



## **FINANCIAL STATEMENTS**

**For the Year Ended 31 March 2016**



**C o n t e n t s**  
**FINANCIAL STATEMENTS**

	<b>Page</b>
Introduction by Councillor Peter Coupland	2
Narrative Report	3 – 15
Statement of Responsibilities	16
 <b>CORE FINANCIAL STATEMENTS</b>	
Comprehensive Income and Expenditure Statement	17
Movement in Reserves Statement	18 – 19
Balance Sheet	20
Cash Flow Statement	21
Notes to the Accounts	22 – 81
 <b>SUPPLEMENTARY FINANCIAL STATEMENTS</b>	
Housing Revenue Account Income and Expenditure Statement	82
Movement on the Housing Revenue Account Statement	83
Notes to the Housing Revenue Account Statement	84 – 86
Collection Fund Statement	87
Notes to the Collection Fund Statement	88 – 89
 <b>Independent Auditors Report</b>	
Annual Governance Statement	90 – 92
	93 – 99
 <b>Glossary of Terms</b>	
	100 – 105

## **Introduction by Councillor Peter Coupland, Cabinet Member and Portfolio Holder for Finance**

I am pleased to introduce you to the new style Financial Statements for the 2015/16 financial year which highlights first-rate management of resources in these challenging times.

Government funding reductions, which were included in the Council 2015/16 budget, led to subsequent reductions in support from Lincolnshire County Council for recycling activities which could not be replaced during the budget setting cycle. The balanced budget approved by Full Council included a contribution from reserves to cover this late change.

I am also pleased to report that due to actions agreed with elected members this contribution was not spent and further, the General Fund savings targets for 2015/16 were exceeded with a £451k contribution to General Fund reserves as a result.

The Budget setting process for 2016/17 commenced early in the year and the Council agreed a revision to the structure of the Executive Management Team and adopted the Transformation plan entitled *"Moving Forward: Our Plan for 2019"*.

These actions identified savings plans that were introduced early to maintain and improve on the balanced budget position during the year.

In addition to the General Fund savings, our Landlord activities and associated policies and procedures were subject to a full review in year which identified a reduction of £3m in the 2015/16 Capital programme anticipated spend, £2.6m of which has now been earmarked for investment in Affordable Housing in 2016/17.

The Transformation programme is likely to cost £1.1m over a 4 year period and the resulting savings by 2019 are projected to be £3.3m.

Growth in the district is the foundation of the Budget for 2016/17 and the Medium Term Financial Plan to 2019/20 with various initiatives including investment funds of £21m included in the approved capital programme for 2016 to 2020.

Further details are available in the Narrative Report section of the statements.

I will take this opportunity to thank the Executive Director (Commercialisation) and her colleagues in the Finance service and internal audit for producing these statements on time and to a very high standard.

### **Peter Coupland**



# Narrative Report

## Commentary and information on next steps from the Interim Executive Director (Commercialisation) – Suzanne Jones

The Financial position of the Council has strengthened during the year with sound and improving Financial Management being applied in all areas.

General Fund reserves have increased by £451,000 over the revised budget and Housing Revenue Account Balances have increased by £200,000 over the revised budget.

In recent years the Council has experienced major financial challenges due to reductions in central government funding, volatility on financing and cost / income pressures on services. Changes introduced as part of the financial plan for 2015 to 2019 are assisting the Council to respond and meet these challenges particularly in respect of the medium term outlook. This shift in our financial focus, away from the traditional incremental approach to annual budgeting to a more strategic outcome focused approach, has been applied to all services during the course of the year including the Landlord service for Council housing and the associated Housing Revenue Account.

2015/16 was the first year of the 5 year plan and results for the year have met or exceeded targets set in the Medium Term Financial Plan. Landlord activities were subject to a fundamental review and operating parameters were changed to reflect recent management changes. Savings of £2.6m were identified as a result of these changes and this has been placed in the Major Repairs Reserve and earmarked for investment in additional council housing commencing in 2016/17.

The 2016/17 Budget and the Medium Term Financial Plan, approved by Council on 24 February 2016, shows a balanced position after a wide ranging look at all activities and we are actively seeking additional income, reductions in costs and more efficient ways of working to further improve this picture. Within the capital programme, £20.954m, over 4 years, has been allocated to support growth in the district. Specifically: £4.236m for enterprises in the district; £14.392m for Affordable Housing and £2.326m for Private Sector Housing.

These annual Financial Statements have been prepared in accordance with the Code, and as usual, completed to a high standard.

Changes to applicable legislation, *The Accounts and Audit Regulations 2015*, mean that these draft accounts no longer need to be reviewed by the Governance and Audit Committee, but in keeping with good practice the Core Statements of the accounts and the draft Annual Governance Statement were presented to the Committee on 26 May 2016. A further presentation of these accounts to the Committee also took place on 28 July 2016 during the period for public inspection.

This period for public inspection must be at least 30 working days and include the first 10 working days in July, and closed on 11 August 2016.

The Financial Statements aim to provide information to members of the public; electors and residents of South Holland; council members; partners; stakeholders and other interested parties so that they can:

- understand the financial position of the Council and the outturn for 2015/16;
- have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner;
- be assured that the financial position of the Council is secure.

This Narrative Report replaces the Explanatory Foreword which was included in previous year's statements, and is structured to provide additional information on the South Holland district; key issues affecting the Council, a summary of the financial position at 31 March 2016 and a statement on the 2016/17 budget position:

- An Introduction to South Holland
- Key Information about the Council and 2015/16 Management Performance
- Financial Performance of the Council 2015/16
- Capital Strategy and Capital Programme 2016/17 to 2019/20
- Corporate Risks
- Overview of the accounting statements and an explanation of the Core Statements

Formal approval of the accounts is subject to the issuance of the Independent Auditor's report, which will be received in September 2016. The Governance and Audit Committee will review the final Financial Statements which will be presented for approval ahead of the statutory deadline of 30 September 2016.

Completion of these accounts to the existing deadlines; the achievement of high standards and also as a trial run for future acceleration of reporting to Members, all stakeholders and interested parties has only been possible because of the hard work and dedication of the Finance service which is provided by Compass Point Business Services. This is reflected not just in the timely production of the accounts but in all aspects of the work that the service undertakes. The Business Partner approach in Finance and other central services continues to evolve, aiding the self-service nature of financial / service management in all operations. This working model also supports current, and future, changes in the Council as a whole as it strives to increase income, reduce costs, manage demand, transform working practices, introduce innovation and maintain performance.

Peter Coupland, Portfolio Holder for Finance, has been very supportive and provides an additional dimension when communicating to Elected Members and reporting to the Leader and Cabinet for which I give thanks.

The Governance and Audit Committee provides a valuable service and my thanks go to the Members that sit on this Committee and particularly the Chair, Councillor George Aley, for their energetic and engaging style.



## **An Introduction to South Holland**

South Holland district has a usable land area of 78,384 hectares and is situated in the south eastern corner of Lincolnshire. The district is located in flat fenlands reclaimed from the sea and the Council works closely with 4 Internal Drainage boards and the Environment Agency to maintain this usable land and prevent inundation.

The district has five towns: Crowland, Holbeach, Long Sutton, Spalding and Sutton Bridge and various small rural communities, with a low population density of 1.19 persons per hectare compared to an average of 2.94 in the East Midlands and 4.13 for England.

There is a rich vein of history running through the district from Crowland Abbey being established early in the 8<sup>th</sup> Century, Holbeach and Spalding being mentioned in the Domesday Book in 1085/6, Ayscoughfee Hall dating back to around 1451 and the current swing bridge in Sutton Bridge having been installed in 1897 (which was used by the RAF in 1943 as a practice site for what became known as the Dambusters Raid). In addition the district is the birth place of Captain Matthew Flinders RN (16 March 1774), who was an English navigator and cartographer and the first to circumnavigate Australia and identify it as a continent. There is a park in Donington which bears his name in commemoration.

### **Population**

The latest population estimate for South Holland is 90,419 which is an increase of 2,230 (2.5%) since the 2011 census. Working age population is estimated to be 54,195 (60%) and residents aged 65 and over are approximately 24% of the population.

In 2011 the total population of the district was 88,270 (15.4% increase from 2001 census). This rate of growth was one of the highest for a local authority area, although similar to the rise of 13.4% between 1991 and 2001. It is predicted the population will increase to 102,000 by 2021, which is a higher rate of growth than generally predicted for England and Wales.

The number of households in the district is approximately 38,300 with Spalding, the largest town, having an estimated population of 33,471.

All statistics are based on the Office for National Statistics 2014 mid-year estimates.

### **Employment**

The South Holland economy is largely based upon agriculture, horticulture and food processing, and their associated distribution and packaging services.

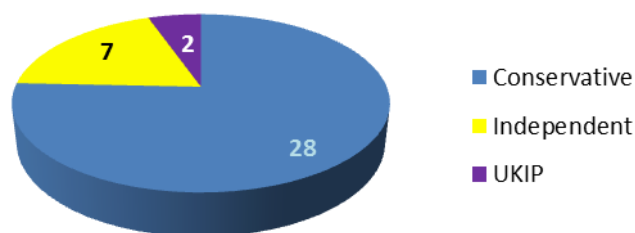
The district has low levels of unemployment with the number of Job Seeker Allowance claimants at 650 in March 2016 (795 February 2015) reflecting a 1.2% unemployment rate against a national average of 1.9%. The district has the lowest unemployment in Lincolnshire and average hours worked per week are the second highest for UK districts.





## Key Information about the Council

South Holland has 18 Wards, 37 Councillors and following the local election in May 2015 the political make-up of the Council was as follows:



Local Councillors are elected by the community to decide how the Council should carry out its various activities. They represent public interest as well as individuals living within the ward in which he or she has been elected to serve a term of office.

South Holland District Council is a forward-thinking, entrepreneurial and innovative authority, which continues to strive for excellence and deliver great value for money for our residents, whilst making the most of the huge opportunities for economic growth in our district.

The Council has adopted the Leader and Cabinet model as its political management structure arising from the Local Government and Public Involvement in Health Act 2007. The Leader of the Council has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions.

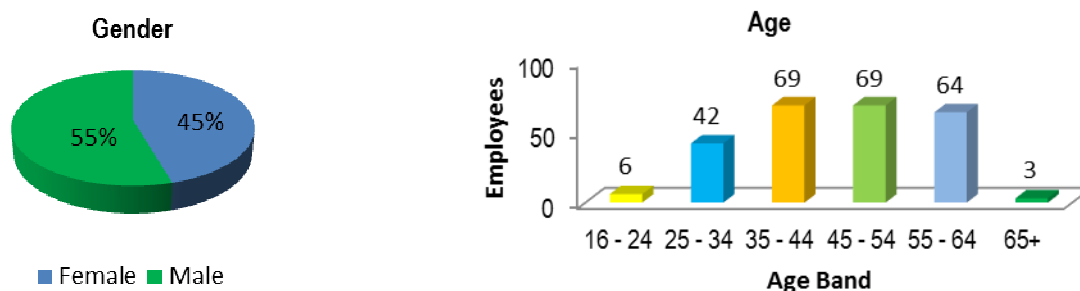
Cabinet Members are held to account by a system of scrutiny which is also set out in the Constitution. Scrutiny of Executive decisions for 2015/16, including the setting of a balanced budget for 2016/17, has been undertaken by the following committees:

- Policy Development Panel
- Performance Management Panel
- Governance and Audit Committee

Joint meetings of the committees were held on occasions during the year.

## People

The authority employs 253 staff in full time and part time positions and the South Holland District Council workforce profile is shown below:

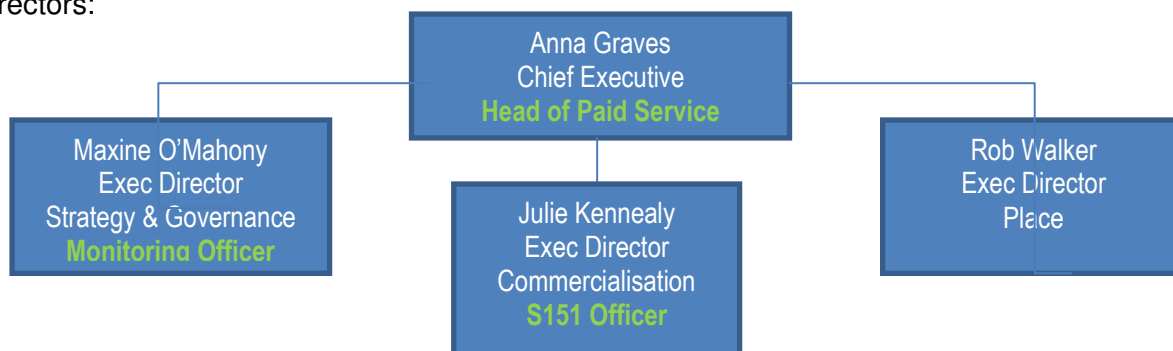


## Management Performance 2015/16

To support the work of Councillors there is a Senior Management Team led by Anna Graves, Chief Executive. The Council has shared management arrangements with Breckland District Council which has been in place for four years and has brought a number of benefits, including significant financial savings, and the exchange of valuable skills, knowledge and experience.

A review of these arrangements was carried out during the year following a formal consultation process which was launched on 2 April 2015.

During the year the Executive Management Team was led by the Chief Executive and 3 Executive Directors:



In addition there are 5 shared executive managers which completes the Executive Management Team.

There is also a dedicated team of professionals including 10 shared managers, and 20 service managers in the arrangements, with a Chief Accountant in each organisation to complete the Senior Management Team for both authorities.

## Corporate Plan

The Plan was refreshed in 2015 and extends to 2019. The Medium Term Financial Plan for 2016 to 2020 was closely aligned to the Council objectives, aims and priorities within the Corporate Plan.

The Corporate Plan also sets out how we work with partners and the community to ensure that South Holland continues to be a place of choice for people to live, work, visit and play.

It is based on information about the area and identifies how we will achieve our long-term vision, what our key priorities are and how we will deliver the services our residents want.

The ambition embodied in the plan is to continue to increase the prosperity and wellbeing of our residents and businesses, whilst striving to protect and enhance the environment and the unique and historic character of the district.

Our main priorities and achievements in 2015/16 and future plans are summarised overleaf.





***“To develop safer, stronger, healthier and more independent communities while protecting the most vulnerable.”***

*We have...*

- Secured more than £1 million of funding to the district for projects to improve community facilities such as village halls and skate parks, creating and promoting volunteering opportunities, and providing advice on welfare changes and benefits advice to residents

*We will...*

- Enable effective housing solutions to meet local needs by providing access to a range of housing options, commencing a new ambitious house building programme, influencing standards and being a landlord of choice in the district
- Lead and support a Health and Wellbeing Partnership to address key local health, care and wellbeing issues
- Work with partners and invest in facilities to support older people to remain active, participative and live independently within the community

***“To have pride in the district and assist residents to develop and thrive”***

*We have...*

- Launched a Pride in South Holland campaign to involve local people in cleaning up the district
- Installed additional bins in public areas and achieved faster clean up times by street cleansing teams

*We will...*

- Make available £100,000 in 2016/17 to increase the scope of the Pride in South Holland project and review the street cleansing standard to embody principles and lessons learned from activity in 2015/16
- Develop and implement a local planning and development structure to achieve substantial growth
- Work towards delivery and maintenance of a five year housing land supply
- Work with our partners to reduce and prevent crime and anti-social behaviour

***“To provide the right services, at the right time and in the right way”***

*We have...*

- Modernised services to include the introduction of electronic submissions for planning and building control applications and enhanced mobile and remote working arrangements

*We will...*

- Develop our commercial approach in a consistent way to secure our financial position
- Develop our organisations to be business ready, community focused and partners of choice
- Develop and implement a strategy to equip staff with the skills needed to drive the organisation forward

## **“To encourage the local economy to be vibrant with continued growth”**

*We have...*

- Completed the third year of a Grants for Growth Project
- Supported new businesses with reduced introductory rent periods when taking one of the 50 Council industrial units within the district
- Awarded Section 106 funding from planning contributions to projects in Spalding and Sutton Bridge to enhance towns within the district

*We will...*

- Build strong working relationships across all sectors to draw in funding and resources to the district
- Work with our partners to ensure that the technological infrastructure is available, accessible and meets the needs of our communities and businesses

## **Devolution in Greater Lincolnshire**

In March 2016, councils in the Greater Lincolnshire area signed a headline deal with the Government to have powers, resources and responsibilities devolved to the area. The first deal includes a single pot of £450m of investment funds (£15m per year for 30 years) in addition to these devolved powers.

The government has made clear that a Mayoral Combined Authority would be required in order to implement this deal and all council leaders have agreed that the administration costs of setting up the mayoral combined authority will be kept to a minimum with existing resources from within the Councils being used wherever possible.

Members of all ten councils involved will now see more detailed proposals outlining the governance structure and functions that a Mayoral Combined Authority could have, and will be asked to approve a public consultation on these proposals, which would begin no later than 4 July 2016.

The public consultation will seek feedback on the proposals, and the results will accompany the governance proposals that will be submitted to the Secretary of State in late August.

Key areas in the agreement for partnership commitment include:

- Finance
- Transport
- Housing and Planning
- Skills and Employment
- Energy and Environment
- Enterprise and Growth
- Transport and Infrastructure
- Public Protection

## **2016 Referendum**

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union. The council will monitor developments as central government continues to negotiate, implement and apply EU legislation. It will be for central Government to begin negotiations to exit the EU and the outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future, once the UK has left the EU. This situation will be reviewed regularly, however no specific changes to council finances have been identified at this time.

## Financial Performance of the Council 2015/16

Overall the Council has completed the year in a relatively strong position and better able to meet the significant financial challenges ahead.

Sound financial management has ensured that the Council has strengthened the Balance Sheet during the year with reserves increasing by £12m since 1 April 2015.

	31 March 2015 £m	31 March 2016 £m
Long-term Assets	143	147
Net Current Assets (Current Assets less Current Liabilities)	20	23
Long-term Liabilities	(103)	(98)
<b>Net Assets</b>	<b>60</b>	<b>72</b>
<i>Represented by:</i>		
Usable Reserves	24	26
Unusable Reserves	36	46
<b>Total Reserves</b>	<b>60</b>	<b>72</b>

Long-term assets are generally valued in the Balance Sheet at fair value in their existing use or highest and best use for surplus assets and investment properties.

