>



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	<p>At the date of this report our audit of the financial statements is substantially complete. The remaining areas of work to complete include:</p> <ul style="list-style-type: none"><li>— Final KPMG Director and Manager review</li><li>— Clearing any the residual queries with officers as part of our completion procedures</li><li>— The final casting and consistency checks on the amended financial statements</li><li>— Our normal audit closure and reporting procedures</li></ul> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We have provided a draft of this representation letter to the Section 151 Officer. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year’s audit of the Authority’s financial statements.</p>
------------	---



# Section three: Financial Statements

# Proposed opinion and audit differences



**We have not identified any material misstatement in the draft financial statements.**

**None of the audit adjustments have any impact on the General Fund or HRA balances at 31 March 2016.**

### **Proposed audit opinion**

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Governance and Audit Committee on 23 September 2016.

### **Audit differences**

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £1.2m. Audit differences below £60,000 are not considered significant.

We have not identified any material misstatements in the draft financial statements. There are no other adjusted or unadjusted audit differences which affect the primary financial statements. None of the audit differences have any impact on the General Fund or HRA balances at 31 March 2016.

We identified a small number of changes required to the supporting disclosure notes to the draft financial statements. These are summarised for completeness at Appendix two. Management has agreed to process these changes in the final version of the financial statements and there are no specific items that we need to highlight in the main body of this report.

# Proposed opinion and audit differences (cont.)



The wording of your Annual Governance Statement complies with the latest guidance issued by CIPFA/SOLACE.

### Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We will update our assessment based on the final signed Statement and include the appropriate disclosure in our Auditor's Report on the financial statements.

# Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in March 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of the risk area identified in our Plan and set out below our evaluation following our substantive work.

### Provision for Business Rate appeals

#### Risk

On-going issues around the level of provisioning for Business Rate appeals exists, driven by increases in the number of both speculative and nationally driven appeals.

Local authorities have little control over the level of appeals and their outcome. It is difficult to anticipate the financial impact of successful appeals as the potential change in rateable value cannot be predicted. Also, there is usually no indication of timescales to settle an appeal, making it hard to measure when the financial impact will fall.

These appeals create uncertainty and have a direct impact on the share of collection fund balances distributable.

#### Findings

We reviewed the Authority's approach to estimating its provision for business rate appeals against the requirements of IAS 37 — Provisions, Contingent Liabilities and Contingent Assets, in particular we:

- tested the completeness of the data used in the calculation;
- reviewed any assumptions used in the formulation of this accounting estimate; and
- reperformed a sample of calculations to confirm the accuracy of the accounting estimate.

The total estimated provision at 31/3/16 was £984,000 (£774,000 at 31/3/15). We did not identify any material misstatements regarding the Authority's approach to determining this estimate. The Authority has included within its total provision for this year £94,000 relating to appeals which have not yet been lodged. The estimate has not been calculated based on information relating to specific ratepayers and evidence of potential appeals by them, but rather as a general estimate based on the overall level of appeals received in 2015/16. This element of the provision total is not material. We have raised a recommendation at appendix 1 in relation to the Authority's approach for next year's accounts.

# Significant audit risks (cont.)



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

### Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2015/16* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including those over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

# Judgements



We always consider the level of prudence within key judgements in your financial statements. We have summarised our views below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	15/16	14/15	Balance (£m)	KPMG comment
<b>Provisions</b>	2	3	£1.3m (PY: £1.2m)	The Business Rate Appeals provision total of £0.9m (2014/15 £0.8m) is the largest element of the balance. We have summarised at page 12 the work we have carried out in relation to the provision. We have not identified any material misstatement. The Authority's approach to this estimate is more cautious this year and includes £94,000 as a non-material general provision for appeals not yet lodged.
<b>Debtors Impairment provision</b>	3	3	£1.9m (PY: £1.6m)	There have been no significant changes in the approaches to determining the estimate. The change in the level of the provision on the previous year is not material.
<b>Property, Plant and Equipment</b>	3	3	£241.6m (PY: £233.9m)	We have reviewed the arrangements and discussed the approach with managers. The Authority has not made any significant changes to its approach to asset lives or its valuation arrangements.
<b>Pensions Liability/Reserve</b>	3	3	£38.3m (PY: £52.1m)	There have been no significant changes in the approaches to determining the estimate. The Authority has again relied on an independent expert actuarial valuation for its estimates. We did not identify any concerns regarding the Authority's approach or the assumptions used.



# Accounts production and audit process



The Authority has maintained the standard of its accounts production processes and supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has made progress in relation to the recommendations made in our ISA 260 Report 2014/15.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority has established financial reporting processes. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts by 30 June 2016.
<b>Quality of supporting working papers</b>	Our <i>Accounts Audit Protocol</i> set out our working paper requirements for the audit. The quality of working papers provided was good and overall met the standards specified in our <i>Accounts Audit Protocol</i> . We have provided feedback during the audit on additional working papers required for next year's audit and we will revisit this as part the 2015/16 audit planning.
<b>Response to audit queries</b>	Officers resolved audit queries in a reasonable time, taking into account staff holidays and in some cases the need to obtain information from third parties.

### Prior year recommendations

As part of our audit we have followed up the Authority's progress in addressing the recommendation in last year's ISA 260 report. We have summarised our findings at Appendix one.

### Additional findings in respect of the control environment for key financial systems

During March 2016 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

### Organisational and control environment

We did not identify any specific concerns in relation to your organisational and control environment that we need to report to you.

### Internal Audit

We did not need to rely this year on any specific pieces of Internal Audit work in carrying out our testing of the controls over the Authority's key financial systems. We have though taken their work into account in forming our assessment of the general control environment, and in reviewing the Authority's Annual Governance Statement, and have not identified any concerns.

### Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit. We were able to rely on the controls selected and there are no specific issues or concerns that we need to report to the Authority.



We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of South Kesteven District Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and South Kesteven District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the S151 Officer for presentation to the Governance and Audit Committee and the Council. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There is nothing that we wish to draw to your attention in relation to these other matters.



# Section four: Value for Money

# VFM Conclusion



Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

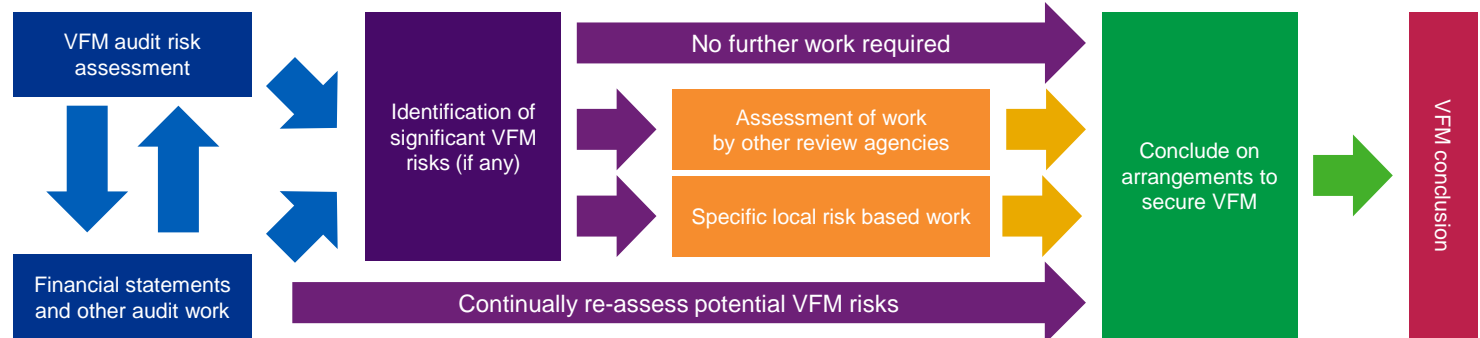
## Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



## Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

### Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making



Met

Sustainable resource deployment



Met

Working with partners and third parties



Met

# Specific VFM Risks



We have completed our VFM risk assessment and carried out the planned work on the significant risk identified.

### Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas

### Key findings

In our *External Audit Plan* issued in March 2016 we reported that our initial risk assessment was ongoing but we had identified one specific area of audit focus for our continuing audit work.

- your Medium Term Financial Planning arrangements.


We have kept our risk assessment up to date and through the course of our general audit work and liaison with managers kept a watching brief on your financial standing and your arrangements for updating your medium term plans.

We have included an update on this in the table on the next page.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



We have carried out the planned work on the risks identified.

VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Authority continues to face similar financial pressures and uncertainties to those experienced by others in the local government sector. The Authority needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. This is relevant to the sustainable resource deployment sub-criteria of the VFM conclusion.</p>	<p>We have considered the Authority's arrangements for managing its annual budget and the 2015/16 outturn. The outturn was largely as expected and no significant concerns have been highlighted in the current year monitoring reports.</p> <p>We have also specifically considered:</p> <ul style="list-style-type: none"> <li>The Authority's arrangements for preparing and updating its medium term financial plans. The Authority has continued with its medium term planning framework and the balanced 2016/17 budget, and 2017/18 and 2018/19 indicative budgets, were approved in February 2016. The plans have been updated to reflect the financial and policy context within which the Authority operates. The Authority has continued to use independent specialist advice to inform its planning and validate its assumptions. The financial planning takes into account the outcome of the Local Government Finance Settlement 2016/17, including the required reduction of social housing rents by 1% pa for four years, the indicative significant reductions in government grant and increasing reliance on business rate income.</li> <li>The actions being taken by the Authority to achieve savings and efficiencies. The Authority has continued to review budgets and working arrangements and seek opportunities for income generation. The 2016/17 budget incorporates around £1.5m in savings from these actions.</li> <li>The Authority's actions as part of its 'fit for the future' strategy to make sustainable changes from 2016/17 onwards in support of its move from dependence on national funding support towards a self-financing model. Key elements of this planned response include a commercial investment strategy, setting up a local authority controlled company, service transformation and partnering of services. We will continue to monitor progress and take these activities into account as part of future years' value for money conclusion work.</li> </ul> <p>Managers have continued to evaluate the opportunity presented by the CLG's offer of a four year settlement to 2019/20, with a decision expected ahead of the 14 October 2016 deadline. Managers are updating the medium term financial plans although there is continuing uncertainty in the sector ahead of the 2016 Autumn Statement.</p>



# Appendices

**Appendix 1: Key issues and recommendations**

**Appendix 2: Audit differences**

**Appendix 3: Materiality and reporting of audit differences**

**Appendix 4: Independence and objectivity**

**Appendix 5: Audit fees**

# Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

### Priority rating for recommendations

<b>1</b>	<b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	<b>2</b>	<b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	<b>3</b>	<b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.
----------	--	----------	--	----------	---

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	<p><b>Provision for Business Rate Appeals</b></p> <p>The total estimated provision at 31/3/16 was £984,000 (£774,000 at 31/3/15). The Authority has included within its total provision for this year £94,000 relating to appeals which have not yet been lodged. The estimate has not been calculated based on information relating to specific ratepayers and evidence of potential appeals by them, but rather as a general estimate based on the overall level of appeals received in 2015/16. This element of the provision total is not material.</p> <p><b>Recommendation</b></p> <p>The Authority should review its basis of estimation in preparation for the 2016/17 financial statements.</p>	<p>The Council will consider this recommendation and any changes to the policy will be feedback to Governance and Audit Committee later in the year.</p> <p>Corporate Finance Manager For 2016/17 Accounts</p>



# Follow up of prior year recommendations

The Authority has made progress on the recommendations made in our ISA 260 Report 2014/15.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

No.	Risk	Issue and recommendation	Council response, officer responsible and due date	Status as at August 2016
1	2	<p><b>Plant, Property and Equipment Valuation</b></p> <p>The Council obtains an annual valuation of its land and buildings from the District Valuation Office (DVO) to support the entries in its financial statements. The Council's instructions to the DVO require the valuation to be at 1 April for the relevant financial year. The Code of Practice on Local Authority Accounting has adopted the requirements of IAS 16 which states that, amongst other things, valuations should reflect the fair value of the assets at the end of the reporting period (ie 31 March). In response to our questioning Management obtained additional explanation and justification from the DVO to support their judgement that there had been no material movement in the value of the relevant assets between 1 April 2014 and 31 March 2015 and that the DVO's valuation could be relied upon.</p> <p><b>Recommendation</b></p> <p>The Council should for 2015/16, and future years, instruct the DVO to provide land and building valuations at 31 March.</p>	<p>Council will consider this recommendation &amp; commence discussions with the Valuation Office in order to review its valuation approach.</p> <p>Corporate Finance Manager</p> <p>For 2015/16 Accounts</p>	<p>This recommendation has been implemented and the valuations for the 2015/16 financial statements were at 31 March 2016.</p>

## Follow up of prior year recommendations

The Authority has made progress on the recommendations made in our *ISA 260 Report 2014/15*.

No.	Risk	Issue and recommendation	Council response, officer responsible and due date	Status as at August 2016
2	2	<p><b>Accounting Policy for non-enhancing HRA Capital Expenditure</b></p> <p>The Council's current accounting policy regarding the recognition of non-enhancing capital expenditure on HRA assets is based on an assessment carried out by officers in 2011/12. The value of expenditure de-recognized in this way in 2014/15 was £4.7m. Management needs to keep this policy under review and ensure it can continue to be justified.</p> <p><b>Recommendation</b></p> <p>Management should review the policy in 2015/16, including a update of their assessment of the nature of the actual capital expenditure being incurred, to ensure it is appropriate.</p>	<p>The Council is in the process of reviewing this policy and will make the recommendations to Governance and Audit Committee later in the year.</p> <p>Corporate Finance Manager</p> <p>For 2015/16 Accounts</p>	<p>This recommendation has been implemented. The Governance and Audit Committee has reviewed and readopted this policy.</p>

# Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

There is no net impact on the General Fund or HRA as a result of the required amendments.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Governance and Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Significant corrected audit differences

There are no corrected audit differences that we need to report to you.

### Uncorrected audit differences

There are no uncorrected audit differences that we need to report to you.

### Other corrected audit differences

Our audit identified a small number of errors in the financial statements which are below our reporting threshold. These have been discussed with management and we understand the financial statements are to be amended.

A number of minor amendments focused on presentational improvements are also to be made to the draft financial statements. We understand management is to provide the Governance and Audit Committee with a summary of the amendments made to the draft financial statements. The changes agreed included:

- Correction of minor casting and cross-referencing errors
- Corrections to the following disclosure notes, which do not affect the primary financial statements:
  - Note 26 – Useable Reserves
  - Note 34 – External Audit Fees
  - Note 35 – Grant Income
  - Note 38 – Leases

# Materiality and reporting of audit differences

For 2015/16 our materiality is £1.2m for the Authority's accounts.

We have reported all audit differences over £60,000 for the Authority's accounts.

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority at the start of the final accounts audit to take account of the increase in the gross expenditure in the year.

Materiality for the audit of the Authority's final accounts was set at £1.2m which equates to around 1.5% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

# Declaration of independence and objectivity

**Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.**

### Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

*"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Governance and Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

# Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

### Auditor declaration

In relation to the audit of the financial statements of South Kesteven District Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and South Kesteven District Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

## Appendix four

# Audit Fees and independence

### Audit Fees

Our scale fee for the audit of the Authority's accounts is £47,185 plus VAT (£63,030 in 2014/15). Our audit is still in progress. We will discuss with Management any additional fee required in relation to our work and keep the Governance and Audit Committee informed if that is the case. In any event an agreed additional fee is subject to final determination by Public Sector Audit Appointments Limited. We will report the final agreed fee later in the year in our Annual Audit Letter.

The scale fee for certification of the Housing Benefit Subsidy claim is £5,206 plus VAT. This work is in progress and in January 2017 we will report separately the results of this work and the final fee.

### Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Fee	Potential threat to auditor independence and associated safeguards in place
Certification of the Pooling of Housing Receipts	£3,000 plus VAT	<p><b>Self interest</b> – This engagement is entirely separate from the audit and there is a separate engagement letter in place.</p> <p><b>Self review</b> – The nature of this work is to certify the Pooling of Housing Receipts in accordance with the specific assurance instructions set out by DCLG in CFB06. It does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors.</p> <p><b>Management threat</b> – This work will be undertaken in accordance with the Assurance Instruction CFB06 provided by DCLG.</p> <p><b>Familiarity</b> – This threat is limited given the scale, nature and timing of the work.</p> <p><b>Advocacy</b> – We will not act as advocates for the Authority in any aspect of this work. We report our findings directly to DCLG.</p> <p><b>Intimidation</b> – Not applicable.</p>
<b>Total estimated fees from non-audit services as a percentage of the external audit fees</b>	6.3%	



[kpmg.com/uk](https://kpmg.com/uk)



© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. | Create KGS: CRT064379A



## REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF: STRATEGIC DIRECTOR AND CORPORATE FINANCE  
MANAGER**

**REPORT NO: CFM 384**

**DATE: 23rd September 2016**

<b>TITLE:</b>	Statement of Accounts 2015/16	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	None	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Cllr Terl Bryant Executive Member, Finance & ICT Cllr Frances Cartwright Executive Member, Governance	
<b>CONTACT OFFICER:</b>	Daren Turner – Strategic Director Corporate Focus. 01476 406301 Email: <a href="mailto:d.turner@southkesteven.gov.uk">d.turner@southkesteven.gov.uk</a> Richard Wyles –Corporate Finance Manager 01476 406210 Email: <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a>	
<b>INITIAL IMPACT ANALYSIS:</b>	Carried out and Referred to in paragraph (7) below	Full impact assessment Required:
<b>Equality and Diversity</b>	N/A	No
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	CFM 376 Statement of Accounts 2015/16  The above reports can be located by putting their reference number in the search section of the committee website via the link below: <a href="http://moderngovsvr:8080/ieListDocuments.aspx?CId=498&amp;MId=3343&amp;Ver=4">http://moderngovsvr:8080/ieListDocuments.aspx?CId=498&amp;MId=3343&amp;Ver=4</a>	

## **1. RECOMMENDATIONS**

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

- a. Approve the revised Statement of Accounts 2015/16
- b. Note the commentary on the outcome of the audit work
- c. Approve the publication on the summary of accounts and publish the document on the Council's website

## **2. PURPOSE OF THE REPORT/DECISION REQUIRED**

**2.1** The purpose of this report is to present the Council's Statement of Accounts for 2015/16. It covers:

- Account and Audit (England) Regulations 2015
- Section 21(2) Local Government Act 2003
- Revised Statement of Accounts
- Commentary on the outcome of the audit of the Statement of Accounts

## **3. DETAILS OF REPORT**

### **3.1 Account and Audit Regulations 2015**

The Statement of Accounts must be published by 30 September 2016. The District Auditor must complete his audit and issue the relevant audit opinion to ensure the statutory deadline is met. This has been undertaken and their report is a separate item on the agenda.

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

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

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

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

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

Section 21(2) of the Local Government Act 2003 requires that the Statement of Accounts is prepared in accordance with the statutory framework established by the Accounts and Audit Regulations (England) 2015. 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

2015/16 based on International Reporting Standards, (the Code) produced by CIPFA<sup>1</sup> which sets out proper accounting practices required for the Statement of Accounts.

### **3.3 Statement of Accounts 2015/16**

The Draft Statement of Accounts was originally presented to this Committee at its meeting on 28th July 2016 (CFM376 report refers). Following the completion of the external audit, the Statement of Accounts has been revised to reflect the outcome of this work and has been updated to reflect members comments made at the meeting. An updated set of accounts is presented on the Committee agenda and a commentary setting out the main findings from the audit (and the subsequent amendments made to the accounts) is provided for members' consideration and approval.

### **3.4 Audit Adjustments**

The majority of the changes made were minor presentational, typographical and narrative changes.

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

The audit work has identified a number of changes that were required to the disclosure notes. The main changes that have been agreed and implemented are listed below:

Changes previously seen by Governance & Audit Committee in July 2016:

Narrative Report – working balance changed to 12.7% from 12.4%

Collection Fund Note 5 (page 104) - £49k was missing from the opening balance on Business Rates for 2014/15.

Audit Fees Note (page 75) – was missing £3k in relation to the audit of the certification of grant claims in relation to Housing Pooling Return.

Changes post Governance & Audit Committee July 2015:

Note 38 (p80) – a formula error was identified which resulted in minimum lease payments receivable later than 5 years being changed from £1,029K to £396K in 2015/16.

Note 35 (p75) – two grants were disclosed on one line in the heading of Housing Benefits Admin Grant, this line also included Discretionary Housing Payments of £132k and has now been separated.

Collection Fund Note 5 – Council Tax allocation between Lincolnshire Police and Crime Commissioner and South Kesteven District Council were shown on the wrong lines this has now been corrected.

---

<sup>1</sup> CIPFA – Chartered Institute of Public Finance and Accountancy

All these changes have been done with the agreement of audit and do not have a detrimental impact on the Statement of Accounts for 2015/16.

### **3.6 Conclusion**

The report and enclosures represents a detailed picture of the changes made to the Statement of Accounts for 2015/16 following the audit work.

## **4. OTHER OPTIONS CONSIDERED**

Not applicable.

## **5. RESOURCE IMPLICATIONS**

There are no specific financial implications arising from this report.

## **6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)**

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

<b>Category Risk</b>	<b>Action / Controls</b>
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 2015 the Statement of Accounts must be approved by the Committee by 30<sup>th</sup> September 2016. The Committee has the opportunity to review the unaudited Statements prior to the statutory deadline.

## **11. COMMENTS OF OTHER RELEVANT SERVICES**

None

**12. APPENDICES:**

Statement of Accounts 2015/16

Summary of Accounts 2015/16



*your council working for you*

# **Statement of accounts 2015/16**



## C O N T E N T S

	Page Numbers
<b>Introduction - Councillor Bob Adams Leader of the Council</b>	<b>2-3</b>
<b>Narrative Report</b>	<b>4 – 13</b>
<b>Statement of Responsibilities for the Statement of Accounts</b>	<b>14</b>
<b>Movement in Reserves Statement</b>	<b>15 - 16</b>
<b>Comprehensive Income &amp; Expenditure Statement</b>	<b>17</b>
<b>Balance Sheet</b>	<b>18 - 19</b>
<b>Cash Flow Statement</b>	<b>20 - 21</b>
<b>Notes to the Core Financial Statements</b>	<b>22 - 90</b>
 <b><i>Supplementary Accounting Statements</i></b>	
<b>Housing Revenue Account</b>	<b>91</b>
This statement shows the net cost of the Council's Housing Landlord service and how this cost has been financed from government grants and income from tenants.	
<b>Movement on the Housing Revenue Account Statement</b>	<b>92</b>
<b>Notes to the Housing Revenue Account</b>	<b>93 - 100</b>
<b>Collection Fund Account</b>	<b>101</b>
This statement summarises the transactions that have occurred as a result of our role as a billing authority	
<b>Notes to Collection Fund</b>	<b>102 - 104</b>
<b>Annual Governance Statement</b>	<b>105 - 115</b>
<b>Auditor's Report</b>	<b>116 - 118</b>
<b>Glossary of Terms</b>	<b>119 - 126</b>

## **Introduction – Councillor Bob Adams– Leader of the Council**

Welcome to the Statement of Accounts for the financial year 2015/16 which show that the Council has once again been able to deliver our priorities for the benefit of the people of South Kesteven.

SKDC has a proven track record of keeping its part of the council tax bill as low as possible with a zero increase in 2015/16. For the current year the Council has increased its part of the Council Tax by 3.58% which equates to £5 a year (less than 10pence a week) on an average Band D property and even less for the majority of properties in our district which are in lower bands.

This increase is required in order to respond to the reductions in formula grant from the Government and the need to move towards becoming self financing against the continued back drop of increasing demand for services.

Throughout the difficult financial environment we have maintained front line services throughout this period by cutting our overheads, being more efficient and introducing new income streams such as letting out our office space and investing in commercial assets.

We have also been through a management review which has resulted in a more cost effective organisation. We have put in place fundamental changes to the way we conduct our business. Invest to save policies have been introduced which will not only reduce costs but will in many cases generate income for the council in future years.

Moving forward, our Fit for the Future programme has seen the implementation of a commercial investment strategy, work to create a Local Authority Controlled Company (LACC), service transformation and partnering of services.

The LACC will help us to provide new homes by focussing on private sector housing and will also give us an opportunity to change the way services are delivered, provide more choice and reduce overall costs. All this will help us bridge future budget gaps as funding allocations continue to reduce.

Despite this challenging financial background we have achieved much over the last year. Here are just a few of the highlights.

- We recognised the need for more social housing in South Kesteven and have built 20 new council homes during 2015/16 across the district including houses and apartments, with a further 27 in the pipeline.
- Our new-look website was launched with the aim of being ‘open for business’ when our customers need us. Residents can now pay for more services online and over the coming months we will be making it easier for people to report and track service requests.
- One of our most visible successes was the second Stamford Georgian Festival which was even bigger attracting 53,000 visitors the town over the weekend bringing in almost £981K to the local economy.
- Great work has also been happening at our leisure centres across the district. At the Meres in Grantham a £400K investment by the council and operators 1Life has seen



a bigger and improved gym open – and its one millionth visitor. Market Deeping, Bourne and Stamford also have 3,300 youngsters taking part in swim schools.

- Business growth and the local economy are top of our agenda so we were delighted when work started on the first phase of the Grantham Southern Relief Road. The second phase will see the new road linked to the A1 taking heavy lorries out of the town centre.
- Our Community Fund is giving projects around South Kesteven much needed support to make local communities truly benefit from our dedicated £300K allocation. So far funding has been awarded to projects such as Grantham Poverty Concern's Community Hub and Day Centre, a new ball games facility for Hough-on-the-Hill, a hall refurbishment at playing fields in Baston, a heating upgrade for Braceborough Village Hall and the renovation of the local hall in Dunsby.

Finally I would like to take this opportunity to thank all of our staff who have worked throughout the year to enable the Council to balance our budget and provide high quality services to our residents. The continued innovation of the Council enables us to move forward with a high degree of confidence against a backdrop of financial challenges.



**Councillor Bob Adams**  
**Leader of the Council**

## **Narrative Report**

### **Political Structure**

The Council holds elections for all Members once every four years. During 2015/16 there was 45 Conservatives, 6 Independent, 3 Labour, 1 UKIP and 1 unaligned.

The Council operates with an Executive, 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 Committee, Alcohol & Entertainment Licensing Committee, Licensing committee and a Constitution Committee.

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

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

### **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 2016.

The accounts give a true and fair view of South Kesteven's financial position for the financial year 2015/16. 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 2015/16 (known as the Statement of Responsibilities) appears on page 14 of this document.

The main statements included in the accounts consist of:

**Statement of Responsibilities (page 14)** - 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 15-16)** - This statement reconciles the total Comprehensive Income and Expenditure Statement to reserve movements in the year.

**Comprehensive Income and Expenditure Statement (page 17)** - 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 18-19)** - The Balance Sheet summarises the Council's financial position at 31 March 2016.

**Cash Flow Statement (pages 20-21)** - 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 22-90)** – Notes to the preceding financial statements, explaining and providing additional information to figures included in these statements.

**Housing Revenue Account (pages 91-100)** - 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 and other income.

**Collection Fund (pages 101-104)** – We are legally obliged to maintain this fund separately from all our other funds and accounts. It shows transactions that have arisen because we are a billing authority, collecting non-domestic rates and council tax on behalf of central government and 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.

**Annual Governance Statement (pages 105-115)** - Regulation 2(6) of the Accounts and Audit Regulations 2015 requires that the Council or a Committee of the Council consider the findings of a review of the system of internal control. 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 119-126**) to help explain the terms used.

## **Review of the Year**

The 2015/16 financial year saw the Council continue to implement its transformation and efficiency plans which is delivering reductions in the operating costs of the Council without impacting on front line service quality. The Plan has also seen the Council introduce a more business like approach and has introduced a number of commercial initiatives specifically the creation of a local authority company, an investment strategy, a Building Control partnership and the letting of office space at a market rent. These initiatives will continue into 2016/17 and beyond as the Council moves towards self financing by 2019/20.

The financial performance and key variance explanations of the General Fund are provided and they are intended to demonstrate how the Council has used its resources to deliver priority outcomes. The explanation only focuses on the key movements in order to explain any changes between budget and actual expenditure.

The table below shows the Comprehensive Income & Expenditure Statement (CIES) for the General Fund at £16.493M and reconciles back to the Service Outturn of £14.817M.

<b>Priority</b>	<b>2015/16 Original Base  A £'000</b>	<b>2015/16 Adjusted Base  B £'000</b>	<b>2015/16 Net cost of services C £'000</b>	<b>2015/16 Removal of Accounting Adjustments D £'000</b>	<b>2015/16 Outturn E  C-D £'000</b>	<b>2015/16 Variance  E-B £'000</b>
Corporate	4,139	4,593	3,925	8	3,933	(660)
Culture	2,893	2,941	4,251	(1,261)	2,990	49
Environment	6,104	6,182	6,499	(252)	6,247	65
Growth	963	987	728	(99)	629	(358)
Housing	992	1,102	1,090	(72)	1,018	(84)
Workforce Efficiency Target	0	(357)	0	0	0	357
<b>Net Cost Total</b>	<b>15,091</b>	<b>15,448</b>	<b>16,493</b>	<b>(1,676)</b>	<b>14,817</b>	<b>(631)</b>

## **Summary of Key Variances**

### **Growth Priority Heading – Adjusted Variance (£358K)**

Car Parks –Various car parks across the district have experienced an increase in usage which has generated £93K in additional income (7.9% of total income budget). The programme of maintenance has continued during the year and has delivered a saving of £52K through contractor efficiencies.

