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## **Introduction - Councillor Linda Neal Leader of the Council**

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

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

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

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

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

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

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



**Councillor Linda Neal  
Leader of the Council**

## **EXPLANATORY FOREWORD**

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

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

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

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

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

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

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

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



**Richard Wyles ACMA**  
Corporate Head of Finance and Customer Services (s151 officer)

## **District Profile**

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

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

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

## **Political Structure**

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

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

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

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

## **Performance Management**

### **Corporate Plan 2008/11**

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

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

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

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

### **Service Inspections and Annual Assessments**

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

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

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

### **Efficiency**

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

## The Statement of Accounts

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

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

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

The main statements included in the accounts consist of:

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

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

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

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

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

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

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

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

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

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

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

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

## **Review of the Year**

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

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

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

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

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

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

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

## **Comparing actual revenue spending to budget**

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

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

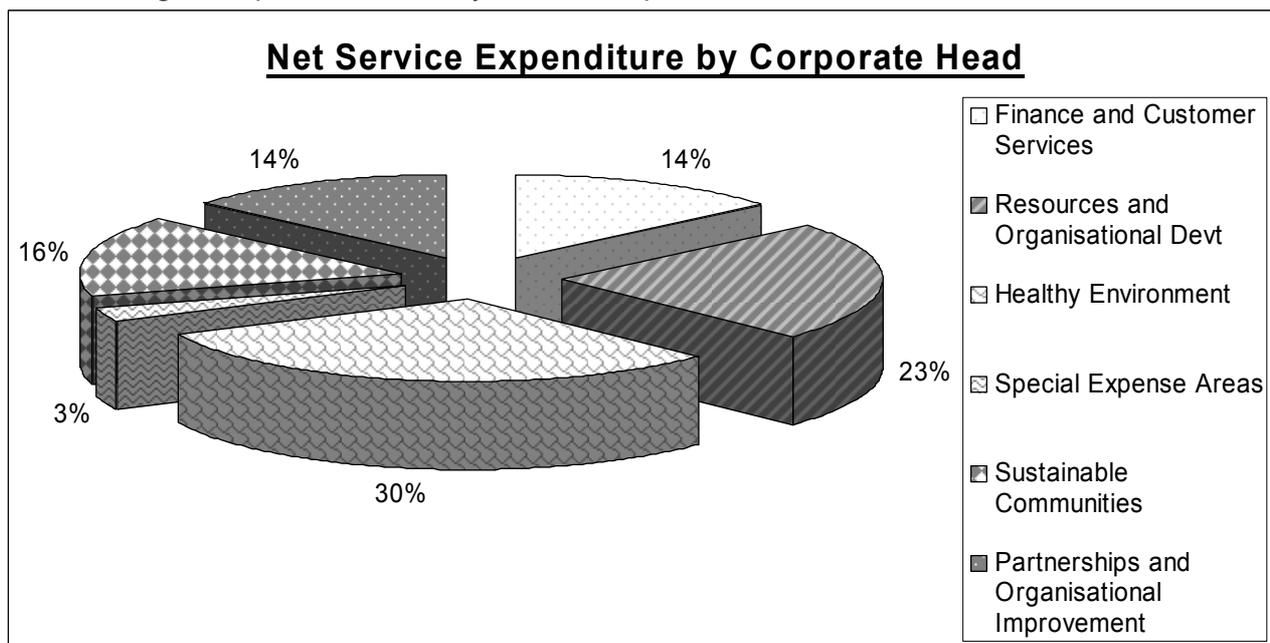
The financing of the budget requirement for the year was as follows:

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

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

### Where the money went

The following chart provides an analysis of net expenditure:



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

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

### Explaining the big differences

Variances from the original budget relate to:

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

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

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

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

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

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

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

The other key reasons for the remaining variance include:

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

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

### **Capital Spending in 2008/09**

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

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

In this section of the foreword I will:

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

### **Comparing actual capital spending to budget**

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

### **Explaining the big differences**

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

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

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

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

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

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

## Our Treasury Management performance

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

## Council Tax collection

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

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

## Reserves and Balances

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

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

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

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

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

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

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

### **Further Information**

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

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

## STATEMENT OF ACCOUNTING POLICIES

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

### ACCRUALS OF INCOME AND EXPENDITURE

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

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

### OVERHEADS & SUPPORT SERVICES

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

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

## RETIREMENT BENEFITS

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

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

### Local Government Pension Scheme

- The liabilities of the pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 6.9% (based on the indicative rate of return on the Bond yields and inflation rates).
- The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the balance sheet at their fair value:

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

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

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

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

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

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

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

## CAPITAL ASSETS

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

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

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

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

Enhancement is expenditure intended to:

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

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

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

Valuations of property assets are carried out by the District Valuer, an external, qualified valuer, who is independent of the Council. The method of valuations is as recommended by CIPFA and in accordance with the principles and guidance notes issued by the Royal Institute of Chartered Surveyors. Revaluations are carried out in accordance with a rolling programme which covers all assets at 5 yearly intervals. The basis at which the assets are valued are as follows:

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

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

Increases as a result of revaluations are debited to the appropriate asset account, with the opposite entry going to the Revaluation Reserve except to the extent where it reverses a previous revaluation loss that was charged to the Income & Expenditure Account. In this case the revaluation gain will first be used to offset the previous loss and any further gain is then taken to the Revaluation Reserve.

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

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

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

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

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

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

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

- Land is not depreciated as it will not have a finite life.
- Council Dwellings and Other Buildings are depreciated using the straight line method. The finite useful life is assessed by the District Valuer at the time of revaluation but for Council Dwellings is usually 50 years, and for other buildings is between 1 and 60 years.

- Plant & Equipment are also depreciated by the straight line method. Useful life is assessed by the Chief Finance Officer at the time of acquisition, usually between 3 and 10 years.
- Vehicles are depreciated using the reducing balance method at a rate of 25% per annum.
- Surplus assets are depreciated as with land and buildings above.
- Assets under construction and newly acquired assets are depreciated from the date they are brought into use.
- Investment Properties are not depreciated.
- Assets disposed of are depreciated until the date of disposal.

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

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

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

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

## LEASES

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

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

## **CURRENT ASSETS**

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

## **RESERVES AND PROVISIONS**

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

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

## **FINANCIAL INSTRUMENTS**

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

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

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

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

### **The Authority's Responsibilities**

The Authority is required to:

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

### **The Chief Finance Officer's Responsibilities**

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

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

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

The Chief Finance Officer has also:

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

### **CHIEF FINANCE OFFICER'S CERTIFICATE**

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



**RICHARD WYLES ACMA  
CHIEF FINANCE OFFICER**

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

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

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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



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

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

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2009**

2007/08			2008/09	
£'000	£'000	Note	£'000	£'000
<b>Revenue Activities</b>				
<b>Cash Outflows</b>				
16,639				17,349
16,439				22,485
7,816				9,693
34,610				36,333
43,799				46,223
5,838				7,500
4,700				5,650
<u>2,043</u>				<u>512</u>
131,884				145,745
<b>Cash Inflows</b>				
	8,619		8,888	
	51,588		54,361	
	33,323		34,658	
	1,383		1,207	
	8,243		8,674	
	23,668		24,181	
	2,111	51	2,432	
<u>134,687</u>	<u>5,752</u>		<u>9,152</u>	<u>143,553</u>
(2,803)		46		2,192
<b>Returns on Investments and Servicing of Finance</b>				
<b>Cash Outflows</b>				
	428		430	
<b>Cash Inflows</b>				
<u>(1,343)</u>	<u>(1,771)</u>		<u>(2,333)</u>	<u>(1,903)</u>
<b>Capital Activities</b>				
<b>Cash Outflows</b>				
	8,462		6,488	
	0		0	
	<u>455</u>		<u>0</u>	
8,917			6,488	

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Note 1 – Acquired, Discontinued Operations and outstanding liabilities

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

All operations at the Council are categorised as continuing operations.

### Note 2 – Prior Period and Exceptional/Extraordinary items

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

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

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

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

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

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

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

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

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

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

## RESTATED BALANCE SHEET (Contd.)

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

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

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

### Note 4 – Trading Operations

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

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

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

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

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

#### Note 6 – Expenditure on Publicity

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

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

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

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

**Building Regulation Charging Account**

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

**Comparatives for 2007/08**

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

**Note 8 – Agency Income and Expenditure**

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

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

#### **Note 9 – Schemes under the Transport Act 2000**

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

#### **Note 10 – Business Improvement District Schemes**

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

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

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

#### **Note 12 – Health Act 1999 Pooled Funds and Similar Arrangements**

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

#### **Note 13 – Government Grants not attributable to specific services**

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

#### **Note 14 – Members Allowances**

The Local Authorities (Members' Allowances) Regulations 2003 requires local authorities to publish the amounts paid to members under the Members' allowance scheme  
The Council has 58 elected Councillors.