A £4.3m reduction in the net Pension Liability is reported at the year-end to £30,354m (£34,624 at 31 March 2015) as calculated by the actuary to the Lincolnshire County Council Pension Fund, Hymans Robertson. This represents an assessment of the Council's proportion of net assets and liabilities within the fund that is matched by a Pension Reserve in the Balance Sheet, and therefore has no immediate impact on the Council's overall financial position at 31 March 2016. The Council relies and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this valuation.

Business rates are payable based on a property valuation and since 2010 we have been receiving appeals against the revaluation done that year. We have a provision of £1.682m for successful appeals and this is based on external expert advice and 40% (our share) of the potential refunds when appeals are heard.

Long term liabilities include £67.456m of borrowing which was set up to finance Council Housing changes in 2012. No further borrowing was undertaken by the Council in the financial year.

Treasury Management expertise is applied during the year and interest earned on balances was £236,000 (£172,000 in 2014/15) and total funds, administered by Treasury Management, also increased by £4m during the year.

	31 March 2015 £m	31 March 2016 £m
Cash and Other Cash Equivalents	10	7
Short-term Investments	14	21
<b>Funds under Treasury Management</b>	<b>24</b>	<b>28</b>

There are various factors which impact on cash flow and Treasury Management during each year including:

- Capital commitments
- Asset disposals
- Movement in reserves
- Income management
- Government revenue and capital funding

## Financial Management – Revenue

**The General Fund** includes all income and expenditure incurred in the day-to-day running of the Council, and key services we provide include; Refuse Collection, Recycling, Street Cleansing, Housing Advice and Options, Planning and Building Control, Licensing, Enterprise and Growth, and Community Development. Services are organised in Directorates and 2015/16 budget performance is summarised below.

Service Area	Budget £000	Actual £000	Variance £000
Strategy & Governance	2,150	1,802	(348)
Commercialisation	4,325	4,893	568
Place	5,927	5,666	(261)
<b>Total</b>	<b>12,402</b>	<b>12,361</b>	<b>(41)</b>

Savings targets were met in all areas in respect of day-to-day budgets. The Commercialisation Directorate result includes £1,074,000 of expenditure which was funded from reserves not local taxation. This was mainly due to planned Organisational Development activities carried out in preparation for the launch of the Moving Forward Transformation Programme and technical adjustments to capital financing.

The Revenue Budget of £12.402m was examined in great detail during the year as part of the 2016/17 Medium Term Financial Plan and a revised budget was agreed by Cabinet and ratified by Council in February 2016.

As part of the review all reserves were examined and the outturn position increased reserves by £451k from the revised budget.

**The Housing Revenue Account** reflects the costs and income of the Landlord service for council housing. This is a ring-fenced account and all entries to the account are governed by law. The break even position reported for 2015/16 against a budget deficit of £146,000 was achieved by efficiency savings in operating costs.

The service was subject to a wide ranging review of operations and a revised business plan was formulated as part of the 2016/17 Medium Term Financial Plan. As part of the examination £2.4m was identified as accelerated works to existing houses which was added to future forecasts and not carried out in year. This increased to £2.6m in the outturn which was added to reserves.

## Financial Management – Capital

Programme progress at the end of the year with associated expenditure is included in this section.

Activity	Approved Budget £000	Slippage £000	Revised Budget £000	Actual £000	Variance £000
ICT	354	(305)	49	34	(15)
Economic Development	1,180	(36)	1,144	1,187	43
Asset and Property	321	(28)	293	95	(198)
Growth Fund	316	-	316	311	(5)
Housing	625	(408)	217	151	(66)
Disabled Facilities Grants	325	(133)	192	192	-
<b>General Fund</b>	<b>3,121</b>	<b>(910)</b>	<b>2,211</b>	<b>1,970</b>	<b>(241)</b>
<b>Programme</b>	<b>7,500</b>	<b>-</b>	<b>7,500</b>	<b>4,450</b>	<b>(3,050)</b>
<b>HRA Programme</b>					
<b>Total</b>	<b>10,621</b>	<b>(910)</b>	<b>9,711</b>	<b>6,420</b>	<b>(3,291)</b>

87% of the General Fund revised capital budget was spent during the year and the £241,000 surplus funds will be made available for any new schemes that we consider in 2016/17, particularly in respect of Invest to Save projects. The spend for the year includes Housing Stock improvements of £4,450,000, acquisition of Parkland in Moulton at a cost of £311,000 and a contribution to Lincolnshire County Council of £571,000 for provision of Broadband access in the district.

Senior Management conducted a comprehensive review of the 5 year capital programme and Slippage represents revised profiling of outcomes and delivery dates which have moved to 2016/17.

The HRA capital programme has been examined in line with asset management information and new modelling techniques following the introduction of a new software system. The useful life of all components of council dwellings e.g. kitchen replacements are being managed and individual replacement programmes only being carried out when a component has failed to meet the minimum property standard.

We have assigned £2.6m of the HRA surplus to the replacement affordable Housing Programme due to commence in 2016/17.

### **Capital Strategy and Capital Programme 2016/17 to 2019/20**

A revised Capital Strategy was approved by the Council on 24 February 2016.

From 2016/17 to 2019/20 the Council will invest in the district in order to advance the priorities stated within the Corporate Plan. Revenue budget efficiencies have been identified to enable the programme and additional funding will be sought at every opportunity. The management process has four core principles:

- Promote Invest to Save projects in all areas and manage the impact of investment decisions on revenue budgets
- Performance management to be applied to all projects to ensure targets are met and projected benefits are realised
- Continually review processes and ensure effective pre and post project appraisal is in place
- Optimise external capital funding to support and enhance the investment programme and assist in meeting the priorities of the Council

Schemes will be considered for inclusion in the Capital Programme based on affordability, value for money and deliverable outputs that meet the Corporate Plan and Council objectives.

The Council is required to have regard to the Prudential Code for Capital Finance in Local Authorities, to demonstrate that proposals are affordable, sustainable and prudent.

The Programme is projected over a rolling 5 year period including the current year.

An option appraisal methodology for proposed new schemes is used, ensuring accordance with corporate objectives.

All policies and procedures are subject to review and in 2016/17 additional capital expenditure controls are to be introduced to strengthen the quarterly monitoring regime.

Risks in the area are reviewed periodically and every time a new major project is added to the programme. These are aligned to the Corporate Risk Register as appropriate.

Future expenditure and associated funding can be summarised as follows:

<b>CAPITAL PROGRAMME 2016/17 TO 2019/20</b>					
<b>Scheme Description</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>Total £000</b>
ICT	333	-	-	-	333
Community Development	36	-	-	-	36
Asset and Property	-	167	-	-	167
Growth Fund	739	1,000	1,091	1,395	4,225
Housing	2,456	153	75	75	2,759
Disabled Facilities Grants	458	325	325	325	1,433
<b>General Fund Programme</b>	<b>4,022</b>	<b>1,645</b>	<b>1,491</b>	<b>1,795</b>	<b>8,953</b>
<b>HRA Programme</b>	<b>7,179</b>	<b>7,684</b>	<b>7,735</b>	<b>7,911</b>	<b>30,509</b>
<b>Total</b>	<b>11,201</b>	<b>9,329</b>	<b>9,226</b>	<b>9,706</b>	<b>39,462</b>
<b>FUNDING</b>					
Borrowing	2,051	-	-	-	2,051
Capital Receipts	1,178	1,300	1,162	1,231	4,871
Capital Contributions	2,458	2,073	1,995	1,995	8,521
Revenue Contributions	5,514	5,956	6,069	6,480	24,019
<b>Total Funding</b>	<b>11,201</b>	<b>9,329</b>	<b>9,226</b>	<b>9,706</b>	<b>39,462</b>

The Information and Communications budget is primarily designed to support the transformation programme particularly in respect of digitalisation of services, which is updating the corporate website and customer access to services.

The Growth Fund has been established to support corporate objectives and investments within the district are currently being examined.

Housing activity includes market rental acquisitions for Welland Homes Limited which is a wholly owned subsidiary of the Council.

The HRA programme includes £11.8m for Affordable Housing and programmes commenced in 2015/16. Approximately £4m has also been allocated to maintain the existing stock of council houses to the Decent Homes Standard.

Borrowing will be internal only and this reflects the relationship between Welland Homes Limited and the Council.

Provision for revenue contributions has been made in appropriate service budgets within each operating area.

### **Explanation of the Accounting Statements**

The Financial Statements set out the income and expenditure of the Council for the year and the financial position of the authority as at 31 March 2016.  
These comprise Core Statements, supplementary analyses and disclosure notes.

The format and content of the accounts is in accordance with the CIPFA code of Practice on Local Authority Accounting in the United Kingdom which includes relevant stipulations contained within International Financial Reporting Standards.

### **Core Statements**

The **Comprehensive Income and Expenditure Statement** summarises the financial performance of the Council for the year.

The first section of the statement shows the net cost in the year of providing services in accordance with generally accepted accounting practices. The second section highlights corporate transactions, local funding and external grants.



It should be noted that amounts chargeable to Council Tax and General Fund reserves for the year are controlled by legislation, and include a number of statutory adjustments and transfers to specific reserves. The effect of these statutory transactions is shown in the Movement in Reserves Statement.

The **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves which are required for specific purposes.

The Capital Receipts Reserve reflects the balance of proceeds from the disposal of assets and Capital Grant Unapplied is the balance of external funding assigned to future activities. These reserves must be applied to capital expenditure or repayment of borrowing and in specific circumstances can fund transformation activities.

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The "Net Increase/Decrease before Transfers to Earmarked Reserves" line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

The **Balance Sheet** includes all assets, liabilities, cash balances and reserves of the authority at the end of the financial year and are measured on the 31 March each year.

The Balance Sheet gets its name from a simple formula which is that net assets must equal the reserves of the Council whenever the statement is compiled.

The **Cash Flow Statement** shows the changes in cash and cash equivalents of the Council during the reporting period and identifies how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

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

## **Supplementary Financial Statements**

The **Housing Revenue Account statement** reflects the landlord function of the Council and is prepared in accordance with a statutory obligation to maintain a revenue account for local authority housing provision; Part 6 of the Local Government and Housing Act 1989.

The HRA Income and Expenditure Statement shows, in more detail, the net cost of HRA services which is included in the whole authority's Comprehensive Income and Expenditure Statement.

A separate movement of reserves schedule is included in these statements which specifically analyses various adjustments carried out during the year.

The **Collection Fund Statement and Notes** summarises the payments received in year for council tax and business rates, costs of collection and redistribution to central and local government.

Collection is currently carried out on behalf of Lincolnshire County Council, and the Police and Crime Commissioner for Lincolnshire.

**Notes to the Financial Statements** provide additional detail on accounting policies and movements within specific areas of the accounts of the Council.

## Corporate Risks

The Council has a comprehensive Risk Management Strategy which utilises the management performance monitoring system “Covalent” which is web based and available for managers as necessary. Strategic risks are monitored monthly as a minimum by the Executive Management Team and are reported to Governance and Audit Committee on a quarterly basis. All services maintain operational risk registers and new projects must identify risks at all stages of progress from inception.

There were twelve strategic risks identified at the end of March 2015 and the top five are summarized below, where the likelihood of an occurrence is rated at 9 out of 25 or above.

Risk	Score	Impact	Mitigation
Breach of ICT security systems	25	Theft of data, Ransom demands from Hackers and corporate theft specialists	Latest anti-virus / Firewall software installed. Emergency disconnect system together with increased use of quarantine areas for suspect documents and emails - installed May 2016
CPBS Failure to deliver services	12	Finance, HR, Customer services & ICT affected Reputation & Staff Morale weakened	Business recovery plan formulated which dovetails into the Corporate Disaster Recovery Plan. Regular Governance reviews with Council Members / Officers on the Board of Directors
Devolution agenda	12	Potential abortive work with a cost burden. Failure of the Council to achieve an optimum agreement	Participation in the “Shadow Board” set up for Lincolnshire in 2015/16. Allocation of Executive management time to key work streams. Dedicated officer time to work on matters of detail.
Local Plan	12	Loss of New Homes Bonus	Dedicated officers and regular reviews by the Executive Management Team and Councillors
Medium Term Financial Plan	9	Potential serious depletion of Reserves or an inability to fully deliver services.	Controls to monitor & review activity include monthly reports to Transformation Board, Performance, Risk and Audit Board & Finance Board. Quarterly monitoring reports are sent to Cabinet and the MTFP activity in year continually reviews performance as a guide to future results.
Business rate retention scheme	9	Reduction in funding below baseline estimates and targets issued by central government	Regular monitoring of Rateable Value appeals in the district and review of developments / issues around the country leading up to a major change in 2020

A risk matrix is used to derive the above score using five factors measuring potential level of impact, which is based on best practice in comparable organisations. The ICT risk was at maximum at the end of March and is currently scored 15 (5 for impact x 3 for likelihood) following changes as above.

	Unlikely (1)	Possible (2)	Plausible (3)	Likely (4)	Certain (5)
Critical (5)					
High (4)					
Medium (3)					
Low (2)					
Minimal (1)					

Key	High Risk	Medium Risk	Low Risk
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## STATEMENT OF RESPONSIBILITIES

### The Council's Responsibilities:

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Executive Director (Commercialisation);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Financial Statements, delegated to the Governance and Audit Committee.

### The Chief Financial Officer's Responsibilities

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

In preparing the Financial Statements, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code;
- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Certification by the Chief Financial Officer

I hereby certify that the Financial Statements give a 'true and fair' view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31 March 2016.

Suzanne Jones  
Interim Executive Director  
(Commercialisation)

Dated: 15 September 2016

### Approval of the Financial Statements

I confirm that the Financial Statements were approved by the Governance and Audit Committee at its meeting held on the 15 September 2016.

Signed on behalf of South Holland District Council:

Cllr George Aley  
Chair of meeting approving the accounts

Dated: 15 September 2016

# CORE FINANCIAL STATEMENTS

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2014/15				2015/16		
Gross Expenditure £000	Gross Income £000	Net Expenditure of Continuing Operations £000		Gross Expenditure £000	Gross Income £000	Net Expenditure of Continuing Operations £000
1,510	(860)	650	Central services to the public	1,652	(868)	784
2,762	(883)	1,879	Cultural and related services	2,647	(843)	1,804
4,511	(1,267)	3,244	Environmental and regulatory services	4,868	(798)	4,070
3,151	(1,842)	1,309	Planning services	3,962	(1,718)	2,244
258	(295)	(37)	Highways and transport services	260	(304)	(44)
9,461	(16,842)	(7,381)	Local authority housing (HRA)	9,101	(16,821)	(7,720)
21,739	(20,861)	878	Other housing services	20,832	(20,696)	136
2,438	(257)	2,181	Corporate and democratic core	2,577	(408)	2,169
85	-	85	Non distributed costs	3	-	3
<b>45,915</b>	<b>(43,107)</b>	<b>2,808</b>	<b>Cost of Services</b>	<b>45,902</b>	<b>(42,456)</b>	<b>3,446</b>
4,032	(1,057)	2,975	Other operating expenditure (Note 6)	4,389	(1,404)	2,985
5,554	(2,183)	3,371	Financing and investment income and expenditure (Note 7)	5,117	(1,975)	3,142
6,877	(20,499)	(13,622)	Taxation and non-specific grant income and expenditure (Note 8)	7,221	(20,093)	(12,872)
<b>62,378</b>	<b>(66,846)</b>	<b>(4,468)</b>	<b>Surplus on the Provision of Services</b>	<b>62,629</b>	<b>(65,928)</b>	<b>(3,299)</b>
		(1,930)	Surplus on revaluation of Property, Plant and Equipment assets			(2,473)
		3,690	Remeasurements of the net defined benefit liability			(5,606)
		<b>1,760</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(8,079)</b>
		<b>(2,708)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(11,378)</b>

The notes to the accounts on pages 22 - 81 form an integral part of the Financial Statements

# MOVEMENT IN RESERVES STATEMENT

2014/15	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2014</b>	<b>2,019</b>	<b>7,883</b>	<b>6,835</b>	<b>200</b>	<b>-</b>	<b>1,410</b>	<b>1,612</b>	<b>19,959</b>	<b>37,813</b>	<b>57,772</b>
<b>Movement in reserves during 2014/15</b>										
Surplus or (deficit) on the provision of services	(419)	-	4,887	-	-	-	-	4,468	-	4,468
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	(1,760)	(1,760)
<b>Total Comprehensive Income and Expenditure</b>	<b>(419)</b>	<b>-</b>	<b>4,887</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,468</b>	<b>(1,760)</b>	<b>2,708</b>
Adjustments between accounting basis and funding basis under regulations (Note 9)	1,846	-	(2,754)	-	-	497	(90)	(501)	501	-
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>	<b>1,427</b>	<b>-</b>	<b>2,133</b>	<b>-</b>	<b>-</b>	<b>497</b>	<b>(90)</b>	<b>3,967</b>	<b>(1,259)</b>	<b>2,708</b>
Transfers (to)/from Earmarked Reserves (Note 10)	(1,391)	1,391	-	-	-	-	-	-	-	-
<b>Increase/(Decrease) in 2014/15</b>	<b>36</b>	<b>1,391</b>	<b>2,133</b>	<b>-</b>	<b>-</b>	<b>497</b>	<b>(90)</b>	<b>3,967</b>	<b>(1,259)</b>	<b>2,708</b>
<b>Balance at 31 March 2015 carried forward</b>	<b>2,055</b>	<b>9,274</b>	<b>8,968</b>	<b>200</b>	<b>-</b>	<b>1,907</b>	<b>1,522</b>	<b>23,926</b>	<b>36,554</b>	<b>60,480</b>

2015/16	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2015</b>	<b>2,055</b>	<b>9,274</b>	<b>8,968</b>	<b>200</b>	<b>-</b>	<b>1,907</b>	<b>1,522</b>	<b>23,926</b>	<b>36,554</b>	<b>60,480</b>
<b>Movement in reserves during 2015/16</b>										
Surplus or (deficit) on the provision of services	(1,895)	-	5,194	-	-	-	-	3,299	-	3,299
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	8,079	8,079
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,895)</b>	<b>-</b>	<b>5,194</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,299</b>	<b>8,079</b>	<b>11,378</b>
Adjustments between accounting basis and funding basis under regulations (Note 9)	108	-	(5,194)	-	2,609	672	166	(1,639)	1,639	-
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>	<b>(1,787)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,609</b>	<b>672</b>	<b>166</b>	<b>1,660</b>	<b>9,718</b>	<b>11,378</b>
Transfers (to)/from Earmarked Reserves (Note 10)	1,833	(1,833)	-	-	-	-	-	-	-	-
Increase/(Decrease) in 2015/16	<b>46</b>	<b>(1,833)</b>	<b>-</b>	<b>-</b>	<b>2,609</b>	<b>672</b>	<b>166</b>	<b>1,660</b>	<b>9,718</b>	<b>11,378</b>
<b>Balance at 31 March 2016 carried forward</b>	<b>2,101</b>	<b>7,441</b>	<b>8,968</b>	<b>200</b>	<b>2,609</b>	<b>2,579</b>	<b>1,688</b>	<b>25,586</b>	<b>46,272</b>	<b>71,858</b>

The notes to the accounts on pages 22 - 81 form an integral part of the Financial Statements.