Development Management – Income in respect of pre-planning advice has increased from the budgeted level of £35K to actual income of £56K as a result of a higher number of enquiries from larger development sites. This income offsets the operational costs of providing the service. Planning application income has increased by £233K taking the total income for the year to £1M. This is as a result of a number of major applications received in year together with 6 applications for wind and solar farms.

Economic Development – A number of economic development projects have been rescheduled resulting in an under spend of £76K. These include the Business Incubation

Centre (BIC) and Town Centre Regeneration projects as further research and evidence gathering was necessary to support the revised Economic Development Strategy.

Markets – There has been a reduction in market toll income at each of the sites in year (Grantham £25K, Stamford £11K, Bourne £7K) following an overall reduction in the occupation of stalls and pitches (Grantham 22%, Stamford 2%, Bourne 8.5%) which is difficult to predict. Grantham market has recently undergone a review of stall positioning and there are specialist events organised for 2016/17 to try to alleviate the decline in stall holders.

#### **Environment Priority Heading – Adjusted variance £65K**

CCTV – Confirmation was received in year from North Kesteven District Council that they will no longer require the CCTV surveillance service which has resulted in a reduction in income totalling £28K. Following a change of criteria for second homes funding this can no longer be used for community safety initiatives.

Footpath Lighting – A programme of electrical testing was undertaken in year which identified the need for minor repairs to lighting columns throughout the district which has resulted in increased expenditure of £26K.

#### **Culture Priority Heading – Adjusted variance £49K**

Arts and Events – The primary objective of this budget is to promote larger events outside of the arts centres. Even though an increased programme of shows were held in 2015/16, the associated costs were also higher and this resulted in the net income from these events reducing to a 4% surplus from a 30% budgeted level, resulting in an over spend of £20K.

Miscellaneous Property – Updated timings of the St Peter's Hill project has resulted in budgeted rental income of £19K not being received in year and additional revenue costs that could not be capitalised of £148K. Premises expenditure of £30K has been incurred to improve Broad Street, Stamford (funded by the Maintenance Fund) to allow it to be used as rentable premises which commenced in August 2015. Rental income of £30K p.a. is forecast to be achieved from 2016/17.

#### **Corporate – Adjusted variance (£660K)**

Emergency Planning – A contribution has been made to LCC (£8K) to support the Prevent Strategy which works towards the prevention of terrorism. This payment may be recovered in 2016/17 from Central Government.

Register of Electors – Grant funding received in year of (£66K) is to be transferred to a new Individual Electoral Registration reserve for use in future years.

Legal Services – An under spend of £33K has occurred in year due to a vacant Admin Support Officer post and the temporary resourcing of a vacant Team Leader role. Additional income has been received (£13K) due to successful litigations.

People & Organisational Development – 2 vacant posts have resulted in an under spend of £23k on employee costs. Both of these posts have now been recruited.

Property Management – Income has been received (£32K) in respect of a project officer secondment to LCC for 9 months. There is an under spend of £143k on employee costs due to vacancies during a restructure of the business area which took place in year. A General

Fund asset review continues into 2016/17 and a set-a-side request for £22K has been requested to fund this.

Waste & Recycling Management – £50K of income has been received for additional cleansing works undertaken in Stamford. The operational costs for this service are included within the Waste Management line which offset this income stream.

### **HOUSING REVENUE ACCOUNT**

The Housing Revenue Account (HRA) relates to the Council's Landlord functions in respect of the social rented sector it owns. Revenue raised by rents and service charges must be sufficient to match the expenditure costs of the service. A summary table explaining the outturn compared to budget is detailed below:

		2015/16 Adjusted Base £'000	2015/16 Outturn £'000	2015/16 Variance Adjusted £'000
	<b>INCOME</b>			
1	Dwelling Rents	(25,552)	(25,600)	(48)
2	Non Dwelling Rents	(297)	(297)	0
3	Charges for Services and Facilities	(566)	(587)	(21)
4	Other Income	(63)	(69)	(6)
5	<b>TOTAL INCOME</b>	<b>(26,478)</b>	<b>(26,553)</b>	<b>(75)</b>
	<b>EXPENDITURE</b>			
6	Repair and Maintenance	8,035	7,300	(746)
7	Supervision and Management - General	2,564	2,527	(12)
8	Supervision and Management - Special	1,093	1,008	(46)
9	HRA share of Corporate and Democratic Costs	357	359	2
10	Depreciation and Impairment of Fixed Assets	2,778	7,398	4,620
11	Revaluation Losses (Gains)	0	(5,842)	(5,842)
12	Debt Management Expenses	25	34	9
13	Provision for bad debts	517	41	(476)
14	HRA Internal Insurance	0	47	47
15	<b>TOTAL EXPENDITURE</b>	<b>15,369</b>	<b>12,872</b>	<b>(2,498)</b>
16	<b>NET COST OF HRA SERVICES</b>	<b>(11,109)</b>	<b>(13,681)</b>	<b>(2,573)</b>

**Income** – the performance of the collection of rents has been sustained during this financial year (98.57% collected compared with the target of 98.3%). There was an overall over recovery of dwelling rents of £48K compared to the budget due to two factors. The average actual void percentage rate was again lower (1.2%) compared to the budgeted estimate (1.5%) which resulted in an additional £80K income. However this was offset by the write off's during the year.

**Repairs and maintenance** – this budget covers expenditure on a range of work areas including insulation, painting, disabled adaptations, asbestos, gas servicing and maintenance as well as reactive and void repairs. Various projects were deferred to 2016/17 due to additional survey works being required or delays in appointing contractors including sound insulation (£103K) & detectors (126K).

### **CAPITAL EXPENDITURE 2015/16**

During 2015/16 the Council's total capital investment was £8.077M. A summary of the expenditure is set out below and is compared to the updated base programme.

	<b>Corporate Area</b>	<b>2015/16 Updated Base</b>	<b>2015/16 Outturn</b>	<b>2015/16 Variance</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
1	Growth	6,099	573	(5,526)
2	Housing	1,043	460	(583)
3	Culture	460	615	155
4	Environment	752	622	(130)
5	Corporate	338	156	(182)
6	Other (including previous year schemes)	0	86	86
<b>7</b>	<b>General Fund Sub Total</b>	<b>8,692</b>	<b>2,512</b>	<b>(6,180)</b>
8	Housing Revenue Account	7,423	5,565	(1,858)
<b>9</b>	<b>Total Capital Programme</b>	<b>16,115</b>	<b>8,077</b>	<b>(8,038)</b>

## **Variance Analysis – General Fund**

### **Growth Priority Heading**

St. Peter's Hill development – following additional specialist advice being received a revised approach has been identified as part of the over-arching ambition of creating a highly attractive sub-regional leisure destination and cultural offer in Grantham. Therefore further slippage £189K has been moved into the 2016/17 capital programme.

Strategic Land Acquisition – There were no sites identified for purchase in 2015/16 leading to an underspend of £900K. This budget is no longer required as the Council has allocated £5M for Property Investment in 2016/17 as part of its Commercial Investment Strategy.

Servicing Land At Vantage Park – The sale is proceeding but there are conditions which have delayed the completion. The budget (£220K) has been slipped into 2016/17.

### **Housing Priority Heading**

Housing Grant Assistance – The under spend of £72K was due to the volume of applications being lower than previously anticipated.

Disabled Facilities Grants – Applications are dependent on an assessment carried out by an occupational therapist at the County Council, these are then processed by the Lincolnshire Home Independence Agency. The reduced number of referrals for applications has resulted in an under spend of £138K.

### **Culture Priority Heading**

The over spend in culture relates to two schemes, the installation of Astroturf pitch at Meres Leisure Centre £144K funded through grant funding from the Football Association. The second scheme is a new PA System (23K) installed at the Guildhall Arts Centre.

### **Environment Priority Heading**

There is an under spend on wheelie bins of £23K due to delivery delays by the supplier, this is to be slipped into 2016/17. There was a saving of £18K on vehicle purchases. The Wyndham Park footpath improvements were completed in year (£22K) and street lighting schemes (£64K). Both were moved to revenue expenditure at year end due to accounting adjustments resulting in an under spend of £89K.

### **Corporate Priority Heading**

The ICT infrastructure budget (£144K) has been delayed in 2015/16 due to programming of works this budget will be slipped into 2016/17. The scheme under the heading of the Customer Access Strategy (£28K) has been delayed due to timing of projects and is to be slipped into 2016/17.

## **Variance Analysis – Housing Revenue Account**

### **Purchase Of Strategic Land**

The only expenditure incurred was for the buy back of the leasehold flat (£84K). This resulted in an under spend of £114K which has been slipped into the 2016/17 stock growth and acquisitions programme.



### **New Build Properties**

The new build capital programme has seen the completion and letting of 20 new dwellings at Lincoln Road, Stamford. The under spend of £1,060M is due to delays in evaluating new sites for developments. This budget has been slipped into 2016/17.

### **Kitchen & Bathroom Refurbishments**

There was an under spend of £157K due to delays in completing the programme of works, however during 2015/16 232 and 165 kitchens and bathrooms were completed respectively. The underspend is to be slipped into 2016/17 to enable the remaining properties to be done.

### **External Wall Insulation**

This scheme was under spent by £135K. Slippage of £38K is to be utilised on properties not able to be completed in 2015/16 and pre-surveys/evaluation of properties in the 2016/17 programme.

### **IT Software**

The vehicle management system (£50K) will now be implemented in 2016/17 following delays to the project and the budget has been slipped. A system upgrade has been completed with a saving of £23K.

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

The following table sets out the capital investment and how it was financed;

	£'000		£'000
<b>Investment</b>		<b>Financed From</b>	
Council Dwellings **	5,518		
Other Land and Building	904	Capital Receipts	2,535
Investment Property	80	Direct Revenue Financing	161
Vehicles Plant and Equipment **	931	Major Repairs Reserve	4,726
Revenue Expenditure funded	497	Capital Grants and Contributions	455
Intangible Assets	147	Other Reserves	200
<b>Total</b>	<b>8,077</b>		<b>8,077</b>
<b><u>Cashflow</u></b>			

At the 31<sup>st</sup> March 2016 the Council had a strong cash position as detailed below;

	<b>31st March 2016 £'000</b>	<b>31st March 2015 £'000</b>
Cash & Cash Equivalents	7,598	11,819
Short Term Investments	29,136	37,305
Long Term Investments	4,000	5,000
	<b>40,734</b>	<b>54,124</b>

The main factors that could affect cash in the future are:

- Acquisition and disposals relating to capital programme
- The value of reserve balances
- Grants & contributions unapplied
- HRA rental income reducing
- Repayment of borrowing

### **Reserves & Balances**

The Council maintains working balances for both the General Fund and the Housing Revenue Account. 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. 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 General Fund working balance at the end of the financial year is £1.913M which is 12.7% of net original base budget for 2015/16 (net operating expenditure). The Housing Revenue Account working balance of £4.823M represents the existing revenue balance.

The Councils total working balances and reserves have increased by £8.8M and now total £52.5M. The reserves have specific policies relating to their use and are allocated in order to fund capital and revenue expenditure that support the delivery of Council priorities. The increase in balances is the result of a reprofiled capital programme and the setting aside of funds for the repayment of a HRA loan in 2020. The budget framework each year sets out how the funding from the reserves will be used to contribute towards spending proposals.

A summary of the specific and earmarked reserve balances as at 31 March 2016 are as follows:

	£'000
Usable Cap Receipts Reserve	2,540
HRA Capital Receipts Reserve	1,780
Major Repairs Reserve	6,775
Earmarked GF Revenue Reserves	18,624
General Fund Unapplied Revenue Grants	381
Earmarked HRA Revenue Reserves	1,579
Earmarked GF Capital Reserve	3,095
GF Unapplied Capital Grants	0
Earmarked HRA Capital Reserves	10,977
Housing Revenue Account Balance	4,823
General Fund Balance	1,913
	<hr/> <b>52,487</b> <hr/>

### **Treasury Management Performance**

We exceeded our original investment income budget for the year of £346K by £209K which was due to a combination of higher than budgeted cash balances and securing higher than anticipated investment rates following a diversification of the investment portfolio.

### **Pension Liabilities**

The Council has net pension liabilities of £38.3M in the balance sheet. This reflects the value of pension liabilities which the Council is required to pay in the future as they fall due, offset by the value of the assets invested in the pension fund.

## **Council Performance 2015/16**

The Council has a range of performance measures it uses to monitor and track progress towards achieving its strategic priorities. The following measures are an extract of performance measures for the year and show a positive direction of travel between 2014/15 and 2015/16.

<b>Performance Measure</b>	<b>Priority Area</b>	<b>2014/15</b>	<b>2015/16</b>
		<b>Result</b>	<b>Result</b>
% of Non Domestic Rates Collected	Growth	98.37%	98.63%
% Household waste sent for reuse, recycling and composting	Environment	47.03%	43.20%
Number of Visits through our Leisure Centres	Culture	823,671	1,125,883
Number of Affordable homes delivered	Housing	92	160
% of Council Tax Collected	Growth	98.71%	98.74%
% of Rent Collected against annual collection target	Housing	98.83%	98.57%
% of Planning Applications Approved	Growth	92.4%	92%

## **Financial Challenges Going Forward**

The Council's medium term financial modelling has been updated to reflect the indicative four-year Funding Settlement that has been announced by Government. The forecast also takes into account inflation (both pay and contract), pay and pension assumptions as well as allowances for specific and general cost increases. The current estimated future funding gap is in line with previous predictions and co-incides with the withdrawal of revenue support grant by the financial year 2019/20.

The Council is considering the impact of the UK's vote to leave the European Union (EU) on 23rd June 2016. The vote to leave is likely to have significant implications for the UK's economic outlook. The referendum result will have an impact on financial planning for the Council for the coming years and will be considered as part of the medium term financial planning of the Authority. The Chancellor has indicated that he may revise government spending plans in this year's Autumn Statement. The potential to reset fiscal policy creates a substantial level of uncertainty for the public sector and local government as it awaits the Autumn Statement announcements.

## **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, Lincolnshire, NG31 6PZ, telephone 01476 406203 or [accountancy@southkesteven.gov.uk](mailto: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](http://www.southkesteven.gov.uk)

**Daren Turner ACCA**  
**Strategic Director – Corporate Focus**  
**23<sup>rd</sup> September 2016**

## **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 2016

This Statement of Accounts has been approved by the Governance & Audit Committee at its meeting on 23rd September 2016.

**DAREN TURNER ACCA**  
**CHIEF FINANCE OFFICER**  
**23rd September 2016**

**COUNCILLOR NICK NEILSON**  
**CHAIRMAN OF GOVERNANCE & AUDIT COMMITTEE**  
**23<sup>rd</sup> September 2016**

## MOVEMENT IN RESERVES STATEMENT

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

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	<b>Total Usable Reserves</b>	Unusable Reserves	<b>Total Authority Reserves</b>
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2015</b>	(1,913)	(17,816)	(4,783)	(9,352)	(4,376)	(5,384)	(15)	<b>(43,639)</b>	(68,316)	<b>(111,955)</b>
<b>Movement in reserves during 2015/16</b>										
Surplus or (deficit) on the provision of services	2,007		(10,495)					<b>(8,488)</b>		<b>(8,488)</b>
Other Comprehensive Income & Expenditure (see bottom of CIES)								<b>0</b>	(23,977)	<b>(23,977)</b>
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>2,007</b>	<b>0</b>	<b>(10,495)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(8,488)</b>	<b>(23,977)</b>	<b>(32,465)</b>
Adjustments between accounting basis and funding basis under regulations (Note 8)	(6,476)	185	3,688	0	(734)	(2,552)	15	<b>(5,874)</b>	5,874	<b>0</b>
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	<b>(4,469)</b>	<b>185</b>	<b>(6,807)</b>	<b>0</b>	<b>(734)</b>	<b>(2,552)</b>	<b>15</b>	<b>(14,362)</b>	<b>(18,103)</b>	<b>(32,465)</b>
Transfers to/(from) Earmarked Reserves (Note 9)	4,469	(4,469)	6,767	(3,204)	790	1,161	0	<b>5,514</b>	(5,514)	<b>0</b>
<b>(Increase)/Decrease in 2015/16</b>	<b>0</b>	<b>(4,284)</b>	<b>(40)</b>	<b>(3,204)</b>	<b>56</b>	<b>(1,391)</b>	<b>15</b>	<b>(8,848)</b>	<b>(23,617)</b>	<b>(32,465)</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>(1,913)</b>	<b>(22,100)</b>	<b>(4,823)</b>	<b>(12,556)</b>	<b>(4,320)</b>	<b>(6,775)</b>	<b>0</b>	<b>(52,487)</b>	<b>(91,933)</b>	<b>(144,420)</b>

For details of reserves see notes 26 and 27

## MOVEMENT IN RESERVES STATEMENT Cont'd

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	<b>Total Usable Reserves</b>	Unusable Reserves	<b>Total Authority Reserves</b>
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2014</b>	(1,912)	(13,804)	(7,145)	(5,751)	(5,090)	(4,281)	(78)	<b>(38,061)</b>	(73,531)	<b>(111,592)</b>
<b>Movement in reserves during 2014/15</b>										
Surplus or (deficit) on the provision of services	757		(6,115)					<b>(5,358)</b>		<b>(5,358)</b>
Other Comprehensive Income & Expenditure (see bottom of CIES)								<b>0</b>	4,995	<b>4,995</b>
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>757</b>	<b>0</b>	<b>(6,115)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,358)</b>	<b>4,995</b>	<b>(363)</b>
Adjustments between accounting basis and funding basis under regulations (Note 8)	(5,184)	413	1,261	0	(1,204)	(2,499)	63	<b>(7,150)</b>	7,150	<b>0</b>
<b>Net (Increase)/Decrease before Transfers to</b>	<b>(4,427)</b>	<b>413</b>	<b>(4,854)</b>	<b>0</b>	<b>(1,204)</b>	<b>(2,499)</b>	<b>63</b>	<b>(12,508)</b>	<b>12,145</b>	<b>(363)</b>
Transfers to/(from) Earmarked Reserves (Note 9)	4,426	(4,425)	7,216	(3,601)	1,918	1,396	0	<b>6,930</b>	(6,930)	<b>0</b>
<b>(Increase)/Decrease in 2014/15</b>	<b>(1)</b>	<b>(4,012)</b>	<b>2,362</b>	<b>(3,601)</b>	<b>714</b>	<b>(1,103)</b>	<b>63</b>	<b>(5,578)</b>	<b>5,215</b>	<b>(363)</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>(1,913)</b>	<b>(17,816)</b>	<b>(4,783)</b>	<b>(9,352)</b>	<b>(4,376)</b>	<b>(5,384)</b>	<b>(15)</b>	<b>(43,639)</b>	<b>(68,316)</b>	<b>(111,955)</b>

For details of reserves see notes 26 and 27

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, 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.

17

## 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, i.e. 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".

At 1st April 2015 £'000		Note	At 31st March 2016 £'000
175,335	Council Dwellings	14	178,765
51,782	Other Land and Buildings	14	57,953
4,615	Plant, Vehicles and Equipment	14	4,312
240	Surplus Assets not held for sale	14	191
1,910	Assets Under Construction	14	376
429	Heritage Assets	46	429
3,372	Investment Property	15	2,595
333	Intangible Assets	16	380
4,000	Non Current Investments	47	5,000
2,164	Non Current Debtors	21	2,103
<b>244,180</b>	<b>Non Current Assets</b>		<b>252,104</b>
1,068	Current Assets Held for Sale	23	1,420
29,136	Current Investments	47	37,305
28	Inventories	19	11
2,823	Current Debtors	21	3,298
11,819	Cash and Cash Equivalents	22	7,598
<b>44,874</b>	<b>Current Assets</b>		<b>49,632</b>
(3,804)	Current Borrowing	43	(3,274)
(9,258)	Current Creditors	24	(6,483)
(920)	Current Provisions	25	(1,208)
<b>(13,982)</b>	<b>Current Liabilities</b>		<b>(10,965)</b>
(261)	Non Current Provisions	25	(85)
(109,765)	Non Current Borrowing	43	(106,543)
(52,067)	Other Non Current Liabilities	41	(38,306)
(1,024)	Capital Grants Receipts in Advance	35	(1,417)
<b>(163,117)</b>	<b>Non Current Liabilities</b>		<b>(146,351)</b>
<b>111,955</b>	<b>Net Assets</b>		<b>144,420</b>



## BALANCE SHEET Cont'd

At 1st April 2015		Note	At 31st March 2016
£'000			£'000
4,376	Usable Cap Receipts Reserve	26	4,320
5,384	Major Repairs Reserve	26	6,775
15,717	Earmarked GF Revenue Reserves	26	19,005
1,005	Earmarked HRA Revenue Reserves	26	1,579
8,347	Earmarked HRA Capital Reserves	26	10,977
2,099	Earmarked GF Capital Reserves	26	3,095
15	Capital Grants Unapplied	26	0
1,913	General Fund Balance	26	1,913
4,783	HRA Balance	26	4,823
<b>43,639</b>	<b>Usable Reserves</b>		<b>52,487</b>
107,259	Capital Adjustment Account	27	110,725
13,902	Revaluation Reserve	27	21,116
(52,067)	Pension Reserve	27	(38,306)
(134)	Short Term Accumulated Absences Account	27	(131)
(686)	Collection Fund adjustment Account	27	(1,507)
42	Deferred Capital Receipts	27	36
<b>68,316</b>	<b>Unusable Reserves</b>		<b>91,933</b>
<b>111,955</b>	<b>Total Reserves</b>		<b>144,420</b>

## 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.

2014/15 £'000		Notes	2015/16 £'000
	<b>Operating Activities</b>		
5,358	Net surplus or (deficit) on the provision of services		8,488
15,276	Adjustments to net surplus or deficit on the provision of services for non-cash movements	48	5,827
(3,047)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(3,324)
3,007	Reversal of operating activity items included in the net (surplus) or deficit on the provision of services that are shown separately below		2,837
	Net cash flows from Operating Activities includes		
(3,342)	Interest paid		(3,223)
335	Interest received		386
<b>17,587</b>	<b>Net cash flows from Operating Activities</b>		<b>10,991</b>
	<b>Investing Activities</b>		
(8,530)	Purchase of property, plant and equipment, investment property and intangible assets		(7,226)
(35,000)	Purchase of short-term and long-term investments		(39,000)
(1,020)	Other payments for investing activities		
2,693	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		3,206
20,000	Proceeds from short-term and long-term investments		30,000
1,589	Other receipts from investing activities		591
<b>(20,268)</b>	<b>Net cash flows from Investing Activities</b>		<b>(12,429)</b>

## CASH FLOW STATEMENT (CONT)

2014/15 £'000		Notes	2015/16 £'000
	<b>Financing Activities</b>		
(3,238)	Repayments of short and long-term borrowing		(3,751)
613	Other payments for financing activities		968
<b>(2,625)</b>	<b>Net cash flows from Financing Activities</b>		<b>(2,783)</b>
<b>(5,306)</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>(4,221)</b>
17,125	Cash and cash equivalents at the beginning of the reporting period		11,819
11,819	Cash and cash equivalents at the end of the reporting period	22	7,598

## **1. STATEMENT OF ACCOUNTING POLICIES**

### **I. GENERAL PRINCIPLES**

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, 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 2015/16* and the *Service Reporting Code of Practice 2015/16*, supported by International Financial Reporting Standards (IFRS).

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

### **II. ACCRUALS OF INCOME AND EXPENDITURE**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **III. CASH AND CASH EQUIVALENTS**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 30 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### **IV. 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 and 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.

### **V. 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 prospectively, i.e. 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, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period 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.

### **VI. CHARGES TO REVENUE FOR NON-CURRENT ASSETS**

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

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

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

## **VII. EMPLOYEE BENEFITS**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits for current employees and are recognised as an expense for services in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Termination Benefits:**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service, or where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement the earlier of when the Council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end

### **Post-Employment Benefits**

Employees of the Council are members of the Local Government Pension Scheme, administered by Lincolnshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

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

## Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefit scheme:

- The liabilities of the Lincolnshire County Council pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- 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 the following components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
  - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - Net interest on the net defined pension liability (asset) i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
  - The return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) charged to the Pension Reserve as Other Comprehensive Income and Expenditure
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumption – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the Lincolnshire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Council 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.

## **VIII. EVENTS AFTER THE REPORTING PERIOD**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect these.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosures is made in the notes of the nature of the event and an estimated financial effect.

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



## **IX. FINANCIAL INSTRUMENTS**

### **Financial Liabilities**

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For all of the borrowing that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principle repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year in the loan agreement.

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 and Expenditure Account as they are incurred.

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

- Loans and 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**

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where 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 (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and 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 or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **Available-for-sale Assets**

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are included.

Assets are maintained in the Balance Sheet at fair value, where it is deemed to be material.

## **X. FOREIGN CURRENCY TRANSACTIONS**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **XI. GOVERNMENT GRANTS & OTHER CONTRIBUTIONS**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potentially embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Money advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where Capital Grants are credited to the Comprehensive Income and Expenditure Statement they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure

## **XII. HERITAGE ASSETS**

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

not practicable to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts.

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

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

### **XIII. INTANGIBLE ASSETS**

Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of the Council's website is not capitalised.

Intangible Assets are measured initially at cost. Amounts are only revalued where the fair value of the asset held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gains or losses arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure Line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

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

### **XIV. INVENTORIES AND LONG TERM CONTRACTS**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the provision of services with the value of works and services received under the contract during the financial year.

## **XV. INVESTMENT PROPERTY**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **XVI. LEASES**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets

### **The Council as Lessee**

#### **Finance Leases:**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the leases inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor e.g. payments net of financing costs. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into the lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the period in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the

lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease; even if this does not match the patterns of payments (e.g. there is a rent free period at the commencement of the lease).

### **The Council as Lessor**

#### **Finance Leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal) matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipts for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **XVII. OVERHEADS AND 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 2015/16 (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 and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## **XVIII. PROPERTY, PLANT AND EQUIPMENT**

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property Plant and Equipment.

### **Recognition:**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council, over more than one year and that the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

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, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred while assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Dwellings – current value determined using the basis of existing use value for social housing (EUV-SH). The social housing discount applied in 2015/16 is 34%.
- Community assets and assets under construction – historical cost.
- Plant, Vehicles & Equipment – depreciated historical cost
- All other classes of assets – current value, unless there is no market-based evidence of fair value because of the specialist nature of the asset. In this case fair value is estimated using the Depreciated Replacement Cost method.

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

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement,

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Land is not depreciated as it will not have a finite life.
- Council Dwellings and Other Buildings are depreciated using the straight line method. The finite useful life is assessed by the District Valuer at the time of revaluation but for Council Dwellings is usually 50 years, and for other buildings is between 1 and 60 years.
- Plant and Equipment are also depreciated by the straight line method. Useful life is assessed by the Chief Finance Officer at the time of acquisition, usually between 3 and 10 years. Some assets have a longer life span, up to 30 years.
- Vehicles are depreciated using the reducing balance method at a rate of 25% per annum.
- Non-current assets held-for sale are not depreciated.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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



## **Componentisation:**

Only assets with a carrying amount more than or equal to £500,000 at the beginning of the financial year are considered for componentisation. To be recognised as a component the value of the part of the asset being considered must be more than or equal to 10% of the value of the asset, and have a life less than or equal to half that of the main asset. When a component is replaced, the carrying amount of the old component is derecognised and the new component is recognised. If the carrying amount of the old component is not known, this is estimated by indexing back from the cost of the new component and adjusting for depreciation and impairment over the old component's useful life. The Building Costs Index will be used.

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

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

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 and Expenditure. If the depreciation charged is higher than the MRA an amount equal to the difference is transferred to the HRA from the Major Repairs Reserve (MRR). If the depreciation is lower than the MRA the transfer is from the HRA to the reserve. These transactions are reported in the Movement in Reserves Statement.

## **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is classified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to a fair value less costs to sell, the loss is posted in the Other Operating Expenditure line in the Comprehensive Income and Expenditure statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts related to housing disposals is payable to the Government. The balance of receipts 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 appropriated to the Reserve from the General Fund Balance 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 appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **XIX. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

### **Provisions:**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

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

### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **XX. RESERVES**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then 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.

## **XXI. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **XXII. VAT**

Income and expenditure excludes any amounts related to VAT, as in the main, VAT collected is payable to HM Revenue & Customs and VAT paid is recoverable from them. VAT is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **XXIII. PRINCIPAL AND 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.

## **2. CHANGES IN ACCOUNTING POLICY**

The only change to the Council's accounting policies for 2015/16 is the introduction of IFRS 13 Fair Value Measurement. This accounting policy had an impact on Investment Property and Financial Instruments.

## **3. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT ADOPTED**

For 2015/16 the following accounting policy changes that need to be reported relate to:

- a. Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- b. Annual Improvements to IFRSs 2010 – 2012 Cycle
- c. Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- d. Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- e. Annual Improvements to IFRSs 2012 – 2014
- f. Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)
- g. The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

It is not anticipated that the above amendments will have a material impact on the information provided in local authority financial statements i.e. there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services. However, in the 2016/17 year the comparator 2015/16 Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will reflect the new formats and reporting requirements as a result of the Telling the Story review of the presentation of local authority financial statements.

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

## **5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking 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 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

### **a. 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 £193k for every year that useful lives had to be reduced.

### **b. Arrears**

At 31 March 2016 the Council had a balance of short-term debtors of £5.203m. A review of these debts suggested that an impairment for doubtful debts of approx 37% was appropriate, totalling £1.9m. 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 £1.9m to be set aside for this allowance.