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

#### **Note 15 – Officer Emoluments**

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

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

#### **Note 16 – Related Parties**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

**Central Government** has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions the Council has with third parties e.g. housing benefits. Details of transactions with government departments are set out in a note to the Cashflow Statement (note 51)

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

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

Payments made during the year were as follows:

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

#### **Note 17 – Audit Costs**

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

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

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

The Council is not a Welsh Authority.

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

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

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

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

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

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

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

## Note 21 – Summary of Capital Expenditure and Fixed Asset Disposals

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

<b>Operational Assets</b>	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Total £'000
Cost or Valuation at 1 April 2008	300,912	59,479	7,473	367,864
Additions	0	791	763	1,554
Disposals	(289)	0	(46)	(335)
Revaluations and restatements	(35,438)	(7,509)	0	(42,947)
Impairments	0	0	0	0
Reclassifications	0	(614)	0	(614)
<b>Gross book value as at 31 March 2009</b>	<b>265,185</b>	<b>52,147</b>	<b>8,190</b>	<b>325,522</b>
<b>Depreciation</b>				
At 1 April 2008	(4,210)	(1,828)	(3,605)	(9,643)
Charge for 2008/09	(4,217)	(1,789)	(872)	(6,878)
Written back on Revaluation	8,427	3,617	0	12,044
Written Back on Disposal	0	0	18	18
<b>At 31 March 2009</b>	<b>0</b>	<b>0</b>	<b>(4,459)</b>	<b>(4,459)</b>
<b>Net Book Value as at 31 March 2009</b>	<b>265,185</b>	<b>52,147</b>	<b>3,731</b>	<b>321,063</b>
<b>Non-Operational Assets</b>	Surplus Assets £'000	Assets Under Construction £'000	Investment Properties £'000	Total £'000
Cost or Valuation at 1 April 2008	3,909	227	0	4,136
Additions	164	298	0	462
Disposals	(564)	0	0	(564)
Revaluations and restatements	(1,119)	0	0	(1,119)
Impairments	0	0	0	0
Reclassifications	0	(30)	644	614
<b>Net book value as at 31 March 2009</b>	<b>2,390</b>	<b>495</b>	<b>644</b>	<b>3,529</b>

Note 21 (Contd.)

**Capital expenditure and financing:**

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

## Note 22 – Commitments under Capital Contracts

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

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

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

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

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

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

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

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

## Note 23 – Information on Assets Held

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

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

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

## Note 24 – Assets Held Under Leases

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

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

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

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

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

### Note 25 – Assets Held For Leases

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

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

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

### Note 26 – Assets Recognised Under a PFI Arrangement

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

### Note 27 – Valuation Information

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

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

Asset values are stated on the following basis:

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

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

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

### Note 28 – Information about Depreciation Methodologies

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

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

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

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

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

### Note 29 – Changes in Depreciation Methods

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

### Note 30 – Intangible Fixed Assets

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

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

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

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

### Note 31 – Changes in Amortisation Method for Intangible Fixed Assets

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

### Note 32 – Analysis of Net Assets Employed

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

### Note 33 – Interest in Companies

The Council does not own interests in any companies.

### Note 34 – Insurance Provisions

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

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

### Note 35 – Provisions

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

## Note 36 – Reserves

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

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

**(a) - Capital Adjustment Account**

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

**(b) - Useable Capital Receipts**

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

**(c) - Capital Receipts Deferred**

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

**(d) - Revaluation Reserve**

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

## (e) – Other Reserves

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

## Note 37 – Contingent Liabilities and Contingent Assets

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

## Note 38 – Authorisation of Accounts for Issue

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

## Note 39 – Events after the Balance Sheet Date

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

## Note 40 – Trust Funds

The Council does not hold any trust funds.