## BALANCE SHEET

31 March 2015 £000		Notes	31 March 2016 £000
141,436	Property, Plant and Equipment	11	145,174
98	Heritage Assets	12	113
802	Investment Property	13	737
711	Intangible Assets	14	564
50	Long-term Investments		50
131	Long-term Debtors		157
<b>143,228</b>	<b>Long-term Assets</b>		<b>146,795</b>
14,315	Short-term Investments		21,027
671	Assets Held for Sale	18	607
2,348	Short-term Debtors	16	3,007
10,082	Cash and Cash Equivalents	17	7,171
<b>27,416</b>	<b>Current Assets</b>		<b>31,812</b>
(26)	Short-term Borrowing		(26)
(5,798)	Short-term Creditors	19	(6,681)
-	Grants Receipts in Advance - Capital		(460)
(1,711)	Provisions	20	(1,682)
<b>(7,535)</b>	<b>Current Liabilities</b>		<b>(8,849)</b>
(67,456)	Long-term Borrowing		(67,456)
(34,624)	Other Long-term Liabilities	34	(30,354)
(549)	Grants Receipts in Advance – Capital	30	(90)
<b>(102,629)</b>	<b>Long-term Liabilities</b>		<b>(97,900)</b>
<b>60,480</b>	<b>Net Assets</b>		<b>71,858</b>
	<b>Usable Reserves</b>	21	
2,055	General Fund		2,101
8,968	Housing Revenue Account		8,968
9,274	Earmarked Reserves – General Fund		7,441
200	– Housing Revenue Account		200
-	Major Repairs Reserve		2,609
1,907	Capital Receipts Reserve		2,579
1,522	Capital Grants Unapplied		1,688
<b>23,926</b>	<b>Unusable Reserves</b>	22	<b>25,586</b>
12,652	Revaluation Reserve		14,870
59,298	Capital Adjustment Account		62,483
(34,624)	Pension Reserve		(30,354)
59	Deferred Capital Receipts		56
(780)	Collection Fund Adjustment Account		(716)
(51)	Accumulated Absences Adjustment Account		(67)
<b>36,554</b>			<b>46,272</b>
<b>60,480</b>	<b>Total Reserves</b>		<b>71,858</b>

The notes to the accounts on pages 22 - 81 form an integral part of the Financial Statements

## CASH FLOW STATEMENT

2014/15 £000	2014/15 £000		2015/16 £000	2015/16 £000
	4,468	Net surplus on the provision of services		3,299
8,804		Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 23)	5,164	
(1,968)	6,836	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 23)	(2,358)	2,806
	11,304	Net cash flows from Operating Activities		6,105
	(10,540)	Investing Activities (Note 24)		(9,624)
	873	Financing Activities (Note 25)		608
	1,637	Net increase/(decrease) in cash and cash equivalents		(2,911)
	8,445	Cash and cash equivalents at the beginning of the reporting period		10,082
	<b>10,082</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 17)</b>		<b>7,171</b>

The notes to the accounts on pages 22 - 81 form an integral part of the Financial Statements

## NOTES TO THE ACCOUNTS

### NOTE 1 – ACCOUNTING POLICIES

#### 1. General Principles

The Financial Statements summarise the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

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

#### 1.1 Qualitative Characteristics of Financial Statements

##### ***Relevance***

The accounts have been prepared to provide information about the Council's financial performance and position that is useful for assessing the stewardship of public funds and for making financial decisions.

##### ***Materiality***

The concept of materiality has been utilised in preparing the accounts so that insignificant items and fluctuations under an acceptable level of tolerance are permitted provided that, in aggregate, they would not affect the interpretation of the accounts.

##### ***Faithful Representation***

The financial information in the accounts is a faithful representation of the economic performance of the Council as they have been prepared to reflect the reality or substance of the transaction, are free from deliberate or systematic bias, are free from material error and contain all the information necessary to aid understanding.

##### ***Comparability***

In addition to complying with the code the accounts also comply with the Service Reporting Code of Practice. This code establishes proper practice in relation to consistent financial reporting below statement of accounts level and aids comparability with other local authorities.

##### ***Verifiability***

Knowledgeable and independent observers will be able to reach the same conclusion from the information presented in the accounts.

##### ***Timeliness***

The information provided in the accounts is available in time to influence decisions.

##### ***Understandability***

These accounts are based on concepts and terminology which require reasonable knowledge of local government finance. Every effort has been made to use plain language and technical terms are explained in the glossary contained at the end of the Financial Statements.

#### 1.2 Underlying Assumptions

##### ***Accruals Basis***

The accounts are prepared on an accruals basis, whereby revenue (income) and expenditure is recognised in the period in which it is earned or incurred not as the cash is received or paid.

**Going Concern**

The accounts have been prepared on the assumption that the Council will continue in existence for the foreseeable future.

**Primacy of Legislation Requirements**

Where accounting treatment is prescribed by law, it has been applied in preparing the accounts.

The following sections (2-24) disclose the specific accounting policies adopted by the Council for the completion of the Financial Statements.

**2. Accruals of Income and Expenditure**

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

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

**3. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

**4. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance. There are no exceptional items in 2015/16.

## **5. Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors**

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

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

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

## **6. Charges to Revenue for Non-Current Assets**

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **7. Employee Benefits**

### ***Benefits Payable during Employment***

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

### ***Termination Benefits***

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

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

### ***Post-Employment Benefits***

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

### ***The Local Government Pension Scheme***

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

The liabilities of the Lincolnshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 3.4% (3.1% in 2014/15), based on the indicative rate of return on high quality corporate bonds.

The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

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

### **Service Cost comprising**

- **current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- **past service cost** – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- **net interest on the net defined benefit liability**, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.



## Remeasurements comprising

- ***the return on plan assets*** – excluding amounts included in the net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- ***actuarial gains and losses*** – changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

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

In relation to retirement benefits, statutory provisions require the General Fund Balance and Housing Revenue Account Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund and Housing Revenue Account of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

## Discretionary Benefits

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

## 8. Events after the Reporting Period

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Financial Statements are adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Financial Statements are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Financial Statements.

## 9. Financial Instruments

### Financial Liabilities

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

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

## **Financial Assets**

Financial Assets are classified into two types:

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

### ***Loans and Receivables***

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

The Council has made a number of loans mainly in the form of car loans to staff. These are recognised in the Balance Sheet at the amount of principal outstanding and have not been adjusted for fair value due to their scale.

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

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

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Where the fair value of available-for-sale assets is not materially different from the carrying value, the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the agreement.

## **10. Government Grants and Contributions**

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

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance and Housing Revenue Account Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to

the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **11. Heritage Assets**

The extent of the Council's holdings of heritage assets is limited. Heritage assets are held to help increase the knowledge, understanding and appreciation of the Council's history and local area. Heritage assets are recognised and measured, including the treatment of revaluation gains and losses, in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets where appropriate. The Council's heritage assets fall into two categories; Civic Regalia and Works of Art, and Archaeological Sites, Smallholdings and other Land and Sites of Special Interest and are accounted for as follows:

### **Civic Regalia and Works of Art**

- Civic regalia and Tulip paintings – insured value, these will be valued by an external valuer

### **Archaeological Sites, Smallholdings and other Land and Sites of Special Interest**

- Chain Bridge Forge (formerly Blacksmith's shop) – current use, valued by an external valuer
- Nature reserve – Historic Cost

### **Heritage assets not recognised on the Council's Balance Sheet:**

- Community Beacon, Gas Wharf, Pill box, HMS Hornet bell and model of HMS Taku submarine – not included on the Balance Sheet as the cost of obtaining their value information outweighs the benefit to the users of the statements.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see item 17 in this summary of significant accounting policies.

Depreciation is not charged as the assets are deemed to be held in perpetuity. Should any heritage assets be disposed of, the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

## **12. Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events e.g. software licences, is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council for more than one financial year.

Intangible assets are measured initially at cost and are carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. Depreciation is calculated on the following basis:

- Computer software and licences – straight line basis

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, the amortisation charge is not permitted to have an impact on the General Fund Balance or Housing Revenue Account Balance. It is therefore reversed out of the General Fund Balance and Housing Revenue Account Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

### **13. Joint Arrangement**

A joint arrangement is an arrangement of which two or more parties have joint control. A joint arrangement has the following characteristics:

- the parties are bound by a contractual arrangement
- the contractual arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement is either a joint operation or a joint venture.

South Holland has joint control with East Lindsey District Council over Compass Point Business Services (East Coast) Ltd, a company established in 2010 to provide 'back office' services to both Councils.

This arrangement is classified as a joint operation. The Council recognises on its Balance Sheet an appropriate share of its rights to the assets and obligations for the liabilities and debits and credits the Comprehensive Income and Expenditure Statement with its share of expenses incurred and income it earns from the activity of the Company.

### **14. Investment Property**

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

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

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

### **15. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council has no material finance lease commitments as at 31 March 2016.

#### **The Council as Lessee - *Operating Leases***

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or

equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period).

### **The Council as Lessor - *Operating Leases***

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of a lease).

## **16. Overheads and Support Services**

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2015/16 (SeRCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

## **17. Property, Plant and Equipment**

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

### ***Recognition***

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

### ***Measurement***

Assets are initially measured at cost, comprising;

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

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

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



- infrastructure assets and community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

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

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

### ***Impairment***

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

Where impairment losses are identified, they are accounted for as follows:

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

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

## **Depreciation**

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight line allocation over the life of the property as estimated by the valuer
- Vehicles, plant and equipment – straight line allocation over the life of the asset, as advised by a suitably qualified officer
- Infrastructure – straight line allocation.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Materiality levels have been assessed and a materiality level of £0.5m for major components has been applied. Council dwellings are separated into their principal components, which are depreciated separately.

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

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

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance and Housing Revenue Account Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax or housing rents, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance and Housing Revenue Account Balance in the Movement in Reserves Statement.

## **18. Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties, and some of its financial instruments such as Certificates of Deposit at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's Financial Statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

## **19. Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

## **20. Contingent Liabilities**

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

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

## **21. Contingent Assets**

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

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

## **22. Reserves**

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

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

## **23. Revenue Expenditure Funded from Capital under Statute**

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

## **24. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **NOTE 2 – ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) has introduced changes in accounting policies which will be required from 1 April 2016, as detailed below.

- *Amendment to IAS 1 Presentation of Financial Statements*. This standard provides guidance on the form of the Financial Statements and will result in changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and will introduce a new Expenditure and Funding analysis. These changes are as a result of the “Telling the Story” review of the presentation of the local authority Financial Statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative.

Other minor changes to be introduced which are not expected to have a material effect on the Council’s Financial Statements are:

- *Amendments to IAS 19 Employee Benefits* (Defined Benefit Plans: Employee Contributions)
- *Annual Improvements to IFRSs (2010 – 2012 Cycle)*. These improvements are designed to aid clarification with financial reporting disclosures.
- *Amendments to IFRS 11 Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations)
- *Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation)
- *Annual Improvements to IFRSs (2012 – 2014 Cycle)*. These improvements are designed to aid clarification with financial reporting disclosures.

## **NOTE 3 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council has examined its leases, and classified them as either operational leases or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgements in determining whether the lease is a finance lease that transfers substantially all the risks and rewards incidental to ownership.
- Investments - Investment in banks and other financial institutions are secure and will not suffer impairments.

## **NOTE 4 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

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

The items in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

### **Pensions Liability**

The estimation of the net liability (£30.354m at 31 March 2016) to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.

During 2015/16, the actuaries advised that the net pension liability had decreased by £4.270m. This is made up of:

- £5.606m actuarial gain
- £1.336m loss arising from employer contributions of £1.666m being less than the pension obligations of £3.002m.

### **Debt Impairment**

At 31 March 2016, the Council had a balance of sundry debtor and housing benefit overpayments of £1.820m. A review of significant balances suggested that an impairment of doubtful debts of 50.5% (£0.920m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.

If collection rates were to deteriorate, increasing the impairment for doubtful debts to 60% of the total debt would require an additional £0.172m to be set aside as an allowance.

### **Business Rates**

Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities need to account for any reduction in Business Rates income and repayment to ratepayers, in respect of successful appeals against business rates for current and earlier years. A provision has been made in the accounts based on the best estimate of the amount that the Council might need to repay as a result of successful appeals up to 31 March 2016. This estimate has been calculated using the latest Valuation Office Agency list of outstanding appeals with an assessment being made of the likely impact of those appeals, taking into account past national decisions together with any specific / local implications. This assessment has been undertaken by an external provider.

The 31 March 2015 deadline for appeals against the 2010 valuation list led to a surge in the number of appeals received by the Valuation Office Agency in 2014/15. Appeals made after 31 March 2015 are limited to the financial year in which the appeal is made. Appeals received before this date could potentially receive reductions in rateable value and refunds dating back to 2010.

It is believed that some of the appeals may be speculative, with low prospect of success, and therefore have been assessed as such, although there is a risk that, when the appeal is eventually determined, the refund could be different from the original estimation. As the Valuation Office Agency work through the outstanding appeals, it is expected that the accuracy of estimates will improve.

The Council's share of the provision as at 31 March 2016 (40% of £4.206m) is £1.682m.

## Fair Value Measurements

When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (eg. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the authority's assets and liabilities.

Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's Chief Valuation Officer and external valuer). Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in notes 13 and 15 below.

## NOTE 5 – EVENTS AFTER THE REPORTING PERIOD

The Financial Statements were authorised for issue by the Executive Director (Commercialisation) on 15 September 2016. Events taking place after this date are not reflected in the Financial Statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the Financial Statements and notes have been adjusted in all material respects to reflect the impact of this information.

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister, to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future, once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

## NOTE 6 – OTHER OPERATING EXPENDITURE

2014/15 £000		2015/16 £000
603	Parish Council Precepts	640
2,243	Internal Drainage Board Levies	2,286
519	Payments to the Government Housing Capital Receipts Pool	439
(390)	(Gains)/Losses on the disposal of non-current assets	(380)
<b>2,975</b>	<b>Total</b>	<b>2,985</b>

## NOTE 7 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2014/15 £'000		2015/16 £'000
2,349	Interest payable and similar charges	2,347
1,219	Net interest on the net defined benefit liability	1,084
(172)	Interest receivable and similar income	(236)
(25)	Income and expenditure in relation to investment properties and changes in their fair value	(53)
<b>3,371</b>	<b>Total</b>	<b>3,142</b>

## NOTE 8 – TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

2014/15 £000		2015/16 £000
(4,841)	Council Tax income	(4,963)
(3,104)	Retained Business Rates income and expenditure	(3,288)
(3,392)	Revenue Support Grant	(2,381)
(1,631)	Non-ringfenced government grants	(1,971)
(654)	Capital grants and contributions	(269)
<b>(13,622)</b>	<b>Total</b>	<b>(12,872)</b>

## NOTE 9 – ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

### General Fund Balance

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

### Housing Revenue Account Balance

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

### Major Repairs Reserve

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at year-end.