## **6. MATERIAL ITEMS OF INCOME AND EXPENDITURE**

The return on the assets relating to the Pension Fund has reduced due to lower bond yields this in turn increased the Pension liability resulting in a £10.162m charge to the Other Comprehensive Income and Expenditure.

## **7. EVENTS AFTER THE REPORTING PERIOD**

The Statement of Accounts was authorised for issue by the Strategic Director – Corporate Focus on 23<sup>rd</sup> September 2016. Events taking place after this date are not reflected in the financial statements or notes.

## **8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER STATUTE**

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

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

### **General Fund Balance**

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

### **Housing Revenue Account Balance**

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

### **Major Repairs Reserve**

The Council is required to maintain the Major Repairs Reserve which funds capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at year end.

### **Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes as at the year-end.

### **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.

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

2015/16	General Fund £'000	Earmarked GF Reserves £'000	HRA £'000	Earmarked HRA Reserves £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>									
Depreciation of non-current assets	(3,313)		(232)			(2,552)		(6,097)	6,097
Amortisation of intangible assets	(89)		(11)					(100)	100
Revaluation gains/losses on PPE	(723)		5,841					5,118	(5,118)
Impairments charged to CIES	0		(4,694)					(4,694)	4,694
Movements in market value of investment properties	162		(137)					25	(25)
Revenue expenditure funded from capital under statute (REFCUS)	(496)							(496)	496
Financing of REFCUS	411	70					15	496	(496)
Capital expenditure	205	115	3,222		1,696			5,238	(5,238)
Statutory provision for financing of capital investment	166							166	(166)
Profit/Loss on disposal of non-current assets	(128)		1,140		(3,280)			(2,268)	2,268
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>									
Adjustment to council tax income	117							117	(117)
Adjustment to NNDR income	(938)							(938)	938
<b>Adjustments primarily involving the Pension Fund</b>									
Adjustment of IAS 19 retirement entries for actual contributions	(1,853)		(591)					(2,444)	2,444
<b>Adjustments primarily involving the Accumulating Compensated Absences</b>									
Accrual for accumulated compensated absences	3		-					3	(3)
<b>Adjustments between Usable Reserves</b>									
Payments to Housing Capital Receipts Pool			(850)		850			0	0
<b>Total Adjustments</b>	<b>(6,476)</b>	<b>185</b>	<b>3,688</b>	<b>0</b>	<b>(734)</b>	<b>(2,552)</b>	<b>15</b>	<b>(5,874)</b>	<b>5,874</b>

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

2014/15	General Fund	Earmarked Revenue Reserves	HRA	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>									
Depreciation of non-current assets	(2,944)		(233)			(2,499)		(5,676)	5,676
Amortisation of intangible assets	(53)							(53)	53
Revaluation gains/losses on PPE	260		3,672					3,932	(3,932)
Impairments charged to CIES	-		(4,763)					(4,763)	4,763
Movements in market value of investment properties	(806)		(12)					(818)	818
Revenue expenditure funded from capital under statute (REFCUS)	(423)							(423)	423
Financing of REFCUS	360						63	423	(423)
Capital expenditure	370	413	3,222		763			4,768	(4,768)
Statutory provision for financing of capital investment	173							173	(173)
Profit/Loss on disposal of non-current assets	49		511		(2,653)			(2,093)	2,093
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>									
Adjustment to council tax income	161							161	(161)
Adjustment to NNDR income	(876)							(876)	876
<b>Adjustments primarily involving the Pension Fund</b>									
Adjustment of IAS 19 retirement entries for actual contributions	(1,461)		(459)					(1,920)	1,920
<b>Adjustments primarily involving the Accumulating Compensated Absences</b>									
Accrual for accumulated compensated absences	6		9					15	(15)
<b>Adjustments between Usable Reserves</b>									
Payments to Housing Capital Receipts Pool			(686)		686			0	0
<b>Total Adjustments</b>	<b>(5,184)</b>	<b>413</b>	<b>1,261</b>	<b>0</b>	<b>(1,204)</b>	<b>(2,499)</b>	<b>63</b>	<b>(7,150)</b>	<b>7,150</b>



## 9. TRANSFER 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 2015/16.

### 2015/16

	General Fund	Housing Revenue Account	Usable Capital Receipts	Earmarked General Fund Reserves	HRA Revenue Reserves	Major Repairs Reserve	Unapplied Capital Grants	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Amounts set aside to provide for future expenditure</b>										
Insurance provision	(50)	(50)		50	50			0	0	0
SEA provision	41			(41)				0	0	0
Transfer Surplus to reserves	4,739	6,818		(4,739)	(3,254)	(3,565)		(1)	1	0
Unapplied government grants								0	0	0
Repaid mortgages			(45)					(45)	45	0
Other Long-Term Debtors		(1)	(5)					(6)	6	0
<b>Amounts transferred from reserves to support in year expenditure</b>										
Application of other grants	(264)			264				0	0	0
Finance Building Control deficit	3			(3)				0	0	0
Revenue Contributions to Capital			840			4,726		5,566	(5,566)	0
<b>Total Transfers To/(From) Earmarked Reserves</b>	<b>4,469</b>	<b>6,767</b>	<b>790</b>	<b>(4,469)</b>	<b>(3,204)</b>	<b>1,161</b>	<b>0</b>	<b>5,514</b>	<b>(5,514)</b>	<b>0</b>

## Transfers to/from Earmarked Reserves (Continued)

The comparative amounts in 2014/15 are set out below.

	General Fund	Housing Revenue Account	Usable Capital Receipts	Earmarked General Fund Reserves	HRA Revenue Reserves	Major Repairs Reserve	Unapplied Capital Grants	<b>Total Usable Reserves</b>	Unusable Reserves	<b>Total Authority Reserves</b>
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Amounts set aside to provide for future expenditure</b>										
Insurance provision	(91)	(1)		91	1			0	0	0
SEA provision	(34)			34				0	0	0
Transfer Surplus to reserves	4,512	7,025		(4,511)	(3,602)	(3,424)		0	0	0
Unapplied government grants								0	0	0
Repaid mortgages			(42)					(42)	42	0
Other Long-Term Debtors		35	(40)					(5)	5	0
								0		
<b>Amounts transferred from reserves to support in year expenditure</b>								0		
Application of other grants	27			(27)				0	0	0
Finance Building Control deficit	12			(12)				0	0	0
Revenue Contributions to Capital		157	2,000			4,820		6,977	(6,977)	0
<b>Total Transfers To/(From) Earmarked Reserves</b>	<b>4,426</b>	<b>7,216</b>	<b>1,918</b>	<b>(4,425)</b>	<b>(3,601)</b>	<b>1,396</b>	<b>0</b>	<b>6,930</b>	<b>(6,930)</b>	<b>0</b>

## 10. PRECEPTS AND LEVIES

2014/15		2015/16
£'000		£'000
1,465	Parish Council Precepts	1,529
629	Drainage Board Levies	639
<b>2,094</b>		<b>2,168</b>

## 11. OTHER OPERATING INCOME AND EXPENDITURE

2014/15		2015/16
£'000		£'000
(35)	Right to Buy Discounts Repaid	-
<b>(35)</b>		<b>0</b>

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

2014/15		2015/16
£'000		£'000
25	Income & Expenditure from investment properties	21
818	Movements in relation to changes in the fair value of investment properties	(25)
<b>843</b>		<b>(4)</b>

## 13. NON SERVICE RELATED GOVERNMENT GRANTS

2014/15		2015/16
£'000		£'000
(2,679)	New Homes Bonus	(3,332)
(67)	Council Tax Freeze Grant	-
(892)	S31 Grant	(1,090)
(27)	S106 Contribution	(79)
(3,701)	Revenue Support Grant	(2,612)
<b>(7,366)</b>		<b>(7,113)</b>

## 14. PROPERTY PLANT AND EQUIPMENT

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

Movement in 2015/16

	Council Dwellings	Other Land & Buildings	Vehicles, Plant Eqpt	Surplus Assets	Assets Under Construction	Total PPE
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation at 01/04/2015</b>	<b>177,828</b>	<b>53,729</b>	<b>14,124</b>	<b>248</b>	<b>1,910</b>	<b>247,839</b>
Additions	5,518	904	931			7,353
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(938)	5,593		18		4,673
Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(926)	268		(233)		(891)
Derecognition - Disposals	(1,282)	(2)	(83)			(1,367)
Assets reclassified to/(from) Surplus Assets		(169)		169		0
Assets reclassified (to)/from Held for Sale (see Note 24)	(416)					(416)
Assets reclassified to/(from) Asset under construction	1,534				(1,534)	0
<b>At 31/03/2016</b>	<b>181,318</b>	<b>60,323</b>	<b>14,972</b>	<b>202</b>	<b>376</b>	<b>257,191</b>
<b>Accumulated Depreciation &amp; Impairment at 01/04/2015</b>	<b>(2,493)</b>	<b>(1,947)</b>	<b>(9,509)</b>	<b>(8)</b>	<b>-</b>	<b>(13,957)</b>
Depreciation charge	(2,552)	(2,329)	(1,205)	(12)		(6,098)
Depreciation written out to the Revaluation Reserve	69	1,819		11		1,899
Depreciation written out to the Comprehensive Income & Expenditure Statement	7,117	80		5		7,202
Derecognition of Non Enhancing Capital Expenditure	(4,694)					(4,694)
Derecognition - Disposals			54			54
Other Movements in Depreciation and Impairment		7		(7)		0
<b>At 31/03/2016</b>	<b>(2,553)</b>	<b>(2,370)</b>	<b>(10,660)</b>	<b>(11)</b>	<b>-</b>	<b>(15,594)</b>
<b>Net Book Value</b>						
<b>At 31/03/2016</b>	<b>178,765</b>	<b>57,953</b>	<b>4,312</b>	<b>191</b>	<b>376</b>	<b>241,597</b>
<b>At 31/03/2015</b>	<b>175,335</b>	<b>51,782</b>	<b>4,615</b>	<b>240</b>	<b>1,910</b>	<b>233,882</b>

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

## Property, Plant & Equipment (Continued) Restated

Movement in 2014/15 restated

	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 01/04/2014	<b>175,840</b>	<b>51,359</b>	<b>14,288</b>	<b>245</b>	<b>3,309</b>	<b>245,041</b>
Additions	5,502	55	833	-	1,586	<b>7,976</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	554	3,156		3		<b>3,713</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(3,580)	(16)				<b>(3,596)</b>
Derecognition - Disposals	(868)		(997)			<b>(1,865)</b>
Assets reclassified (to)/from Assets Under Construction	587				(2,985)	<b>(2,398)</b>
Assets reclassified (to)/from Held for Sale (see Note 24)	(207)	(825)				<b>(1,032)</b>
<b>At 31/03/2015</b>	<b>177,828</b>	<b>53,729</b>	<b>14,124</b>	<b>248</b>	<b>1,910</b>	<b>247,839</b>
<b>Accumulated Depreciation &amp; Impairment at 01/04/2014</b>	<b>(2,480)</b>	<b>(1,765)</b>	<b>(9,123)</b>	<b>(8)</b>	<b>-</b>	<b>(13,376)</b>
Depreciation charge	(2,499)	(1,913)	(1,255)	(8)		<b>(5,675)</b>
Depreciation written out to the Revaluation Reserve	15	1,644				<b>1,659</b>
Depreciation written out to the Comprehensive Income & Expenditure Statement	7,227	87		8		<b>7,322</b>
Derecognition of Non Enhancing Capital Expenditure	(4,763)					<b>(4,763)</b>
Derecognition - Disposals	7		869			<b>876</b>
<b>At 31/03/2015</b>	<b>(2,493)</b>	<b>(1,947)</b>	<b>(9,509)</b>	<b>(8)</b>	<b>-</b>	<b>(13,957)</b>
<b>Net Book Value</b>						
<b>At 31/03/2015</b>	<b>175,335</b>	<b>51,782</b>	<b>4,615</b>	<b>240</b>	<b>1,910</b>	<b>233,882</b>
<b>At 31/03/2014</b>	<b>173,360</b>	<b>49,594</b>	<b>5,165</b>	<b>237</b>	<b>3,309</b>	<b>231,665</b>

The 2014/15 Property Plant & Equipment Note has been restated to rectify a historic error dating back to 2011/12. The compensating error has been corrected and the net book values have not altered. For comparative purposes the original note is below.

Movement in 2014/15 Historic

	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 01/04/2014	<b>179,954</b>	<b>51,598</b>	<b>14,288</b>	<b>245</b>	<b>3,309</b>	<b>249,394</b>
Additions	5,502	55	833	-	1,586	<b>7,976</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	554	3,156		3		<b>3,713</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(3,580)	(16)				<b>(3,596)</b>
Derecognition - Disposals	(868)		(997)			<b>(1,865)</b>
Assets reclassified (to)/from Assets Under Construction	587				(2,985)	<b>(2,398)</b>
Assets reclassified (to)/from Held for Sale (see Note 24)	(207)	(825)				<b>(1,032)</b>
<b>At 31/03/2015</b>	<b>181,942</b>	<b>53,968</b>	<b>14,124</b>	<b>248</b>	<b>1,910</b>	<b>252,192</b>
<b>Accumulated Depreciation &amp; Impairment at 01/04/2014</b>	<b>(6,594)</b>	<b>(2,004)</b>	<b>(9,123)</b>	<b>(8)</b>	<b>-</b>	<b>(17,729)</b>
Depreciation charge	(2,499)	(1,913)	(1,255)	(8)		<b>(5,675)</b>
Depreciation written out to the Revaluation Reserve	15	1,644				<b>1,659</b>
Depreciation written out to the Comprehensive Income & Expenditure Statement	7,227	87		8		<b>7,322</b>
Derecognition of Non Enhancing Capital Expenditure	(4,763)					<b>(4,763)</b>
Derecognition - Disposals	7		869			<b>876</b>
<b>At 31/03/2015</b>	<b>(6,607)</b>	<b>(2,186)</b>	<b>(9,509)</b>	<b>(8)</b>	<b>-</b>	<b>(18,310)</b>
<b>Net Book Value</b>						
<b>At 31/03/2015</b>	<b>175,335</b>	<b>51,782</b>	<b>4,615</b>	<b>240</b>	<b>1,910</b>	<b>233,882</b>
<b>At 31/03/2014</b>	<b>173,360</b>	<b>49,594</b>	<b>5,165</b>	<b>237</b>	<b>3,309</b>	<b>231,665</b>

### Valuation Assumptions

The significant assumptions applied in estimating the fair values by the Valuer are as follows:

- No potentially deleterious or hazardous materials were used in the construction of the assets and non has subsequently been incorporated.
- That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and the good titles can be shown.

- The properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that use and occupation are both legal.
- The inspection of those parts which have not been inspected would cause the Valuer to alter their opinion of value.
- The land and properties are not contaminated nor adversely affected by radon.
- No allowances have been made for any rights obligations or liabilities arising from the Defective Premises Act 1972.

## 15. INVESTMENT PROPERTIES

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

2014/15 £'000		2015/16 £'000
(25)	Rental income from investment property	(48)
50	Direct operating expenses arising from investment property	69
<b>25</b>		<b>21</b>

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:

2014/15 £'000		2015/16 £'000
2,346	<b>Balance at start of year</b>	3,372
289	Additions - Purchases	80
(818)	Net gains/losses from fair value adjustments	25
(843)	Disposals	(882)
2,398	Transfers	-
<b>3,372</b>	<b>Balance at end of year</b>	<b>2,595</b>

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications. Fair value measurement for investment property has been categorised as Level 2 fair value based on information from observable market transactions of comparable property with no significant adjustments.

## 16. INTANGIBLE ASSETS

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

All licences are given a finite useful life, based on assessments of the period the software is expected to be of use to the Council.

Movements on Intangible Assets during the year were as follows:

2014/15 £'000		2015/16 £'000
	Balance at start of year:	
479	Gross carrying amount	737
(351)	Accumulated amortisation	(404)
<u>128</u>	Net carrying amount at start of year	<u>333</u>
258	Additions	147
(53)	Amortisation for the period	(100)
<u><b>205</b></u>		<u><b>47</b></u>
333	Net carrying amount at end of year	380
Comprising		
737	Gross carrying amount	884
(404)	Accumulated amortisation	(504)
<u><b>333</b></u>		<u><b>380</b></u>

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

## 17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### a. Key Risks

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

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



## **b. Overall Procedures for Managing Risk**

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls 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 Code of Practice on 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:

- i. by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- ii. by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations;
- iii. 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.
- iv. 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 2015/16 which incorporates the prudential indicators was approved by Council on 2<sup>nd</sup> March 2015 and is available on the Council website. The key issues within the strategy were:

- i. The Authorised Limit for 2015/16 was set at £129.99m. This is the maximum limit of external borrowings or other long term liabilities.
- ii. The Operational Boundary was expected to be £113.49m. This is the expected level of debt and other long term liabilities during the year.
- iii. The maximum amounts of fixed and variable interest rate exposure were set at £125m and £40m based on the Council's net debt.
- iv. The maximum and minimum exposures to the maturity structure of debt are:

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

### **c. 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 and 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 has been applied. Details of the Investment Strategy can be found on the Council's website.

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

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to give early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries

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

The Council's maximum exposure to credit risk in relation to its investments in banks, building societies and money market funds of £48.8m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2016 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

Deposits with banks and financial institutions	At 31 March 2016	Historical experience of default (1)	Adjustment for market conditions	Estimated Maximum exposure to default
	£'000	%	%	£'000
AAA rated counterparties	3,497	0.00%	0.00%	-
AA rated counterparties	-	0.01%	0.01%	-
A rated counterparties	37,162	0.06%	0.06%	23
BB rated counterparties	2,012	0.15%	0.15%	3
BBB rated counterparties	6,129	0.15%	0.15%	9
Trade debtors (not including statutory debtors)	1,300	Local Experience	Local Experience	231
<b>Total</b>	<b>50,100</b>			<b>266</b>

(1) These are average 1 year default rates from all the three main ratings agencies

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 £1,300k of the trade debtors balance is past its due date for payment. The due amount can be analysed by age as follows:

	At 31 March 2016	At 31 March 2015	At 31 March 2014
	£'000	£'000	£'000
Under 30 Days	59	55	17
30-60 days	971	971	244
60-90 days	39	31	13
Over 90 Days	231	184	34
<b>Total</b>	<b>1,300</b>	<b>1,241</b>	<b>308</b>

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

#### d. 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 needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB provides access to longer term funds, it also acts as 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, excluding sums due from customers, is as follows:

	At 31 March 2016 £'000	At 31 March 2015 £'000	At 31 March 2014 £'000
Less than one year	43,800	39,758	34,399
Between one and two years	5,000	4,000	-
Between two and three years	-	-	-
More than three years	-	-	-
<b>Total</b>	<b>48,800</b>	<b>43,758</b>	<b>34,399</b>

#### e. 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:

	At 31 March 2016 £'000	At 31 March 2015 £'000	At 31 March 2014 £'000
Less than one year	3,274	3,804	3,321
Between one and two years	4,221	3,222	3,722
Between two and five years	34,665	35,665	10,665
Between five and ten years	16,109	16,109	41,109
Between ten and fifteen years	16,109	16,109	16,109
Over Fifteen Years	35,439	38,660	41,882
<b>Total</b>	<b>109,817</b>	<b>113,569</b>	<b>116,808</b>

## f. Market risk

### Interest rate risk

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

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

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

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

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

	£'000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	<u>(293)</u>
Impact on Surplus or Deficit on the Provision of Services	<u>(293)</u>
 Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income & Expenditure)	 <u>10,901</u>

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

### Price risk

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

### 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.

## 18. FINANCIAL INSTRUMENTS

### a. Financial Instruments Balances

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

	Long-Term		Current	
	At 31 March 2016 £'000	At 31 March 2015 £'000	At 31 March 2016 £'000	At 31 March 2015 £'000
<b>Borrowings</b>				
Financial Liabilities (principal amount)	106,543	109,765	3,222	3,722
Accrued Interest	-	-	52	82
<b>Total Borrowings</b>	<b>106,543</b>	<b>109,765</b>	<b>3,274</b>	<b>3,804</b>
<b>Investments</b>				
Loans & Receivables	5,000	-	39,495	33,653
Accrued interest	-	0	305	136
Available for Sale Assets	-	4,000	4,000	6,000
<b>Total Investments</b>	<b>5,000</b>	<b>4,000</b>	<b>43,800</b>	<b>39,789</b>

Note 1 – Under accounting requirements the carrying value of the financial instruments 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 – The Council has not made any soft loans

Note 3 – Available for Sale Assets are Certificates of Deposits taken out by the Council during 2014/15 and due to mature in 2016/17.

## b. Financial instruments Gains/Losses

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

	Financial Liabilities	Financial Assets	Total
	Liabilities Measured at Amortised Cost	Loans & Receivables	
2015/16	£'000	£'000	£'000
Interest expense	3,223		3,223
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>3,223</b>	<b>0</b>	<b>3,223</b>
Interest income		(555)	(555)
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(555)</b>	<b>(555)</b>
<b>Net gain/(loss) for the year</b>	<b>3,223</b>	<b>(555)</b>	<b>2,668</b>
2014/15			
Interest expense	3,351		3,351
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>3,351</b>	<b>0</b>	<b>3,351</b>
Interest income		(406)	(406)
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(406)</b>	<b>(406)</b>
<b>Net gain/(loss) for the year</b>	<b>3,351</b>	<b>(406)</b>	<b>2,945</b>

## c. Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (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:

	At 31 March 2016		At 31 March 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB debt	109,817	124,657	113,569	128,220
Non-PWLB debt	-	-	-	-
Trade Creditors	2,979	2,979	3,324	3,324
<b>Total financial liabilities</b>	<b>112,796</b>	<b>127,636</b>	<b>116,893</b>	<b>131,544</b>
Instant Access Accounts	6,495	6,495	10,653	10,657
Short Term Investments	37,305	37,319	29,136	29,132
Long Term Investments	5,000	5,000	4,000	4,000
Trade debtors	1,300	1,300	1,241	1,241
Other Short Term Debtors	1,998	1,998	1,582	1,582
Long Term Debtors	2,103	2,103	2,164	2,164
<b>Total loans &amp; receivables</b>	<b>54,201</b>	<b>54,215</b>	<b>48,776</b>	<b>48,776</b>

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 of Public Works Loan Board (PWLB) loans of £124.7m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £109.8m would be valued at £114.3m. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £124.7m.



## 19. INVENTORIES

Details of inventories held by the Council as at 31 March 2016 are provided below:

2014/15 £'000		2015/16 £'000
<b>28</b>	Balance as at year end	<b>11</b>

From 2015/16 the only inventories held were for fuel stocks.

## 20. CAPITAL COMMITMENTS

There are no outstanding commitments.

## 21. DEBTORS

An analysis of Debtors is shown below:

At 31st March 2015 £'000		At 31st March 2016 £'000
<b>Current Debtors</b>		
582	Government Departments	431
293	Other Local Authorities	362
9	NHS	21
1,939	Other entities and individuals	2,484
<b>2,823</b>		<b>3,298</b>
<b>Long Term Debtors</b>		
2,000	Local Authority Mortgage Scheme	2,000
120	Loans for Leisure Facilities	63
44	Other	40
<b>2,164</b>		<b>2,103</b>

## 22. CASH AND CASH EQUIVALENTS

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

At 31st March 2015 £'000		At 31st March 2016 £'000
43	Cash held by the authority	14
1,123	Bank current accounts	1,089
10,653	Instant Access accounts	6,495
<b>11,819</b>	<b>Total Cash &amp; Cash Equivalents</b>	<b>7,598</b>

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

## 23. ASSETS HELD FOR SALE

As at 31<sup>st</sup> March 2016, there are 19 Council Dwellings & land at Vantage Park that are in the process of being sold and these are classified as Current Assets Held for Sale in the Balance Sheet. The details of the assets held for sale are shown below.

2014/15 £'000		2015/16 £'000
298	Balance at start of year	1,068
	Assets newly classified as held for sale:	
1,032	Property, Plant & Equipment	559
(262)	Assets sold	(72)
	Withdrawn sales transferred back to PPE	(135)
<b>1,068</b>		<b>1,420</b>

## 24. CREDITORS

An analysis of Creditors is shown below:

At 31st March 2015 £'000		At 31st March 2016 £'000
3,444	Government Departments	1,728
1,191	Other Local Authorities	201
6	NHS bodies	-
4,617	Other entities and individuals	4,554
<b>9,258</b>	<b>Total</b>	<b>6,483</b>

## 25. PROVISIONS

	Injury & Damage Compensation Claims	Business Rates Appeals	Accrued employee Benefits *	Total
<b>2015/16</b>	£'000	£'000	£'000	£'000
Balance at 1st April 2015	273	774	134	1,181
Additional provisions made in 2015/16	141	984		1,125
Amounts used in 2015/16	(79)	(774)		(853)
Unused amounts reversed in 2015/16	(26)		(134)	(160)
<b>Total</b>	<b>309</b>	<b>984</b>	<b>0</b>	<b>1,293</b>

Split between:

Short-term provisions	1,208
Long-term provisions	85
	<b>1,293</b>

### 2014/15

Balance at 1st April 2014	263	509	149	921
Additional provisions made in 2014/15	148	602	134	884
Amounts used in 2014/15	(62)	(418)	(149)	(629)
Unused amounts reversed in 2014/15	(76)	81		5
<b>Total</b>	<b>273</b>	<b>774</b>	<b>134</b>	<b>1,181</b>

Split between:

Short-term provisions	920
Long-term provisions	261
	<b>1,181</b>

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 £309k provided at 31<sup>st</sup> March 2016 £93k is expected to be settled in 2016/17.

The Council has a provision for any potential liabilities as a result of Business Rate Payers appeals against rateable valuations. The Council is responsible for a 40% share of this liability along with The Department for Communities and Local Government and Lincolnshire County Council being responsible for a 50% and 10% respectively.

\*The provision for accrued employee benefits absences has in the past been misclassified as a provision rather than a creditor. In 2015/16 the treatment has been corrected.

## 26. USABLE RESERVES

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

	Balance at 1st April 2014 £'000	Transfer To Reserve £'000	Transfer From Reserve £'000	Balance at 31st March 2015 £'000	Transfer To Reserve £'000	Transfer From Reserve £'000	Balance at 31st March 2016 £'000
GF Cap Receipts Reserve	3,137	277		3,414		(874)	2,540
HRA Capital Receipts Reserve	1,953		(991)	962	818		1,780
Major Repairs Reserve	4,281	1,103		5,384	1,391		6,775
Earmarked GF Revenue Reserves	11,681	3,391		15,072	3,552		18,624
General Fund Unapplied Revenue Grant	618	27		645		(264)	381
Earmarked HRA Revenue Reserves	735	270		1,005	574		1,579
Earmarked GF Capital Reserve	1,505	594		2,099	996		3,095
GF Unapplied Capital Grants	78		(63)	15		(15)	0
Earmarked HRA Capital Reserves	5,016	3,331		8,347	2,630		10,977
Housing Revenue Account Balance	7,145		(2,362)	4,783	40		4,823
General Fund Balance	1,912	1		1,913			1,913
	<b>38,061</b>	<b>8,994</b>	<b>(3,416)</b>	<b>43,639</b>	<b>10,001</b>	<b>(1,153)</b>	<b>52,487</b>

## 27. UNUSABLE RESERVES

At 31st March 2015 £'000		At 31st March 2016 £'000
13,902	Revaluation Reserve	21,116
107,259	Capital Adjustment Account	110,725
(52,067)	Pensions Reserve	(38,306)
(686)	Collection Fund Adjustment Account	(1,507)
(134)	Accumulated Absences Adjustment Account	(131)
42	Deferred Capital Receipts	36
<b>68,316</b>		<b>91,933</b>

### a. Revaluation Reserve

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

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

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

2014/15 £'000		2015/16 £'000
9,030	Balance at start of year	13,902
5,126	Upward revaluation of assets	8,399
(24)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	(753)
14,132	Surplus/Deficit on revaluation of non-current assets not posted to Surplus/Deficit on Provision of Services	21,548
(230)	Difference between fair value depreciation and historical cost depreciation	(430)
	Accumulated gains on assets sold or scrapped	(2)
(230)	Amounts written off to the Capital Adjustment Account	(432)
<b>13,902</b>	Balance at end of year	<b>21,116</b>

## **b. 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 and 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.

2014/15 £'000		2015/16 £'000
104,559	Balance at start of year	107,259
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>	
(5,676)	Charges for depreciation of non-current assets	(6,097)
(4,763)	Charges for impairment of non-current assets	(4,694)
(383)	Revaluation losses on Property, Plant & Equipment	(3,498)
4,379	Revaluation gains reversing previous impairments charged to the Comprehensive Income & Expenditure Statement	8,743
(53)	Amortisation of intangible assets	(100)
(423)	Revenue expenditure funded from capital under statute	(496)
(2,093)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(2,267)
95,547		98,850
230	Adjusting amounts written out of the Revaluation Reserve	430
95,777	Net written out amount of the cost of non-current assets consumed in the year	99,280
	<b>Capital financing applied in the year</b>	
2,764	Use of the Capital Receipts Reserve to finance new capital expenditure	2,535
4,820	Use of the Major Repairs reserve to finance new capital expenditure	4,726
360	Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	376
63	Application of grants to capital financing from the Capital Grants Unapplied Account	15
173	Statutory provision for the financing of capital investment charged against the General Fund & HRA balances	166
3,635	Self-financed capital expenditure	3,407
485	Capital expenditure charged against the General Fund and HRA balances	195
12,300		11,420
(818)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	25
<b>107,259</b>	<b>Balance at end of year</b>	<b>110,725</b>

### c. Pensions Reserve

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

2014/15 £'000		2015/16 £'000
Original		
(39,985)	Balance at start of year	(52,067)
(10,162)	Remeasurement of the net defined benefit liability/ (asset)	16,205
(4,335)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on Provision of Services	(4,890)
2,415	Employer's pensions contributions and direct payments to pensioners payable in the year	2,446
<b>(52,067)</b>	Balance at end of year	<b>(38,306)</b>

### d. Collection Fund Adjustment Account

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

2014/15 £'000		2015/16 £'000
29	Balance at start of year	(686)
161	Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated in accordance with statute	117
(876)	Amount by which council tax and NNDR income credited to the CIES is different from council tax and NNDR income calculated for the year in accordance with statutory requirements	(938)
<b>(686)</b>	Balance at end of year	<b>(1,507)</b>



#### e. Accumulated Absences Account

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

2014/15		2015/16
£'000		£'000
149	Balance at start of year	134
(15)	Amounts accrued at the end of the current year	(3)
	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	
134		131
<b>134</b>	Balance at end of year	<b>131</b>

#### f. Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2014/15		2015/16
£'000		£'000
47	Balance at start of year	42
(5)	Repayments received in year	(6)
<b>42</b>	Balance at end of year	<b>36</b>

## **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 Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across corporate areas. 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 and 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 Council has changed the way that it reports financial performance from 2015/16 to reflect the Council's priorities. This change is reflected for 2015/16 and has been restated for 2014/15 to facilitate comparison. The analysis originally included for 2014/15 is also included.