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

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

## **Note 42 – Amounts due to or from Related Parties**

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

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

## **Note 43 – Retirement Benefits**

### **Participation in Pension Scheme**

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

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

### **FRS 17 Accounting Entries**

The Authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. In order to comply with FRS17, the employer's pension contributions have been replaced with current service costs as estimated by the independent actuary. However, the charge the Authority is required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is adjusted for in the Statement of Movement on the General Fund Balance. The reversal of the FRS17 transactions ensures that there is no effect on the amounts to be met from government grant and the local taxpayers. The following transactions have been made in the

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

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

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

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

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

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

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

**Basis for Estimating Assets and Liabilities**

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

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

The main assumptions used in their calculations are:

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

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

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

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

#### Movement in Present Value of Scheme Liabilities

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

#### Movement in Fair Value of Scheme Assets

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

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

### Total Expense Recognised in the Income and Expenditure Account

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

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

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

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

### Scheme Valuation for current year and previous four accounting periods

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

### Change of Accounting Policy

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

### **Actuarial assumptions used in the year**

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

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

### **Note 44 – Defined Contribution Schemes**

The Council does not contribute to a defined contribution scheme.

### **Note 45 – Teachers Contribution Schemes**

The Council does not contribute to a Teachers Pension Scheme.

### **NOTES RELATING TO THE CASH FLOW STATEMENT**

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

2007/08			2008/09	
£'000	£'000		£'000	£'000
(13,783)		<b>Net surplus/(deficit) for the year on the Income and Expenditure Account</b>		(35,538)
		<b>Movement on General Fund Balance</b>		
476		Surplus/(deficit) on the Collection Fund		(648)
		Non-Cash Transactions		
	16,495	Capital Transactions	39,734	
	687	Loss on Disposal of Fixed Assets	412	
	(501)	FRS17 Adjustment	318	
17,059	378	Other non-cash transactions	339	40,803
<u>3,752</u>			<u>40,803</u>	<u>4,617</u>
		Items on an Accruals Basis		
	(35)	(Increase)/Decrease in stocks	7	
	(11)	Decrease/(Increase) in debtors	(3,087)	
656	702	Increase/(decrease) in creditors	(722)	(3,802)
<u>4,408</u>			<u>(722)</u>	<u>815</u>
		Revenue Financing		
(1,605)		Interest & Investment Income Received		(1,714)
		<b>Net Cash (Inflow)/Outflow on Revenue Activities</b>		
<u>2,803</u>				<u>(899)</u>

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

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

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

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

#### Note 49 – Explanation of Liquid Deposits

The authority's liquid resources are cash deposits.

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

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

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

An analysis of Government Grants is as follows:

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

## Note 52 – Long-Term Borrowing

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

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

### Note 53 - Long Term Debtors

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

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

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

### Note 54 - Stocks and Work in Progress

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

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

### Note 55 - Debtors

An analysis of Debtors is shown below:

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

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

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

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

### Note 56 - Creditors

An analysis of Creditors is shown below:

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

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

### Note 57 – Capital Instruments

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

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

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

### Key Risks

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

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

### Overall Procedures for Managing Risk

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

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

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

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

### **Credit risk**

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

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

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

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

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

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

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

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

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

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

### Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

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

### Refinancing and Maturity Risk

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

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- ✓ monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- ✓ monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

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

The maturity analysis of financial assets is as follows:

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

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

### **Market risk**

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

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

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

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

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

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

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

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

## A) Financial Instruments Balances

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

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

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

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

## B) Financial Instruments Gain/Losses

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

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

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

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

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions;

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

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

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

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

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

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

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

#### **Note 59 – Special Expense Areas – SEA's**

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

#### **Note 60 – HRA Revaluation Losses**

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

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

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

**Note 61 – Revaluation Reserve**

Due to changes in accounting rules, the Revaluation Reserve was set up with an opening balance of zero at 1 April 2007. The closing position on the Reserve at 31 March 2009 therefore only shows revaluation gains accumulated since 1 April 2007 together with depreciation adjustments to comply with accounting rules. Any revaluation gains (and losses) on fixed assets prior to 1 April 2007 are accounted for in the Capital Adjustment Account.

**Note 62 – General Fund Balance**

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

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

**Note 63 – Revenue Expenditure Funded from Capital Under Statute**

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

**Note 64 – Local Area Agreement (LAA)**

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

The purpose of the LAA is:

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

The LAA partners are:

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

## **SOUTH KESTEVEN DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT 2008/09**

### **Introduction**

The Council is committed to ensuring good governance principles and management practices are adopted throughout the authority. This Annual Governance Statement (AGS) has been produced in accordance with the 2007 CIPFA/SOLACE<sup>1</sup> framework “Delivering Good Governance in Local Government” and meets the statutory requirement set out in Regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006.