### Capital Receipts Reserve

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

### Capital Grants Unapplied

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



2015/16	General Fund Balance	Housing Revenue Account	Capital Receipts reserve	Major Repairs Reserve	Capital Grants Unapplied
	£000	£000	£000	£000	£000
<b>Adjustments to the Revenue Resources</b>					
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>					
• Pension Costs	1,036	300	-	-	-
• Council Tax and Non Domestic Rates	(64)	-	-	-	-
• Holiday pay	15	1	-	-	-
• Movements in the market value of Investment Properties	(23)	-	-	-	-
• Capital grants and contributions applied to capital financing	(782)	-	-	-	-
• Capital grants and contributions not applied to capital financing	(203)	-	-	-	203
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	2,558	2,859	-	-	-
<b>Total Adjustments to Revenue Resources</b>	<b>2,537</b>	<b>3,160</b>	<b>-</b>	<b>-</b>	<b>203</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(39)	(1,364)	1,403	-	-
Administrative costs of non-current asset disposals	-	30	(30)	-	-
Payments to the government housing receipts pool	439	-	(439)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(7,020)	-	7,020	-
Statutory provision for the repayment of debt	(1,740)	-	-	-	-
Capital expenditure financed from revenue balances	(1,089)	-	-	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(2,429)</b>	<b>(8,354)</b>	<b>934</b>	<b>7,020</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>					
Use of Capital Receipts Reserve to finance capital expenditure	-	-	(265)	-	-
Use of Major Repairs Reserve to finance capital expenditure	-	-	-	(4,411)	-
Use of capital grants to finance capital expenditure	-	-	-	-	(37)
Cash payments in relation to deferred capital receipts	-	-	3	-	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>(262)</b>	<b>(4,411)</b>	<b>(37)</b>
<b>Total Adjustments</b>	<b>108</b>	<b>(5,194)</b>	<b>672</b>	<b>2,609</b>	<b>166</b>

2014/15	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000
<b>Adjustments to the Revenue Resources</b>					
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>					
• Pension Costs	1,011	299	-	-	-
• Council Tax and Non Domestic Rates	422	-	-	-	-
• Holiday pay	2	(3)	-	-	-
• Movements in the market value of Investment Properties	6	-	-	-	-
• Capital grants and contributions applied to capital financing	(882)	-	-	-	-
• Capital grants and contributions not applied to capital financing	59	-	-	-	(59)
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	1,169	3,799	-	-	-
<b>Total Adjustments to Revenue Resources</b>	<b>1,787</b>	<b>4,095</b>	<b>-</b>	<b>-</b>	<b>(59)</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-	(1,057)	1,057	-	-
Administrative costs of non-current asset disposals	-	23	(23)	-	-
Payments to the government housing receipts pool	519	-	(519)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(1,547)	-	1,547	-
Statutory provision for the repayment of debt	(37)	-	-	-	-
Capital expenditure financed from revenue balances	(423)	(4,268)	-	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>59</b>	<b>(6,849)</b>	<b>515</b>	<b>1,547</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>					
Use of Capital Receipts Reserve to finance capital expenditure	-	-	(20)	-	-
Use of Major Repairs Reserve to finance capital expenditure	-	-	-	(1,547)	-
Use of capital grants to finance capital expenditure	-	-	-	-	(31)
Cash payments in relation to deferred capital receipts	-	-	2	-	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>(18)</b>	<b>(1,547)</b>	<b>(31)</b>
<b>Total Adjustments</b>	<b>1,846</b>	<b>(2,754)</b>	<b>497</b>	<b>-</b>	<b>(90)</b>

## NOTE 10 – TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2015/16.

	Balance at 1 April 2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31 March 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31 March 2016 £000
<b>General Fund</b>							
Affordable Housing Reserve	118	-	-	118	(118)	-	-
Capital Reserve	761	-	-	761	(761)	-	-
Climate Change Reserve	47	-	-	47	(47)	-	-
Community Cohesion Reserve	44	(25)	-	19	(19)	-	-
Council Tax Reserve	3,748	(1,377)	2,109	4,480	(3,842)	2,066	2,704
Emergency Planning Reserve	10	-	-	10	(10)	-	-
Insurance Reserve	257	-	-	257	(37)	-	220
Investment and Growth Reserve	-	-	-	-	(411)	3,716	3,305
Organisational Development Reserve	2,128	(546)	237	1,819	(1,819)	-	-
Planning Reserve	310	(53)	110	367	(367)	-	-
Property Acquisition Reserve	-	-	1,000	1,000	(1,000)	-	-
Replacement and Refurbishment Reserve	292	(227)	136	201	(165)	203	239
Section 106 Reserve	41	-	-	41	(41)	-	-
Spalding Special Expenses Reserve	127	(9)	36	154	(154)	-	-
Transformation Reserve	-	-	-	-	(43)	1,016	973
<b>Total General Fund</b>	<b>7,883</b>	<b>(2,237)</b>	<b>3,628</b>	<b>9,274</b>	<b>(8,834)</b>	<b>7,001</b>	<b>7,441</b>
<b>Housing Revenue Account</b>							
Insurance Reserve	200	-	-	200	-	-	200
<b>Total Earmarked Reserves</b>	<b>8,083</b>	<b>(2,237)</b>	<b>3,628</b>	<b>9,474</b>	<b>(8,834)</b>	<b>7,001</b>	<b>7,641</b>

**NOTE 11 – PROPERTY, PLANT AND EQUIPMENT - Movements on Balances**

2015/16	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
<b><u>Movements in 2015/16</u></b>								
<b>Cost or valuation</b>								
At 1 April 2015	<b>115,005</b>	<b>21,200</b>	<b>4,717</b>	<b>2,041</b>	<b>766</b>	<b>186</b>	<b>84</b>	<b>143,999</b>
Additions	4,297	-	162	74	311	-	167	5,011
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	221	1,034	-	-	-	510	-	1,765
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,403)	(5)	-	-	-	(17)	-	(1,425)
Derecognition – disposals	(546)	-	(289)	(5)	(37)	(71)	-	(948)
Assets reclassified (to)/from Held for Sale	(258)	-	-	-	-	-	-	(258)
Other movements in cost or valuation	200	(192)	-	-	-	79	-	87
<b>At 31 March 2016</b>	<b>117,516</b>	<b>22,037</b>	<b>4,590</b>	<b>2,110</b>	<b>1,040</b>	<b>687</b>	<b>251</b>	<b>148,231</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2015	-	-	<b>(1,363)</b>	<b>(1,046)</b>	<b>(154)</b>	-	-	<b>(2,563)</b>
Depreciation charge	(2,027)	(374)	(599)	(192)	-	(1)	-	(3,193)
Depreciation written out to the Revaluation Reserve	329	364	-	-	-	-	-	693
Depreciation written out to the Surplus/Deficit on the Provision of Services	1,689	9	-	-	-	-	-	1,698
Derecognition – disposals	10	-	289	-	8	1	-	308
Other movements in depreciation and impairments	(1)	1	-	-	-	-	-	-
<b>At 31 March 2016</b>	<b>-</b>	<b>-</b>	<b>(1,673)</b>	<b>(1,238)</b>	<b>(146)</b>	<b>-</b>	<b>-</b>	<b>(3,057)</b>
<b>Net Book Value</b>								
<b>At 31 March 2016</b>	<b>117,516</b>	<b>22,037</b>	<b>2,917</b>	<b>872</b>	<b>894</b>	<b>687</b>	<b>251</b>	<b>145,174</b>
<b>At 31 March 2015</b>	<b>115,005</b>	<b>21,200</b>	<b>3,354</b>	<b>995</b>	<b>612</b>	<b>186</b>	<b>84</b>	<b>141,436</b>

2014/15	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b><u>Movements in 2014/15</u></b>								
<b>Cost or valuation</b>								
At 1 April 2014	112,738	19,865	3,127	2,015	766	153	194	138,858
Additions	5,465	210	2,275	43	-	-	84	8,077
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	251	1,181	-	-	-	5	-	1,437
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,845)	(56)	-	-	-	(21)	-	(2,922)
Derecognition – disposals	(328)	-	(752)	(17)	-	-	-	(1,097)
Assets reclassified (to)/from Held for Sale	(403)	-	-	-	-	-	-	(403)
Other movements in cost or valuation	127	-	67	-	-	49	(194)	49
<b>At 31 March 2015</b>	<b>115,005</b>	<b>21,200</b>	<b>4,717</b>	<b>2,041</b>	<b>766</b>	<b>186</b>	<b>84</b>	<b>143,999</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2014	-	-	(1,753)	(888)	(154)	-	-	(2,795)
Depreciation charge	(1,334)	(351)	(334)	(158)	-	(1)	-	(2,178)
Depreciation written out to the Revaluation Reserve	151	341	-	-	-	1	-	493
Depreciation written out to the Surplus/Deficit on the Provision of Services	1,179	10	-	-	-	-	-	1,189
Derecognition – disposals	4	-	724	-	-	-	-	728
<b>At 31 March 2015</b>	<b>-</b>	<b>-</b>	<b>(1,363)</b>	<b>(1,046)</b>	<b>(154)</b>	<b>-</b>	<b>-</b>	<b>(2,563)</b>
<b>Net Book Value</b>								
<b>At 31 March 2015</b>	<b>115,005</b>	<b>21,200</b>	<b>3,354</b>	<b>995</b>	<b>612</b>	<b>186</b>	<b>84</b>	<b>141,436</b>
<b>At 31 March 2014</b>	<b>112,738</b>	<b>19,865</b>	<b>1,374</b>	<b>1,127</b>	<b>612</b>	<b>153</b>	<b>194</b>	<b>136,063</b>

## Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – major components
  - Structure – 40-80 years
  - Roofs – 5-66 years
  - Kitchens – 7-27 years
  - Bathrooms – 7-27 years
  - Windows and Doors 0-29 years
- Other Land and Buildings – 0-60 years
- Vehicles, Plant, Furniture & Equipment – 3-25 years
- Infrastructure – 2-48 years

## Capital Commitments

At 31 March 2016, the Council has entered into contracts for the enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted at a cost of £2.1m. Similar commitments at 31 March 2015 were £2.98m, mainly relating to works to dwellings. The major commitments are:

- Kitchen and Bathrooms Replacements £1m
- Central Heating Replacements £1.1m

## Effects of Changes in Estimates

The Balance Sheet value of surplus assets has increased as a result of valuation changes relating to Fair Value Measurement. Further information is provided on pages 46-47.

The HRA Council Dwellings were componentised at 31 March 2015 into their significant parts. Each component has its own useful life which has been used to calculate the depreciation charge for 2015/16. The impact of this change is an increase in the value of depreciation charged to the Housing Revenue Account.

No other material changes were made to the Council's accounting estimates for Property, Plant and Equipment 2015/16.

## Revaluations

The Council carries out a programme that ensures that all Property, Plant and Equipment required to be measured at current value is regularly revalued. A full revaluation of all Council housing stock and other land and buildings is undertaken every 5 years, although a desktop review of all assets is carried out in each of the intervening years. All valuations are carried out externally. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

In addition due regard has been taken of amendments introduced in the CLG document "Stock Valuation for Resource Accounting – Guidance for Valuers 2010". The basis of valuation is Current Value (EUV) for non-housing property and Existing Use Value for Social Housing (EUV – SH) for Council dwellings. Surplus property is valued at Market Value.

Revaluations during 2015/16 were undertaken by Darren Fabris BSc (Hons) MRICS, RICS Registered Valuer (Kier) and Guy S C Harbord MA MRICS, IRRV (Hons), RICS Registered Valuer (Wilks Head and Eve).

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	-	-	2,917	872	894	-	251	<b>4,934</b>
Valued at fair value as at: 31 March 2016	117,516	22,037	-	-	-	687	-	<b>140,240</b>
<b>Total Cost or Valuation</b>	<b>117,516</b>	<b>22,037</b>	<b>2,917</b>	<b>872</b>	<b>894</b>	<b>687</b>	<b>251</b>	<b>145,174</b>

### Fair Value Hierarchy – Surplus Assets

Details of the authority's surplus assets and information about the fair value hierarchy as at 31 March 2016 is as follows:

	Fair Value Level 2 2015/16 £000
Surplus Land	687
<b>Balance at end of the year</b>	<b>687</b>

### Valuation Techniques Used to Determine Level 2 Fair Values for Surplus Assets

#### Significant Observable Inputs – Level 2

The fair value of surplus assets have been measured using either the income or comparative approach methods.

For land only assets the Valuers have compared sale prices of comparable land in applicable uses and similar locations before making adjustments for differences in key attributes such as land size.

For some assets the Valuers have relied upon data ascertained from current evidence of passing rents on comparable properties including new lettings and rent reviews. Evidence of yields has been taken from the sale of comparable investments having regard to the type of property, covenant strength and lease terms. Factors of relevance in the leases include the lease term, rent review frequency, any break clauses and obligations for repair, maintenance and buildings insurance.

Valuation inputs for rental and yield which are directly applicable i.e. an almost identical property let to a similar covenant on the same repairing and insuring terms for a similar term to the valuation subject are said to be at Level 2 in the fair value hierarchy as they are directly comparable with limited adjustment.

#### Highest and best use of Surplus Assets

In estimating the fair value of the Council's surplus assets, the highest and best use of the properties is deemed to be their current use for some assets and alternative use for others.

## Valuation Process for Surplus Assets

The fair value of the Council's surplus assets is measured at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers regarding all valuation matters.

## NOTE 12 – HERITAGE ASSETS

Reconciliation of the carrying value of Heritage Assets held by the Council:

2014/15 £000		Civic Regalia and Works of Art 2015/16 £000	Archaeological Sites, Smallholdings and other Land and Sites of Special Interest 2015/16 £000	Total 2015/16 £000
98	<b>Cost or valuation</b>			
-	1 April	47	51	98
	Revaluations	15	-	15
<b>98</b>	<b>31 March</b>	<b>62</b>	<b>51</b>	<b>113</b>

The Council's heritage assets fall into two categories; Civic Regalia and Works of Art, and Archaeological Sites, Smallholdings and other Land and Sites of Special Interest. All the assets have been in the Council's ownership for a number of years and are held for their intrinsic worth as opposed to financial gain. As such they are unlikely to be sold. There were no additions or disposals in the current financial year.

Heritage assets recognised on the Council's Balance Sheet:

### Civic Regalia and Works of Art

- Civic regalia – included in the Balance Sheet at their insurance valuation. These valuations were undertaken on 31 March 2015 by an external specialist valuer – Bonhams.
- Tulip paintings – included in the Balance Sheet at their insurance value. These valuations were undertaken on 31 March 2016 by Woodbine Contemporary Arts.

### Archaeological Sites, Smallholdings and other Land and Sites of Special Interest

- Chain Bridge Forge – recorded at existing use value as determined by the Council's external valuer, Guy S C Harbord MA MRICS, IRRV (Hons), RICS Registered Valuer Wilks, Head and Eve and were last valued on 31 March 2016.
- Nature reserve – recorded at Historic Cost

Heritage assets not recognised on the Council's Balance Sheet:

- Community Beacon, Gas Wharf, Pill box, HMS Hornet bell and model of HMS Taku submarine have been classified as heritage assets but are not included on the Council's Balance Sheet as the cost of obtaining valuations outweighs the benefit to the users of the Financial Statements.



## NOTE 13 – INVESTMENT PROPERTY

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

2014/15 £000		2015/16 £000
(69)	Rental Income from investment property	(74)
38	Direct operating expenses arising from investment property	43
6	Net (gains)/losses from fair value adjustments	(22)
<b>(25)</b>	<b>Net (gain)/loss</b>	<b>(53)</b>

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

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

2014/15 £000		2015/16 £000
857	Balance at start of the year	802
(6)	Net gains/(losses) from fair value adjustments	22
	Transfers:	
(49)	To/from Property, Plant and Equipment	(87)
<b>802</b>	<b>Balance at end of the year</b>	<b>737</b>

### Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2016 is as follows:

	Fair Value Level 2 2015/16 £000
Commercial Industrial Units	737
<b>Balance at end of the year</b>	<b>737</b>

### Valuation Techniques Used to Determine Level 2 for Investment Properties

#### Significant Observable Inputs – Level 2

The fair value of investment properties has been measured using two main approaches - the income method and the comparable method.

For land only assets the Valuers have compared sale prices of comparable land in applicable uses and similar locations before making adjustments for differences in key attributes such as land size.

For land and building assets the Valuers have relied upon data ascertained from current evidence of passing rents on comparable properties including new lettings and rent reviews. Evidence of yields has been taken from the sale of comparable investments having regard to the type of property, covenant strength and lease terms. Factors of relevance in the leases include the lease term, rent review frequency, any break clauses and obligations for repair, maintenance and buildings insurance.

Valuation inputs for rental and yield which are directly applicable i.e. an almost identical property let to a similar covenant on the same repairing and insuring terms for a similar term to the valuation subject are said to be 'observable inputs' as they are directly comparable with limited adjustment and are said to be a Level 2 in the fair value hierarchy.

### Highest and best use of investment properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is deemed to be their current use.

### Valuation Process for Investment Properties

The fair value of the Council's surplus assets is measured at each reporting date. All valuations are carried out externally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers regarding all valuation matters.

### NOTE 14 – INTANGIBLE ASSETS

The Council accounts for its software as intangible assets. Intangible assets include purchased licenses. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The carrying amount of intangible assets is amortised on a straight-line basis, over 3 to 10 years. The amortisation of £231,000 was charged to an overhead account and then absorbed across service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

2014/15 £000		2015/16 £000
1,175	<b>Balance at start of year:</b>	1,369
(543)	- Gross carrying amounts	(658)
<b>632</b>	- Accumulated amortisation	<b>711</b>
	Net carrying amount at start of year	
258	Additions:	99
(167)	- Purchases	(231)
(12)	Amortisation for the period	(15)
<b>711</b>	Other changes - write off obsolete assets	<b>564</b>
	<b>Net carrying amount at end of year</b>	
1,369	<b>Comprising:</b>	1,280
(658)	- Gross carrying amounts	(716)
<b>711</b>	- Accumulated amortisation	<b>564</b>

## NOTE 15 – FINANCIAL INSTRUMENTS

### *Categories of Financial Instruments*

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Current	
	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
<b>Investments</b>				
Loans and receivables				
Principal	-	-	12,448	9,747
Accrued interest	-	-	38	38
Available for Sale Assets				
Certificates of deposit			8,541	4,530
Unquoted equity investment at cost	50	50	-	-
<b>Total Investments</b>	<b>50</b>	<b>50</b>	<b>21,027</b>	<b>14,315</b>
<b>Cash and Cash Equivalents</b>				
Loans and receivables	-	-	7,170	10,081
<b>Total Cash and Cash Equivalents</b>	<b>-</b>	<b>-</b>	<b>7,170</b>	<b>10,081</b>
<b>Debtors</b>				
Loans and receivables				
Mortgages and car loans	157	131	-	-
Trade debtors	-	-	1,252	569
<b>Total included in Debtors</b>	<b>157</b>	<b>131</b>	<b>1,252</b>	<b>569</b>
<b>Borrowings</b>				
Amortised cost				
Principal	(67,456)	(67,456)	-	-
Accrued interest	-	-	(26)	(26)
<b>Total included in Borrowings</b>	<b>(67,456)</b>	<b>(67,456)</b>	<b>(26)</b>	<b>(26)</b>
<b>Other Liabilities</b>				
Amortised cost				
Finance lease liabilities	-	-	-	(13)
<b>Total Other Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13)</b>
<b>Creditors</b>				
Amortised cost				
Trade creditors	-	-	(1,799)	(1,311)
<b>Total Creditors</b>	<b>-</b>	<b>-</b>	<b>(1,799)</b>	<b>(1,311)</b>

## Income, expense, gains and losses

	2015/16			Total
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for Sale	
	£000	£000	£000	£000
Interest expense	2,347	-		2,347
Interest income	-	(156)	(80)	(236)
<b>Net expenditure in Surplus or Deficit on the Provision of Services</b>	<b>2,347</b>	<b>(156)</b>	<b>(80)</b>	<b>2,111</b>
<b>Net loss/(gain) for the year</b>	<b>2,347</b>	<b>(156)</b>	<b>(80)</b>	<b>2,111</b>

	2014/15			Total
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for Sale	
	£000	£000	£000	£000
Interest expense	2,349	-	-	2,349
Interest income	-	(142)	(30)	(172)
<b>Net expenditure in Surplus or Deficit on the Provision of Services</b>	<b>2,349</b>	<b>(142)</b>	<b>(30)</b>	<b>2,177</b>
<b>Net loss/(gain) for the year</b>	<b>2,349</b>	<b>(142)</b>	<b>(30)</b>	<b>2,177</b>

## Fair Value of Financial Assets

The authority has a shareholding interest in Local Capital Finance Company Limited. The shares are carried at cost of £50,000 and have not been valued as a fair value cannot be measured reliably. The company has been created by the Municipal Bonds Agency with a view to providing funds to the public sector. As at 31 March 2016 the company was still in its set up stage and had not started actively lending. The authority did not intend to dispose of the shares at the Balance Sheet date.