<b>Corporate Area Income &amp; Expenditure 2015/16 by Priority</b>	<b>Corporate £'000</b>	<b>Culture £'000</b>	<b>Environment £'000</b>	<b>Growth £'000</b>	<b>Housing £'000</b>	<b>Total £'000</b>
<b><u>Income</u></b>						
Fees Charges & other service income	(1,885)	(1,318)	(2,146)	(3,210)	(471)	(9,030)
Interest & investment income	(7)	(7)	0	0	0	(14)
Government Grants & Contributions	(31,666)	(217)	(54)	(327)	(671)	(32,935)
Support Recharge Income	(8,683)	0	0	0	0	(8,683)
<b>Total Income</b>	<b>(42,241)</b>	<b>(1,542)</b>	<b>(2,200)</b>	<b>(3,537)</b>	<b>(1,142)</b>	<b>(50,662)</b>
<b><u>Expenditure</u></b>						
Employee Expenses	7,598	790	3,328	1,419	871	14,006
Other Service Expenses	35,403	2,007	2,867	1,785	493	42,555
Support Service Recharges	2,867	362	1,504	833	407	5,973
Depreciation, amortisation & Impairment	297	2,633	1,000	229	461	4,620
<b>Total Expenditure</b>	<b>46,165</b>	<b>5,792</b>	<b>8,699</b>	<b>4,266</b>	<b>2,232</b>	<b>67,154</b>
<b>Net Expenditure</b>	<b>3,924</b>	<b>4,250</b>	<b>6,499</b>	<b>729</b>	<b>1,090</b>	<b>16,492</b>

<b>Corporate Area Income &amp; Expenditure 2014/15 by Priority</b>	<b>Corporate £'000</b>	<b>Culture £'000</b>	<b>Environment £'000</b>	<b>Growth £'000</b>	<b>Housing £'000</b>	<b>Total £'000</b>
<b><u>Income</u></b>						
Fees Charges & other service income	(1,518)	(1,346)	(2,791)	(3,006)	(446)	(9,107)
Interest & investment income	(6)	(10)	0	0	0	(16)
Government Grants & Contributions	(31,860)	(80)	(147)	(370)	(612)	(33,069)
Support Recharge Income	(8,456)	0	0	0	0	(8,456)
<b>Total Income</b>	<b>(41,840)</b>	<b>(1,436)</b>	<b>(2,938)</b>	<b>(3,376)</b>	<b>(1,058)</b>	<b>(50,648)</b>
<b><u>Expenditure</u></b>						
Employee Expenses	7,041	710	3,236	1,455	1,052	13,494
Other Service Expenses	35,606	1,979	3,202	1,834	580	43,201
Support Service Recharges	2,807	333	1,424	754	352	5,670
Depreciation, amortisation & Impairment	271	1,253	974	237	425	3,160
<b>Total Expenditure</b>	<b>45,725</b>	<b>4,275</b>	<b>8,836</b>	<b>4,280</b>	<b>2,409</b>	<b>65,525</b>
<b>Net Expenditure</b>	<b>3,885</b>	<b>2,839</b>	<b>5,898</b>	<b>904</b>	<b>1,351</b>	<b>14,877</b>

The income and expenditure of the Council's corporate areas recorded in the budget reports for 2014/15 is as follows:

	Community Assets £'000	Operational Management £'000	Development & Growth £'000	Environment Services £'000	Finance £'000	Housing & Neighbourhoods £'000	People Projects and Performance £'000	Legal & Democratic £'000	Property Development £'000	Special Expense Areas £'000	Total £'000
Income											
Fees Charges & other service income	(1,561)	(12)	(1,151)	(2,651)	(813)	(67)	(73)	(27)	(2,691)	(92)	(9,138)
Interest & investment income	(10)				(6)						(16)
Government Grants & Contributions	(227)	(24)	(307)	(313)	(31,908)			(210)	(50)	1	(33,038)
Support Recharge Income	(155)	(1,756)	(89)	(525)	(2,381)		(1,668)	(484)	(1,398)		(8,456)
Total Income	(1,953)	(1,792)	(1,547)	(3,489)	(35,108)	(67)	(1,741)	(721)	(4,139)	(91)	(50,648)
Expenditure											
Employee Expenses	1,055	1,454	1,332	3,788	2,465	405	1,455	552	988	0	13,494
Other Service Expenses	2,266	291	858	2,148	33,278	258	425	785	2,365	527	43,201
Support Service Recharges	409	869	673	1,205	803	123	280	554	650	104	5,670
Depreciation, amortisation & Impairment	1,362		2	1,369	127		6	4	264	26	3,160
Total Expenditure	5,092	2,614	2,865	8,510	36,673	786	2,166	1,895	4,267	657	65,525
Net Expenditure	<b>3,139</b>	<b>822</b>	<b>1,318</b>	<b>5,021</b>	<b>1,565</b>	<b>719</b>	<b>425</b>	<b>1,174</b>	<b>128</b>	<b>566</b>	<b>14,877</b>

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:

2014/15 £'000		2015/16 £'000
14,877	Net expenditure in the Service Analysis	16,492
(9,864)	Local Authority Housing HRA	(13,681)
(629)	Drainage Board Levies	(639)
301	Trading Services	276
11	Leisure Grants & Loans Income	7
<b>4,696</b>	<b>Cost of Service in Comprehensive Income &amp; Expenditure Statement</b>	<b>2,455</b>

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.

	Corporate Area Analysis £'000	Amounts not reported to management for decision making £'000	Amounts not included in I&E £'000	Total £'000
<b>2015/16</b>				
<b>Income</b>				
Fees Charges & other service income	(9,030)			(9,030)
Interest & investment income	(14)			(14)
Government Grants & Contributions	(32,935)			(32,935)
Taxation & Non-Specific Grant Income		(17,016)		(17,016)
Support Recharge Income	(8,683)			(8,683)
Total Income	(50,662)	(17,016)	0	(67,678)
<b>Expenditure</b>				
Employee Expenses	14,006			14,006
Other Service Expenses	42,555			42,555
Support Service Recharges	5,973			5,973
Depreciation, amortisation & Impairment	4,620			4,620
Financing		4,350		4,350
Parish Precepts		1,529		1,529
Local Authority Housing HRA		(13,681)		(13,681)
Payments to the housing capital receipts pool		850		850
Gain or loss on disposal of non-current assets		(1,012)		(1,012)
Other Operating Income & Expenditure		0		0
Total Expenditure	67,154	(7,964)	0	59,190
Surplus or deficit on the provision of services	<b>16,492</b>	<b>(24,980)</b>	<b>0</b>	<b>(8,488)</b>

## 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:

2014/15 £'000		2015/16 £'000
	<b>The letting of Industrial Units located within the District</b>	
(517)	Income	(534)
137	Expenditure	162
<u>(380)</u>	(Surplus)/Deficit	<u>(372)</u>
	<b>Markets held weekly at Bourne, Grantham and Stamford</b>	
(251)	Income	(229)
324	Expenditure	318
<u>73</u>	(Surplus)/Deficit	<u>89</u>
<u><b>(307)</b></u>	(Surplus)/Deficit	<u><b>(283)</b></u>

On the face of the Comprehensive Income & Expenditure Statement the trading operations show a surplus of £276k. This figure includes revaluation gains & IAS 19 entries totalling £7k 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 2015/16 was an increase to the General Fund balances of £283k.

## 30. JOINT OPERATION

South Kesteven District Council are in a Joint Operation with Rushcliffe Borough Council for the Building Control Partnership. The partnership represented net expenditure of £114k during 2015/16 in the net cost of services and therefore is not deemed to be material for reporting.

## 31. 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.

2014/15 £'000		2015/16 £'000
	<b>Travellers Site Expenditure</b>	
35	Management & Maintenance	37
<u>(35)</u>	Income from Rent & Other Charges	<u>(37)</u>
<u><b>0</b></u>	Net Cost	<u><b>0</b></u>
	<b>Grass Cutting Expenditure</b>	
111	Premises & Support Costs	110
<u>(111)</u>	Income from Lincolnshire County Council	<u>(110)</u>
<u><b>0</b></u>	Net Cost	<u><b>0</b></u>

### 32. MEMBERS ALLOWANCES

The Local Authorities (Members' Allowances) Regulations 2003 requires local authorities to publish the amounts paid to members under the Members' allowance scheme.

The Council had 56 elected Councillors as at 31<sup>st</sup> March 2016.

Members' allowances and expenses paid during the year amounted to £368,231 (2014/15 £369,300). The figure includes basic allowance, special responsibility, and other related allowances.

### 33. 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:

2014/15		2015/16	
No. of officers		No. of officers	
	Remuneration Band		
-	£50,000 - £54,999	3	
1	£55,000 - £59,999	2	
2	£60,000 - £64,999	-	
4	£65,000 - £69,999	-	
2	£70,000 - £74,999	4	
2	£75,000 - £79,999	-	
-	£80,000 - £84,999	-	
-	£85,000 - £89,999	-	
1	£90,000 - £94,999	-	
<b>12</b>		<b>9</b>	

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

		Salary, Fees and Allowances	Bonuses & Expenses Allowances	Compensation for Loss of Employment	Employers Pension contribution	Any other emolument	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	2015/2016	120	1		21		142
	2014/2015	118			21		139
Strategic Director	2015/2016	82	2		14		98
	2014/2015	90			15		105
Strategic Director	2015/2016	88	1		15		104
	2014/2015	63			11		74
Strategic Director (S151 Officer)	2015/2016	92	2		16		110
	2014/2015	90			15		105
Monitoring Officer	2015/2016	68			12		80
	2014/2015	64			11		75



### 34. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the external audit of the Statement of Accounts, certification of grant claims and other audit work. The Council has not made any payments for non-audit services to its external auditors and not incurred any costs for statutory inspections.

Restated 2014/15 £'000		2015/16 £'000
63	Fees payable to the external auditors with regard to external audit services carried out by the appointed auditor.	47
7	Fees payable to the external auditors for the certification of grant claims.	5
0	Fees payable to external auditors for the certification of returns	3
<b>70</b>		<b>55</b>

### 35. GRANT INCOME

The Council credited the following grants and contributions to the Cost of Services in the Comprehensive Income and Expenditure Statement in 2015/16

2014/15 £'000 Restated		2015/16 £'000
96	New Burdens	140
137	Local Council Tax Admin Subsidy	125
88	LA Capacity Funding	176
521	Housing Benefits Admin Grant	482
180	Discretionary Housing Payment	132
115	Second Homes	108
27	Welfare Reform	24
178	European Elections	99
83	IER Funding	88
300	Disabled Facilities Grant	376
100	Arts and Recreation Grants	254
84	Other Grants	108
<b>1,909</b>		<b>2,112</b>

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

The balances at the year end are as follows:

2014/15 £'000	<b>Capital Grants</b> <b>Receipts in Advance</b>	2015/16 £'000
<b>1,024</b>	S106 Contributions	<b>1,417</b>

### 36. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government** has effective control (significant influence) over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions the Council has with third parties e.g. housing benefits. Details of transactions with government departments are set out in Notes 13 and 35 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:

2014/15		2015/16
£'000		£'000
1,465	Town and Parish Councils	1,529
110	Upper Witham Drainage Board	112
57	Black Sluice Drainage Board	57
462	Welland and Deepings Drainage Board	470
<b>2,094</b>		<b>2,168</b>

### 37. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2014/15 £'000		2015/16 £'000
123,271	<b>Opening Capital Finance Requirement</b>	119,875
	<b>Capital Investment</b>	
739	Council Dwellings	824
55	Other land & buildings	904
833	Vehicles, plant & equipment	931
289	Investment properties	80
1,586	Assets under construction	0
4,763	Capital expenditure	4,694
258	Intangible Assets	147
423	Revenue expenditure charged to capital under statute	496
0	Local Authority Mortgage Scheme	0
	<b>Sources of Finance</b>	
(2,764)	Capital receipts	(2,535)
(385)	Capital grants & contributions	(455)
(9,193)	Sums set aside from revenue	(8,475)
<b>119,875</b>	<b>Closing Capital Financing Requirement</b>	<b>116,486</b>
	<b>Explanation of movements in year</b>	
(3,396)	Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	(3,389)
<b>(3,396)</b>	<b>Increase/ (Decrease) in Capital Financing Requirement</b>	<b>(3,389)</b>

## 38. LEASES

### a. Council as Lessee

#### Finance Leases

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

At 31st March 2015 £'000	Carrying Value	At 31st March 2016 £'000
<u>1,726</u>	Other Land & Buildings	<u>1,969</u>

None of these properties are sublet.

#### Operating Leases

The Council has acquired various buildings under operating leases. The future minimum lease payments due under non-cancellable leases in future years are shown below, together with the net expenditure charged to the various lines within the Comprehensive Income and Expenditure Statement during the year.

At 31st March 2015 £'000	Future Minimum Lease Payments Due	At 31st March 2016 £'000
10	Not later than one year	8
1	Between one & five years	19
6	Later than 5 years	5
<u>17</u>		<u>32</u>

At 31st March 2015 £'000	Expenditure charged to Comprehensive Income & Expenditure Account	At 31st March 2016 £'000
10	Planning Services	2
7	Central Services	30
<u>17</u>		<u>32</u>

### b. Council as Lessor

#### Finance Leases

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

earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

<b>Gross Investment in the Lease</b>			
At 31st March 2015			At 31st March 2016
£'000	Finance Lease Debtor (net present value of minimum lease payments)		£'000
0	Current		0
14	Non-Current		13
58	Unearned finance income		58
1,740	Unguaranteed residual value of property		1,740
<b>1,812</b>	<b>Gross Investment in the Lease</b>		<b>1,811</b>

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

	Gross Investment in the Lease		Minimum Lease Payments	
	At 31st March 2016	At 31st March 2015	At 31st March 2016	At 31st March 2015
	£'000	£'000	£'000	£'000
Not later than one year	1	1	-	-
Between one & five years	5	5	1	1
Later than 5 years	1,805	1,806	14	14
	<b>1,811</b>	<b>1,812</b>	<b>15</b>	<b>15</b>

	Gross Investment in the Lease		Minimum Lease Payments	
	At 31st March 2015	At 31st March 2014	At 31st March 2015	At 31st March 2014
	£'000	£'000	£'000	£'000
Not later than one year	1	1	-	-
Between one & five years	5	5	1	1
Later than 5 years	1,806	1,807	14	14
	<b>1,812</b>	<b>1,813</b>	<b>15</b>	<b>15</b>

No allowance for uncollectible amounts has been set aside as at 31 March 2016.

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 2015/16 no contingent rents were receivable by the Council.

#### Operating Leases

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

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

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

At 31st March 2015		At 31st March 2016	
£'000		£'000	
507	Not later than one year	249	
350	Between one & five years	384	
432	Later than 5 years	396	
<b>1,289</b>		<b>1,029</b>	

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16 no contingent rents were receivable by the Council.

### 39. IMPAIRMENT LOSSES

The Council recognised no impairment losses during 2015/16

### 40. TERMINATION BENEFITS

The Council did not terminate the contracts of any employees in 2015/16.

Exit Package cost bands (including special payments)	Number of compulsory redundancies		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
	No.	No.	No.	No.	£'000	£'000
£0-£20,000	35	-	35	-	341	-
£20,001 - £40,001	5	-	5	-	127	-
£40,000 - £60,001	4	-	4	-	177	-
Total Cost included in bandings					645	-
Amounts provided for in CIES not included in bandings						
Total Cost included in CIES					<b>645</b>	-

## **41. DEFINED BENEFIT PENSION SCHEME**

### **a. Participation in Pension Scheme**

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

The Council participates in the Local Government Pension Scheme administered by Lincolnshire County Council.

- This is a funded defined benefit final salary scheme, meaning the Council, and employees, pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.
- The Lincolnshire County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Lincolnshire County Council. Policy is determined in accordance with the Pension Fund Regulations.
- The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Discretionary Post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

## b. Transactions Relating to Post-employment Benefits

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

2014/15 £'000		2015/16 £'000
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services</b>		
2,522	- current service cost	3,211
90	- past service cost	0
0	- (gain)/loss from settlements	
<b>Financing &amp; Investment Income &amp; Expenditure</b>		
4,669	- Net interest expense	4,139
(2,946)	-Expected return on assets in the scheme	(2,460)
4,335	Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services	4,890
<b>Other Post-employment benefits charged to the Comprehensive Income and Expenditure Statement</b>		
Remeasurement of the net defined benefit liability comprising:		
(5,811)	-return on plan assets (excluding the amount included in the net interest expense)	1,590
-	-Actuarial gains and losses arising on changes in demographic assumptions	-
16,967	-Actuarial gains and losses arising on changes in financial assumptions	(16,153)
(994)	-Other	(1,642)
14,497	<b>Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>(11,315)</b>
<b>Movement in Reserves Statement</b>		
(1,920)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(2,444)
<b>Actual amount charged against the General Fund Balance for pensions in the year.</b>		
2,415	- Employers' contributions payable to scheme.	2,446



### c. Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of the defined benefit plans is as follows:

2014/15		2015/16
£'000		
Original		£'000
129,106	Present Value of the defined benefit obligation	115,909
(77,039)	Fair value of plan assets	(77,603)
52,067	Sub-total	38,306
-	Other movements in the liability (asset)	-
<b>52,067</b>	<b>Net liability arising from defined benefit obligation</b>	<b>38,306</b>

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

2014/15		2015/16
£'000		£'000
68,852	Opening fair value of scheme assets	77,039
2,946	Interest income	2,460
	Remeasurement gain/ (loss):	
	The return on plan assets, excluding the amount	
5,811	included in net interest	(1,590)
	Other	
	The effect of changes in foreign exchange rates	
2,415	Contributions from employer	2,446
686	Contributions from employees into the scheme	703
(3,671)	Benefits paid	(3,455)
<b>77,039</b>	<b>Closing fair value of scheme assets</b>	<b>77,603</b>

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

2014/15 £'000		2015/16 £'000
Original		
108,837	Opening balance at 1 April	129,106
2,522	Current Service Cost	3,211
4,669	Interest cost	4,139
686	Contributions from scheme participants	703
	Remeasurement (gains) and losses:	
	Actuarial gains/ losses arising from changes in demographic assumptions	
16,967	Actuarial gains/ losses arising from changes in financial assumptions	(16,153)
(994)	Other	(1,642)
90	Past Service cost	
	Losses/(gains) on curtailment	
	Liabilities assumed on entity combinations	
(3,671)	Benefits paid	(3,455)
	Liabilities extinguished on settlements	
<b>129,106</b>	<b>Closing Balance at 31st March</b>	<b>115,909</b>

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

2014/15	Fair Value of Scheme Assets	2015/16
£'000		£'000
1,102	Cash and Cash equivalents	838
	Equity instruments by industry type:	
14,713	Consumer	16,077
2,152	Manufacturing	1,723
4,755	Energy and utilities	4,205
9,129	Financial institutions	8,372
2,917	Information technology	2,879
9,105	Other	8,610
<u>42,771</u>	Sub Total Equity	<u>41,866</u>
	Debt Securities	
2,566	Corporate Bonds (Investment Grade)	2,658
5,021	Corporate Bonds (Non-Investment Grade)	4,910
1,462	UK Government	1,605
1,005	Other	1,086
<u>10,054</u>	Sub-total bonds	<u>10,259</u>
<u>3,290</u>	Private Equity:	<u>2,835</u>
	Real Estate	
7,561	UK Property	8,258
883	Overseas Property	843
<u>8,444</u>	Sub-total Property	<u>9,101</u>
	Investment Funds and Unit Trusts	
3,984	Equities	4,378
0	Bonds	
7,394	Other	8,326
<u>11,378</u>	Sub-total other investment funds	<u>12,704</u>
<u><b>77,039</b></u>	<b>Total Assets</b>	<u><b>77,603</b></u>

All scheme assets have quoted prices in active markets.

**g. Basis of Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit cost method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Hymans Robertson, an independent firm of actuaries, estimates for the Lincolnshire County Council Fund being based on the latest full valuation of the scheme as at 1<sup>st</sup> April 2014.

The significant assumptions used by the actuary have been:

2014/15		2015/16
	<b>Long term expected rate of return on assets in the Scheme</b>	
3.2%	Equity Investments	1.1%
3.2%	Bonds	1.1%
3.2%	Property	1.1%
3.2%	Cash	1.1%
	<b>Mortality Assumptions</b>	
	Longevity at 65 for current pensioners:	
22.2	Men	22.2
24.4	Women	24.4
	Longevity at 65 for future pensioners:	
24.5	Men	24.5
26.8	Women	26.8
3.8%	Rate of increase in salaries	3.1%
2.4%	Rate of Increase in Pensions	2.2%
3.2%	Rate for discounting scheme liabilities	3.5%

The estimate of the defined benefit obligations is sensitive to actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The method and types of assumptions used in preparing the sensitivity analysis below do not change from those used in the previous period.

<b>Impact on the Defined Benefit Obligation in the Scheme</b>	<b>Increase/ Decrease in Assumption £'000</b>
Longevity (increase or decrease in 1 year)	3,477
Rate of increase in salaries (increase or decrease by 1%)	3,482
Rate of increase in pensions (increase or decrease by 1%)	8,458
Rate of discounting scheme liabilities (Increase or decrease by 1%)	12,084

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

The objectives of the scheme are to keep employers' contribution at as constant a rate as possible. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31<sup>st</sup> March 2016.

The Council is anticipated to pay £2,486K expected contributions to the scheme in 2016/17.

The weighted average duration of the defined benefit obligation for scheme members is 18.5 years.

Further information can be found in Lincolnshire County Council's Pension Fund Annual Report which is available upon request from the Pension Fund Manager, Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YE (Tel: 01522 553656).

## 42. CONTINGENT ASSETS AND LIABILITIES

There are no material contingent assets or liabilities as at 31 March 2016.

## 43. BORROWING

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

2014/15		2015/16
£'000	Analysis of Loans by Source	£'000
109,765	PWLB	106,543
<b>109,765</b>		<b>106,543</b>
£'000	Analysis of Loans by Maturity	£'000
3,222	Between 1 and 2 Years	4,221
35,665	Between 2 and 5 Years	34,665
16,109	Between 5 and 10 Years	16,109
16,109	Between 10 and 15 Years	16,109
38,660	Over 15 years	35,439
<b>109,765</b>		<b>106,543</b>

Current Borrowing represents borrowing repayable within one year.

2014/15		2015/16
£'000		£'000
3,321	Balance at start of year	3,804
	Borrowing taken out during year	
(3,321)	Borrowing repaid during year	(3,804)
3,722	Transferred from Non-Current Borrowing	3,222
82	Accrued interest at end of year	52
<b>3,804</b>	<b>Balance at end of year</b>	<b>3,274</b>

#### 44. AUTHORISATION OF ACCOUNTS FOR ISSUE

The date that the Statement of Accounts was authorised for issue was 23<sup>rd</sup> September 2016. 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).

#### 45. SPECIAL EXPENSE AREAS - SEAs

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 2015/16 a contribution was paid to the reserve amounting to £41K, bringing the total to £161K.

#### 46. 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
<b>Cost or Valuation</b>				
1st April 2014	216	193	20	429
Additions in year				0
Disposals in Year				0
31st March 2015	216	193	20	429
Additions in year				0
Disposals in Year				0
31st March 2016	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.

#### **a. Antiques**

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

#### **b. Miscellaneous Artefacts**

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

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

#### **c. Orrery**

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

#### **d. Historic**

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

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

Currently the Council has no intangible Heritage Assets

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

## 47. INVESTMENTS

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

Non-Current Investments		
2014/15		2015/16
£'000		£'000
-	Balance at start of year	4,000
4,000	Investments made during year	5,000
-	Investments redeemed during year	-
-	Transferred to Current Investments	(4,000)
<b>4,000</b>	Balance at end of year	<b>5,000</b>

Current investments are held for periods less than one year.

Current Investments		
2014/15		2015/16
£'000		£'000
18,076	Balance at start of year	29,136
31,000	Investments made during year	38,000
(20,076)	Investments redeemed during year	(34,136)
-	Transferred from Non-Current Investments	4000
136	Accrued interest at end of year	305
<b>29,136</b>	Balance at end of year	<b>37,305</b>

## 48. CASH FLOW STATEMENT

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

2014/15		2015/16
£'000		£'000
5,676	Depreciation	6,097
766	Impairment & downward valuations	(551)
53	Amortisation	100
200	Increase/(Decrease) in impairment for bad debts	248
3,728	Increase/(Decrease) in Creditors	(4,226)
(187)	(Increase)/Decrease in Debtors	(652)
8	(Increase)/Decrease in Stock	16
1,920	Movement in pension liability	2,444
2,093	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	2,267
1,019	Other non-cash items charged to the net surplus or deficit on the provision of services	84
<b>15,276</b>		<b>5,827</b>



## HOUSING REVENUE ACCOUNT

### INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

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

2014/15 £'000 Original	2015/16 £'000
<b>Income</b>	
Gross Rental Income	
(24,745) - Dwelling Rents	(25,600)
(289) - Non-Dwelling Rents	(297)
(585) Charges for Services and Facilities	(587)
(491) Other Income	(325)
<b>(26,110) Total Income</b>	<b>(26,809)</b>
<b>Expenditure</b>	
7,912 Repairs and Maintenance	7,549
4,165 Supervision and Management	3,542
Rent, rates, taxes and other charges	47
66 Increase/(Decrease) in Prov'n for Doubtful Debts	41
3,726 Depreciation and impairment of Non-Current Assets	1,556
36 Debt Management Costs	34
<b>15,905</b>	<b>12,769</b>
<b>(10,205) Net Cost of HRA Services</b>	<b>(14,040)</b>
341 HRA share of Corporate and Democratic Core	359
<b>Net Cost of HRA Services as included in the</b>	
<b>(9,864) whole authority Comprehensive Income and</b>	<b>(13,681)</b>
<b>Expenditure Statement</b>	
(511) (Gain)/loss on sale of HRA assets	(1,140)
686 Contribution Housing Capital Receipts to the Pool	850
(35) Other Operating Income	0
3,331 Interest payable and similar charges	3,183
(176) Interest and Investment Income	(222)
Investment Property Income and Expenditure	119
454 Pension Interest Costs and Expected Return on Assets	396
<b>(6,115) (Surplus)/Deficit for the year on HRA</b>	<b>(10,495)</b>

## MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

2014/15 £'000		Note	2015/16 £'000
(7,145)	Balance on the HRA at the end of the previous year		(4,783)
(6,115)	(Surplus)/Deficit for the year on the HRA Income & Expenditure Statement		(10,495)
1,261	Adjustments between Accounting Basis and Funding Basis under statute	8	3,688
<b>(4,854)</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>		<b>(6,807)</b>
7,216	Transfers to or (from) reserves	9	6,767
<b>(4,783)</b>	<b>Balance on HRA at the end of the current year</b>		<b>(4,823)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

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

### 1. HOUSING STOCK

The Council was responsible for managing on average 6,163 dwellings during 2015/16. The housing stock and changes during the year are as follows:

	At 1st April 2015	Additions	Disposals /Sales	At 31st March 2016
Rentable Stock				
- Houses	3,352	12	35	3,329
- Bungalows	1,512		5	1,507
- Flats	1,284	9	1	1,292
Shared Ownership	25			25
<b>Total</b>	<b>6,173</b>	<b>21</b>	<b>41</b>	<b>6,153</b>

## 2. LAND HOUSES AND OTHER PROPERTY

### Analysis of Housing Fixed Assets

	Operational Assets				Operational Assets		
	Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Investment Properties	Assets Under Construction	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	
Cost or Valuation at 1 April 2015 *	177,828	3,066	1,197	551	1,799	184,441	
Additions	5,518		15			5,533	
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(938)	69				(869)	
Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(926)	106		(137)		(957)	
Derecognition - Disposals	(1,282)	(2)	(23)			(1,307)	
Assets reclassified to/from Held for Sale	(416)					(416)	
Assets reclassified (to)/from Assets Under Construction	1,534				(1,534)	0	
<b>Gross Book Value as at 31/3/2016</b>	<b>181,318</b>	<b>3,239</b>	<b>1,189</b>	<b>414</b>	<b>265</b>	<b>186,425</b>	
<b>Depreciation &amp; Impairments</b>							
At 1 April 2015 *	(2,493)	(117)	(776)	0	0	(3,386)	
Depreciation charge	(2,552)	(139)	(93)			(2,784)	
Depreciation written out to the revaluation reserve	69	83				152	
Depreciation written out to the Cl&E	7,117	32				7,149	
Impairment losses/(reversals) recognised in the Revaluation Reserve	-					0	
Impairment losses/(reversals) recognised in the Surplus/Deficit on Provision of Services	(4,694)					(4,694)	
Derecognition - Disposals	0		17			17	
Other movements in Depreciation & Impairments						0	
<b>At 31 March 2016</b>	<b>(2,553)</b>	<b>(141)</b>	<b>(852)</b>	<b>0</b>	<b>0</b>	<b>(3,546)</b>	
<b>Balance Sheet Amount at 31 March 2016</b>	<b>178,765</b>	<b>3,098</b>	<b>337</b>	<b>414</b>	<b>265</b>	<b>182,879</b>	
<b>Balance Sheet Amount at 31 March 2015</b>	<b>175,335</b>	<b>2,949</b>	<b>421</b>	<b>551</b>	<b>1,799</b>	<b>181,055</b>	

\* Opening gross book value and opening depreciation balances have been restated. See Note 15 Property Plant & Equipment for details

The vacant possession value of dwellings at 31 March 2016 was £534.119m (£517.405m at 1 April 2014). 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%.