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

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

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

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

In preparing this statement account has been taken of both the statutory codes and the ethical governance tool-kit produced by the IDEA<sup>2</sup> and the CIPFA Financial Advisory Network.

### **The Importance of Good Governance**

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

Good governance means:

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

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

<sup>2</sup> IDEA – Improvement and Development Agency

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

### **Scope of responsibility**

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

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

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

### **Purpose of the Governance Framework**

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

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

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

### **The Governance Framework**

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

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

views of residents on the previous plan. The Corporate Plan is available on our website at [www.southkesteven.gov.uk](http://www.southkesteven.gov.uk).

### **Reviewing the vision and its implications for governance arrangements**

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

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

### **Measuring the quality of services for users**

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

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

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

### *Use of Resources*

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

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

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

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

### **The roles and responsibilities of members and officers.**

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

### **Standards of behaviour for members and staff**

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

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

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

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

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

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

### **Undertaking the core functions of the Governance and Audit Committee.**

The Governance and Audit Committee was established by the Council in March 2007 and its terms of reference were prepared to ensure that it complies fully with the guidance provided by CIPFA<sup>3</sup>.

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<sup>3</sup> Audit Committees – Practical Guidance for Local Authorities published 2005

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Training for members and senior officers**

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

### **Communication and consultation**

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

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

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

### **Governance arrangements for partnerships**

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

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

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

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

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

## **Risk Management**

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

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

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

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

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

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

## **Review of effectiveness**

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

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

The key players in the process may be summarised as:

Key Players	Role and Activity during the year
Council	<ul style="list-style-type: none"><li>○ Approve Constitution including: Financial Regulations; Codes of Conduct; Contract Procedure Rules</li></ul>
Cabinet	<ul style="list-style-type: none"><li>○ Set budget and policy framework</li><li>○ Financial, performance and risk management of service delivery within the Budget and Policy Framework set by Council</li><li>○ At least monthly public meetings</li><li>○ Monthly briefings and development days</li></ul>

Governance and Audit Committee	<ul style="list-style-type: none"> <li>○ Six scheduled meetings per annum to: <ul style="list-style-type: none"> <li>○ review and scrutinise the Council's governance arrangements, including the outcome of Internal and External audit reports and those of other external agencies such as the Ombudsman</li> <li>○ review the arrangements for managing risk throughout the authority</li> <li>○ scrutinise and approve the Financial Statements on behalf of the Council</li> </ul> </li> </ul>
Scrutiny Committee	<ul style="list-style-type: none"> <li>○ To provide a "critical friend" challenge to the Executive as well as external authorities and agencies</li> <li>○ To reflect the voice and concerns of the public and its communities</li> </ul>
Standards Committee	<ul style="list-style-type: none"> <li>○ Consider allegations of breaches to the Code of Conduct</li> <li>○ Undertake the statutory functions of the Standards Committee as set out in the Local Government Act 2000</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</li> <li>○ Present progress reports against the plan</li> <li>○ Make recommendations for improvement in systems and controls and value for money</li> </ul>
Governance Officer Group	<ul style="list-style-type: none"> <li>○ Monthly Governance meetings of statutory officers to review Governance issues arising out of day to day working practices</li> <li>○ Consider issues arising out of: <ul style="list-style-type: none"> <li>○ the assurance statements</li> <li>○ Management Board review of risk management</li> </ul> </li> </ul>
Management Board (Strategic and Operational Management Teams)	<ul style="list-style-type: none"> <li>○ Monthly review of budget, performance and risk management</li> </ul>
Risk Management Group	<ul style="list-style-type: none"> <li>○ Officer meetings (membership drawn from service areas) to review operational risks and business continuity</li> </ul>
Senior Managers	<ul style="list-style-type: none"> <li>○ Complete Quarterly Assurance statements covering: Risk Management; Staff - PDRs, risk and fraud awareness, and awareness and access to core governance documents and guidance; Health Safety; Business Continuity; External reviews; and performance monitoring arrangements</li> </ul>

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

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

## **Significant governance issues:**

### **Internal Audit:**

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

### **Concessionary Travel**

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

### **Major Capital Schemes**

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

### **HR Devolvement**

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

### **HRA Financial Management Arrangements**

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

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

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

## Planning Applications

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

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

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

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

## Other Issues

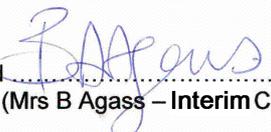
In addition, the review underpinning this Governance Statement has identified some additional areas for improvement and these will be addressed as part of the 2008/09 Governance Statement Action Plan. Of particular note is the need for the Council to improve and strengthen its arrangements for procuring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