The Council held a total of £8.541m in Certificates of Deposit with Royal Bank of Scotland and Toronto Dominion Bank. These represent level 1 inputs in the fair value hierarchy. Fair Value has been assessed at £8.546m using published price quotations and estimation techniques offered by King & Shaxson brokers. As the difference between the carrying value and fair value is immaterial the Council's Balance Sheet reflects the carrying value of £8.541m.

***Fair Values of Assets and Liabilities that are not measured at Fair Value (but which fair value disclosures are required)***

Financial liabilities and financial assets represented by loans and receivables, long-term debtors and creditors are carried in 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 (Level 2), using the following assumptions:

- For loans from the PWLB payable, new loan rates from the PWLB have been applied to provide the fair value;
- For loans receivable, prevailing benchmark market rates have been used to provide the fair value.

The fair values calculated are as follows:

LIABILITIES	31 March 2016		31 March 2015	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Borrowing	(67,482)	(77,196)	(67,482)	(74,159)

For long-term borrowing, the fair value is higher than the carrying amount because the authority's portfolio of loans includes fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £77.196m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed as the PWLB redemption interest rates. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets, termed the PWLB Certainty Interest rates. A supplementary measure of the fair value as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £67.456m would be valued at £77.196m. But, if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £97.673m.

ASSETS	31 March 2016		31 March 2015	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Short-term investments	12,486	12,508	9,785	9,789

The fair value of investments is higher than the carrying amount because the Council's portfolio of investments includes fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2016) attributable to the commitment to receive interest above current market rates.

Trade debtors and creditors are carried at cost as this is a fair approximation of their value.

#### NOTE 16 – DEBTORS

31 March 2015 Net £'000		31 March 2016 Gross £'000	31 March 2016 Impairment £'000	31 March 2016 Net £'000
574	Central government bodies	1,046	-	1,046
109	Other local authorities	212	-	212
1,665	Other entities and individuals	3,322	(1,573)	1,749
<b>2,348</b>	<b>Total</b>	<b>4,580</b>	<b>(1,573)</b>	<b>3,007</b>

#### NOTE 17 – CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2015 £000		31 March 2016 £000
1	Cash held by the Council	1
733	Bank current accounts	307
9,348	Deposits with Banks on Instant Access	6,863
<b>10,082</b>	<b>Total Cash and Cash Equivalents</b>	<b>7,171</b>

#### NOTE 18 – ASSETS HELD FOR SALE

Assets held for sale represent Council Houses to be sold under the Governments Right to Buy (RTB) Scheme. Fair Value is deemed to be the discounted RTB price paid by tenants to acquire the dwelling. The represents level 1 under the fair value hierarchy.

2014/15 £000		2015/16 £000
<b>530</b>	<b>Balance outstanding at start of year</b>	<b>671</b>
617	Assets newly classified as held for sale:	607
	- Property, Plant and Equipment	
(214)	Assets declassified as held for sale:	(349)
	- Property, Plant and Equipment	
(262)	Assets sold	(339)
-	Enhancements	18
-	Other Movements	(1)
<b>671</b>	<b>Balance outstanding at year-end</b>	<b>607</b>

#### NOTE 19 – CREDITORS

2014/15 £000		2015/16 £000
(2,748)	Central government bodies	(2,711)
(1,294)	Other local authorities	(2,275)
(1,756)	Other entities and individuals	(1,695)
<b>(5,798)</b>	<b>Total</b>	<b>(6,681)</b>

## NOTE 20 – PROVISIONS

	Business Rate Appeals £000
<b>Balance at 1 April 2015</b>	<b>(1,711)</b>
Additional provisions made in 2015/16	(448)
Amounts used in 2015/16	163
Unused amounts reversed in 2015/16	314
<b>Balance at 31 March 2016</b>	<b>(1,682)</b>

The provision represents South Holland's share (40% of £4.206m) of the total provision for appeals against the rateable values set by the Valuation Office Agency (VOA) not settled as at 31 March 2016. The total provision has been recognised in the Collection Fund Statement (page 87).

## NOTE 21 – USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

## NOTE 22 – UNUSABLE RESERVES

31 March 2015 £000		31 March 2016 £000
12,652	Revaluation Reserve	14,870
59,298	Capital Adjustment Account	62,483
(34,624)	Pensions Reserve	(30,354)
59	Deferred Capital Receipts Reserve	56
(780)	Collection Fund Adjustment Account	(716)
(51)	Accumulated Absences Account	(67)
<b>36,554</b>	<b>Total Unusable Reserves</b>	<b>46,272</b>

## Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

2014/15 £000	2014/15 £000		2015/16 £000	2015/16 £000
	<b>10,896</b>	<b>Balance at 1 April</b>		<b>12,652</b>
2,231		Upward revaluation of assets	2,744	
(301)		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(271)	
	<b>1,930</b>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		<b>2,473</b>
(194)		Difference between fair value depreciation and historical cost depreciation	(215)	
20		Accumulated gains on assets sold or scrapped	(40)	
	<b>(174)</b>	Amount written off to the Capital Adjustment Account		<b>(255)</b>
	<b>12,652</b>	<b>Balance at 31 March</b>		<b>14,870</b>

## Capital Adjustment Account

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

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

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.



2014/15 £000	2014/15 £000		2015/16 £000	2015/16 £000
	56,890	<b>Balance at 1 April</b>		<b>59,298</b>
		<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
(2,178)		Charges for depreciation and impairment of non-current assets	(3,193)	
(1,686)		Revaluation losses on Property, Plant and Equipment	293	
(167)		Amortisation of intangible assets	(231)	
(293)		Revenue expenditure funded from capital under statute	(1,292)	
(644)		Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(994)	
	(4,968)			(5,417)
	(20)	Adjusting amounts written out of the Revaluation Reserve		40
	194	Net written out amount of the cost of non-current assets consumed in the year		215
		<b>Capital financing applied in the year:</b>		
20		Use of the Capital Receipts Reserve to finance new capital expenditure	101	
-		Use of the Capital Receipts Reserve to finance historical capital expenditure	164	
1,547		Use of the Major Repairs Reserve to finance new capital expenditure	4,411	
882		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	782	
31		Application of grants to capital financing from the Capital Grants Unapplied Account	37	
		Statutory provision for the financing of capital investment charged against the General Fund balance		
37		Minimum Revenue Provision	244	
-		Voluntary Revenue Provision	1,496	
4,691		Capital expenditure charged against the General Fund and HRA balances	1,089	
	7,208			8,324
	(6)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		23
	<b>59,298</b>	<b>Balance at 31 March</b>		<b>62,483</b>

## Pensions Reserve

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

2014/15 £000		2015/16 £000
(29,624)	<b>Balance at 1 April</b>	<b>(34,624)</b>
(3,690)	Remeasurements of the net defined benefit liability	5,606
(2,934)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(3,002)
1,624	Employer's pensions contributions and direct payments to pensioners payable in the year	1,666
<b>(34,624)</b>	<b>Balance at 31 March</b>	<b>(30,354)</b>

## Deferred Capital Receipts Reserve

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

2014/15 £000		2015/16 £000
<b>61</b>	<b>Balance at 1 April</b>	<b>59</b>
(2)	Transfer to the Capital Receipts Reserve upon receipt of cash	(3)
<b>59</b>	<b>Balance at 31 March</b>	<b>56</b>

## Collection Fund Adjustment Account

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

2014/15 £000		2015/16 £000
(358)	<b>Balance at 1 April</b>	(780)
	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non domestic rates income calculated for the year in accordance with statutory requirements	
(422)		64
(780)	<b>Balance at 31 March</b>	(716)

### Accumulated Absences Account

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

2014/15 £000	2014/15 £000		2015/16 £000	2015/16 £000
	(52)	<b>Balance at 1 April</b>		(51)
52		Settlement or cancellation of accrual made at the end of the preceding year	51	
(51)		Amounts accrued at the end of the current year	(67)	
		Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(16)
	1			
	(51)	<b>Balance at 31 March</b>		(67)

## NOTE 23 – CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items

2014/15 £000		2015/16 £000
151	Interest received	224
(2,349)	Interest paid	(2,347)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2014/15 £000		2015/16 £000
2,178	Depreciation	3,193
1,686	Impairment and downward valuations	(293)
47	Impairment & revaluation losses on HRA non dwellings	21
167	Amortisation of intangible assets	231
(21)	(Increase)/decrease in interest debtors	(12)
1,587	Increase in creditors	382
695	(Increase)/decrease in debtors	(636)
21	Decrease in inventories	-
1,310	Movement in pension liability	1,336
489	Contribution to/(from) provisions	(29)
644	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	994
6	Movement in Investment Property Values	(23)
(5)	Other non-cash items charged to the net surplus or deficit on the provision of services	-
<b>8,804</b>		<b>5,164</b>
	<i>Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities</i>	
(1,057)	Capital Grants credited to surplus or deficit on the provision of services	(985)
(911)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,373)
<b>(1,968)</b>		<b>(2,358)</b>

## NOTE 24 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

2014/15 £000		2015/16 £000
(8,250)	Purchase of property, plant and equipment, investment property, plant and intangible assets	(5,234)
(57,798)	Purchase of short-term investments	(72,200)
(28)	Other payments for investing activities	(101)
1,059	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,376
53,600	Proceeds from sale of short-term investments	65,500
877	Other receipts from investing activities	1,035
<b>(10,540)</b>	<b>Net cash flows from investing activities</b>	<b>(9,624)</b>

## NOTE 25 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

2014/15 £000		2015/16 £000
(21)	Cash payments for the reduction of outstanding liabilities relating to finance leases	(13)
(3)	Repayments of short- and long-term borrowing	-
897	Other payments for financing activities	621
<b>873</b>	<b>Net cash flows from financing activities</b>	<b>608</b>

## NOTE 26 – AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across the Directorate structure. These reports are prepared on a different basis from the accounting policies used in the Financial Statements. In particular:

- only some charges, i.e. depreciation and amortisation, are made in relation to capital expenditure (whereas revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pension's contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Council, based on its Directorate structure, as recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure 2015/16	Strategy and Governance	Commercialisation	Place	Housing Revenue Account	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(244)	(1,744)	(3,223)	(16,816)	<b>(22,027)</b>
UK Government grants and contributions	(25)	(19,830)	(89)	(5)	<b>(19,949)</b>
Other grants and contributions	(13)	(65)	(637)	-	<b>(715)</b>
<b>Total Income</b>	<b>(282)</b>	<b>(21,639)</b>	<b>(3,949)</b>	<b>(16,821)</b>	<b>(42,691)</b>
Employee expenses	1,648	1,217	4,454	2,179	<b>9,498</b>
Other service expenses	281	3,055	3,798	5,289	<b>12,423</b>
Payment of Housing Benefits and Grants to outside bodies	4	20,172	606	-	<b>20,782</b>
Depreciation	151	101	757	2,266	<b>3,275</b>
<b>Total Expenditure</b>	<b>2,084</b>	<b>24,545</b>	<b>9,615</b>	<b>9,734</b>	<b>45,978</b>
<b>Net Expenditure</b>	<b>1,802</b>	<b>2,906</b>	<b>5,666</b>	<b>(7,087)</b>	<b>3,287</b>

Directorate Income and Expenditure 2014/15 (restated to reflect new management structure)	Strategy and Governance	Commercialisation	Place	Housing Revenue Account	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(252)	(1,688)	(3,423)	(16,842)	<b>(22,205)</b>
UK Government grants and contributions	(40)	(20,278)	(522)	-	<b>(20,840)</b>
Other grants and contributions	(18)	(16)	(302)	-	<b>(336)</b>
<b>Total Income</b>	<b>(310)</b>	<b>(21,982)</b>	<b>(4,247)</b>	<b>(16,842)</b>	<b>(43,381)</b>
Employee expenses	1,208	1,149	4,144	2,079	<b>8,580</b>
Other service expenses	686	3,084	4,431	4,446	<b>12,647</b>
Payment of Housing Benefits and Grants to outside bodies	3	20,086	726	-	<b>20,815</b>
Depreciation	112	103	432	1,547	<b>2,194</b>
<b>Total Expenditure</b>	<b>2,009</b>	<b>24,422</b>	<b>9,733</b>	<b>8,072</b>	<b>44,236</b>
<b>Net Expenditure</b>	<b>1,699</b>	<b>2,440</b>	<b>5,486</b>	<b>(8,770)</b>	<b>855</b>

#### Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2015/16 £000	2014/15 £000
Net expenditure in the Directorate Analysis	3,287	855
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(165)	1,666
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(2,836)	(2,875)
Joint Operation - CPBS Share included in the Comprehensive Income and Expenditure Statement	3,160	3,162
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>3,446</b>	<b>2,808</b>

## Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the group Comprehensive Income and Expenditure Statement.

2015/16	Directorate analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Joint Operation CPBS Share	Cost of Services	Corporate	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(22,027)	-	284	(50)	(21,793)	(73)	(21,866)
Interest and investment income	-	-	-	-	-	(236)	(236)
Income from Council Tax	-	-	-	-	-	(4,963)	(4,963)
Income from Business Rates	-	-	-	-	-	(10,508)	(10,508)
UK Government grants and contributions	(19,949)	-	-	-	(19,949)	(4,352)	(24,301)
Other grants and contributions	(715)	-	-	-	(715)	(269)	(984)
Change in investment property value	-	-	-	-	-	(23)	(23)
Gain or loss on disposal of non-current assets	-	-	-	-	-	(1,404)	(1,404)
<b>Total Income</b>	<b>(42,691)</b>	<b>-</b>	<b>284</b>	<b>(50)</b>	<b>(42,457)</b>	<b>(21,828)</b>	<b>(64,285)</b>
Employee expenses	9,498	-	(16)	2,575	12,057	16	12,073
Other service expenses	12,423	-	(3,104)	485	9,804	27	9,831
Payment of Housing Benefits and grants to outside bodies	20,782	-	-	-	20,782	-	20,782
Pensions accounting adjustments	-	107	-	-	107	-	107
Depreciation, amortisation and impairment	3,275	(272)	-	150	3,153	-	3,153
Interest payments	-	-	-	-	-	2,347	2,347
Precepts and Levies	-	-	-	-	-	2,926	2,926
Payments to Housing Capital Receipts Pool	-	-	-	-	-	439	439
Net interest on the net defined benefit liability	-	-	-	-	-	1,084	1,084
Gain or loss on disposal of non-current assets	-	-	-	-	-	1,024	1,024
Business rates tariff and levy	-	-	-	-	-	7,220	7,220
<b>Total Expenditure</b>	<b>45,978</b>	<b>(165)</b>	<b>(3,120)</b>	<b>3,210</b>	<b>45,903</b>	<b>15,083</b>	<b>60,986</b>
<b>Surplus or deficit on the provision of services</b>	<b>3,287</b>	<b>(165)</b>	<b>(2,836)</b>	<b>3,160</b>	<b>3,446</b>	<b>(6,745)</b>	<b>(3,299)</b>

2014/15	Directorate analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Joint Operation CPBS Share £000	Cost of Services £000	Corporate £000	Total £000
Fees, charges and other service income	(22,205)	-	285	(11)	(21,931)	(69)	(22,000)
Interest and investment income	-	-	-	-	-	(172)	(172)
Income from Council Tax	-	-	-	-	-	(4,841)	(4,841)
Income from Business Rates	-	-	-	-	-	(9,981)	(9,981)
UK Government grants and contributions	(20,840)	-	-	-	(20,840)	(5,677)	(26,517)
Other grants and contributions	(336)	-	-	-	(336)	-	(336)
Gain or loss on disposal of non-current assets	-	-	-	-	-	(1,057)	(1,057)
<b>Total Income</b>	<b>(43,381)</b>	<b>-</b>	<b>285</b>	<b>(11)</b>	<b>(43,107)</b>	<b>(21,797)</b>	<b>(64,904)</b>
Employee expenses	8,580	-	(19)	2,593	11,154	19	11,173
Other service expenses	12,647	-	(3,141)	430	9,936	19	9,955
Payment of Housing Benefits and grants to outside bodies	20,815	-	-	-	20,815	-	20,815
Pensions accounting adjustments	-	(67)	-	-	(67)	-	(67)
Depreciation, amortisation and impairment	2,194	1,733	-	150	4,077	-	4,077
Interest payments	-	-	-	-	-	2,349	2,349
Precepts and Levies	-	-	-	-	-	2,846	2,846
Payments to Housing Capital Receipts Pool	-	-	-	-	-	519	519
Net interest on the net defined benefit liability	-	-	-	-	-	1,219	1,219
Gain or loss on disposal of non-current assets	-	-	-	-	-	667	667
Change in investment property value	-	-	-	-	-	6	6
Business rates tariff and levy	-	-	-	-	-	6,877	6,877
<b>Total Expenditure</b>	<b>44,236</b>	<b>1,666</b>	<b>(3,160)</b>	<b>3,173</b>	<b>45,915</b>	<b>14,521</b>	<b>60,436</b>
<b>Surplus or deficit on the provision of services</b>	<b>855</b>	<b>1,666</b>	<b>(2,875)</b>	<b>3,162</b>	<b>2,808</b>	<b>(7,276)</b>	<b>(4,468)</b>



## NOTE 27 – MEMBERS’ ALLOWANCES

The Council paid the following amounts to members of the Council during the year.

	2015/16 £000	2014/15 £000
Basic Allowance	225	219
Special Responsibility Expenses	137	128
	17	14
<b>Total</b>	<b>379</b>	<b>361</b>

## NOTE 28 – OFFICERS’ REMUNERATION

The remuneration paid to the Council’s senior employees is as follows:

		Salary, Fees and Allowances £	Expenses Allowances £	Pension Contribution £	Redundancy Payments £	Total £
<b>Monitoring Officer (to Sept. 2015)</b>	2015/16	27,587	444	4,826	19,457	52,314
	2014/15	59,675	963	10,443	-	71,081
<b>Executive Manager (from Jul. 2015)</b>	2015/16	41,600	1,664	7,319	-	50,583
	2014/15	-	-	-	-	-

The Council has entered into a shared management arrangement with Breckland District Council where the two Councils share members of the management team.