### 3. HRA REVALUATION LOSS

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

Due to accounting rules, the Revaluation Reserve was set up with an opening balance of zero at 1 April 2007. The closing position on the Reserve at 31 March 2016 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.

2014/15 £'000		2015/16 £'000
2,732	Depreciation	2,784
(3,660)	Revaluation Loss/(Gain)	(5,704)
4,763	Impairment Losses	4,694
<b>3,835</b>		<b>1,774</b>

### 4. MAJOR REPAIRS RESERVE

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

2014/15 £'000		2015/16 £'000
4,281	Opening balance on the Major Repairs Reserve	5,384
	Transfer to/ (from) the Major Repairs Reserve	
2,499	Capital Adjustment Account	2,552
3,424	Shortfall of depreciation on dwellings over Major Repairs Allowance	3,565
(4,820)	Financing of Capital Expenditure	(4,726)
<b>5,384</b>	<b>Closing balance on the Major Repairs Reserve</b>	<b>6,775</b>

## 5. FINANCING CAPITAL EXPENDITURE

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

2014/15 £'000		2015/16 £'000
<b>Expenditure</b>		
5,502	- Council Dwellings	5,518
-	- Intangibles	32
-	- Plant and Equipment	15
1,476	- Assets Under Construction	0
<b>6,978</b>	<b>Total</b>	<b>5,565</b>
<b>Financed from:</b>		
4,820	- Major Repairs Reserve	4,726
2,000	- Capital Receipts	839
158	- Revenue Contributions	
<b>6,978</b>		<b>5,565</b>

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

## 6. CAPITAL RECEIPTS

The sale of HRA assets during the year is detailed in the following table. Following the reinvigoration of the Right to Buy (RTB) the split between useable and unusable poolable receipts is now re-calculated by use of a complex procedure imposed by the Department of Communities and Local Government.

	Receipt in Year £'000	Element Pooled £'000	Useable Element £'000
Sale of Land	4		4
Sale of Vehicles	8		8
Sale of Council Dwellings	2,490	(849)	1,641
Repayment of discounts			0
Mortgage Repayments	5	(1)	4
<b>Total</b>	<b>2,507</b>	<b>(850)</b>	<b>1,657</b>

A transaction cost of £1,300 per completed RTB sale has been deducted before calculating the apportionment between pooled and useable plus a deduction for the debt supported by those properties sold.

## 7. PENSION COSTS

Note 42 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.

### Housing Revenue Account Pension Cost

2014/15 £'000		2015/16 £'000
Original	<b>Net Cost of Services</b>	
660	- Current Service Cost	758
	<b>Net Operating Expenditure</b>	
459	- Interest Cost	396
<u>1,119</u>		<u>1,154</u>
	<b>Statement of Movement of the Housing Revenue Balance</b>	
	- Reversal of net charges made for retirement benefits in accordance with IAS19	
<u>(1,119)</u>		<u>(1,154)</u>
	<b>Actual amount charged to revenue accounts for Pensions in the year</b>	
<u>660</u>	- Employers' contributions payable to the scheme	<u>563</u>

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

2014/15	Movement on the Housing Revenue Account Statement	2015/16
£'000		£'000
	<b>Adjustments between Accounting and Funding Basis:</b>	
(1,119)	IAS 19	(1,154)
660	- Pension Costs Charged to Rent Income	563
(4,763)	- Non-Enhancing Capital Expenditure	(4,694)
3,222	Capital Expenditure	3,222
511	Gains/losses on disposal of non current assets	1,140
3,660	Revaluation gains/(losses) on PPE	5,704
(686)	Payments to Housing Capital Receipts Pool	(850)
(233)	Depreciation of non-current assets	(243)
9	Accrued Employee Benefits	-
<b>1,261</b>		<b>3,688</b>
	<b>Transfers to/from Earmarked Reserves:</b>	
(1)	- Insurance Surplus	(50)
3,758	- Transfers to/(from) reserves	3,252
3,424	- Transfers to/ (from) Major Repairs	3,565
35	- Transfer to Unapplied Capital Receipts	-
<b>7,216</b>		<b>6,767</b>

## 9. RENT ARREARS

An analysis of rent arrears is shown below:

At 31st March 2015 £'000		At 31st March 2016 £'000
299	Current Tenants	740
354	Former Tenants	194
<b>653</b>	<b>Gross Rent Arrears</b>	<b>934</b>
<b>(487)</b>	<b>Bad Debt Provision</b>	<b>(527)</b>

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



## 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 2015/16 average rents increased by 3.56% (a maximum increase of 2.2% plus £2 for individual cases). The figure within the HRA statement is the total rent collectable after an allowance has been made for empty properties where no rent is being charged.
- Non-dwelling rents. This is comprised of plots, garages, HRA shops and wayleaves. Rent on garages and plots were increased by 2.3% for 2015/16.
- Charges for services and facilities include:
  - 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 2.3% for 2015/16

- Other income. This comes from a number of sources, including the recharge of repairs and maintenance, court and legal costs and insurance recharges.

## 11. EXPENDITURE

Repairs and Maintenance covers all aspects of maintenance for the housing revenue account properties.

Repairs and Maintenance	Original	Revised	Actuals
	Budget	Budget	
	2015/16	2015/16	
	£	£	£
Expenditure	8,034,614	8,218,440	7,549,113
Number of Properties (as at 1 April 2015)	6,148	6,148	6,148
Average cost per dwelling	£1,306.87	£1,336.77	£1,227.90

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.

<b>Supervision and Management</b>	Original Budget 2015/16 £	Revised Budget 2015/16 £	Actuals 2015/16 £
Expenditure	2,564,589	2,472,805	2,535,371
Number of Properties (as at 1 April 2015)	6,148	6,148	6,148
Average cost per dwelling	£417.14	£402.21	£412.39

(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). They have not been included in the comparison above.

**COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2016**

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.

2014/15 £'000		Note	2015/16 £'000
<b>Income</b>			
63,905	Council Tax		65,894
38,623	Business Ratepayers		38,176
<b>102,528</b>			<b>104,070</b>
<b>Expenditure</b>			
	Precepts and demands		
62,263	Council Tax	3	65,128
39,483	Business Rates	3	39,845
101,746			104,973
167	Transitional Protection Payment : Business Rates		179
	Impairments of debts		
86	Council Tax	4	(28)
811	Business Rates	4	651
897			623
180	Cost of Collection charged to General Fund for Business Rates		196
	Contributions towards previous years' estimated Collection Fund Surplus		
181	Council Tax	5	1,629
172	Business Rates	5	(780)
353			849
<b>103,343</b>			<b>106,820</b>
<b>Movement of the Fund</b>			
120	Opening fund balance	5	(694)
(814)	Movement on Fund	5	(2,751)
<b>(694)</b>	Surplus/ (Deficit) Closing Fund Balance	5	<b>(3,445)</b>
<b>Allocation of Surplus/ (Deficit)</b>			
(1,070)	Central Government	5	(2,028)
865	Lincolnshire County Council	5	50
197	Lincolnshire Police & Crime Commissioner	5	83
(686)	South Kesteven District Council	5	(1,550)
<b>(694)</b>			<b>(3,445)</b>

## NOTES TO THE COLLECTION FUND

### 1. COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties that have been classified into eight Valuation Bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lincolnshire County Council, Office of the Police and Crime Commissioner for Lincolnshire and South Kesteven District Council together with each parish requirement and dividing this by the Council Tax base i.e. the number of properties in each valuation band converted to an equivalent number of band D dwellings and adjusted for discounts.

The Council Tax base was calculated as follows:

Band	Estimated No. of Taxable Properties After Effect of Discounts	Ratio	Band D Equivalent Dwellings
A	11,899.10	6/9	7,932.7
B	11,186.49	7/9	8,700.6
C	9,475.60	8/9	8,422.8
D	8,004.52	9/9	8,004.5
E	4,981.97	11/9	6,089.1
F	2,585.01	13/9	3,733.9
G	1,003.03	15/9	1,671.7
H	64.85	18/9	129.7
Band A entitled to Disabled Relief Reduction	20.10	5/9	11.2
			44,696.2
Ministry of Defence Properties			57.0
<b>Council Tax Base</b>			<b><u>44,753.2</u></b>

### 2. 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 2015/16 there are two multipliers, the small business non-domestic rating multiplier of 48.0p and the non-domestic rating multiplier of 49.3p.

The business rates retention scheme became effective from the 1<sup>st</sup> April 2014. Under this new scheme SKDC keeps the total non-domestic rates due, less certain reliefs and deductions, and then redistributes the rates collected based on estimates at the start of the year. The redistribution of the central and local shares is based on the ratio of 50:40:10 for Central Government, SKDC and Lincolnshire County Council. The business rates retention scheme is designed to encourage economic growth and incentivise Councils by allowing them to keep a proportion of any business rates growth achieved during the year.

The total Non-Domestic Rateable Value at 31 March 2016 was £101.076m (31 March 2015 £100.872m).

### 3. PRECEPTS AND DEMANDS

2014/15			2015/16		
£'000	£'000	£'000	£'000	£'000	£'000
Council Tax	Business Rates	Total	Council Tax	Business Rates	Total
-	19,742	19,742	-	19,901	19,901
46,381	3,948	50,329	48,599	3,980	52,579
8,437	-	8,437	8,845	-	8,845
7,445	15,793	23,238	7,684	15,964	23,648
<b>62,263</b>	<b>39,483</b>	<b>101,746</b>	<b>65,128</b>	<b>39,845</b>	<b>104,973</b>

### 4. IMPAIRMENTS OF DEBTS

2014/15		2015/16	
£'000		£'000	
Council Tax			
116	Write Offs	(214)	
(30)	Allowance for impairment	186	
<b>86</b>		<b>(28)</b>	
Business Rates			
273	Write Offs	(269)	
(125)	Allowance for impairment - debts	394	
663	Allowance for impairment - appeals	526	
<b>811</b>		<b>651</b>	

## 5. COLLECTION FUND

2014/15				2015/16		
£'000	£'000	£'000		£'000	£'000	£'000
Council Tax	Business Rates	Total		Council Tax	Business Rates	Total
			Contribution towards Previous			
			Years estimated surplus			
0	86	86	Central Government	0	(390)	(390)
134	17	151	Lincolnshire County Council	1213	(78)	1,135
25	-	25	Lincs Police & Crime Commissioner	221	(312)	(91)
22	69	91	South Kesteven District Council	195	0	195
<b>181</b>	<b>172</b>	<b>353</b>		<b>1,629</b>	<b>(780)</b>	<b>849</b>
71	49	120	Opening Fund Balance	1,446	(2,140)	(694)
1,375	(2,189)	(814)	Movement in Year	(835)	(1,916)	(2,751)
<b>1,446</b>	<b>(2,140)</b>	<b>(694)</b>	Closing Fund Balance	<b>611</b>	<b>(4,056)</b>	<b>(3,445)</b>
			Allocations			
-	(1,070)	(1,070)	Central Government	-	(2,028)	(2,028)
1079	(214)	865	Lincolnshire County Council	456	(406)	50
197	-	197	Lincs Police & Crime Commissioner	83	-	83
170	(856)	(686)	South Kesteven District Council	72	(1,622)	(1,550)
<b>1,446</b>	<b>(2,140)</b>	<b>(694)</b>		<b>611</b>	<b>(4,056)</b>	<b>(3,445)</b>



**Annual  
Governance Statement  
2015/2016**

# Introduction

South Kesteven District Council is committed to improving the lives of local people and creating opportunities and prosperity for residents and businesses.

This ambition is supported by our Corporate Plan and the key principles of being open for business and being commercial and customer focussed.

Good governance and financial arrangements will give us a solid foundation on which to build our programmes of work and services and to deliver against the aspirations of this council and its residents.

This Annual Governance Statement covers all significant corporate systems, processes and controls spanning the whole range of the Council’s activities. It provides an overview of the Council’s key governance systems and explains how they are tested and the assurances that can be relied on to show that the systems are working effectively.

This statement explains how the Council has complied with the Code of Corporate Governance, and the core governance principles, and builds on the work of previous years.

It has been considered, discussed and challenged by members of the Council’s Governance and Audit Committee and is an open and honest review of the effectiveness of the Council’s system of internal control, including performance across all of its activities.



# Making sure we continue to deliver

Our vision is to make South Kesteven a destination of choice where everyone has a good quality of life. Like all local authorities we have been affected by large reductions in central government funding and we have responded with a Fit for the Future programme which will allow us to continue to serve local people with services that they value.

We have talked to residents who have told us what they want us to concentrate on and this has confirmed that they agree with our priorities of Growth, Culture, Environment and Housing.

We are also changing the way that we work and one of the major achievements has been the re-launch of our website which is now far more transactional than it used to be and it allows people to do business with us when they want to and not simply during office hours.

We are continually looking at how we can work with our customers in the way they want to work with us and we are also making much better use of our assets particularly office accommodation, therefore creating new income streams.

We are harnessing new technology to enable staff to carry out their duties in our 365 square mile district with much greater efficiency.

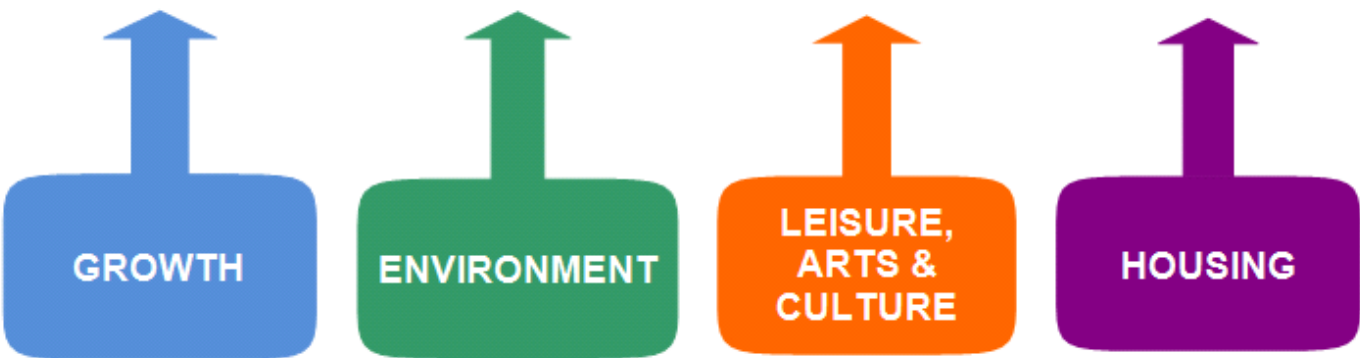
We have made great strides but we also know there is much more to be done if we are to be self sufficient by our target date of 2019. Progress is being monitored by the Executive, the Wider Management Cohort and the Strategic Management Team when key performance is measured. This provides leadership, direction and management of the Council’s overall performance ensuring momentum of key projects and reviews of strategic measures.

Governance arrangements have been developed to ensure that the necessary controls and assurance processes are in place to support the successful delivery of the programme. The Programme and Performance Management Team provide monitoring, control and reporting across the programmes of activity and also supports managers and leading officers with training and project management tools, techniques and performance management advice.

The Annual Report for 2015/16 provides an overall view of performance. Feedback on the report is welcomed.

A summary of the accounts is also available on request.

## OPEN for Business Commercially & Customer Focused



# Consultation and communication

As a Council we want to ensure that local people, businesses and other stakeholders are included and involved in the decisions that we make. This is achieved in a variety of different ways.

We manage and maintain a Citizens’ Panel of around 1,000 local people and have used it to find out what residents think of a number of different issues – panel members have been asked what their priorities are and also what they think of the market in Grantham. The people on our panel have been chosen to reflect the demographic characteristics of our area in terms of age, gender, ethnicity, disability and geography. This means that the panel’s views will be representative of the district as a whole and they are used to help inform the decisions that our councillors make on a range of issues.

We also undertake a number of service specific consultations. These vary year on year according to need and can include asking people what they think of strategies, development plans or changes to services.

### Consultations during 2015/16

local people and businesses were asked about:

- Development planned for Trent Road, Grantham
- Economic Development Strategy
- Council Tax levels for 2016/17
- Development planned for Westry Close, Barrowby
- Levels of air quality
- Wyndham Park, Grantham

Over 1,800 properties were contacted by post about the development planned for Trent Road, Grantham during November 2015 and invited to either attend a drop in or complete a survey either by post or on line. Their feedback was used to prepare a statement of community involvement which was submitted with the developer’s planning application.

Local people and businesses were consulted on the new Economic Development Strategy. They were asked if they supported each of the strategy themes and what they thought we should be concentrating on under each of those themes.

Over 230 people told us what they thought of Wyndham Park last summer. This gave us valuable baseline data for the park’s Heritage Lottery Fund bid. Further consultation is planned to measure the impact and effect of the bid should we be successful in our application.

The Council uses social media channels to communicate information and promote ongoing consultations. Facebook has been used to encourage people in the local area to participate in consultations and the Council is looking at innovative ways of explaining and promoting more difficult concepts using a flexible animation software package.

The services provided going forward will be delivered against a backdrop of increasing demand and unprecedented financial challenges. In this environment, the case for intelligence-led decision making that includes local people and other stakeholders becomes even more important.

The Council wants to ensure that the people who live in the district are kept up to date. A number of publications are produced including:

- SK today – Sent to over 60,000 households four times a year
- Skyline – Sent to around 6,000 tenants twice a year
- Parish Update – Sent to all town and parish councils quarterly

We organise and promote a number of events including the Gravity Fields and Georgian Festivals, the Aviation Heritage Trail and Enterprise week. Other events attended or organised to promote the area include the British Travel and Tourism Show and the Taste of Stamford Lunch.

### Social Media

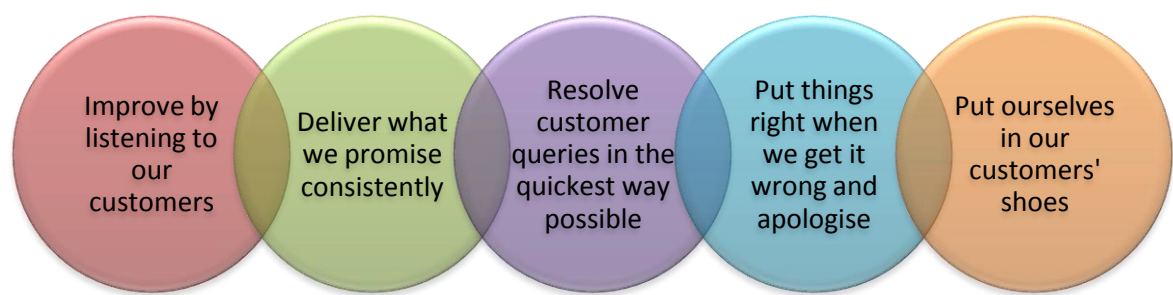
channels are used to respond to enquiries and disseminate information. Current user numbers are:

 4,636

 1,139

# Measuring the quality of services for users

The Council has continued to redesign and improve service provision to enable more choice, support the vulnerable and maintain excellent levels of customer service. Our website has been redesigned which will enable customers to transact online at a time which is convenient to them. It links seamlessly with smarter technologies that make it easier to do business with us electronically and allows individuals to track the progress of their transaction through a personal account. Customer feedback is helping to shape the way that things are done and the Council are creating a single customer view so that the information customers need is held in one place. This, together with a smarter approach, is enabling a more efficient organisation.



## Corporate governance

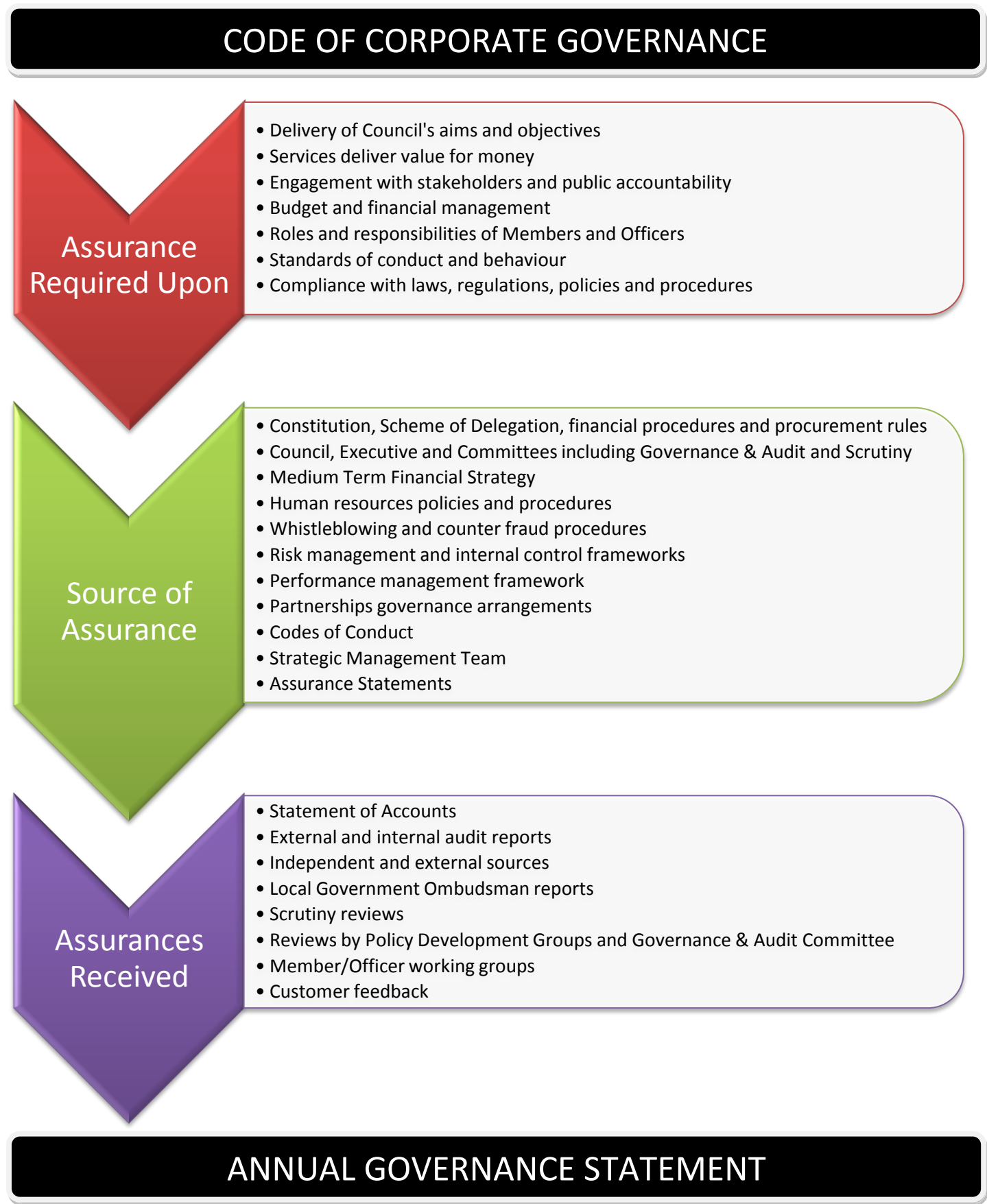
The Council is committed to ensuring good governance principles and management practices are adopted throughout the Council. This Annual Governance Statement (AGS) conforms to the Council’s Local Code of Corporate Governance and is closely aligned to the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government: Framework”. A copy of the Code is available on our website at [www.southkesteven.gov.uk](http://www.southkesteven.gov.uk).

The corporate governance framework brings together an underlying set of legislative requirements, good practice principles and management processes. It comprises the systems, processes, culture and values by which the Council is directed and controlled, and through which it accounts to, engages with and leads the local community. It enables the Council to monitor the achievement of its strategic objectives.

The Council’s system of internal control is a significant part of the corporate governance framework and 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.

CIPFA/SOLACE published a new governance framework in April 2016 and the Council will review their Local Code of Corporate Governance during 2016-17 in accordance with the revised framework.

The Governance Framework shown below has been in place throughout the financial year which ended on 31 March 2016 and continues to be in place up to the date of the approval of the Statement of Accounts.



# Chief Financial Officer

The Council’s financial management arrangements complied in all respects with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Council has a Chief Financial Officer (CFO). This is a statutory post responsible for delivering and overseeing the financial management arrangements of the Council. The Strategic Director – Corporate Focus is the designated CFO. As a professionally qualified accountant and a member of the Chief Executive’s Strategic Management Team the CFO also has direct access to the Governance and Audit Committee and External and Internal Audit.

Through the Corporate Finance Manager, who is also a professionally qualified accountant, the CFO has a line of professional accountability for all finance staff and ensures the finance function is fit for purpose. The Strategic Director – Corporate Focus and Corporate Finance Manager have been involved in preparing this Statement from an early stage. They are satisfied with the arrangements in place and consider that no matters of significance have been omitted.

# The Governance and Audit Committee

The Governance and Audit Committee is well established and its terms of reference comply fully with the guidance provided by CIPFA. The key areas covered by the Committee’s terms of reference are audit activity, risk management, governance, counter fraud and bribery, regulatory framework, accounts and financial reporting and the ombudsman process. In addition it receives annual reports on health and safety and business continuity.

At the meeting of Council in April 2016, 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 2015/16. 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 for 2016/17 was also presented to Council at the same meeting.

# Internal and external audit assurance

The Council receives a substantial amount of assurance from the work that is undertaken by its internal auditors (RSM) and external auditors (KPMG).

## Internal audit

The Council’s internal auditors, RSM, are required to provide an opinion on the overall adequacy and effectiveness of the Council’s risk management, governance and internal control arrangements. RSM reported that “The Council has an adequate and effective framework for risk management, governance and internal control.”

With regard to internal control, 18 reviews were undertaken during 2015/16, plus three follow-up and one advisory reviews. The 18 reviews resulted in an assurance opinion summarised overleaf.



For the 12 months ended 31 March 2016, based on the work undertaken, internal audit’s opinion below details the adequacy and effectiveness of the Council’s risk management, governance and internal control.

**Head of internal audit opinion 2015/2016**

The Council has an adequate and effective framework for risk management, governance and internal control.

However, our work has identified further enhancements to the framework of internal control to ensure that it remains adequate and effective.

With regard to the issues raised by the Head of Internal Audit in their Annual Report to the Governance and Audit Committee in June 2016, action plans have been put in place to address these, particularly in those areas where management concerns have also been raised and further work is required to strengthen the control framework.

Internal audit practice is assessed against the Public Sector Internal Audit Standards (PSIAS) which includes the requirement of an Internal Audit Charter. The charter establishes the purpose, authority and responsibilities for the internal audit service. The standards are intended to promote further improvement in the professionalism, quality and effectiveness of internal audit across the public sector. Compliance to the standards was reported to the Governance and Audit Committee in March 2016 as part of the Annual Audit Plan.

Following a procurement exercise in autumn 2015 the Council appointed RSM as their internal auditors for a period of five years.

External audit

The External Auditor, in the 2014/15 Annual Audit Letter, concluded that there were good financial reporting arrangements in place and proper arrangements to secure financial resilience and no significant risks were identified. In particular, the External Auditor acknowledged that the Council was working hard to deliver a balanced budget year on year against the background of further reductions in Government funding and cost pressures on services. Further, the External Auditor reported that the Authority’s organisation and IT control environment was effective and controls over the key financial systems were sound.

Internal Audit files and reports for key financial systems are reviewed annually by External Audit 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 External Auditor will be consistent with those made by Internal Audit. External Audit issued an unqualified Value for Money Conclusion and an unqualified opinion was given on the annual accounts:

*“We issued an unqualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2014/15 on 28 September 2015. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.*

*To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.”*

# 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. Where appropriate, risks are viewed as opportunities and there is a desire to develop a risk appetite that promotes innovation and allows new ideas to be explored. Risk management is an integral part of the corporate, service and budget planning process. The current Risk Management Framework was approved by Governance and Audit Committee in September 2015.

The Council’s Corporate Risk Register was reviewed quarterly by Strategic Management Team and reported to Governance and Audit Committee twice during the year. The register underwent a fundamental review in March 2016. The review focused on removing specifically described corporate risks and exchanging them for broader headings that will have a longer term time line.