## Our commitment to continuous improvement

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

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

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

Signed   
(Mrs B Agass – Interim Chief Executive)

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

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

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT

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

## NOTES TO THE HOUSING REVENUE ACCOUNT

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

### Note 1 – Housing Stock

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

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

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

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

The vacant possession value of dwellings at 31 March 2009 is £586.3m (£592.6m at 1 April 2008). Each council dwelling owned, in full or part, by the Council has been valued by the Valuation Office Agency in accordance with the guidance issued by the DCLG. The vacant possession value of dwellings must be adjusted to reflect the social housing status of local authority dwellings i.e. that social housing is available to tenants at less than open market rents. The predetermined adjustment factor for social housing in the East Midlands is 50%.

### HRA Revaluation Loss

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

Due to accounting rules, the Revaluation Reserve was set up with an opening balance of zero at 1 April 2007. The closing position on the Reserve at 31 March 2009 therefore only shows revaluation gains accumulated since 1 April 2007 together with depreciation adjustments to comply with accounting rules. Any revaluation gains (and losses) on fixed assets prior to 1 April 2007 are accounted for in the Capital Adjustment Account.

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

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

### Note 3- Major Repairs Reserve

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

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

Movements on the Reserve were:

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

#### Note 4 - Financing Capital Expenditure

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

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

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

#### Note 5 - Capital Receipts

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

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

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

### Note 6 - Housing Revenue Account Subsidy

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

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

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

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

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

## Note 7 – Pension Costs

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

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

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

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

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

## Note 9 – Rent Arrears

An analysis of rent arrears is shown below:

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

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

## Note 10 – Income

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

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

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

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

## Note 11 – Expenditure

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

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

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

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

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

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

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

## Note 12 – Transfer to the General Fund

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

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

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

## NOTES TO THE COLLECTION FUND

### Note 1 - General

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

### Note 2 - Council Tax

Council Tax income derives from charges raised according to the value of residential properties that have been classified into eight Valuation Bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lincolnshire County Council, Lincolnshire Police Authority and South Kesteven District Council together with each parish requirement and dividing this by the Council Tax base i.e. the number of properties in each valuation band converted to an equivalent number of band D dwellings and adjusted for discounts. The basic amount of Council Tax for a band D property including an average parish charge, £1,330.97 (2007/08 £1,253.00), is multiplied by the ratio specified for the particular band to give an individual amount due.

The Council Tax base was calculated as follows:

Band	Estimated No. of Taxable Properties After Effect of Discounts	Ratio	Band D Equivalent Dwellings
A	14612.25	6/9	9741.5
B	11381.01	7/9	8851.9
C	9166.28	8/9	8147.8
D	7707.80	9/9	7707.8
E	4642.04	11/9	5673.6
F	2351.98	13/9	3397.3
G	920.52	15/9	1534.2
H	58.00	18/9	116.0
Band A entitled to Disabled Relief Reduction			<div style="display: flex; justify-content: space-between; align-items: flex-end;"> <span style="width: 60%;"></span> <span style="text-align: right;">19.00</span> </div> <div style="display: flex; justify-content: space-between; align-items: flex-end;"> <span style="width: 60%;"></span> <span style="text-align: right;">5/9</span> </div> <div style="display: flex; justify-content: space-between; align-items: flex-end;"> <span style="width: 60%;"></span> <span style="text-align: right;">10.6</span> </div> <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> <span style="text-align: right;">45180.7</span>
Ministry of Defence Properties			<div style="display: flex; justify-content: space-between; align-items: flex-end;"> <span style="width: 60%;"></span> <span style="text-align: right;">57.0</span> </div> <hr style="width: 50%; margin-left: auto; margin-right: 0;"/> <span style="text-align: right;">45237.7</span>
<b>Council Tax Base</b>			<b>45237.7</b>

### Note 3 - Business Rates

Under the arrangements for Non-Domestic Rates, the Council collects rates for its area based upon local rateable values (determined by the Valuation Office Agency, an executive agency of HM Revenue & Customs) multiplied by the multiplier (determined by Government). For 2008/09 there are two multipliers, the small business non-domestic rating multiplier of 48.1p and the non-domestic rating multiplier of 48.5p. The total non-domestic rates due, less certain reliefs and deductions, is paid into a National Non-Domestic Rate Pool which is administered by the Government. The Government redistributes the sums paid into the pool back to Local Authorities' General Funds on the basis of a fixed amount per head of population.