The Monitoring Officer shown in the above table provided services for both the Council and for Breckland District Council. This employee was formally employed by South Holland District Council, and Breckland District Council was recharged 50% of their salary and other remuneration and expenses. As South Holland District Council was the employing Council, their full costs are shown in the note above.

Breckland District Council employs eight other members of the management team, the Chief Executive, two Executive Directors, and four Executive Managers. The Council is charged 60% of their salaries and other remuneration and expenses.

The Council’s other employees receiving more than £50,000 remuneration for the year (excluding employer’s pension contributions) were paid the following amounts:

Remuneration Band	2015/16 Number of Employees	2014/15 Number of Employees
£50,000 – £54,999	1	-
£55,000 – £59,999	1	1
£60,000 – £64,999	-	1
£65,000 – £69,999	-	-

The Council terminated the contracts of a number of employees in 2015/16 incurring liabilities of £26,922 (£16,877 in 2014/15). The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
£0-£20,000	1	1	2	3	3	4	26,922	16,877
<b>Total cost included in bandings and in CIES</b>							<b>26,922</b>	<b>16,877</b>

Of the £26,922 paid out for Exit Packages, £9,728 was received from Breckland District Council in relation to 50% of a shared managers redundancy cost.

#### NOTE 29 – EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Financial Statements.

	2015/16 £000	2014/15 £000
<b>Statutory Audit Services</b>		
Fees payable to KPMG LLP with regard to external audit services carried out for the year by the appointed auditor for the year	45	60
Fees payable to KPMG LLP with regard to certification of grants and claims	8	9
	<b>53</b>	<b>69</b>
<b>Other Audit Services</b>		
Share of fees payable to KPMG LLP with regard to external audit services carried out for the year on behalf of Compass Point Business Services.	7	7
Fees payable to KPMG LLP with regard to certification of grants and claims	3	3
Fees payable to KPMG LLP with regard to advisory services	-	29
	<b>10</b>	<b>39</b>
<b>Total</b>	<b>63</b>	<b>108</b>

## NOTE 30 – GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16.

	2015/16 £000	2014/15 £000
<b>Credited to Taxation and Non Specific Grant income and Expenditure</b>		
Revenue Support Grant	(2,381)	(3,392)
S31 Grant – Business Rate Grant	(544)	(474)
Council Tax Freeze Grant	(47)	(47)
New Homes Bonus Scheme Grant	(1,372)	(1,084)
New Burdens Grant	-	(16)
Other non specific grants	(8)	(10)
Grants in relation to capital expenditure	(269)	(654)
<b>Total</b>	<b>(4,621)</b>	<b>(5,677)</b>
<b>Credited to Services</b>		
Housing Benefit Subsidy	(18,721)	(19,027)
Council Tax and Housing Benefit Administration	(374)	(459)
Discretionary Housing Payments	(95)	(105)
Disabled Facilities Grant	(325)	(256)
Health Improvement	(77)	(101)
Arts Council	-	(54)
Waste Collection Support Scheme	-	(257)
Other Housing Benefit Grants to Deliver Local Initiatives	(71)	(40)
Local Council Tax Scheme New Burdens Grant	(18)	(72)
Electoral Commission	(25)	(40)
Grants for Growth	(548)	(561)
Second Homes Income	(65)	(72)
Land Charges New Burdens Grant	(84)	-
Other grants	(261)	(132)
<b>Total</b>	<b>(20,664)</b>	<b>(21,176)</b>

The Council has received grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver if the conditions are not met. The balances at the year-end are as follows:

### Grants Received in Advance - Capital

	2015/16 £000	2014/15 £000
<b>Short Term Liabilities</b>		
DCLG – Gypsy and Travellers	(330)	
DCLG – Economic Development – Growth	(130)	-
<b>Long Term Liabilities</b>		
DCLG – Gypsy and Travellers	(77)	(549)
Private Developers – S106 Funding	(13)	-
<b>Total</b>	<b>(550)</b>	<b>(549)</b>

## NOTE 31 – RELATED PARTIES

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

### Central Government

UK Central Government has effective control over the general operations of the Council which it could exercise through statutory measures, directives to operate in a specific way or through financial pressure. It is responsible for providing the statutory framework which the Council operates in, prescribes the terms of many transactions that the Council has with other parties (e.g. housing benefits) and provides the majority of the Council's funding in the form of grants.

Details of material transactions with Central Government are shown below. 2014/15 comparators shown in brackets.

• Funding from Government	Note 26	£24.301m (£26.517m)
• Non Domestic Rates Share Payable	Collection Fund	£13.210m (£12.599m)
• Debtors	Note 16	£1.046m (£0.574m)
• Creditors	Note 19	£2.711m (£2.748m)

Grants received from Central Government are shown in Note 30.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in Note 27. During 2015/16 a number of members had links to local Parish Councils, held positions on Internal Drainage Boards and other Local Community associations. Another member is a Director of the Compass Point Business Services (East Coast) Ltd (joint venture with East Lindsey District Council).

Details of specific transactions where members declared their interests are recorded in the Register of Members' Interest, open to public inspection at the Council Offices during office hours. The Council is compliant with the Localism Act 2012.

### Other Public Bodies

Joint management arrangements exist between the Council and Breckland District Council. The costs of this arrangement are shared 60:40 between the two Councils. During the year, the Council paid Breckland £1.002m (£1.071m in 2014/15) for shared Breckland employee and related costs and received £323,256 (£277,000 in 2014/15) from Breckland for payment of shared South Holland employees and related costs. There was an outstanding balance of £81,808 due by South Holland and Breckland owed South Holland a balance of £80,142 at the end of March 2016.

### Entities Controlled or Significantly Influenced by the Council

#### ***Compass Point Business Services***

Joint merged service organisation arrangements for the shared provision of a number of back office services with East Lindsey District Council were implemented with effect from 1 August 2010, delivered through Compass Point Business Services (CPBS) (East Coast) Ltd. The Council's share of the Company's assets, liabilities, income and expenditure are shown in note 40. There are no significant balances outstanding between the Council and the Company at 31 March 2016.

Further information about the accounts of CPBS is available from the Company Secretary, Eversheds House, 70 Great Bridgewater Street, Manchester, M1 5ES.

**South Holland Homes**

The Council has a wholly owned subsidiary company, South Holland Local Housing Community Interest Company, which was established in 2008/09 for the purpose of accessing social housing grant from the Homes and Communities Agency. This was in order to provide affordable and social housing for the benefit of the local community.

In 2009/10, 6 new properties were constructed. These are tenanted and managed by the Council. In 2015/16 the Council collected rent of £26,593 on behalf of the Company and charged management and support fees of £7,304. There are no significant balances outstanding at 31 March 2016.

During the year the company made a profit of £13,775 (2014/15 £263,804).

At 31 March 2016, the Company held fixed assets valued at £786,924 and current assets totalling £484,983. Liabilities consisted of short-term creditors of £3,950, and long-term creditors of £267,000.

Further information about the accounts of South Holland Homes is available from the Company Secretary, Mr M Stinson, Council Offices, Priory Road, Spalding, Lincolnshire, PE11 2XE.

**Welland Homes**

During 2015/16 the Council established a wholly owned subsidiary company, Welland Homes, in order to meet a number of social and economic objectives including increasing housing supply in the area to address existing demand and meet the needs of a growing population.

South Holland District Council has recognised in its 2015/16 Financial Statements set-up costs of £52,313.

Group Accounts have not been produced for 2015/16 incorporating the financial position of South Holland Homes and Welland Homes.

## NOTE 32 – CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2015/16	2014/15
	£000	£000
<b><i>Opening Capital Financing Requirement</i></b>	<b>71,817</b>	<b>70,394</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	5,011	8,077
Intangible Assets	99	258
Revenue Expenditure Funded from Capital under Statute	1,292	293
Assets Held for Sale - Current	18	-
Long Term Investment	-	50
<b>Sources of finance</b>		
Capital receipts	(265)	(20)
Government grants and other contributions	(819)	(913)
Major Repairs Reserve	(4,411)	(1,547)
<b>Sums set aside from revenue:</b>		
Direct revenue contributions	(1,089)	(4,691)
Minimum Revenue Provision	(231)	(16)
Voluntary Revenue Provision	(1,496)	-
Finance leases - repayments	(13)	(21)
Impairment & revaluation losses on HRA non dwellings	(21)	(47)
<b><i>Closing Capital Financing Requirement</i></b>	<b>69,892</b>	<b>71,817</b>
<b><i>Explanation of movements in year</i></b>		
Increase/(Decrease) in underlying need to borrowing (unsupported by government financial assistance)	(1,925)	1,423
<b><i>Increase/(decrease) in Capital Financing Requirement</i></b>	<b>(1,925)</b>	<b>1,423</b>

## NOTE 33 – LEASES

### Council as Lessor

#### ***Finance Leases***

The Council does not lease out any property under the terms of a finance lease

#### ***Operating Leases***

The Council leases out a number of items of land and property under operating leases.

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

	31 March 2016 £000	31 March 2015 £000
Not later than 1 year	135	162
Later than 1 year and not later than 5 years	96	162
Later than 5 years	28	38
	<b>259</b>	<b>362</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16 no contingent rents were receivable by the Council (nil in 2014/15).

## NOTE 34 – DEFINED BENEFIT PENSION SCHEMES

### Participation in Pension Schemes

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

The Council participates in the Local Government Pension Scheme, administered by Lincolnshire County Council. This is a funded defined benefit scheme, meaning that the employer and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Lincolnshire pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Lincolnshire County Council. Policy is determined in accordance with the Pensions Fund Regulations.

The principal risks of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

The financial information contained in this note includes the position for South Holland District Council together with a share for Compass Point Business Services Ltd to comply with the accounting requirements for Joint Operations.

### Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax and housing rents is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance and Housing Revenue Account Balance via the Movement in Reserves Statement during the year.

Local Government Pension Scheme		
	2015/16 £000	2014/15 £000
<b>Comprehensive Income and Expenditure Statement</b>		
<i>Cost of Services:</i>		
<i>Service cost comprising</i>		
Current service cost	1,918	1,632
Past service cost	-	83
<i>Financing and Investment Income and Expenditure</i>		
Net interest expense	1,084	1,219
<b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>3,002</b>	<b>2,934</b>
<i>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>		
Remeasurement of net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	1,049	(4,064)
Actuarial (gains) and losses arising on changes in financial assumptions	(5,459)	8,366
Other experience	(1,196)	(612)
<b>Total Remeasurements recognised in Other Comprehensive Income and Expenditure</b>	<b>(5,606)</b>	<b>3,690</b>
<b>Total Post-employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>(2,604)</b>	<b>6,624</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(1,336)	(1,310)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
Employers' contributions payable to scheme	1,563	1,521
Contributions in respect of unfunded benefits	103	103

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

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

Local Government Pension Scheme		
	2015/16 £000	2014/15 £000
Present Value of the defined obligation	(83,086)	(87,369)
Fair Value of plan assets	52,732	52,745
<b>Net Liability arising from defined benefit obligation</b>	<b>(30,354)</b>	<b>(34,624)</b>



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

	Local Government Pension Scheme	
	2015/16	2014/15
	£000	£000
Opening fair value scheme assets	52,745	47,303
Interest Income	1,643	1,942
Remeasurement gain/(loss)		
The return on plan assets, excluding the amount included in the net interest expense	(1,049)	4,064
Contributions from employer	1,563	1,521
Contributions from employees into the scheme	420	417
Contributions in respect of unfunded benefits	103	103
Benefits paid	(2,693)	(2,605)
<b>Closing fair value of scheme assets</b>	<b>52,732</b>	<b>52,745</b>

## Reconciliation of Present Value of Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme	
	2015/16	2014/15
	£000	£000
Opening Balance at 1 April	87,369	76,927
Current Service Cost	1,918	1,632
Past Service Cost	-	83
Interest Cost	2,727	3,161
Contributions from scheme participants	420	417
<i>Remeasurements (gains) and losses:</i>		
Actuarial losses arising from changes in financial assumptions	(5,459)	8,366
Other experience	(1,196)	(612)
Benefits paid	(2,693)	(2,605)
<b>Closing Balance at 31 March</b>	<b>83,086</b>	<b>87,369</b>

## Local Government Pension Scheme assets comprised

	Fair Value of Scheme Assets			
	2015/16		2014/15	
	Quoted prices in active markets £000	% of total assets	Quoted prices in active markets £000	% of total assets
Cash and Cash Equivalents	569	1%	754	1%
Equity Instruments				
Consumer	10,925	21%	10,073	19%
Manufacturing	1,171	2%	1,473	3%
Energy and utilities	2,857	5%	3,256	6%
Financial institutions	5,689	11%	6,250	12%
Information technology	1,956	4%	1,998	4%
Other	5,850	11%	6,234	12%
Debt Securities				
Corporate Bonds – Investment grade	1,807	3%	1,757	3%
Corporate Bonds – Non Investment grade	3,336	6%	3,438	7%
UK Government	1,091	2%	1,001	2%
Other	737	1%	688	1%
Property				
UK Property	5,612	11%	5,177	10%
Overseas Property	572	1%	604	1%
Private Equity	1,927	4%	2,253	4%
Investment Funds and Unit Trusts				
Equities	2,975	6%	2,728	5%
Other	5,658	11%	5,061	10%
<b>Total Assets</b>	<b>52,732</b>	<b>100%</b>	<b>52,745</b>	<b>100%</b>

## Basis for estimating Assets and Liabilities

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

The Local Government Pension Scheme has been assessed by Hymans Robertson, an independent firm of actuaries; estimates for the Lincolnshire Pension Fund are based on the latest full valuation of the scheme as at 31 March 2013.

The significant assumptions, for the Council, used by the actuary have been:

	Local Government Pension Scheme	
	2015/16	2014/15
<i>Mortality assumptions:</i>		
Longevity at 65 for current pensioners (years):		
- Men	22.2	22.2
- Women	24.4	24.4
Longevity at 65 for future pensioners (years):		
- Men	24.5	24.5
- Women	26.8	26.8
Rate of inflation	3.1%	3.0%
Rate of increase in salaries	3.6%	3.5%
Rate of increase in pensions	2.1%	2.1%
Rate for discounting scheme liabilities	3.4%	3.1%

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Approximate % increase to Employer Liability	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	9%	6,811
1 year increase in member life expectancy	3%	2,168
0.5% increase in the Salary Increase Rate	2%	1,643
0.5% increase in the Pension Increase Rate	7%	5,098

### Impact on the Council's Cash Flows

The contributions paid by the Council are set by the Fund Actuary at each triennial actuarial valuation, the most recent being 31 March 2013. The employer's contributions rate, over the period to 31 March 2017, has been stabilised. The stabilisation mechanism implemented is for employer contribution rates to increase at 1% p.a from the 2014/15 level.

Employer contributions payable to the scheme in 2016/17 are estimated to be £1.619m.

The weighted average duration of the defined benefit obligation for scheme members is 17 years, 2015/16 (17 years 2014/15).

## **NOTE 35 – CONTINGENT LIABILITIES**

At 31 March 2016 the Council has identified the following material contingent liability:

### **NNDR Appeals**

The Council has made provision for NNDR Appeals based upon its best estimate of known appeals as at 31 March 2016. It is not possible to quantify appeals that have yet to be lodged with the Valuation Office Agency, so there is a risk that national and local appeals will have a significant impact on the Financial Statements.

## **NOTE 36 – CONTINGENT ASSETS**

At 31 March 2016 the Council has identified the following material contingent assets:

### **Section 106 Agreements**

The Council has signed a number of S106 agreements that require developers to make payments to the Council at some future date dependant upon certain events taking place, for example, when a development actually starts on site. The contributions generally have conditions attached to them requiring the Council to spend the monies in specific areas and on specific items. The total value of the contributions is unknown but could be in excess of £5m.

### **Decent Homes Loans**

The Council has, for a number of years, been giving property owners loans to enable them to improve their homes to meet a decent standard. These loans have been registered with Land Registry and will only become repayable, together with interest and a proportion of the increased property value, once the dwelling is sold or otherwise disposed of. The disposal and therefore repayment could be many years in the future. Loans outstanding as at 31 March 2016 are £439,000 (£481,000 at 31 March 2015).

## **NOTE 37 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

### **Key risks**

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

- **credit risk** – the possibility that other parties might fail to pay amounts due to the Council
- **liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments
- **re-financing risk** – the possibility that the Council might be 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 rate movements.

### **Overall procedures for managing risk**

The Council's overall risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual Treasury Management Strategy. The Council provides 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).

## 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 & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

The credit criteria in respect of financial assets held by the Council are detailed below.

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

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

The full Investment Strategy for 2015/16 was approved by Council on 25 February 2015 and is available on the Council's website.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £5m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2016 that this was likely to crystallise.

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

	Amount at 31 March 2016 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2015 %	Estimated maximum exposure to default and uncollectability at 31 March 2015 £000	Estimated maximum exposure at 31 March 2015 £000
	A	B	C	(A x C)	
Customers	515	6.74%	6.74%	35	45

No credit limits were exceeded 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.

The Council does not generally allow credit for its customers, such that £102,767 of the £514,502 balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2016 £000	31 March 2015 £000
Less than three months	426	340
Three to six months	4	1
Six months to one year	27	52
More than one year	58	89
<b>TOTAL</b>	<b>515</b>	<b>482</b>

## Liquidity Risk

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

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities (borrowing) is as follows:

	31 March 2016 £000	31 March 2015 £000
Less than one year	26	39
More than ten years	67,456	67,456
	<b>67,482</b>	<b>67,495</b>

All trade and other payables are due to be paid in less than one year.

## Refinancing and maturity risk

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

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments for greater than one year in duration are the key parameters used to address this risk. The approved treasury and investment strategies address the main risks and the 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.

## 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 interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise
- borrowings at fixed rates – the fair value of the borrowing will fall
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise
- 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 Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure Statement.