In accordance with the Civil Contingencies Act 2004 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. No significant business continuity or declared emergency incidents arose during the year 2015/16.

# Managing the risk of fraud

In accordance with the Counter Fraud Strategy, incorporating Bribery and Money Laundering and its Fraud Response Plan, the Council investigates both welfare and non-welfare fraud. The Council is committed to the highest standards of quality, probity, openness and accountability.

CIPA published a new Code of Practice on Managing the Risk of Fraud and Corruption in April 2015 and the Council’s Counter Fraud Strategy has been reviewed and updated to reflect this. This was approved by Governance and Audit Committee in March 2016.

There is a whistleblowing policy, which is part of the Counter Fraud Strategy, that positively encourages employees and others with serious concerns about any aspect of the Council’s work to come forward and make those concerns known. Full details of how concerns are dealt with can be found on the Council’s website. The policy is reviewed at least biennially or updated as and when required to bring it in line with best practice. There is also a confidential whistleblowing telephone hotline and email that allows people to raise concerns about wrong doing.

**Whistleblowing Hotline: 0800 0853716      email: [whistleblowing@lincolnshire.gov.uk](mailto:whistleblowing@lincolnshire.gov.uk)**

Due to the nature of whistleblowing concerns they are not made public. A report detailing both the activity and the general nature of the whistleblowing allegations received is presented to the Governance and Audit Committee each year. The report is available on the Council’s website.

The Council, along with the other authorities within Lincolnshire, are part of the Lincolnshire Counter Fraud Partnership which was established in April 2015 to create the framework for a county-wide anti-fraud approach. It provides a forum for counter fraud specialists and subject area experts from Lincolnshire County Council and the seven district councils to develop and deliver proactive exercises and investigate fraud.

The key aims of the Group are to:

- deliver joint fraud proactive exercises across Lincolnshire
- deliver savings and achieve outcomes which will reduce fraud within the county
- develop and deliver an effective co-ordinated fraud awareness programme
- share intelligence, investigative resource, expertise and best practice



# 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 is determined by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment and is also informed by the Internal Audit Annual Report, comments by External Auditor and other review agencies and inspectorates. The process applied in maintaining and reviewing the effectiveness of the governance framework is shown below as the summary of the key stakeholders in the process.

Council	<ul style="list-style-type: none"><li>•approve Constitution including Codes of Conduct</li><li>•approve the Corporate Plan</li><li>•approve the budget and policy framework</li></ul>
Executive	<ul style="list-style-type: none"><li>•priority setting in line with the Council’s vision and recommend budget proposals to underpin delivery</li><li>•financial, performance, risk management of service delivery within budget and policy framework set by Council</li><li>•hold at least monthly public meetings and undertake monthly briefings and development days</li></ul>
Governance & Audit Committee	<ul style="list-style-type: none"><li>•review Financial Regulations and Contract Procedure Rules</li><li>•scrutinise and approve the Financial Statements on behalf of the Council</li><li>•review and scrutinise the governance arrangements including internal and external audit reports</li><li>•review the arrangements for managing risk including Health and Safety and Business Continuity</li></ul>
Scrutiny Committee	<ul style="list-style-type: none"><li>•provide a <i>critical friend</i> challenge to the Executive as well as external authorities and agencies</li><li>•reflect the voice and concerns of the public and its communities</li></ul>
Strategic Director	<ul style="list-style-type: none"><li>•oversee financial strategy and operations</li><li>•oversee the governance and control environment of the Council</li></ul>
Internal Audit	<ul style="list-style-type: none"><li>•set overall internal audit strategy to meet the Council’s overall strategic direction</li><li>•undertake an annual programme of audits and present progress reports against the plan</li><li>•make recommendations for improvement in systems and controls and value for money</li></ul>
Strategic Management Team	<ul style="list-style-type: none"><li>•review of performance management and projects including progress against milestones, resource allocation, risks and performance measures</li><li>•evaluate new and emerging projects</li><li>•review quarterly performance reports</li></ul>
Risk Management Group	<ul style="list-style-type: none"><li>•quarterly Business Manager meetings to review governance, business risks, internal audit, counter fraud, insurance and business continuity</li></ul>
Executive Managers & Business Managers	<ul style="list-style-type: none"><li>•complete quarterly Assurance Statements covering all areas of governance</li><li>•contribute to the effective corporate management and governance of the Council</li></ul>



# Significant governance issues

In addition to the effectiveness review underpinning this Annual Governance Statement, it has also identified the following key areas for improvement and these will be addressed during 2016/17:

## Key improvement area

Continue to review and implement savings, efficiency and change programmes. Ensuring the maintenance of a sustainable medium term financial strategy

Incorporate governance and risk training into the overarching corporate training programme for employees and members utilising appropriate training tools such as e-learning

Continue to work with internal audit to review and improve the system and controls for the procurement of goods and services, including the management of contracts and official orders

Review and implement a new Local Code of Corporate Governance in accordance with the revised CIPFA/SOLACE Framework "Delivering Good Governance in Local Government: Framework"

To identify the appropriate procurement route for the provision of external audit services to focus on quality and value for money.

Undertake the Counter Fraud Assessment Tool to assist with the measurement of our counter fraud arrangements against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

## Our commitment to continuous improvement

The challenges and changes, both financial and otherwise, 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 and 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.

**Cllr Bob Adams**

Leader of the Council

Signed on behalf of South Kesteven District Council

**Beverly Agass**

Chief Executive

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





## **GLOSSARY OF TERMS**

### **Accounting Period**

The length of time covered by the Council's accounts. This is twelve months commencing on 1 April. The end of the accounting period is the balance sheet date.

### **Accounting Policies**

Those principles, conventions, rules and practices applied by the council that specify how the effects of transactions and other events are to be reflected in the financial statements through

- Recognising
- Selecting measurement bases for, and
- Presenting assets, liabilities, gains, losses and changes to reserves

### **Accrual Concept**

This is one of the main accounting concepts and ensures that income and expenditure are shown in the accounting period that they are earned not as money is received or paid.

### **Actuarial Gains and Losses**

For a defined pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or
- (b) the actuarial assumptions have changed

### **Amortisation**

The writing down in value of intangible assets, which is charged to service revenue accounts to reflect the cost of such assets, used in the provision of those services. This is the equivalent of depreciation for non-current assets.

### **Annual Governance Statement**

A statement, updated annually, detailing all significant corporate systems, processes and controls covering all the Council's activities.

### **Asset**

An asset is something that the Council owns that has monetary value. Assets are either "current" or "non-current".

- A **current asset** is one that will be used or cease to have material value by the end of the next financial year e.g. stock or debtors
- A **non-current asset** provides benefits for a period of more than one year e.g. Council Offices.
- An **intangible asset** is those non-monetary assets that cannot be seen, touched or physically measured and which are created through time and/or effort e.g. IT software.

### **Audit of Accounts**

An audit is an examination by an independent expert of an organisation's financial affairs to check that the relevant legal obligations and codes of practice have been followed.

### **Bad Debt Provision**

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

### **Balance Sheet**

The Balance Sheet summarises the Council's financial position at the end of each financial year i.e. 31<sup>st</sup> March.

### **Budget**

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

### **CAA**

Capital Adjustment Account. The Capital Adjustment Account contains the amounts that are required by Statute to be set aside from capital receipts and revenue for the repayment of external loans as well as amounts of revenue, useable capital receipts and contributions that have been used to fund capital expenditure. It also accumulates depreciation, impairment and write-off of non-current assets on disposal.

### **Capital Charges**

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

### **Capital Expenditure**

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

### **Capital Receipts**

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

### **Carrying Amount**

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

### **Cash Flow Statement**

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

### **Certificate of Deposit**

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

### **CIES**

Comprehensive Income & Expenditure Statement

### **CIPFA**

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

### **Code (the)**

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

### **Collection Fund**

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

### **Community Assets**

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

### **Current Service Cost**

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

### **Curtailment**

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

### **Contingent Liabilities**

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

### **Council Tax**

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

### **Creditors**

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

### **Current Liabilities**

Amounts payable that become due during the next financial year.

### **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.

### **Depreciation**

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

### **Emoluments**

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

### **Earmarked Reserves**

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

### **Expected Rate of Return**

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

### **Explanatory Foreword**

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

### **Finance Leases**

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

### **Financial Year**

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

### **FRS**

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

### **General Fund**

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

### **Government Grants**

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

### **Housing Benefits**

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

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

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

### **Joint Operation**

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



## **IAS**

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

## **IFRS**

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

## **Income**

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

## **Impairment Losses**

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

## **Intangible Assets**

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

## **Interest on Pension Scheme Liabilities**

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

## **Investments**

Cash deposits with approved institutions.

## **Key Prudential Indicator**

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

## **Liability**

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

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

## **Long Term Debtor**

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

## **Materiality**

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

## **Minimum Revenue Provision**

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

### **MIRS**

Movement in Reserves Statement

### **MRA**

Major Repairs Allowance.

### **MRR**

Major Repairs Reserve

### **Net Book Value (NBV)**

The value of a non-current asset less the accumulated amount of depreciation/amortisation.

### **Non Distributed Costs**

These are overheads for which no user benefits and should not be apportioned to services.

### **Non Domestic Rates**

Tax charged on the rateable value of non-domestic properties (business properties). The rate of tax is set by the Government.

### **Non-Exchange Transactions**

In a non-exchange transaction an entity either gives or receives value to or from another without directly giving or receiving equal value in exchange.

### **Non-Operational Assets**

Non-current assets held by the Council that are not directly used in the delivery of services.

### **Operational Assets**

Non-current assets held by the Council that are used in direct delivery of services (another term for working capital).

### **Operating Leases**

A lease where the lessor retains all the risks and rewards of ownership of a non-current asset.

### **Past Service Cost**

Discretionary benefits awarded on early retirement are treated as past service costs. This includes added years and unreduced pension benefits covered by the rule of 85.

### **Pension Fund**

An employee's pension fund maintained by a Council or group of councils in order to primarily make pension payments on the retirement of participating employees. It is financed by contributions from the employing authority, the employees and investment income.

## **Performance Management**

A technique which assists the Council to monitor progress in achieving key performance measures and priority actions.

## **PPE**

Property, Plant & Equipment. Assets other than Council dwellings, Assets under Construction and Investment Properties.

## **Precepts**

The amount of Council Tax income that Councils, Police Authorities, Parish Councils and Fire Authorities need to provide their service. The amount for all local authorities providing services in an area appears on council tax bills.

## **Provisions**

This is a sum of money that has been put aside in the accounts for liabilities that are due but where the amount or the timing of the payment is not known with any certainty.

## **PWLB**

Public Works Loans Board. A central government agency that provides lending facilities to local authorities.

## **Related Party Transactions**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge has been made.

## **Reserves**

Amounts set aside to meet capital or revenue expenditure which do not fall under the definition of Provisions.

## **Revaluation Reserve**

The Revaluation Reserve records the accumulated gains from the increase in the revaluation of assets. It also records any reduction in the value of assets subject to the limits of the previous increases in value of the same asset.

## **Revenue Expenditure**

Expenditure that is incurred on the day to day costs of running local authority services, for example, staff costs, utility charges, rent and business rates.

## **Revenue Expenditure Funded from Capital Under Statute**

This is expenditure treated as capital expenditure but which does not result in a non-current asset belonging to the council. An example of this is a Disabled Facilities Grant paid to a homeowner to fund adaptations to their own home.

## **Revenue Support Grant**

A general grant paid by central government to local authorities as a contribution towards the cost of their services.

**SeRCOP**

The Service Reporting Code of Practice.

**Soft Loan**

A soft loan is a loan with a below market rate of interest.

**Treasury Management**

The process by which the Council manages its day to day cash requirements.



*your council working for you*

# Summary of accounts 2015/16



# STATEMENT BY STRATEGIC DIRECTOR CORPORATE FOCUS

As Chief Finance Officer, I am pleased to introduce the summary of accounts for the year ending 31 March 2016.

The summary of accounts gives a brief overview of our spending and income and shows our financial position for the last financial year. It is based on our more detailed statement of accounts document, which is required by law.

It includes:

- the cost of providing services
- a balance sheet
- a cash flow statement
- housing revenue account statement
- council tax collection performance

My focus during the year has been to secure a financially sound base so that we can continue to deliver quality services that support and underpin the delivery of our corporate priorities. These are:

- Growth
- Culture
- Housing
- Environment
- Corporate

**I hope you find this publication interesting. If you have any queries or would like to know more please contact Accountancy Services on 01476 406208 or by email: [accountancy@southkesteven.gov.uk](mailto:accountancy@southkesteven.gov.uk) .**

**Our more detailed statement of accounts is available on request or via our website [www.southkesteven.gov.uk](http://www.southkesteven.gov.uk) .**

**Daren Turner  
Strategic Director (s151 Officer)**

## WHAT DID WE SPEND THE MONEY ON?

The table below provides a summary of our income and expenditure for the 2015/2016 year against the different services the council provides.

Service expenditure areas	Services include	2015/2016 Net £ thousands
Central services to the public	Collecting council tax and business rates, council tax benefit, elections, land charges	1,230
Cultural and related services	Arts and leisure facilities, parks and open spaces, tourism	4,148
Environmental services	Cemeteries, environmental health, community safety, street cleaning, waste collection and recycling	5,553
Planning services	Building and development control, planning policy, economic and community development	2,509
Highways, roads and transport services	Car parking, bus stations	(244)
Housing services	Managing council housing, housing benefit, housing policy, homelessness	(12,902)
Corporate and democratic core	Corporate management, democratic services	2,161
<b>Net cost of services</b>		<b>2,455</b>
Net corporate costs	Interest paid minus interest received, profit from trading activities, capital and pension account adjustments, investment income	6,073
<b>Net operating spending</b>		<b>8,528</b>

Money into our account from government grants and local tax		2015/2016 Net £ thousands
General government grants	Money provided by central government to help pay for some of the services we provide	(7,113)
Council tax income	Council tax income	(7,782)
Non-domestic rate income	Our share of (40%) business rates income	(2,121)
<b>Net surplus for 2015/2016</b>		<b>(8,488)</b>

On 31 March 2016, the general fund working balance was £1.9million.

## WHAT ARE WE WORTH?

At the end of each financial year, we draw up a balance sheet that shows our overall financial position. It includes the value of assets, what we owe, what is owed to us, how much cash we have and how this is financed from reserves and balances.

Balance at 31 March 2016	£ thousands
Assets such as land and buildings we own	245,001
Investments	42,305
Cash and money in our bank accounts	7,598
Stocks and work in progress	1,431
Money owed to us	5,401
Money we owe (see note below)	(157,316)
<b>Total assets less liabilities</b>	<b>144,420</b>
<b>Financed by:</b>	
Unusable reserves*	91,933
<b>Reserves available to cover future spending for specific purposes:</b>	
Usable reserves	45,751
Working balances	6,736
<b>Total</b>	<b>144,420</b>

**\*Note:** This includes our pension liability of £38.0 million as at 31 March 2016, valued in line with general accountancy practice.

The cashflow for 2015/2016 is money in our bank account as at the end of the financial year based on all the money coming in and going out during the year.

Cash flow	£ thousands
Cash in our bank accounts on 1 April 2015	11,819
Cash in	51,335
Cash out	(55,556)
<b>Cash in our bank accounts on 31 March 2016</b>	<b>7,598</b>



## CAPITAL INVESTMENT – WHAT DID WE SPEND?

In addition to our day-to-day spending we also spend money on specific projects that will benefit the district over a number of years.

This is known as capital investment which is funded from a mixture of grants, reserves and contributions from revenue.

During the 2015/16 financial year we spent:	£ thousands
Housing	460
Environment	622
Council house improvements and new builds	5,518

## HOW DID WE PERFORM?

As a billing authority we collect council tax for the whole of the district. This is then shared between Lincolnshire County Council, Lincolnshire Police and Crime Commissioner and the town and parish councils. We keep what is left to provide district services.

	2013/2014	2014/2015	2015/2016
Number of Band D equivalents	43,787	43,522	44,753
Percentage of council tax we collected	98.4%	98.71%	98.74%
Percentage of council tax collected nationally	97.0%	97.0%	97.1%
Amount of council tax we collected	£62.9m	£63.9m	£65.8m

**Note:** Properties are grouped into eight valuation bands (A to H). Band D equivalents relate to the average number of properties across all bands on which council tax is charged. This is known as the council tax base.

## Alternative formats and languages

South Kesteven has a rich and varied culture – a community made up of people from different cultures, with differing backgrounds, beliefs or experiences. This is one of the things that make South Kesteven such a great place to live and work.

To make sure the people of South Kesteven have access to our information, we have made it available in a range of languages and formats.

To ask for a document in a different language or format, e-mail [customerservices@southkesteven.gov.uk](mailto:customerservices@southkesteven.gov.uk) or visit [www.southkesteven.gov.uk](http://www.southkesteven.gov.uk)

### Large print, Braille, audio tape or computer disc

This information can be made available in large print, Braille, on audio tape or computer disc. If you, or someone you know, might benefit from this service, please contact us.

### Latviski / Latvian

Šo informāciju var iegūt arī latviešu valodā. Ja Jums vai kādai no Jūsu paziņai šādi pakalpojumi nāktu par labu, lūdzu kontaktēties mūs.

### Lietuviškai / Lithuanian

Šią informaciją galite gauti lietuvių kalba. Prašome kreiptis į mus, jei jums arba jūsų pažįstamiems ši paslauga galėtų būti naudinga.

### Polski / Polish

Informacja ta może być dostępna w języku polskim. Jeżeli Państwo albo ktoś kogo Państwo znają, może z tej usługi skorzystać, proszę nas kontaktować.

### Português / Portuguese

Esta informação pode ser disponibilizada em português. Se você, ou alguém que conhecer, beneficiar com este serviço, por favor contacte-nos.

### 繁體中文 / Cantonese

本資料有繁體中文版。若你本人或你認識的甚麼人會受益於此版本，敬請聯絡我們。

## REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF:** **CORPORATE FINANCE MANAGER**

**REPORT NO:** **CFM388**

**DATE:** **23 September 2016**

<b>TITLE:</b>	<b>Internal Audit Progress Report: 1 April 2016 – 23 September 2016</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	None	
<b>EXECUTIVE MEMBER: NAME AND DESIGNATION:</b>	Councillor Mrs Frances Cartwright Executive Member Governance	
<b>CONTACT OFFICER:</b>	Richard Wyles Corporate Finance Manager <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a> Tel: (01476) 406210	
<b>INITIAL IMPACT ANALYSIS:</b>	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
<b>Equality and Diversity</b>	N/A	No
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	None	

### 1. RECOMMENDATION

Governance and Audit Committee is requested to review and note the contents of the attached progress report that has been prepared by the internal auditors RSM.

### 2. PURPOSE OF THE REPORT

This is the first in a series of regular in-year progress reports summarising the results of work undertaken by the internal audit service. This report covers the period from 1 April 2016 to 23 September 2016.

### 3. DETAILS OF REPORT

#### Introduction and Background

In accordance with Public Sector Internal Audit Standards the internal audit service provides assurance on the adequacy and effectiveness of the authority's governance, risk management and control arrangements. The opinion provided within individual reports issued to management contributes towards an annual audit opinion that forms part of the framework of assurances that informs the Council's Annual Governance Statement.

#### Summary of Work Undertaken from 1 April 2016 – 23 September 2016

The internal audit plan for 2016-17 was approved by this Committee on 24 March 2016 and this report provides details of progress against the plan – see Appendix A – accompanying report prepared by RSM.

During the period 1 April 2016 – 23 September 2016 three reports have been finalised. A representative from RSM will be in attendance at the meeting to present and respond to any questions raised by members in relation to the key findings in their reports.

Audited Area	Opinion	Number of Management Actions				
		Low	Medium	High	Total	Accepted
Health & Safety – Asbestos	Green	3	1	-	4	4
Taxi Licensing	Green	1	1	-	2	2
Rent Collection	Green	4	1	-	5	5
Total		8	3	-	11	11
		73%	27%	-		100%

#### Key Points to Note:

Of the three audits completed a total of 11 management actions have been raised and accepted by management. Of the 11 management actions raised, six have already been implemented. The latest position on implementation is summarised below:

#### Health & Safety – Asbestos

Three management actions have been implemented; the fourth recommendation has not yet reach its implementation date.

#### Taxi Licensing

The two management actions have been implemented.

**Rent Collection**

One management action has been implemented; the other four have not yet reached their implementation date.

**4. OTHER OPTIONS CONSIDERED**

None

**5. RESOURCE IMPLICATIONS**

This report has no direct impact on the Council's resources, including finance/budget, people, land/property etc.

**6. RISK AND MITIGATION**

None

**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**

Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations require every local authority to maintain an adequate and effective internal audit service that would include a review of progress. Those charged with governance are asked to review the contents of the attached report which summarises the work undertaken by the internal auditors that provides a review of the progress for the period from 1 April 2016 – 23 September 2016.

**11. COMMENTS OF OTHER RELEVANT SERVICES**

None

**12. APPENDICES:**

Appendix A – Internal Audit Progress Report prepared by RSM



# **SOUTH KESTEVEN DISTRICT COUNCIL**

## **Internal Audit Progress Report**

### **Governance and Audit Committee**

**Date: 23<sup>rd</sup> September 2016**

This report is solely for the use of the persons to whom it is addressed.  
To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept  
no responsibility or liability in respect of this report to any other party.



# CONTENTS

1 Introduction.....	2
2 Reports considered at this Governance and Audit Committee .....	3
3 Looking ahead.....	5
4 Other matters .....	6
Appendix A: Internal audit assignments completed to date .....	7
For further information contact .....	8

As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made.

Recommendations for improvements should be assessed by you for their full impact before they are implemented. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

This report is supplied on the understanding that it is solely for the use of the persons to whom it is addressed and for the purposes set out herein. Our work has been undertaken solely to prepare this report and state those matters that we have agreed to state to them. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any party other than the Council which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to our Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

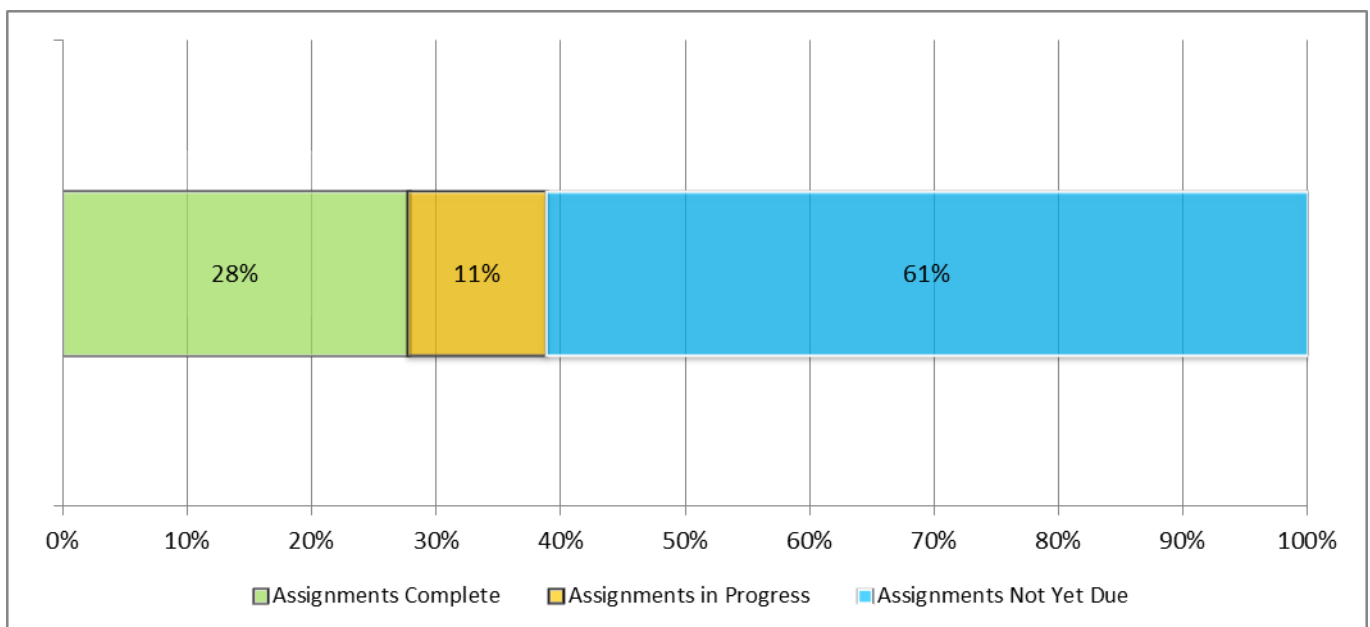
We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

# 1 INTRODUCTION

The internal audit plan for 2016/17 was approved by the Governance and Audit Committee on 24<sup>th</sup> March 2016 and included a total of 18 planned reviews.

This report provides a summary update on progress against that plan and summarises the results of our work to date. This is our first progress report of 2016/17. Please see chart below for progress against the plan.


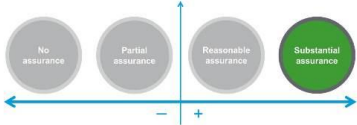
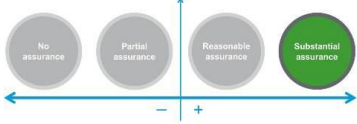




## 2 REPORTS CONSIDERED AT THIS GOVERNANCE AND AUDIT COMMITTEE

This table informs of the audit assignments that have been completed since the last Governance and Audit Committee.

The Executive Summary and Key Findings of the assignments below are attached to this progress report.

Assignment	Status	Opinion issued	Actions agreed		
			L	M	H
Health and Safety - Asbestos (02.16/17)	Final		3	1	0
Taxi Licensing (03.16/17)	Final		1	1	0
Rent Collection (04.16/17)	Final		4	1	0

## 2.1 Impact of findings to date

---



### **Health and Safety - Asbestos**

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of testing undertaken four findings were identified; one medium and three low priority.

Management actions were agreed in respect of all findings.

The medium finding related to:

- The asbestos data is currently held on a property database. Due to system limitations the data from the asbestos surveys carried out during 2015 and 2016 is held outside of the database and as a result staff and contractors do not have a single source for asbestos information.
- 



### **Taxi Licensing**

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of testing undertaken two findings were identified; one medium and one low priority.

Management actions were agreed in respect of both findings.

The medium finding related to:

- There is currently no process in place for confirming that badges have been returned to the Council when licences are not renewed.
- 



### **Rent Collection**

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of testing undertaken five findings were identified; one medium and four low priority.

Management actions were agreed in respect of all findings.

The medium finding related to:

Testing a sample of 20 write offs established that in one case the amount on the form was recorded incorrectly. A review of the records on Northgate established that the right amount had been written off. The same sample testing also identified that in 19 cases the write off was authorised by the Income Team Co-ordinator and this was not in accordance to the authority documented in the Debt Management Policy 2013.

---

### 3 LOOKING AHEAD

Assignment area	Planned commencement date	Status
Environmental Health	22 August 2016	Draft Report Issued
Council Tax Support Scheme	19 September 2016	In Progress
Financial Regulations	19 September 2016	In Progress
Governance	17 October 2016	
Follow Up 2	24 October 2016	
Cash and Bank	7 November 2016	
Income and Debtors	9 January 2017	
Absence Management	9 January 2017	
Purchase Orders and Creditors	16 January 2017	
Procurement and Contracts	23 January 2017	
Follow Up 3	6 February 2017	
Allocations and Lettings	20 February 2017	
Geographical Information System (GIS)	20 February 2017	
ICT Resilience	TBC	

## 4 OTHER MATTERS

### 4.1 Changes to the audit plan

There have been no changes to the audit plan to date.

## APPENDIX A: INTERNAL AUDIT ASSIGNMENTS COMPLETED TO DATE

Report previously seen by the Governance and Audit Committee and included for information purposes only:

Assignment	Status	Opinion issued	Actions agreed		
			L	M	H
Follow Up 1 (01.16/17)	Final	Reasonable Progress	1	4	0

## FOR FURTHER INFORMATION CONTACT

**Chris Williams, Head of Internal Audit**

chris.williams@rsmuk.com

Tel: 07753 584 993

**Robert Barnett, Director**

robert.barnett@rsmuk.com

Tel: 07791 237 658

**Amjad Ali, Client Manager**

amjad.ali@rsmuk.com

Tel: 07800 617 139

**Address:**

RSM Risk Assurance Services LLP

Suite A, 7th Floor  
City Gate East  
Tollhouse Hill  
Nottingham NG1 5FS

Phone: 0115 964 4450

**rsmuk.com**

The UK group of companies and LLPs trading as RSM is a member of the RSM network. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm each of which practises in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction. The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU. The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

RSM UK Consulting LLP, RSM Corporate Finance LLP, RSM Restructuring Advisory LLP, RSM Risk Assurance Services LLP, RSM Tax and Advisory Services LLP, RSM UK Audit LLP, RSM Employer Services Limited and RSM UK Tax and Accounting Limited are not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services because we are members of the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. Baker Tilly Creditor Services LLP is authorised and regulated by the Financial Conduct Authority for credit-related regulated activities. RSM & Co (UK) Limited is authorised and regulated by the Financial Conduct Authority to conduct a range of investment business activities. Before accepting an engagement, contact with the existing accountant will be made to request information on any matters of which, in the existing accountant's opinion, the firm needs to be aware before deciding whether to accept the engagement.

© 2015 RSM UK Group LLP, all rights reserved.