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

#### **Note 4 - Collection Fund Surplus**

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

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

## GLOSSARY OF TERMS

### **Accounting Period**

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

### **Accounting Policies**

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

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

### **Accrual Concept**

This is one of the main accounting concepts and ensures that income and expenditure are shown in the accounting period that they are earned not as money is received or paid.

### **Actuarial Gains and Losses**

For a defined pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or
- (b) the actuarial assumptions have changed

### **Amortisation**

The writing down in value of intangible fixed assets, which is charged to service revenue accounts to reflect the cost of such assets, used in the provision of those services. This is the equivalent of depreciation for fixed assets.

### **Asset**

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

- A **current asset** is one that will be used or cease to have material value by the end of the next financial year eg stock or debtors
- A **fixed asset** provides benefits for a period of more than one year eg Council Offices.
- An **intangible asset** are those non-monetary assets that cannot be seen, touched or physically measured and which are created through time and/or effort e.g. IT software.

### **Audit of Accounts**

An audit is an examination by an independent expert of an organisation's financial affairs to check that the relevant legal obligations and codes of practice have been followed.

### **Bad Debt**

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

### **Budget**

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

## **Capital Expenditure**

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

## **Capital Receipts**

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

## **Collection Fund**

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

## **Community Assets**

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

## **Current Service Cost**

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

## **Curtailement**

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

## **Council Tax**

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

## **Creditors**

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

## **Current Liabilities**

Amounts payable that become due during the next financial year.

## **DCLG**

Department for Communities and Local Government

## **Debtors**

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

## **Depreciation**

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

## **Emoluments**

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

## **Expected Rate of Return**

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

## **Financial Reporting Standard (FRS)**

A reference to the accounting treatments that companies in the UK would generally be expected to apply in the preparation of the financial statements.

## **General Fund**

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

## **Government Grants**

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

## **Housing Benefits**

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

## **Housing Revenue Account**

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

## **I&E**

The Income and Expenditure Account on page 21.

## **Income**

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

## **Interest on Pension Scheme Liabilities**

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

## **Liability**

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

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

## **Materiality**

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

### **Minimum Revenue Provision**

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

### **Net Book Value**

The value of a fixed asset less the accumulated amount of depreciation/amortisation.

### **Non Distributed Costs**

These are overheads for which no user benefits and should not be apportioned to services.

### **Non Domestic Rates**

Tax charged on the rateable value of non-domestic properties (business properties). The rate of tax is set by the Government. The proceeds are pooled nationally and are redistributed on the basis of a fixed amount per head of population.

### **Non-Operational Assets**

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

### **Pooling of Capital Receipts**

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

### **Operational Assets**

Fixed assets held by the Authority that are used in direct delivery of services (another term for working capital).

### **Operating Leases**

A lease where the lessor retains all the risks and rewards of ownership of a fixed asset.

### **Past Service Cost**

Discretionary benefits awarded on early retirement are treated as past service costs. This includes added years and unreduced pension benefits covered by the rule of 85.

### **Precepts**

The amount of Council Tax income that Councils, Police Authorities, Parish Councils and Fire Authorities need to provide their service. The amount for all local authorities providing services in an area appears on council tax bills.

### **Provisions**

This is a sum of money that has been put aside in the accounts for liabilities that are due but where the amount or the timing of the payment is not known with any certainty.

### **Related Party Transactions**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge has been made.

### **Reserves**

Amounts set aside to meet capital or revenue expenditure which do not fall under the definition of Provisions.

### **Revenue Expenditure**

Expenditure that is incurred on the day to day costs of running local authority services, for example, staff costs, utility charges, rent and business rates.

### **Revenue Expenditure Funded from Capital Under Statute**

This is expenditure treated as capital expenditure but which does not result in a fixed asset belonging to the council. An example of this is a Disabled Facilities Grant paid to a homeowner to fund adaptations to their own home.

### **Revenue Support Grant**

A general grant paid by central government to local authorities as a contribution towards the cost of their services.

### **SMGFB**

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

### **SMHRA**

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

### **STRGL**

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