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

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

	£000
Increase in interest receivable on variable rate investments	91
Increase in government grant receivable for financing costs	34
Impact on Surplus or Deficit on the Provision of Services	<b>125</b>
Share of overall impact debited to the HRA	38

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

**Price Risk** - The Council does not generally invest in equity share or marketable bonds. However, it does have shareholdings in the Compass Point Business Services (East Coast) Ltd joint venture with East Lindsey District Council. It also holds an equity stake in the newly formed Municipal Bonds Agency.

**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.

## NOTE 38 – JOINT OPERATION

South Holland has joint control with East Lindsey District Council over Compass Point Business Services (East Coast) Ltd, a company established in 2010 to provide ‘back office’ services to both Councils. South Holland owns 37%, of the company, and East Lindsey 63%, but voting rights are split 50:50.

This arrangement is classified as a joint operation. The Council recognises on its Balance Sheet an appropriate share of its rights to the assets and obligations for the liabilities and debits and credits the Comprehensive Income and Expenditure Statement with its share of expenses incurred and income it earns from the activity of the Company.

Compass Point Business Services’ attributable proportion included in the Council’s Balance Sheet as at 31 March 2016:

31 March 2015 £000		31 March 2016 £000
49	Property, Plant and Equipment	21
322	Intangible Assets	200
<b>371</b>	<b>Long-term Assets</b>	<b>221</b>
9	Short-term Debtors	24
264	Cash and Cash Equivalents	285
<b>273</b>	<b>Current Assets</b>	<b>309</b>
(254)	Short-term Creditors	(280)
<b>(254)</b>	<b>Current Liabilities</b>	<b>(280)</b>
(3,351)	Other Long-term Liabilities	(1,926)
<b>(2,961)</b>	<b>Net Liabilities</b>	<b>(1,676)</b>
33	<b>Usable Reserves</b> General Fund	45
371	<b>Unusable Reserves</b> Capital Adjustment Account	222
(3,351)	Pension Reserve	(1,926)
(14)	Accumulated Absences Adjustment Account	(17)
<b>(2,994)</b>		<b>(1,721)</b>
<b>(2,961)</b>	<b>Total Reserves</b>	<b>(1,676)</b>



Compass Point Business Services' attributable proportion included in the Council's Comprehensive Income and Expenditure Account for the year:

<b>31 March 2015 £'000</b>		<b>31 March 2016 £'000</b>
2,593	Gross Pay, National Insurance and Pensions	2,575
(34)	Premises Related Expenses	(35)
40	Transport Related Expenses	38
424	Supplies and Services	482
150	Depreciation and Amortisation	150
<b>3,173</b>	<b>Gross Operating Expenditure</b>	<b>3,210</b>
(11)	Other Income	(50)
<b>3,162</b>	<b>Cost of Services</b>	<b>3,160</b>
85	Net interest on the net defined benefit liability	113
(1)	Interest receivable and similar income	(1)
<b>3,246</b>	<b>(Surplus)/Deficit on the Provision of Services</b>	<b>3,272</b>
1,194	Remeasurements of the net defined benefit liability	(1,683)
<b>4,440</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>1,589</b>

## NOTE 39 – TRUST FUNDS

The Council is custodian trustee for:

### ***IVO Day Care Centre***

The Council holds and invests £10,000 on behalf of the trust. This is not held on the Council's Balance Sheet.

### ***Weston St Mary's Village Hall***

The Council is a custodian trustee for the village hall. It has no liability for debts and is not responsible for the management of the trust property.

### ***Ayscoughfee Hall and Gardens (registered charity 515905)***

The Council, as trustee, holds the deeds on behalf of the people of Spalding.

### ***Sir Halley Stewart Playing Field (registered charity 1084450)***

Day to day running costs for Ayscoughfee Hall and Gardens and the Sir Halley Stewart Playing Field are included in the Council's Comprehensive Income and Expenditure Statement.

Values placed on these assets, by an external RICS qualified valuer are shown below. They are not included in the Council's Balance Sheet.

Ayscoughfee Hall and Gardens £1,180,927, last revalued as at 31 March 2016  
Sir Halley Stewart Playing Field £115,175 last revalued as at 31 March 2016

Trust fund revenue Account	Expenditure £000	2015/16 Income £000	Net £000	Expenditure £000	2014/15 Income £000	Net £000
Ayscoughfee Hall and Gardens	398	(59)	<b>339</b>	375	(38)	<b>337</b>
Sir Halley Stewart Playing Field	50	(4)	<b>46</b>	37	(9)	<b>28</b>

## SUPPLEMENTARY FINANCIAL STATEMENTS

### HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

2014/15 £000		2015/16 £000
	<b>Expenditure</b>	
2,649	Repairs and maintenance	3,087
3,376	Supervision and management	3,806
69	Rents, rates, taxes and other charges	76
1,547	Depreciation of non-current assets (Note 6)	2,266
1,714	Revaluation of non-current assets	(263)
-	Debt management expenses	75
106	Movement in the allowance for bad debts	54
<b>9,461</b>	<b>Total Expenditure</b>	<b>9,101</b>
	<b>Income</b>	
(15,490)	Dwelling rents	(15,464)
(156)	Non-dwelling rents	(160)
(1,138)	Charges for services & facilities	(1,148)
(58)	Contribution towards expenditure	(49)
<b>(16,842)</b>	<b>Total Income</b>	<b>(16,821)</b>
<b>(7,381)</b>	<b>Net income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>	<b>(7,720)</b>
335	HRA share of Corporate and Democratic Core	429
<b>(7,046)</b>	<b>Net income for HRA Services</b>	<b>(7,291)</b>
	<b>HRA Share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement</b>	
(448)	Gain on sale of HRA non-current assets	(457)
2,347	Interest payable and similar charges	2,347
(50)	Interest and investment income	(64)
310	Net interest on the net defined benefit liability	271
<b>(4,887)</b>	<b>Surplus for the year on HRA services</b>	<b>(5,194)</b>

The Housing Revenue Account has undergone a review during the 2016/17 MTFS budget setting process, for both capital and revenue. Within SeRCOP, the divisions in service for the HRA include response and planned repairs and associated costs only, for the upkeep of HRA property. There are several areas of the HRA which have been reclassified from Repairs and Maintenance to Supervision and Management. Comparative amounts have been reclassified for 2014/15. Only repairs and maintenance costs for voids, response, internal and external works, such as works carried out by the CSU and external contractors, are included within this category.

£159,387 of corporate overheads, which include Compass Point recharges and support service recharges previously shown within each cost centre, have now been reclassified under Supervision and Management. This is because they are not directly related to repairs and maintenance or upkeep of HRA property. They are a proportion of central recharges for policy management and managing tenancies and therefore should be included under the classification of Supervision and Management.

£460,426 of sewerage charge costs have been reclassified from Repairs and Maintenance to Supervision and Management. This is due to the expenditure not being directly related to repairs and maintenance and being more aligned to managing tenancies and special services. The recovery of a proportion of sewerage costs are shown within charges for services and facilities.

## MOVEMENT ON THE HRA STATEMENT

2014/15 £000		2015/16 £000
6,835	Balance on the HRA at the end of the previous reporting period	8,968
4,887	Surplus for the year on the HRA Income and Expenditure Statement	5,194
(2,754)	Adjustments between accounting basis and funding basis under statute	(5,194)
8,968	<b>Balance on the HRA at the end of the current reporting period</b>	8,968

### Adjustments between accounting basis and funding basis under statute

2014/15 £000		2015/16 £000
(448)	Gain or loss on sale of HRA Non current assets	(457)
(3)	Employee Benefits	1
299	HRA Share of contributions to or from the Pension's Reserve	300
(1,547)	Transfers to the Major Repairs Reserve	(7,020)
(4,268)	Capital Expenditure funded by the HRA	-
1,547	Differences relating to changes in property values	
1,666	Funding of depreciation from Capital Adjustment Account	2,266
	Reversal of Revaluation losses on HRA Property	(284)
(2,754)	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>	(5,194)

## NOTES TO THE HOUSING REVENUE ACCOUNT

### NOTE 1 – PURPOSE OF HRA STATEMENT

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

### NOTE 2 – HOUSING STOCK

The Council was responsible for managing 3,847 dwellings at 31 March 2016 (3,875 at 31 March 2015). The stock is analysed below by number of bedrooms. The Council has an equity share in 6 shared ownership properties, with the Council's equity share being equivalent to 3 dwellings.

<b>Analysis of Housing Stock at 31 March 2016</b>	<b>1 Bed</b>	<b>2 Bed</b>	<b>3 Bed</b>	<b>3+ Bed</b>	<b>Total</b>
HRA Housing Stock					
Houses	-	346	1,542	13	1,901
Bungalow	667	1,009	-	-	1,676
Flats	110	154	-	-	264
Shared Ownership	1	2	3	-	6
<b>Total</b>	<b>778</b>	<b>1,511</b>	<b>1,545</b>	<b>13</b>	<b>3,847</b>

### NOTE 3 – RENT ARREARS

Rent arrears at 31 March 2016 amounted to £512,000 (£452,000 in 2014/15) and are analysed as follows:

	<b>31 March 2016 £000</b>	<b>31 March 2015 £000</b>
<b>Rent Arrears Due From</b>		
Residential - Current Tenants	318	273
- Former Tenants	175	163
Non Residential - Garages	19	16
<b>Total</b>	<b>512</b>	<b>452</b>
These arrears include all charges due from tenants: rents, service charges and other charges.		
Allowance for bad debts	(260)	(240)

## NOTE 4 – ASSET VALUES

The Balance Sheet value of assets within the Council's HRA is shown below:

	31 March 2016 £000	31 March 2015 £000
<b>Property, Plant and Equipment</b>		
Council Dwellings	117,516	115,005
Other Land and Buildings	818	1,001
Infrastructure – Housing Sewerage	700	812
Vehicles, Plant and Equipment	16	29
Surplus Assets	301	19
Community Assets	46	46
<b>Non-operational assets</b>		
Assets Under Construction	24	-
<b>Intangible Non-Current Assets</b>	143	122
<b>Investment Properties</b>	-	44
<b>Assets Held For Sale</b>	607	671
<b>Total</b>	<b>120,171</b>	<b>117,749</b>

## NOTE 5 – VACANT POSSESSION

The vacant possession value is the Council's estimate of the total sum that it would receive if all the dwellings were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than would be obtainable on the open market, and the Balance Sheet value is therefore lower than the vacant possession valuation. The difference between the two values therefore shows the economic cost of providing housing at less than market value. The vacant possession value of dwellings within the HRA is shown below:

	2015/16 £000	2014/15 £000
Vacant possession value	345,635	338,250

## NOTE 6 - DEPRECIATION

	2015/16 £000	2014/15 £000
<b>Depreciation</b>		
Council dwellings	2,027	1,334
Other Land and Buildings	27	31
Infrastructure - Housing Sewerage	162	123
Vehicles, Plant & Equipment	13	52
	<b>2,229</b>	<b>1,540</b>
<b>Amortisation</b>		
Intangible Assets	37	7
<b>Total</b>	<b>2,266</b>	<b>1,547</b>

## NOTE 7 – CAPITAL EXPENDITURE AND FINANCING

	2015/16 £000	2014/15 £000
<b>Housing Capital Expenditure and Financing</b>		
<b>Expenditure</b>		
Improvements and enhancements to Council Dwellings	4,315	5,465
New Build – Council Dwellings	24	188
Improvements to wastewater treatments	50	43
Improvements to sheltered accommodation	-	2
Information systems	61	117
<b>Total Expenditure</b>	<b>4,450</b>	<b>5,815</b>
<b>Financing</b>		
Capital receipts	39	-
Major Repairs Reserve	4,411	1,547
Direct Revenue Financing	-	4,268
<b>Total Financing</b>	<b>4,450</b>	<b>5,815</b>

## NOTE 8 – CAPITAL RECEIPTS FROM DISPOSAL OF ASSETS

	2015/16 £000	2014/15 £000
Sale of Council Houses under the Right to Buy Scheme	1,254	932
Sale of Void Property	110	-
Sale of HRA Land		125
Mortgage repayments	3	2
<b>Total from Disposals</b>	<b>1,367</b>	<b>1,059</b>

## NOTE 9 – MAJOR REPAIRS RESERVE

The Major Repairs Reserve is maintained to meet HRA Capital Investment. Movements on the reserve were:

	2015/16 £000	2014/15 £000
<b>Balance at 1 April</b>	-	-
Transfers from the HRA		
Depreciation	2,266	1,547
Funding set-aside for Capital Investment	4,754	-
Financing of Capital Investment	(4,411)	(1,547)
<b>Balance at 31 March</b>	<b>2,609</b>	<b>-</b>

# COLLECTION FUND STATEMENT

Council Tax £000	2014/15			Council Tax £000	2015/16	
	Non-Domestic Rates £000	Total £000			Non-Domestic Rates £000	Total £000
(37,756)		(37,756)	<b>Income</b>	(39,067)		(39,067)
	(26,370)	(26,370)	Council Tax receivable (Note 2)		(25,960)	(25,960)
	(243)	(243)	Non-Domestic Rates receivable (Note 3)		(478)	(478)
			Transitional Protection Payments			
	(119)	(119)	Contributions towards previous year's Collection Fund deficit			
-	(95)	(95)	Central Government	-	(341)	(341)
-	(24)	(24)	South Holland District Council	-	(272)	(272)
			Lincolnshire County Council	-	(68)	(68)
(37,756)	(26,851)	(64,607)	<b>Total Income</b>	(39,067)	(27,119)	(66,186)
			<b>Expenditure</b>			
			Precepts, demands and shares			
	12,599	12,599	Central Government		13,210	13,210
4,777	10,079	14,856	South Holland District Council	4,825	10,568	15,393
27,259	2,520	29,779	Lincolnshire County Council	27,981	2,642	30,623
4,959		4,959	Police and Crime Commissioner for Lincolnshire	5,093		5,093
			Impairment of debts/appeals			
257	127	384	Increase in allowance for impairment	85	30	115
	1,833	1,833	Increase in provision for appeals (Note 4)		334	334
	113	113	Cost of Collection Allowance		113	113
	207	207	Renewable Energy		207	207
			Contributions towards previous year's Collection Fund surplus			
42	-	42	South Holland District Council	75	-	75
242	-	242	Lincolnshire County Council	434	-	434
43		43	Police and Crime Commissioner for Lincolnshire	79		79
37,579	27,478	65,057	<b>Total Expenditure</b>	38,572	27,104	65,676
(177)	627	450	<b>(Surplus)/Deficit arising during year</b>	(495)	(15)	(510)
(483)	1,532	1,049	Deficit/(surplus) at beginning of year	(660)	2,160	1,500
(660)	2,159	1,499	<b>Deficit/(surplus) at end of year (Note 5)</b>	(1,155)	2,145	990



## NOTES TO THE COLLECTION FUND STATEMENT

### NOTE 1 – PURPOSE OF COLLECTION FUND STATEMENT

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

### NOTE 2 – COUNCIL TAX RECEIVABLE

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, Police and Crime Commissioner for Lincolnshire and South Holland District Council, together with the relevant Parish requirement.

This is then divided 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 and exemptions.

The council tax base was calculated as follows:

Band	No. of properties on Valuation List	No. of chargeable dwellings	Ratio	Band D equivalent dwellings
A (with Disabled Relief)		23	5/9	13
A	14,979	10,305	6/9	6,870
B	8,406	6,841	7/9	5,321
C	9,682	8,416	8/9	7,481
D	4,023	3,775	9/9	3,775
E	1,757	1,623	11/9	1,984
F	360	339	13/9	490
G	98	87	15/9	145
H	13	6	18/9	12
Band D Equivalents				26,091
Allowance for non-collection (1.24%)				(324)
<b>District Tax Base</b>				<b>25,767</b>

The basic amount of council tax for a band D property including an average parish charge, £1,470.82 (2014/15 £1,446.29), is then multiplied by the ratio specified for the particular band to give an individual amount due.

### NOTE 3 – NON-DOMESTIC RATES RECEIVABLE

Under the arrangements for Non-Domestic Rates, the Council collects rates for its area based on local rateable values (determined by the Valuation Office Agency, an executive agency of HM Revenue and Customs) multiplied by the multiplier (determined by the Government). For 2015/16 there are two multipliers, the non-domestic rating multiplier of 49.3p and the small business non-domestic rating multiplier of 48.0p. The Council's total Non-Domestic Rates Rateable Value at 31 March 2016 was £63.625m (31 March 2015 £63.427m).

#### NOTE 4 – NON-DOMESTIC RATES PROVISION FOR APPEALS

The Collection Fund provides for a provision for appeals against the Rateable Value set by the Valuation Office Agency (VOA) not settled at 31 March 2016.

	<b>Business Rate Appeals</b>	
	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April 2015</b>		<b>(4,279)</b>
Amounts used in 2015/16		408
		(3,871)
Additional provisions made in 2015/16	(1,120)	
Unused amounts reversed in 2015/16	785	
Increase in Provision		(335)
<b>Balance at 31 March 2016</b>		<b>(4,206)</b>

#### NOTE 5 – COLLECTION FUND DEFICIT/ (SURPLUS)

As at 31 March 2016, the net deficit on the Collection Fund is £0.990m (£1.499m at 31 March 2015).

The Council Tax surplus is apportioned to the relevant precepting bodies based on the following year's Council Tax requirement. Whereas, the Non Domestic Rates deficit is apportioned to South Holland (40%), Central Government (50%) and Lincolnshire County Council (10%).

The balance on the Collection Fund is allocated as follows:-

<b>2014/15</b>			<b>2015/16</b>	
<b>Council Tax</b>	<b>Non-Domestic Rates</b>		<b>Council Tax</b>	<b>Non-Domestic Rates</b>
<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>
	1,079	Central Government		1,072
(84)	864	South Holland District Council	(146)	858
(487)	216	Lincolnshire County Council	(856)	215
(89)		Police and Crime Commissioner for Lincolnshire	(153)	
<b>(660)</b>	<b>2,159</b>	<b>(Surplus)/deficit</b>	<b>(1,155)</b>	<b>2,145</b>



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

We have audited the financial statements of South Holland District Council for the year ended 31 March 2016 on pages 17 to 89. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditor**

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

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

## **Matters on which we are required to report by exception**

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 93 to 99 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

## **Conclusion on South Holland District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether South Holland District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether South Holland District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

## **Conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, South Holland District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

## **Certificate**

We certify that we have completed the audit of the financial statements of South Holland District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

**John Cornett**

**For and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants  
St Nicholas House  
31 Park Row  
Nottingham  
NG1 6FQ*

16 September 2016

## **Annual Governance Statement**

We are pleased to confirm assurance of Governance arrangements to be of the highest level **Green** - “Performing Well” as reported in the Internal Audit Annual Report for 2015/16.