# HEALTH AND SAFETY – ASBESTOS - EXECUTIVE SUMMARY

## 1.1 Background

An audit of Health & Safety - Asbestos was undertaken as part of the approved internal audit periodic plan for 2016/17. This audit was undertaken across three of the Council's departments - Property & Development, Repairs and Housing Management.

The Business Manager Property and Development is responsible "To act as the Duty Holder in respect of the management of identified/presumed ACM's (Asbestos Containing Materials) in relation to the Council's domestic stock." There are also two dedicated staff in Property and Development department for Asbestos - the Asbestos Co-ordinator and the Asbestos Technical Support Officer.

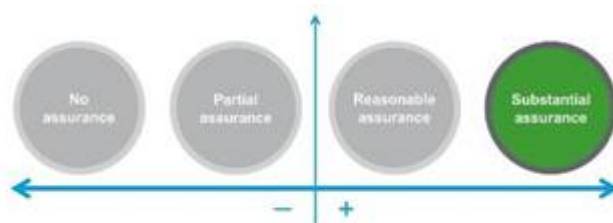
The Council's stock condition survey data is recorded and maintained on a property database. Due to system limitations the Council is not able to currently upload the results of new asbestos surveys undertaken through an interface with the property database provider and as a result survey results are held outside of the database on a number of spreadsheets.

## 1.2 Conclusion

Overall there is an adequate control framework in place, however we did identify control weaknesses and are reporting one 'Medium' and three 'Low' category findings.

### Internal Audit Opinion:

Taking account of the issues identified, the Council can take substantial assurance that the controls upon which the organisation relies to manage the identified risks are suitably designed, consistently applied and operating effectively.



## 1.3 Key findings

The key findings from this review are as follows:

A detailed register is maintained on the property database identifying the locations where asbestos is present; however the database is not up to date. Due to system limitations the results from asbestos surveys carried out during 2015 and 2016 have not been uploaded to the database and are held on spreadsheets and as a result the asbestos data is not available from a single source. Checks have to be undertaken on a number of sources (property database, Google Tracker and excel spreadsheets) and as a result there is a risk that all the sources of data may not be checked or information could be overlooked and this may result in the Council incurring additional costs.

The Housing Management department does not maintain a record of the training attended by members of staff and also do not maintain a copy of the asbestos awareness training certificates on file and as a result there is a risk that monitoring cannot take place to ensure that the staff have been provided with up-to-date asbestos awareness training.

A review of the permission letter issued to tenants identified that where a copy of the Asbestos Summary from the database is sent to the tenant with the permissions letter, the letter does not include reference to the Asbestos Summary and as a result the Council may not be able to evidence that the Asbestos Summary was provided with the permissions letter.

On testing a sample of 20 asbestos removals it was noted that in two cases, one in December 2015 and one in February 2016, the asbestos was collected and a consignment note had been issued; however a Statement of Cleanliness had not been received from the licensed Asbestos Contractor.

The Statement of Cleanliness is issued to confirm that after removing the textured coating the premises are safe to use again and in the absence of this statement there is a risk that asbestos has not been removed and a risk remains to the staff and tenants.

## 1.4 Additional information to support our conclusion

Risk	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Serious breach of Health and Safety legislation.	(20)	4 (20)	3	1	0
<b>Total</b>			<b>3</b>	<b>1</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

## 1.5 Additional feedback

### Good practice for further consideration

We have identified good practice at other RSM clients that South Kesteven District Council (SKDC) may wish to consider:

- At a housing client, following every asbestos survey carried out, the tenant is informed of the results in writing. A letter is produced which reports the key findings from the survey and includes advice and guidance on how to manage and not disturb any asbestos containing materials that may be present.



## 2 ACTION PLAN

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may, with a high degree of certainty, lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The table below sets out the actions agreed by management to address the findings:

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
<b>Risk: Serious breach of Health and Safety legislation.</b>					
1	The asbestos data is currently held on a property database. Due to system limitations the data from the asbestos surveys carried out during the 2015 and 2016 is held outside of the database and as a result staff and contractors do not have a single source for asbestos information. An implication of this is that asbestos information may be missed due to checks having to be made a number of sources.	Medium	The Council is investigating this with the software provider to create an interface to enable the asbestos information held on Google Tracker to be uploaded onto the database.	December 2016	Business Manager – Property & Development

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
2	The Housing Management department do not maintain a record of the asbestos training undertaken by its staff and also do not keep a copy of their training certificates on file. Where records are not maintained, monitoring cannot take place to ensure that the staff have been provided with up-to-date asbestos training.	Low	Housing Management will ensure that a record of the asbestos training undertaken by its staff is maintained on the training spreadsheet and a copy of the training certificate will also be held on file.	Immediate	Neighbourhood Services Team Leader, Housing Management
3	When responding to a request for works/ renovations to be carried out at the property, an Asbestos Summary is included with the permissions letter; however the letter does not make reference to the Asbestos Summary being sent with the letter. In an event of a query the Council may not be able to prove that the Asbestos Summary was provided with the letter.	Low	The permissions letter template will be updated to include reference to Asbestos Summary being provided with the permissions letter.	Immediate	Senior Project Support Officer - Property & Development

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
4	Testing a sample of 20 repairs undertaken identified that in two instances the asbestos was removed by the licensed contractor and a Consignment Note had been issued; however the Statement of Cleanliness had not been received from the contractor. The Statement of Cleanliness is issued to confirm that after removing the textured coating, the premises are safe to use again and in the absence of this statement there is a risk that asbestos has not been removed and a risk remains to the staff and tenants.	Low	A monitoring process will be put into place to ensure that Consignment Notes and Statement of Cleanliness have been received for all removal and disposal of asbestos undertaken by the Licensed Asbestos Contractor.	Immediate	Asbestos Co-ordinator - Property and Development

# TAXI LICENSING - EXECUTIVE SUMMARY

## 1.1 Background

As part of the approved internal audit periodic plan for 2016/17 we carried out a review of Taxi Licensing at South Kesteven District Council (SKDC). This audit has been undertaken to provide assurance on the controls surrounding taxi licensing, including the issuing of licences and standards of licenced vehicles.

The Council has approximately 400 licenced drivers and approximately 20 licenced operators at the time of review.

## 1.2 Conclusion

Overall our review identified that the systems and controls in place are adequate in order to confirm that taxi licensing is suitably managed. Weaknesses were identified, resulting in one 'medium' priority and one 'low' priority management action.

### Internal Audit Opinion:

Taking account of the issues identified, the Council can take substantial assurance that the controls upon which the organisation relies to manage the identified risks are suitably designed, consistently applied and operating effectively.



## 1.3 Key findings

The key findings from this review are as follows:

South Kesteven District Council have a robust control framework in place to ensure that licences are granted to fit and proper persons and roadworthy vehicles; these controls include:

- No licences were issued to operators outside of the SKDC area;
- Licences are not issued to vehicles without a valid compliance test;
- Licenced drivers are included on the register of drivers and this is available to the public on the Council's website;
- Licence applications are processed in a timely manner.

However, two weaknesses were identified:

- Driving licence points which were indicated by the applicant on a renewal application form were not investigated further. If issues are not followed up there is a risk that applicants who are not "fit and worthy" are issued with licences, which in turn could impact upon the safety of both the public and the driver.
- There is no process in place to confirm that drivers have returned their badges once their licence expires and is not renewed. Without ensuring that badges and plates are returned there is a risk that drivers with expired licences continue to operate unlicensed, and are therefore not being subjected to checks such as Disclosure and Barring Service (DBS), medical, DVLA licence, and vehicle standards. When drivers are not being subjected to checks this could lead to an increased threat to public safety.

## 1.4 Additional information to support our conclusion

Risk	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Failure to correctly apply the Council's policies for granting taxi operator and driver license.	1 (14)	1 (14)	1	1	0
Failure to review and set appropriate licence fees and enforce licensing services for taxi operator and drivers licenced by the Council	0 (4)	0 (4)	0	0	0
<b>Total</b>			<b>1</b>	<b>1</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

## 2 ACTION PLAN

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may, with a high degree of certainty, lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The table below sets out the actions agreed by management to address the findings:

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
<b>Risk: Failure to correctly apply the Council's policies for granting taxi operator and driver license.</b>					
1	Driving licence points which were indicated on a renewal application form by the applicant were not detected or investigated further. If issues are not identified and followed up there is a risk that applicants who are not "fit and worthy" are issued with licences, which in turn could impact upon the safety of both the public and the driver.	Low	We will ensure that records are updated and issues identified on individual's previous applications are copied on to the current application to enable a clear picture of the applicant's history. The driver identified from the sample testing will be spoken to immediately regarding the issue.	Immediate	Senior Licensing Officer

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
2	There is currently no process in place for confirming that badges have been returned to the Council when licences are not renewed. Without ensuring that badges and plates are returned there is a risk that drivers with expired licences continue to operate unlicensed, and therefore not being subjected to checks such as DBS, medical, DVLA licence, and vehicle standards. When drivers are not being subjected to checks this could lead to an increased threat to public safety.	Medium	We will issue expiry notification letters to individuals whose licences have expired to notify them of the expiry and to request they return their badge and plate. A draft template is currently being prepared.	August 2016	Senior Licensing Officer

# RENT COLLECTION - EXECUTIVE SUMMARY

## 1.1 Background

Rent Collection was identified as an area for review as part of the annual planning process and as a result an audit of Rent Collection was undertaken as part of the approved internal audit periodic plan for 2016/17. This audit was undertaken across three of the Council's departments; the selected departments were Finance, Revenues and IT.

The Financial Accountant carries out the rent setting each year. The Housing IT System Development & Support Officer - ICT Service in conjunction with an external contractor are responsible for the uploading of the new rents onto Northgate (the housing management system). The Revenues team are responsible for producing and sending out the rent change letters to the tenants. Rent arrears management is undertaken by Income Recovery Officers.

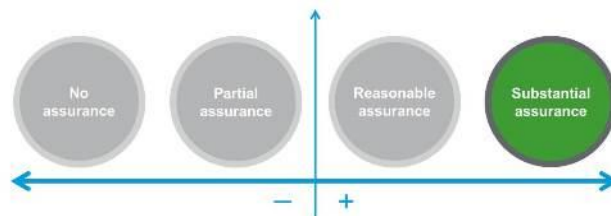
The actual rent collected in May 2016 was £3.95m. The percentage of rent collected as a proportion of the total actual rent debit to May 2016 was reported at 95.26%.

## 1.2 Conclusion

Overall there is an adequate control framework in place, however our testing identified weaknesses in the control framework in place and we are reporting two 'Medium' and three Low' category findings.

### Internal Audit Opinion:

Taking account of the issues identified, the Council can take substantial assurance that the controls upon which the organisation relies to manage the identified risks are suitably designed, consistently applied and operating effectively.



## 1.3 Key findings

The key findings from this review are as follows:

The rent setting is undertaken in September each year once the government guidance is published. The Financial Accountant is responsible for the process and sets the rents for the following year in accordance to the Government guidance. The new rents are then used in the budget setting process.

A review of the rent setting spreadsheet established that the rents were decreased by 1% in line with government guidance. The rent changes were approved by the Council on 29th February 2016 as part of the approval of the budgets.

Any changes to the property are notified to the Revenues team by the Tenancy management team. Northgate is then updated by the Income Recovery & Technical Officer to reflect the change. Changes in stock are also notified to the Financial Accountant to update the rent setting spreadsheet. The Financial Accountant undertakes quarterly reconciliation of the changes in properties (sales, demolitions and new builds) to the rent setting spreadsheet.

As part of the year end process, the properties on the Apex database maintained by Property Services is matched to the properties recorded onto Northgate. Once the rent setting process has been carried out and new rents are uploaded onto Northgate, a matching process is undertaken by the Housing IT System Development & Support Officer - ICT Service, an external consultant, and the Income Recovery & Technical Officer to ensure that all the council's rental properties are recorded onto Northgate.

Statement of accounts are produced and sent to the tenants every quarter. Testing a sample of 20 established that the statements were last issued on 4 April 2016. Rent Arrears levels are routinely monitored by the Income Recovery Officers.



However, the following weakness was identified with the controls:

Procedural guidance on rent setting and the reconciliation of the properties on the rent setting spreadsheet is not in place and in the absence of the Financial Accountant there is a risk that the rent setting process and the reconciliation of the properties on the rent setting spreadsheet may not be undertaken correctly.

Discussion with the Income Recovery and Technical Officer established completeness and accuracy checks have been undertaken on the rent increase letters and sent to the tenants; however it was noted that evidence of the reconciliation is not maintained on file and as a result we were not able to confirm that adequate completeness and accuracy checks had been undertaken. There is a risk that letters may be missed out and resulting in a financial loss to the Council.

There is Debt Management Policy in place; however the Policy was last subject to review in 2013 and as a result up to guidance is not being provided to the public and to the staff.

Testing a sample of 20 write off's identified that write offs were not being approved by a Service Manager as required within the table of delegation included within the Debt Management Policy. It was also acknowledged there are two types of debt; these being recoverable and irrecoverable the policy is not completely clear on approval delegations for these different types of debt and would benefit from increased clarity.

On testing a sample of 20 rent arrears cases it was noted that in one case the early arrears management actions could not be identified as the arrears management actions taken were not recorded on the diary notes. In another case, testing also identified that diary notes had not been maintained and as a result the Income recovery staff may not be able to effectively monitor the arrears in the absence of the diary notes.

## 1.4 Additional information to support our conclusion

Risk	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Failure to identify and accurately record all properties in the rent accounting system.	1 (3)	0(3)	1	0	0
Tenants are not legally notified of rent increases leading to loss of rental income.	0 (3)	1 (3)	1	0	0
Rent and other charges have been incorrectly calculated in respect of each dwelling and incorrectly recorded in the tenant's rent account.	0 (3)	0 (3)	0	0	0
Rent arrears are not identified / monitored and recovery action taken in accordance with internal procedures and relevant legislation.	0 (4)	2 (4)	1	1	0
Collection levels are not monitored.	0 (3)	1 (3)	1	0	0
<b>Total</b>			<b>4</b>	<b>1</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

## 2 ACTION PLAN

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may, with a high degree of certainty, lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The table below sets out the actions agreed by management to address the findings:

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
<b>Risk: Failure to identify and accurately record all properties in the rent accounting system</b>					
1	Procedures have not recently been reviewed to ensure they are in line with the current process for rent setting & reconciliation process.	Low	Procedural guidance on the rent setting process and the reconciliation of the properties on the rent setting spreadsheet will be reviewed and updated as required to ensure they are in line with current processes.	July 2016	Financial Accountant
<b>Risk: Tenants are not legally notified of rent increases leading to loss of rental income.</b>					
2	Evidence is not maintained on file of the reconciliations carried out to ensure that all the tenants have been provided with a rent change letter. The risk is that the reconciliation may not have been carried out or effectively carried out resulting in a financial loss to the Council.	Low	Evidence of the reconciliation carried out to confirm the accuracy and completeness of the rent change letters sent to the tenants will be maintained on file.	March 2017	Income Recovery and Technical Officer

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
<b>Risk: Rent arrears are not identified / monitored and recovery action taken in accordance with internal procedures and relevant legislation.</b>					
3	The Debt Management Policy was last subject to review in July 2013 and cannot be relied upon to provide up to date guidance to the staff and to the public.	Low	The Debt Management Policy will be reviewed and updated as required.	January 2017	Corporate Finance Manager
4	<p>Testing a sample of 20 write off's established that in one case the amount on the form was recorded incorrectly. A review of the records on Northgate established that the right amount had been written off. There is a risk that incorrect may be written off resulting in a financial loss to the Council.</p> <p>For the same sample testing also identified that in 19 cases the write off was authorised by the Income Team Co-ordinator and this was not in accordance to the authority documented in the Debt Management Policy 2013.</p>	Medium	<p>Staff will be reminded to ensure that the amount to be written off is accurately recorded on the form.</p> <p>The write off process documented in the Debt Management Policy will be reviewed and updated to provide clarity on the write off of different types of debts and the relevant authorisations.</p>	<p>July 2016</p> <p>January 2017</p>	Corporate Finance Manager

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
<b>Risk: Collection levels are not monitored.</b>					
5	Testing a sample of 20 rent arrears cases established that in one case the early arrears management actions could not be evidenced and the case above and another case any arrears actions taken were not recorded on the diary notes and as result Income recovery staff may not be able to effectively monitor the arrears in the absence of the diary notes.	Low	Staff will be reminded to ensure that:  (a) Early arrears management actions will be undertaken.  (b) Diary notes are maintained for all arrears actions undertaken.	Immediate	Revenues Manager

## REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF: CORPORATE FINANCE MANAGER**

**REPORT NO.: CFM382**

**DATE: 23 September 2016**

<b>TITLE:</b>	<b>Delivering Good Governance – New Framework 2016</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	None	
<b>EXECUTIVE MEMBER: NAME AND DESIGNATION:</b>	Councillor Mrs Frances Cartwright Executive Member Governance	
<b>CONTACT OFFICER:</b>	Richard Wyles – Corporate Finance Manager 01476 406210 Email: <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a>	
<b>INITIAL IMPACT ASSESSMENT:</b>	Carried out and Referred to in paragraph (7) below:  N/A	Full impact assessment Required:  No
<b>Equality and Diversity</b>		
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	HOF196 – Local Code of Corporate Governance 2012 <a href="http://moderngovsvr:8080/ieListDocuments.aspx?CId=498&amp;MID=2839#AI14230">http://moderngovsvr:8080/ieListDocuments.aspx?CId=498&amp;MID=2839#AI14230</a>	

### 1. RECOMMENDATION

It is recommended that the Committee notes:

- 1.1 the publication of the new framework and its underlying principles; and
- 1.2 that the Council's Local Code of Governance is being reviewed and updated in light of the new framework and a draft will be submitted for consideration at the next meeting of the Committee.

## **2. PURPOSE OF THE REPORT**

The framework and guidance published by CIPFA/SOLACE in 2007 has been revised and updated. The main principle underpinning the development of the new framework published in April 2016 is that local government is continuously developing and shaping its own approach to governance, taking account of the environment in which it now operates. The framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. Authorities will achieve this by reviewing and updating their Local Code of Governance.

The overall aim is to help ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

## **3. DETAILS OF REPORT**

### **Delivering Good Governance – New Framework 2016**

The Council is committed to ensuring good governance principles and management practices are adopted in all areas of its business. Good governance and financial arrangements provide the Council with a solid foundation on which to build its programmes of work and services and to deliver against the aspirations of the Council and its residents. This means it can demonstrate the best value for money in achieving the right outcomes for customers giving special consideration to those who may be vulnerable or hard to reach.

The new framework and guidance consists of seven core principles (acting in the public interest and achieving good governance) and 21 sub-principles (behaviours and actions that demonstrate good governance in practice). These principles are set out in detail in Appendix A, together with a brief commentary outlining the Council's high level commitment. In terms of a comparison with the 6 principles of the 2007 Framework, these are more or less embedded within 5 of the 7 core principles of the 2016 Framework albeit with a different focus and emphasis. In particular, the new principles underpin the concept of "public interest" and "public trust" and there is significant emphasis on developing cooperation, trust and shared values across the organisation, i.e. between members and officers and with customers and stakeholders. It is suggested that this should permeate every aspect of the authority's culture and become apparent through a demonstrable change in attitudes and behaviours.

The new framework positions the attainment of sustainable economic, societal and environmental outcomes as a key focus for achieving strategic objectives. This focus and the links between good governance and sound financial management are crucial – the Council must recognise that it has a responsibility to more than its current residents

and stakeholders and must take account of the impact of current decisions and actions on future generations.

As indicated above, it is important that the framework is applied in a way that demonstrates the spirit and ethos of good governance which cannot be achieved by policies and procedures alone. Shared values that are integrated into the culture of the Council and are reflected in behaviour and policy are hallmarks of good governance.

The governance framework brings together an underlying set of legislative requirements, good practice principles and management processes. It comprises the systems, processes, culture and values by which the Council is directed and controlled, and through which it accounts to, engages with and leads the local community. It enables the Council to monitor the achievement of its strategic objectives.

### **Local Code of Governance**

The Local Code of Governance brings all these principles and practices together into one document and makes them open and explicit. It identifies areas where further action is required to meet changing circumstances and/or to ensure that the Council follows best practice in all aspects of governance. In addition, the Local Code of Governance provides a public statement that sets out the way in which the Council will meet and demonstrate its commitment to delivering good governance in all areas of its work.

The Code was last updated in June 2012 and following the publication in April 2016 of the new framework and guidance, it will be reviewed to ensure it remains fit for purpose.

Once revised, the Code will be tested annually and will support the Annual Governance Statement prepared for the financial year 2016/17 onwards.

## **4. OTHER OPTIONS CONSIDERED**

Whilst compliance with the new framework and the adoption of a Local Code is not a statutory requirement, it represents best practice and is a key element of the Council's overarching governance arrangements. Therefore, there are no other options.

## **5. RESOURCE IMPLICATIONS**

The report has no direct impact on the Council's resources, including finance/budget, people, land/property, etc.

## **6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)**

A revised, updated and tested Local Code of Governance underpins the production of the Annual Governance Statement (AGS) which forms part of the Statement of Accounts. The Council is at risk of having its accounts qualified for non compliance with its statutory responsibilities if the AGS is not prepared in accordance with the new governance arrangements.

## **7. ISSUES ARISING FROM IMPACT ANALYSIS**

N/A

**8. CRIME AND DISORDER IMPLICATIONS**

N/A

**9. COMMENT OF FINANCIAL SERVICES**

Good corporate governance arrangements are vitally important to all tax payers and residents. The Local Code of Governance linked to the new “Delivering Good Governance Framework” is an open and transparent document which clearly demonstrates the work the Council is undertaking to ensure good governance arrangements remain in place. There are no specific financial comments to make with respect to this report.

**10. COMMENT OF LEGAL AND DEMOCRATIC SERVICES**

**11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER**

**12. APPENDIX**

Appendix A – Principles of Good Governance



## Appendix A – Principles of Good Governance

Core Principle	Sub-Principle	High Level Commitment
<i>Acting in the public interest requires a commitment to and effective arrangements for:</i>	<i>Behaviours and actions that demonstrate good governance in practice:</i>	
<b>Principles A &amp; B permeate implementation of principles C to G</b>		
A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	Behaving with integrity	The Council's leadership sets a tone for the organisation by creating a climate of openness, support and respect. Appropriate policies and procedures are developed to embed these principles.
	Demonstrating strong commitment to ethical values	Shared values, including leadership, are in place for both the Council and its staff. The values reflect public expectations and are communicated to members, staff, the community and partners/stakeholders.
	Respecting the rule of law	Defined and published standards which detail the expected conduct of members and officers across Council services and functions. Dealing with breaches of legal and regulatory provisions effectively.
B. Ensuring openness and comprehensive stakeholder engagement	Openness	An embedded culture of transparency, openness and honesty.
	Engaging comprehensively with institutional stakeholders	An ongoing assessment is made of the effectiveness of the relationships and any changes required.
	Engaging with individual citizens and service users effectively	Ensure clear channels of communication are in place with all sections of the community, partners and stakeholders and these operate effectively.
<b><i>In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in local government also requires effective arrangements for:</i></b>		
C. Defining outcomes in terms of sustainable economic, social	Defining outcomes	Focussing on the purpose and ambitions of the Council and on outcomes for the local community.

Core Principle	Sub-Principle	High Level Commitment
and environmental benefits	Sustainable economic, social and environmental benefits	Regular review of the Council's goals and aspirations and the implications for the Council's governance arrangements and economic, social and environmental benefits.
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	Determining interventions	Published annual report which communicates the Council's activities, achievements, financial position and performance. Interventions required are identified through these reports.
	Planning interventions	Performance, audit, risk and financial reporting are used to identify areas of concern and plan for interventions.
	Optimising achievement of intended outcomes	The development of SMART community outcomes underpinned by business plans and outcome focused business activity.
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	Developing the entity's capacity	Clear vision, strategy and direction underpinned by strong and effective leadership and management.
	Developing the capability of the entity's leadership and other individuals	Recruitment and retention of high performing staff, partners and providers.
F. Managing risks and performance through robust internal control and strong public financial management	Managing risk	Embedded risk management processes which are linked to corporate plan outcomes and priorities.
	Managing performance	Performance targets set in line with national benchmarks and best practice. Outcomes are regularly monitored and reported to stakeholders.
	Robust internal control	Preventive controls in place include segregation of duties, approval/authorisation processes, security of assets, reconciliations and audits, etc.
	Managing data	Robust information governance standards and training to all staff.
	Strong public financial management	Budget reports linked to outcomes, audited accounts, budget holders are accountable.
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability	Implementing good practice in transparency	Transparency, accountability and integrity are interconnected concepts which are demonstrated through the governance framework.
	Implementing good practice in reporting	Comprehensive consultation process for published reports ensuring members and senior management own the contents.
	Assurance and effective accountability	Ensuring that agreed recommendations for corrective actions made by internal and external audit are fully implemented.

## REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF:** **CORPORATE FINANCE MANAGER**

**REPORT NO:** **CFM383**

**DATE:** **23 September 2016**

<b>TITLE:</b>	<b>Counter Fraud Annual Report 2015-16</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	None	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Councillor Frances Cartwright Executive Member Governance	
<b>CONTACT OFFICER:</b>	Richard Wyles Corporate Finance Manager <a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a> Tel: (01476) 406210	
<b>INITIAL IMPACT ANALYSIS:</b>	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
<b>Equality and Diversity</b>		No
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	None	

### 1. RECOMMENDATION

The Governance & Audit Committee is requested to approve the contents of this report, including the action plan.

### 2. PURPOSE OF THE REPORT

The Council is committed to the highest standards of quality, probity, openness and accountability. As part of the Committee's terms of reference, counter fraud is one of the key areas of focus being an essential element of delivering good governance. In order to develop and promote greater awareness, and in line with best practice, a review of the Council's counter fraud arrangements has been undertaken culminating in this Annual Report for 2015-16. This report sets out the key outcomes from counter fraud work delivered during the course of the year relating to both welfare/benefit fraud and non-welfare/benefit fraud.

This report also summarises the results of national initiatives and looks at the arrangements following the abolition of the Audit Commission in March 2015 and the closure of the National Fraud Authority in March 2014.

### 3. DETAILS OF REPORT

#### Background

Like any organisation South Kesteven is inherently vulnerable to the risk of fraud and corruption. With reducing Government funding and the current economic position it is vital that robust arrangements for the prevention and detection of fraud are maintained and best use of information and knowledge is made in order to ensure effective fraud prevention procedures in place.

#### SUMMARY OF HOUSING BENEFIT AND COUNCIL TAX SUPPORT FRAUD PERFORMANCE

During the year ending 31 March 2016 (previous year in brackets), there were **647** (654) fraud referrals of which **518** (537) of these were investigated and **25** (20) resulted in action as follows:

	Number	Previous year	Total Value	Previous year	Average Value	Previous year
Penalties	23	15	£58,605	£52,350	3,490	3,490
Prosecutions	2	5	£13,413	£50,953	10,191	10,191
<b>Value identified</b>	<b>25</b>	<b>20</b>	<b>£72,018</b>	<b>£103,303</b>		
Caseload figures	9,640	10,052				

The responsibility for investigating housing benefit transferred to the Single Fraud Investigation Service (SFIS) on 1 February 2016.

Referrals can be made from:

- the public, staff or Councillors
- data matching, ie Housing Benefit Matching Service or the National Fraud Initiative (NFI)
- joint working with the DWP and other Authorities
- internal referrals eg Benefits, Council Tax, Rents or Housing

The outcome of these referrals can result in:

- no fraud found
- fraud or error being below the figure that would be investigated
- overpayments – where a letter will be sent confirming no action to be taken other than the recovery of the overpayment
- classification as fraud following investigation and acceptance of sanction/successful prosecution

## **SUMMARY OF OTHER WORK UNDERTAKEN**

### **Counter Fraud Strategy**

The Council's Strategy was reviewed and updated in March 2016 to incorporate the new CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

### **Small Business Rate Relief (SBRR)**

An exercise has been undertaken to review over 1,600 businesses to ensure that recipients of SBRR are still eligible in line with national policy. Appropriate changes have been made where necessary to individual rating entries.

### **Whistleblowing Investigations**

During 2015-16 there were 11 whistleblowing concerns reported of which all have been investigated and action taken where appropriate. This is reported back to the whistleblower where contact information is provided.

### **Insurance**

The Council has continued to raise the awareness amongst our staff of fraudulent claims and another insurance workshop was held in September 2015 with colleagues and our insurers. Topics of discussion were an overview of claims, case studies and lessons learned, insurance fraud, claims investigations, overview of claims processing and a focus on what constituted a defect. Claims continue to be rigorously reviewed at every stage to ensure that anything suspicious is identified and the appropriate outcome is achieved.

### **Training and Awareness**

The Council's counter fraud and corruption arrangements are robust with a clear strategy and a fraud response plan in place. Underpinning any preventative approach should be a strong anti-fraud culture that is driven and implemented from the top down. It requires continuous active promotion and needs to include Councillors, staff, members of the public and suppliers. An anti-fraud culture should seek to motivate staff and ensure that they understand the importance of tackling fraud, are able to recognise fraud and abuse and know how and where to report suspicions of fraud.

The most effective anti-fraud culture changes people's attitudes and behaviours towards fraud, positively reinforcing their responsibility in preventing, detecting and reporting fraud and deterring would-be criminals from committing fraud in the first place. A fraud awareness campaign, along with elearning, will be rolled out in December.

## **LINCOLNSHIRE COUNTER FRAUD PARTNERSHIP (LCFP)**

South Kesteven continue to actively contribute to the work of the partnership which is making good progress in key areas:

- delivering savings targets through pro-active counter fraud projects - £680k
- raising fraud awareness with members, staff and the public
- delivering joint fraud proactive exercises across Lincolnshire
- strengthening governance arrangements
- developing fraud networks (internal and external) to disseminate fraud intelligence and share best practice

### **Delivering savings**

Financial targets (£632k) were exceeded with fraud projects funded by the LCFP delivering savings overall of £680k. Final figures reported:

	Number	Savings	Number	Savings
Council Tax Single Person Discount	Removals: 2,229	£573K	Penalties: 610	£42k
SKDC element	Removals: 376	£103K	Penalties: 206	£14k

Council Tax Reduction Pilot	Cases: 165	£62k	Penalties: 42	£3k
--------------------------------	------------	------	---------------	-----

### **Raising fraud awareness**

A county wide press release was issued following the Single Person Discount review which demonstrates the commitment of Lincolnshire's local authorities to tackling fraud. The release received good media coverage (it was picked up in the Management Journal for local authority business).

The main focus of awareness campaigns is to improve understanding of fraud issues and how concerns can be reported. This is now supported by eye catching pop up displays which are sited in district council reception areas. The awareness work continues to generate referrals to the confidential whistleblowing reporting line indicating the communication plan is having a positive effect.

### **Sharing fraud intelligence and best practice**

The Partnership has facilitated closer working where there are known fraud threats – fraud information is being shared (eg mandate fraud/potential credit card scams). Arrangements are helping to implement effective 'fraud-proofing' actions across all Lincolnshire local authorities and enables districts to respond proportionately to existing and emerging risks.

The Partnership is establishing fraud networks with various organisations across the UK. This work is helping develop a greater understanding of fraud risks facing local authorities, sharing of best practice and transfer of fraud intelligence across Lincolnshire.

## **NATIONAL DEVELOPMENTS IN TACKLING PUBLIC SECTOR FRAUD**

### **Single Fraud Investigation Service (SFIS)**

Linked to the national introduction of Universal Credit the Government has developed a SFIS within the DWP to investigate and prosecute social security welfare benefits and tax credit fraud. The investigation of housing benefit fraud within South Kesteven transferred to SFIS on 1 February 2016. No other areas of fraud will be considered by the DWP and therefore the Council is now considering how it will respond to the residual non-welfare fraud:

- Potential Council Tax Support (CTS) fraud, as this is not encompassed by SFIS, as it is not classed as a welfare benefit
- Council Tax Support Scheme and residual housing and council tax cases, including Single Person Discount

- Business rates
- Social landlord/tenancy fraud

Currently managed by the Governance and Risk function:

- Internal fraud covering procurement, employees, licensing etc including those identified by NFI
- Breaching data protection and other ICT frauds
- Investigation of whistleblowing cases
- Reviewing and updating the Council's Counter Fraud Strategy
- Fraud awareness training
- Reporting to Strategic Management Team and the Governance & Audit Committee on combating fraud and any fraud activity
- Responding to Government initiatives

Arising from the impact of austerity measures and the introduction of SFIS, there will be a need to focus more on pro-active and preventative work particularly in high risk areas including tenancy fraud and procurement etc.

### **National Fraud Initiative**

Since 1996 the National Fraud Initiative (NFI) every two years undertake a compulsory national data exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

It is a tool that is helpful in assisting local authorities to identify potential fraud in areas such as council tax, housing benefit, pensions, payroll and housing tenancy and since 1996 the programme has helped identify £1.17 billion in fraud or error.

The NFI 2016 exercise is in the preparation stage and the results will be reported in the 2016-17 Counter Fraud Annual Report.

### **CIPFA Counter Fraud Centre**

The CIPFA Counter Fraud Centre (CCFC) was launched in July 2014, and was created to fill the gap following the closure of the National Fraud Authority (NFA) and the Audit Commission, and the subsequent transfer of benefit investigations to the Single Fraud Investigation Service (SFIS) which is run by the DWP. They are the lead body and coordinate the fight against fraud and corruption across public services. The CCFC has close links to the Department of Communities and Local Government (DCLG), the National Crime Agency, the Cabinet Office and also have ownership for the local government fraud strategy – further detail below.

### **Fighting Fraud & Corruption Locally: The local government counter fraud and corruption strategy 2016-19**

Fighting Fraud & Corruption Locally replaces Fighting Fraud Locally 2011 which was the first counter fraud strategy for local authorities and was hosted by the National Fraud Authority (NFA). Following the abolition of the NFA in 2014 the CCFC were asked to take over the secretariat and begin research for the next reiteration of the strategy. This new strategy sets out the approach local authorities should take and the main areas of focus over the next three years in order to transform counter fraud and

corruption performance, and contains major recommendations for local authorities and other stakeholders.

Their vision is that by 2019:

- There is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them
- By better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services
- Local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery
- Local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses
- Fraudsters will be brought to account quickly and efficiently and losses will be recovered

### **CIPFA Fraud and Corruption Tracker**

The Fraud and Corruption Tracker replaced the Audit Commission's Protecting the Public Purse Report. The survey gathered data from across the UK and included local authorities, police and crime commissioners, transport authorities, fire and rescue authorities, waste authorities and public agencies.

Results from the 2016 survey:

- CIPFA estimates that over £271m worth of fraud has been detected or prevented within the public sector in 2015/16
- CIPFA estimates a total of 77,000 cases were investigated in 2015/16 across the UK, representing an average value of £3,500 per case
- The highest number of investigations covered council tax fraud (61%) with an estimated value loss of £22.4m. The highest value gained from investigations was in the area of housing fraud and totalled £148.4m
- The largest area of growth in fraud investigation is in procurement. Investigations in this area went up by five times in the year
- Business rates continue to be an area of concern with right to buy becoming an emerging risk, particularly in London
- Respondents reported the number of non-benefit investigators has increased by nearly 50% since the previous report
- Local authority respondents noted their largest fraud risk areas as council tax and housing procurement

The report recommends the following:

- Public sector organisations should carry out fraud assessments regularly and have access to appropriately qualified counter fraud resources to help mitigate the risks and effectively counter any fraud activity
- All organisations should undertake an assessment of their current counter fraud arrangements
- In line with the Fighting Fraud and Corruption Locally Board suggestion, local authorities should examine and devise a standard and common methodology for measuring fraud and corruption. Once it has been agreed, local authorities should use the measure to estimate levels of fraud and corruption



- It is as important to prevent fraud that has no direct financial interest, such as data manipulation and recruitment, as it is high value fraud
- Organisations should develop joint working arrangements where they can with other counter fraud professionals and organisations
- Public bodies should continue to raise fraud awareness in the procurement process, not only in the tendering process but also in the contract monitoring element
- Authorities should ensure that anti-fraud measures within their own insurance claims processes are fit for purpose and that there is a clear route for investigations into alleged frauds to be undertaken

## **Action Plan**

The following actions are currently being undertaken:

- Continue to work with internal audit to review and improve the system and controls for the procurement of goods and services, including the management of contracts and official orders
- Continue to raise awareness amongst staff, stakeholders and partners about the risk of fraud in all areas of the Council's business. Counter fraud elearning is planned for December 2016 and this will be a coordinated approach across the whole county via the Lincolnshire Counter Fraud Partnership.
- Continue to contribute to the work of the Lincolnshire Counter Fraud Partnership and support in the delivery of their action plan
- Undertake a fraud 'health check' which will compare current arrangements against the Fighting Fraud & Corruption Locally (Local Government Strategy 2016 – 2019) and the CIPFA Code on Managing the Risk of Fraud and Corruption). The reviews will identify areas for further proactive work internally and externally.
- Develop a fraud risk register to identify fraud risks
- Keep abreast of national developments in counter fraud work so that the Council can continue to respond positively to new ideas, initiatives and examples of best practice

## **Conclusion**

In summary, the Council has a number of national and local processes in place which help to identify and tackle fraud such as the NFI and the work of the housing benefit fraud team work. This is underpinned by a robust Counter Fraud Strategy which is regularly reviewed and updated to ensure it is in line with current legislation and best practice. In addition, examining the risk of fraud is integral to the Council's overarching approach to governance and risk management. The delivery of the above action plan will help to further embed and strengthen the current arrangements in place.

## **4. OTHER OPTIONS CONSIDERED**

None

## **5. RESOURCE IMPLICATIONS**

This report has no direct impact on the Council's resources, including finance/ budget, people, land/property etc.

**6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)**

None

**7. ISSUES ARISING FROM IMPACT ANALYSIS**

None

**8. CRIME AND DISORDER IMPLICATIONS**

None

**9. COMMENT OF FINANCIAL SERVICES**

These are contained within the report.

**10. COMMENT OF LEGAL AND DEMOCRATIC SERVICES**

This report provides details of the Council's performance in respect of Counter Fraud. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee in its review of the Counter Fraud and Corruption Framework.

**11. COMMENTS OF OTHER RELEVANT BUSINESS MANAGER**

None

**12. APENDICES:**

None

## REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF:** Executive Manager - Corporate

**REPORT NO:** LDS184

**DATE:** 23rd September 2016

<b>TITLE:</b>	OMBUDSMAN ANNUAL REVIEW LETTER 2015/2016	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	Not applicable	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Councillor Frances Cartwright - Executive Member for Governance	
<b>CONTACT OFFICER:</b>	Lucy Youles Executive Manager – Corporate <a href="mailto:l.youles@southkesteven.gov.uk">l.youles@southkesteven.gov.uk</a> Tel:01476 406105	
<b>INITIAL IMPACT ANALYSIS:</b>  <b>Equality and Diversity</b>	Carried out and Referred to in paragraph (7) below  Not applicable	Full impact assessment Required: Not applicable
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>		

## **1. RECOMMENDATIONS**

It is recommended the Governance and Audit Committee note the contents of Ombudsman Annual Review Letter for the period 1<sup>st</sup> April 2015 to the 31<sup>st</sup> March 2016 which is attached to this report at Appendix A.

## **2. PURPOSE OF THE REPORT**

The purpose of the report is to inform the Committee of the contents of the Ombudsman Annual Review Letter. The review letter follows the same format as year 2014/2015.

## **3. DETAILS OF REPORT**

- 3.1 Members should note that the Annual Review Letter explains that the data held by The Ombudsman may not match the data held by this Council. The statistics provided in the Annual Review Letter include enquiries to the Ombudsman which may not be referred back to the Council or the complainant does not contact the Council. Of the nine complaints received by the Ombudsman, six were received and dealt with by this Council as referrals from the Ombudsman. Three complaints to the Ombudsman which were referred back to the Council for local resolution were either not received or they contacted us without making reference to the Ombudsman contact. Of those six complaints received and dealt with, one complaint related to council tax, one related to housing benefit, one related to transport issues and three related to planning issues. All six complaints were initially dealt with through the Council's complaint system before the complainants contacted the Ombudsman.
- 3.2 The nine complaints received by the Ombudsman for the period of the Annual Review Letter compares well with the twenty two received for the previous period of 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2015.
- 3.3 Of the six complaints dealt with by the Ombudsman, one relating to planning issues was investigated with the decision that the complaint could not be upheld. The other 5 complaints were closed by the Ombudsman after initial enquiries. The reasons given by the Ombudsman for closing the complaints are that there is insufficient evidence of fault and the complaint is outside the jurisdiction of the Ombudsman. The Local Government Ombudsman provides information on the interpretation of statistics provided in the Annual Review Letter. That information is attached to this report as Appendix B.

## **4. OTHER OPTIONS CONSIDERED**

No other options have been considered as part of this report.

## **5. RESOURCE IMPLICATIONS**

There are no resource implications relating to 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
No significant risks	

**7. ISSUES ARISING FROM IMPACT ANALYSIS**

Equality impact analysis not required

**8. CRIME AND DISORDER IMPLICATIONS**

No crime and disorder implications

**9. COMMENTS OF FINANCIAL SERVICES**

There are no financial implications relating to the contents of the annual review letter.

**10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

There are no legal or democratic implications arising from this report.

**11. COMMENTS OF OTHER RELEVANT SERVICES**

None relevant.

Appendix A - LGO Annual Review Letter 2015/2016

Appendix B – Interpreting Local Authority Statistics

## **Appendix A**

21 July 2016

*By email*

Beverley Agass  
Chief Executive  
South Kesteven District Council

Dear Beverley Agass,

### **Annual Review Letter 2016**

I write to you with our annual summary of statistics on the complaints made to the Local Government Ombudsman (LGO) about your authority for the year ended 31 March 2016.

The enclosed tables present the number of complaints and enquiries received and the decisions we made about your authority during the period. I hope that this information will prove helpful in assessing your authority's performance in handling complaints.

Last year we provided information on the number of complaints upheld and not upheld for the first time. In response to council feedback, this year we are providing additional information to focus the statistics more on the outcome from complaints rather than just the amounts received.

We provide a breakdown of the upheld investigations to show how they were remedied. This includes the number of cases where our recommendations remedied the fault and the number of cases where we decided your authority had offered a satisfactory remedy during the local complaints process. In these latter cases we provide reassurance that your authority had satisfactorily attempted to resolve the complaint before the person came to us. In addition, we provide a compliance rate for implementing our recommendations to remedy a fault.

I want to emphasise that these statistics comprise the data we hold, and may not necessarily align with the data your authority holds. For example, our numbers include enquiries from people we signpost back to the authority, but who may never contact you.

In line with usual practice, we are publishing our annual data for all authorities on our website, alongside an annual review of local government complaints. The aim of this is to be transparent and provide information that aids the scrutiny of local services.

### **Effective accountability for devolved authorities**

Local government is going through perhaps some of the biggest changes since the LGO was set up more than 40 years ago. The creation of combined authorities and an increase in the number of elected mayors will hugely affect the way local services are held to account. We have already started working with the early combined authorities to help develop principles for effective and accessible complaints systems.

We have also reviewed how we structure our casework teams to provide insight across the emerging combined authority structures. Responding to council feedback, this included reconfirming the Assistant Ombudsman responsible for relationship management with each authority, which we recently communicated to Link Officers through distribution of our manual for working with the LGO.

## **Supporting local scrutiny**

Our corporate strategy is based upon the twin pillars of remedying injustice and improving local public services. The numbers in our annual report demonstrate that we continue to improve the quality of our service in achieving swift redress.

To measure our progress against the objective to improve local services, in March we issued a survey to all councils. I was encouraged to find that 98% of respondents believed that our investigations have had an impact on improving local public services. I am confident that the continued publication of our decisions (alongside an improved facility to browse for them on our website), focus reports on key themes and the data in these annual review letters is helping the sector to learn from its mistakes and support better services for citizens.

The survey also demonstrated a significant proportion of councils are sharing the information we provide with elected members and scrutiny committees. I welcome this approach, and want to take this opportunity to encourage others to do so.

## **Complaint handling training**

We recently refreshed our Effective Complaint Handling courses for local authorities and introduced a new course for independent care providers. We trained over 700 people last year and feedback shows a 96% increase in the number of participants who felt confident in dealing with complaints following the course. To find out more, visit [www.lgo.org.uk/training](http://www.lgo.org.uk/training).

## **Ombudsman reform**

You will no doubt be aware that the government has announced the intention to produce draft legislation for the creation of a single ombudsman for public services in England. This is something we support, as it will provide the public with a clearer route to redress in an increasingly complex environment of public service delivery.

We will continue to support government in the realisation of the public service ombudsman, and are advising on the importance of maintaining our 40 years plus experience of working with local government and our understanding its unique accountability structures.

This will also be the last time I write with your annual review. My seven-year term of office as Local Government Ombudsman comes to an end in January 2017. The LGO has gone through extensive change since I took up post in 2010, becoming a much leaner and more focused organisation, and I am confident that it is well prepared for the challenges ahead.

Yours sincerely



Dr Jane Martin  
Local Government Ombudsman  
Chair, Commission for Local Administration in England

**Local Authority Report:** South Kesteven District Council  
**For the Period Ending:** 31/03/2016

For further information on how to interpret our statistics, please visit our website:  
<http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics>

## Complaints and enquiries received

Adult Care Services	Benefits and Tax	Corporate and Other Services	Education and Children's Services	Environment Services	Highways and Transport	Housing	Planning and Development	Other	Total
1	2	0	0	2	1	0	3	0	9

## Decisions made

				Detailed Investigations			
Incomplete or Invalid	Advice Given	Referred back for Local Resolution	Closed After Initial Enquiries	Not Upheld	Upheld	Uphold Rate	Total
0	0	3	5	1	0	0%	9

### Notes

Our uphold rate is calculated in relation to the total number of detailed investigations.

The number of remedied complaints may not equal the number of upheld complaints. This is because, while we may uphold a complaint because we find fault, we may not always find grounds to say that fault caused injustice that ought to be remedied.

The compliance rate is the proportion of remedied complaints where our recommendations are believed to have been implemented.

### Complaints Remedied

by LGO	Satisfactorily by Authority before LGO Involvement	Compliance Rate
0	0	100%



Home Information Centre Reports and guidance Annual reviews of com...

Interpreting local authority statistics

## APPENDIX B

### Interpreting local authority statistics

#### Complaints and enquiries received 2013/14, 2014/15 and 2015/16

This information covers the statistics included in the annual reviews to councils for 2013/14, 2014/15 and 2015/16. For previous years see note on interpreting local authority statistics 2008 - 2012.

LGO has published statistics for each of the authorities within its jurisdiction for many years. In April 2014, we changed how we classified the results of complaints. We now describe our decisions in terms of upholding and not upholding complaints, which brings us closer in practice with how other Ombudsman schemes and many local authorities describe their decisions.

It must be remembered the bare numbers of complaints against an authority do not prove that it is a 'bad' or 'good' council. The larger the population an authority serves, the more likely we will receive complaints about it. A significant uplift in complaint numbers again does not necessarily show that a council has become worse at what it does. We may have received several complaints about the same issue from different residents, for example a controversial planning decision or application. An authority may have a 50% uplift in complaints against it, but when we received two complaints against it last year, and four this year, this cannot lead to the conclusion the service the council provides has significantly worsened.

How complaints and enquiries were dealt with is explained below:

- **Upheld:** These are complaints where we have decided that an authority has been at fault in how it acted and that this fault may or may not have caused an injustice to the complainant, or where an authority has accepted that it needs to remedy the complaint before we make a finding on fault. If we have decided there was fault and it caused an injustice to the complainant, usually we will have recommended the authority take some action to address it.
- **Not upheld:** Where we have investigated a complaint and decided that a council has not acted with fault, we classify these complaints as not upheld.

- **Advice given:** These are cases where we give advice about why LGO would not look at a complaint because the body complained about was not within the LGO's scope or we had previously looked at the same complaint from the complainant, or another complaints handling organisation or advice agency was best placed to help them.
- **Closed after initial enquiries:** These complaints are where we have made an early decision that we could not or should not investigate the complaint, usually because the complaint is outside LGO's jurisdiction and we either cannot lawfully investigate it or we decide that it would not be appropriate in the circumstances of the case to do so. Our early assessment of a complaint may also show there was little injustice to a complainant that would need an LGO investigation of the matter, or that an investigation could not achieve anything, either because the evidence we see shows at an early stage there was no fault, or the outcome a complainant wants is not one we could achieve, for example overturning a court order.
- **Incomplete/invalid:** These are complaints where the complainant has not provided us with enough information to be able to decide what should happen with their complaint, or where the complainant tells us at a very early stage that they no longer wish to pursue their complaint.
- **Referred back for local resolution:** We work on the principle that it is always best for complaints to be resolved by the service provider wherever possible. Furthermore, the Local Government Act 1974 requires LGO to give authorities an opportunity to try and resolve a complaint before we will get involved. Usually we tell complainants how to complain to an authority and ask them to contact it directly. In many instances, authorities are successful in resolving the complaint and the complainant does not recontact us.

## Complaints Remedied

For the year 2015/16 we provide information about complaints remedied. Where we find that an authority has acted with fault and this has caused an injustice to a complainant, we will make a recommendation about the action an authority should take to remedy that injustice. An Ombudsman's recommendations are not binding however most authorities comply with our recommendations without the need for any further action by the Ombudsman. We will also uphold a complaint that has come to us where the authority has already accepted during its own complaints processes that it acted with fault and it has offered what we consider to be a suitable remedy. The figures for 'complaints remedied satisfactorily by Authority before LGO involvement' demonstrate the number of times we have received complaints against an authority but it has already taken all the steps it needed to.

Using the site	Legal	Working for us	Contact	Email sign up
Accessibility	Privacy		0300 061	Receive email
Cookies	Copyright	Vacancies	0614	alerts for new
Site map	Disclaimer of liability	Recruitment policies	08:30 am - 05:00 pm, Mon to Fri	content.
			Other ways to	<input type="text" value="Email"/>

## REPORT TO GOVERNANCE & AUDIT COMMITTEE

**REPORT OF: Corporate Finance Manager**

**REPORT NO: CFM385**

**DATE: 23 September 2016**

<b>TITLE:</b>	Appointment of External Auditors	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	None	
<b>EXECUTIVE MEMBER: NAME AND DESIGNATION:</b>	Cllr Teri Bryant Executive Member, Resources Cllr Frances Cartwright Executive Member, Governance	
<b>CONTACT OFFICER:</b>	Amy Oliver, Financial Accountant Team Leader <a href="mailto:a.oliver@southkesteven.gov.uk">a.oliver@southkesteven.gov.uk</a> Telephone 01476 406208	
<b>INITIAL IMPACT ANALYSIS:</b>	N/A	Full impact assessment Required: N/A
<b>Equality and Diversity</b>		
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	CFM 372 Changes to Arrangement for Appointment of External Auditors  The above reports can be located by putting their reference number in the search section of the committee website via the link below: <a href="http://moderngovsvr:8080/ieListDocuments.aspx?CId=498&amp;MId=3343&amp;Ver=4">http://moderngovsvr:8080/ieListDocuments.aspx?CId=498&amp;MId=3343&amp;Ver=4</a>	

### 1. RECOMMENDATION

- 1.1 It is recommended that Governance & Audit Committee recommend to Council the appointment of External Audit through a national sector led body the Public Sector Audit Appointments.

### 2. PURPOSE OF THE REPORT

- 2.1 This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

- 2.2** The Council will need to consider the options available and approve a way forward in order for the new arrangements to be introduced in readiness for the external audit appointment by 31 December 2017.

### **3. DETAILS OF REPORT**

#### **3.1 Background**

- 3.2** The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 3.3** The Council's current external auditor is KPMG; this appointment was made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. Over recent years we have benefited from reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission. The Council's current external audit fees are approximately £47K per annum.
- 3.4** When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with benefits and disadvantages which are identified at section 4.0. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.
- 3.5** The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

#### 4.0 **Options for Local Appointment of External Auditors**

4.1 There are three options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

##### 4.2 Option 1- To make a stand-alone appointment

In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

##### Advantages/Benefits

Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

##### Disadvantages/ Risk

Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances

The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

##### 4.5 Option 2 - Set up a Joint Auditor Panel/local joint procurement arrangements

The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council need to liaise with other local authorities to assess the appetite for such an arrangement.

##### Advantages/benefits

The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

### Disadvantages/risks

The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.

The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the associated costs and loss of economies possible through joint procurement.

#### 4.8 Option 3 - Opt-in to a sector led body

In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

### Advantages/benefits

The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities thus reducing the individual cost to each authority.

By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.

Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

### Disadvantages/risks

Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known. 270 bodies have currently expressed an interest in opting-in to a public sector body led scheme.

## **5.0 The way forward**

The Council have until December 2017 to make an appointment. In practical terms this means an option needs to be decided by the end of 2016 in order to ensure that the appropriate arrangements are in place in readiness for an appointment by December 2017.

## **4. OTHER OPTIONS CONSIDERED**

None.

## **5. RESOURCE IMPLICATIONS**

## **6. RISK AND MITIGATION**

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

<b>Category Risk</b>	<b>Action / Controls</b>
External Auditors are not appointed in an appropriate time scale for 2017/18 accounts.	A report is to be bought to September 2016 Governance & Audit Committee for approval on the appropriate procurement method to ensure External Auditors are appointed for December 2017.

## **7. ISSUES ARISING FROM IMPACT ANALYSIS**

None.

## **8. CRIME AND DISORDER IMPLICATIONS**

None.

## **9. COMMENTS OF FINANCIAL SERVICES**

- 9.1 It is currently not known if any future external audit fees levels will exceed the current fee levels.
- 9.2 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the Council's budgets. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.
- 9.3 Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

## **10. COMMENTS OF LEGAL & DEMOCRATIC SERVICES**

- 10.1 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements;
- 10.2 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 10.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

## **11. APPENDICES:**



## REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF:** Corporate Finance Manager

**REPORT NO:** CFM386

**DATE:** 23<sup>rd</sup> September 2016

<b>TITLE:</b>	<b>Amendment to Treasury Management Strategy 2016/17</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	None	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Councillor Teri Bryant Executive Member	
<b>CONTACT OFFICER:</b>	Amy Oliver, Financial Team Leader Accountant 01476 406208 Email: <a href="mailto:a.oliver@southkesteven.gov.uk">a.oliver@southkesteven.gov.uk</a>	
<b>INITIAL IMPACT ANALYSIS:</b>	Carried out and Referred to in paragraph (7) below:  N/A	Full impact assessment Required:  No
<b>Equality and Diversity</b>		
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>	Treasury Management Strategy 2016/17 <a href="http://moderngovsvr:8080/ieListDocuments.aspx?CId=261&amp;MId=3203&amp;Ver=4">http://moderngovsvr:8080/ieListDocuments.aspx?CId=261&amp;MId=3203&amp;Ver=4</a>	

### 1. RECOMMENDATION

Members are asked to approve the amendments to the Treasury Management Strategy 2016/17 detailed within the report.

### 2. PURPOSE OF THE REPORT

This purpose of this report is to recommend the changes to the Treasury Management Strategy for 2016/17 following changes in the economic environment.

Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services. In line with the Code the Council has adopted a treasury management policy statement that requires regular reports on treasury and debt management operations during the financial year.

### **3. DETAILS OF REPORT**

#### Background

Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services. As part of this Council has a Treasury Management Strategy that sets the parameters the Council must work within during the year.

In line with the Constitution any changes to the Treasury Management Strategy in year must be approved by Governance and Audit Committee.

#### Proposed Amendments to Treasury Management Strategy 2016/17

The current investment strategy allows the Council to invest under the heading non specified investments to any institution or Building Society for no longer than a 2 year period. However this is causing operational difficulties as a number of preferential investment opportunities now exceed a 2 year period. Therefore it is recommended that the period is extended to a maximum 3 years. This would allow the Council to consider longer term investment decisions where the interest rate would be beneficial. Any investments would still be determined by a full risk appraisal including credit ratings and external advice from the Council's investment advisors.

To ensure the Councils investment portfolio is balanced between the types of investment an increase is proposed on the total investments that can be held with building societies from £6m to £10m.

Further amendments have been made to the wording to give clarity surrounding non specified investments to enable the Council to be able to respond to changes in the economic conditions as they occur as shown in Appendix A.

### **5. OTHER OPTIONS CONSIDERED**

The Committee could consider an alternative option of retaining the strategy in its current format and not include the amendments as presented.

### **6. RESOURCE IMPLICATIONS**

This report provides details of the opportunities for Council financial investments.

**7. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)**

<b>Category Risk</b>	<b>Action / Controls</b>
Financial risk	A risk assessment is completed for all investments and borrowing opportunities.

**8. ISSUES ARISING FROM EQUALITY IMPACT ANALYSIS**

None

**9. CRIME AND DISORDER IMPLICATIONS**

None

**10. COMMENTS OF FINANCIAL SERVICES**

The financial implications are laid out in the main body of the report. The detail presented is in line with best practice and current guidance.

**11. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

This report provides details of the opportunities for Council financial investments that would require an amendment to the Council's Treasury Management Strategy (TMS) 2016/17. Members of the Governance and Audit Committee should note the content of the report and accompanying document at Appendix A and review what is being proposed against the current Treasury Management strategy.

**12. COMMENTS OF OTHER RELEVANT SERVICES**

None

**13. APPENDICES:**

A – Non Specified Investments Categories – proposed amendments highlighted in italics

## **APPENDIX A**

### **Table B – Non-Specified Investments Categories**

Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

*Amounts invested in any one corporate group shall not exceed £5m (with the exception of Councils own bank).*

Amounts invested in non specified fixed term investment would normally not exceed 35% of the total Invested. The Corporate Finance Manager has the discretion if required to exceed this and the limits detailed below should the rate of return on investment be beneficial to the council. Any decision will be based on taking into account current and future market conditions as well counterparty strength and rating. *If these circumstances are required this will be reported back to the appropriate committee through the annual reporting cycle.*

*The table below is not exhaustive list of all non specified investments further options are identified in the narrative section within the strategy.*

	Non Specified Investment Category	Limit
a.	<b>Any institutions meeting the criteria set out for Specified Investments</b> , with a maturity of greater than one year following the suggested duration on the list up to a maximum of 5 years.  (including forward deals in excess of one year from inception to repayment).	<b>£4m</b> maximum of <b>3-years</b> per institution
b.	<b>Councils Bank</b> – Should its ratings fall below that required for specified investment, monies will be restricted to instant access.	<b>£7m</b>
c.	Top 10 building societies, by asset value.	<b>£2m</b> maximum of <b>3-years</b> per institution.  <b>£10m</b> for all top 10 building societies

d.	UK local authorities, Parish Council or Community Council	£5m per LA, £10m all LAs
e.	<b>Property funds</b> The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	<b>£5m per fund</b> <b>No maximum maturity period.</b>

**NOTE: This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.**