### **Scope of responsibilities**

South Holland District Council seeks to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded, properly accounted for, 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, South Holland District Council is also responsible for ensuring that there is a sound system of governance which facilitates the effective exercise of its functions, guarantees that the financial and operational management of the authority is effective and includes arrangements for the management of risk.

South Holland District Council has approved and adopted a Code of Corporate Governance, which 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.sholland.gov.uk](http://www.sholland.gov.uk). This statement explains how the Council has complied with the Code and also meets the requirements of the Accounts and Audit Regulations (England) 2015.

### **The purpose of the Governance Framework**

The Governance Framework comprises the systems and processes, culture and values, by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can 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, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The Governance Framework has been in place at South Holland District Council for the year ended 31 March 2016 and up to the date of approval of the Financial Statements.

### **The Governance Framework**

The Council is responsible for developing policies, making constitutional decisions and deciding local legislation. The Council elects a Leader for a term of four years, and the Leader appoints a Cabinet of up to nine other Councillors, each holding a portfolio of responsibility.

The Constitution of the Council is updated throughout the year and sets out how the Council operates. It states what matters are reserved for decision by the whole Council, the responsibilities of the Cabinet and the matters reserved for collective and individual decisions, and the powers delegated to panels, committees and community councils. Decision-making powers not reserved for Councillors are delegated to Chief Officers and Heads of Service of the Council. The Monitoring Officer ensures that all decisions made are legal and supports the Standards Committee in promoting high standards of conduct amongst Members.

The Policy Development Panel and the Performance Monitoring Panel scrutinise decisions made by the Cabinet, and those delegated to officers, and review services provided by the Council and its partners. The Monitoring Officer promotes and supports the scrutiny functions of the Council.

The Governance and Audit Committee is responsible for monitoring the effective development and operation of corporate governance in the Council. It provides independent assurance of the adequacy of the governance arrangements, including the risk management framework, the associated control environment, financial and non-financial performance including exposure to risk and potential threats to the control environment, oversight of the financial reporting process and scrutiny of the Treasury Management Strategy and policies.

The overall budget and policy framework is set by an elected Council assembly and all decisions are made within this framework. The Council assembly is responsible for approving the General Fund budget, the Housing Revenue Account rent charges and budget, Capital strategy and expenditure programmes, Special expenses, Treasury Management and the Medium Term Financial Plan.

The statutory officers of South Holland District Council are the Chief Executive, the Monitoring Officer and the Section 151 Officer. They are responsible for ensuring the Council acts within the law and in accordance with established policies and procedures. The Section 151 Officer is specifically responsible for the proper discharge of financial arrangements and must advise the Council where any proposal might be unlawful or where expenditure is likely to exceed resources, and to ensure that the authority's financial management arrangements conform to the governance requirements as set out in the Chartered Institute of Public Finance and Accountancy statement on the Role of the Chief Financial Officer (2010).

The Monitoring Officer is responsible for advising the Council if any proposal, decision or omission is likely to give rise to unlawfulness or maladministration.

The statutory officers are also members of the authority's Executive Management Team. Service Managers are responsible for ensuring that legislation and policy relating to service delivery and health and safety are implemented in practice.

### ***Strategic leadership***

The authority updates and issues a corporate plan on an annual basis setting out ambitions and aims for delivering an increase to the prosperity and wellbeing of our residents and businesses, whilst striving to protect and enhance the environment and unique historic character of the district. It explains the context of the area of South Holland, the challenges faced, and how the views of residents influence priorities for action. The corporate plan highlights planned activities over a four year period and sets out corporate values and behaviours.

### ***Partnership working***

The Financial Regulations of the Council set out the principles of effective management of resources when working in partnership, including the setting of clear objectives and management of financial and delivery risks.

The South Holland District Council shared management arrangement with Breckland District Council is now well-established and was reviewed during 2015, leading to structure changes to better reflect the needs of the Council at a strategic and operational level. This commitment to sharing a management team does not encompass the elected councils which will continue to exercise independent democratically accountable local government in their respective districts, each having its own governance arrangements. A Memorandum of Understanding is in place, and sets out the governance arrangements for shared management and joint working.

### ***Companies***

Compass Point Business Services (East Coast) Ltd. (CPBS) was set up by South Holland and East Lindsey District Councils in August 2010 to deliver human resources, customer services, ICT, revenues and benefits, and financial services to the two authorities. South Holland District Council owns a 37% stake in the company with the remaining share being owned by East Lindsey District Council. Each authority has equal voting rights.

The CPBS Board of Directors includes Councillors and Chief Officers of both authorities. The company has regularly reported its progress on performance of services to the Monitoring Officer, with quarterly shareholder performance being subject to Scrutiny. An annual business plan is approved by council. The ongoing governance arrangements are set out in the Service Level Agreement (SLA), and a management Agreement is in place that sets out the partnership arrangements, principles and parameters.

The Council is the sole shareholder of South Holland Local Housing Community Interest Company. The Board of Directors is responsible for preparing the Director's report, financial statements and governance arrangements for the company.

Welland Homes Limited was set up during the year and the Council is the sole shareholder. The Board of Directors is responsible for preparing the Director's report, Financial Statements and governance arrangements for the company. Officers of the Council work within this framework to deliver services to the company and Welland Homes operates within the governance arrangements of the Council when delivering services to the authority.

### ***Quality of service***

The annual business planning processes are part of an integrated planning framework which ensures that service planning and related resource management flow from the Corporate Plan and the Medium Term Financial Plan. The overall effectiveness of services is measured through the performance management framework. Quarterly service and financial performance is reported formally to Cabinet.

### ***Transparency***

The Council strives to be publicly accountable and routinely presents its work with openness and transparency on its website in accordance with the requirements of the Local Government Transparency Code 2014.

### ***Complaints***

The Council has in place a Whistle-blowing Policy as well as a compliments and complaints procedure that ensure that any referrals are fully investigated, properly resolved and learning applied to service delivery. Systems and procedures have been enhanced to ensure that complaints/service requests are a cornerstone of the management approach of the Council.

## **Functions and roles**

### ***Effective leadership***

The Constitution sets out roles and responsibilities for the Council and its standing committees. All working groups have clear terms of reference for their work in supporting policy development and progress monitoring. Roles and responsibilities of Councillors are defined in both generic and specific job descriptions that have been tested through consultation and based on a recommended national model with some additional local interpretation. A clear Officer/Member delegation framework exists to provide clarity on the powers entrusted in those appointed to make decisions on behalf of the Council.

The Council has adopted a standard form of committee report which seeks to ensure that all matters coming to Councillors for decision have first received consideration in respect of all appropriate and necessary, legal, financial and professional matters, as well as risk. This has been expanded to include coverage of technical matters such as carbon footprint. The Council updates and publishes Key Decision and Exemption Plans. This is a record of all key and exempt decisions the Executive expects to make in the next twelve months.

### ***Working relationships***

The Constitution of the Council sets out all schemes of Delegated Authority for Officers, including the conditions of such delegation.

All staff have conditions of employment and job descriptions that set out their roles and responsibilities. There is also a competency framework. The framework defines the competencies



required of each post in the Council so that individuals can be assessed against them to identify suitability for the posts, areas of strength and areas for further development. Competencies can be used to measure how well we do things and are essential to the performance management process. The competencies provide consistent standards across the organisation and help to identify the types of behaviour the Council wishes to promote, develop and engender.

### ***Standards of conduct***

The Council has a duty to promote the highest standards of conduct and personal behaviour from members including co-opted members of the authority and expects the highest standards of conduct and personal behaviour from staff. These standards are defined and communicated through codes of conduct, protocols and other documents. The Council also has a standards panel which promotes and maintains high standards of conduct within the Council and advises on arrangements for dealing with complaints against members. The Council has appointed an Independent Person, until 2019, whose views are sought, and taken into account, by the Council before it makes any decision on an allegation that it has decided to investigate.

### ***Financial and risk management***

The Executive Director (Commercialisation) is designated the responsible officer for the administration of the financial affairs of the Council under S151 of the Local Government Act 1972. This includes ensuring the lawfulness and financial prudence of decision making; providing advice, particularly on financial impropriety, publicity and budget issues, giving financial information; and acting as the Council Money Laundering Reporting Officer. The Section 151 Officer is specifically responsible for the proper discharge of financial arrangements and must advise the Council where any proposal might be unlawful or where expenditure is likely to exceed resources, and to ensure that financial management arrangements conform to the governance requirements as set out in the Chartered Institute of Public Finance and Accountancy statement on the Role of the Chief Financial Officer.

The Council operates a strong financial management framework to ensure the lawful and best economic use of the Council's assets. Financial regulations are supported by effective financial procedures underpinned by the work of internal and external audit. Financial regulations and contract procedure rules are periodically reviewed to ensure they remain effective in supporting sound internal control.

### ***Legal and regulatory compliance***

Compliance with established policies, procedures, laws and regulations is ensured by the requirements of the constitution to give the Chief Executive, the Monitoring Officer (Democratic Services and Legal Manager) and the Chief Finance Officer (Executive Director (Commercialisation)) the opportunity to comment on every report submitted to a decision making body. The Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision making.

### ***Councillor and officer development***

The Council has adopted a Councillor Development Policy and Strategy and delivers a comprehensive training programme to ensure that Councillors have the opportunity to further develop skills, necessary to serve their communities. In March 2015 the Council renewed its accreditation with the Member Development Charter.

Staff performance is managed using a performance development framework. The Performance Development Review (PDR) process improves communications and ensures employees have clear objectives and an understanding of how they contribute to corporate priorities and goals. All Council employees have an annual Performance Development Review which is followed up and monitored by the reviewer and reviewee throughout the year.

There is a strong working relationship between Councillors and staff, and the Council aims to ensure that they have the skills, resources and support needed to perform effectively in their roles. The Council has an embedded induction process and a continuous development ethos.

Senior officers are also expected to keep abreast of developments in their profession at all times.

### ***Community engagement***

The Council is committed to listening to and involving the community and consistently demonstrates that it does, therefore both the Medium Term Financial Plan and the Corporate Plan went out for public consultation prior to adoption. Our consultation processes provide useful feedback on services, public perceptions and quality of life; we provide guidance on good practice and we profile respondents to better understand equalities implications. The Housing Service employs a tenant engagement officer to work closely with our tenants, some of whom are also our most vulnerable, and understand their specific needs. Our community engagement strategy provides a robust strategic framework for addressing the most significant barriers to engagement in South Holland, and a programme of action for improving information provision, consultation and empowerment. This is complemented by our web strategy and online capability.

### ***Risk management***

Risk management continues to be an integral part of the daily activities of the Council. All Member decisions are supported by a commentary on the risks involved in taking the decision with this developing greater Member appreciation of risk, not least through reports to the Governance and Audit Committee.

Arrangements are embedded in the Corporate Risk Management Strategy and risk registers which are regularly reviewed and changed in line with current circumstances.

### ***Legal powers***

The Council understands its legal powers and limitations, and seek to ensure that it acts lawfully at all times. The Monitoring Officer is responsible for advising the Council if any proposal, decision or omission is likely to give rise to unlawfulness or maladministration.

### ***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 informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the annual report of the Head of Internal Audit, and also by comments made by the external auditors and other review agencies and inspectorates.

The Governance and Audit Committee provides advice on the effectiveness of the governance arrangements. It has an important role as the designated audit committee for the Council and considers the findings of internal and external audit. It ensures that audit recommendations are implemented and considers the effectiveness of arrangements for securing internal control. It challenges the authority's performance against key performance indicators and assesses key corporate risks on an exceptions basis to ensure that sufficient mitigating action is taken to manage corporate risk.

The S151 Officer has provided the Internal Audit service through a contract with Lincolnshire County Council which monitors the effectiveness of the control environment and reports specific recommendations to the senior management and the Governance and Audit Committee. An annual internal audit report and opinion is also produced for the Governance and Audit Committee which comments on the overall effectiveness of our control environment. Adequacy of internal controls is scored as either a high, substantial, limited or low assurance by internal audit.

From the work undertaken by Internal Audit during the year, the Head of Internal Audit and Risk Management provides an opinion on the effectiveness of South Holland District Council's arrangements for governance, risk management and control arrangements. Governance and risk management are deemed to be 'Performing Well' with financial control and internal control, or 'Performing Adequately – some improvements required'. Some issues have been brought to the attention of the Governance and Audit Committee including grant claim audits particularly in respect of Housing Benefit Subsidy. All issues raised are subject to action plans to improve the control environment.

The Executive Management team receives regular reports from governance boards which were set up to manage corporate performance and risk. These boards include Transformation, Commercialisation and Growth, employee relations, safeguarding, health and safety, emergency planning, and finance, as well as the statutory officers group. There are a number of other groups covering cross cutting themes and specific services which also report to the Corporate Management Team.

South Holland District Council also participates in the Lincolnshire Counter-Fraud Partnership and regular updates are circulated within applicable departments and partner organisations to ensure controls are amended as necessary.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Cabinet and Governance and Audit Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the Governance Framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

### **Significant governance issues**

The work of Internal Audit is highlighted in their Annual Report which raises concerns on service delivery arrangements, management of risks and operation of controls. The review of effectiveness provides good overall assurance on the Governance system. Specific opportunities for improvement in risk management and internal controls have been identified as part of this process and are included in action plans for relevant officers.

The Council faces a number of issues and areas of significant change that will require consideration and action as appropriate over the medium to long-term:

- Delivery of the Transformation Programme, based on Digitalisation, Aligning Public Services, Organisational Design and Commercialisation is in progress and is a crucial component of the Medium Term Financial Plan
- Delivering the Corporate Plan aim of being a Landlord of choice will necessitate a continued strengthening of the HRA including commencement of the Affordable Housing programme in 2016/17
- The Greater Lincolnshire Devolution agreement signed in March 2016 brings challenges and risks with new ways of working including a new Combined Authority with Accountable Body status and a Mayoral function
- Ongoing and additional impact of business rates specifically in relation to appeals, and generally on the achievement of government targets, the review of business rate retention arrangements, potential extension of discretionary rate relief policy on funding and pooling arrangements within Greater Lincolnshire
- Continuing impact of reduced government funding, reductions in housing rents and implications of right to buy and other national housing policies
- Continued potential impact of Welfare Reform including the delayed introduction of universal credit – work is still required to understand the timing and detail of the roll out and to quantify the possible impact across the Council
- Ongoing and additional impact of Housing Benefit subsidy particularly in respect of Local Authority error rates

## **Certification**

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements, including the continual development of the Risk Management Framework. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and progress on these improvements and mitigation of risks will be monitored by the Executive Management Team and Governance and Audit Committee through the year and be considered in our next annual review.

**Signed on behalf of South Holland District Council**

**Anna Graves  
Chief Executive**



**The Lord Porter of Spalding CBE  
Leader of the Council**



## **GLOSSARY OF TERMS**

### **Accounting Period**

This is the period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

### **Accruals Basis**

The accruals principle is that income is recorded when it is earned rather than when it is received and expenses are recorded when goods and services are received rather than when the payment is made.

### **Actuarial Gains and Losses**

Actuaries assess financial and non-financial information by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because:

- events have not coincided with the actuarial assumptions made for the last valuation
- the actuarial assumptions have changed

### **Appointed Auditors**

Public Sector Audit Appointments Limited (PSAA) appoints external auditors to every local authority from one of the major firms of registered auditors. For South Holland this is KPMG.

### **Balance Sheet**

This is a statement of the recorded assets, liabilities and other balances held at the end of the accounting period.

### **Balances**

The balances of the Council represent the accumulated surplus of income over expenditure on any of the funds.

### **Capital Adjustment Account**

The Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (e.g. Disabled Facilities Grants). The balance on this account thus represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

### **Capital Expenditure**

This is expenditure on the acquisition of a non-current asset (fixed asset), or expenditure, which adds to, and not merely maintains, the value of an existing non-current asset.

### **Capital Receipts**

Income received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

### **Carrying Amount**

The Balance Sheet value recorded of either an asset or a liability.

### **Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year.

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is the leading professional accountancy body for public services

**Collection Fund**

A fund administered by the Council showing the transactions of the billing authority (South Holland) in relation to the collection from taxpayers and the distribution to local authorities and the Government of Council tax and non-domestic rates.

**Community Assets**

These are non-current assets that the Council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

**Contingent Liabilities or Assets**

These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately and for which, provision has not been made in the Council's accounts.

**Council Tax**

This is one of the main sources of local taxation to local authorities. Council tax is levied on households within its area by the billing authority (South Holland) and the proceeds are paid into its Collection Fund for distribution to precepting authorities and for use by its own General Fund.

**Council Tax Requirement**

This is the estimated revenue expenditure on General Fund services that is required to be financed from council tax after deducting income from fees and charges, certain specific grants and any funding from reserves,

**Creditors**

Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the Balance Sheet date.

**Current Service Cost**

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

**Curtailment**

Curtailments will allow the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year

**Debtors**

These are sums of money due to the Council that have not been received at the Balance Sheet date.

**Deferred Capital Receipts**

These represent capital income still to be received after disposals have taken place.

**Defined Benefit Scheme**

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

**Department for Communities and Local Government (CLG)**

The CLG is a key Department within Central Government with the overriding responsibility for determining the allocation of general resources to local authorities.

**Depreciation**

This is the measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed (non-current) asset.

**Earmarked Reserves**

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

**Equity method**

A method of accounting by which an equity investment is initially recorded at cost and subsequently adjusted to reflect the investor's share of the net assets of the Joint Operation.

**Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Accounts are authorised for issue.

**Exceptional Items**

Material items deriving from events or transactions that fall within the ordinary activities of the Council but which need to be disclosed separately by virtue of their size and/or incidence, to give fair presentation of the accounts.

**External Audit**

The independent examination of the Council's activities and accounts to ensure that the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Council has made proper arrangements to secure value for money in its use of resources.

**Expenditure**

This is amounts paid by the Council for goods and services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for.

**Fair Value**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**Finance Lease**

A finance lease is a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes Investments, trade receivables and trade payables.

**General Fund**

This is the main revenue fund of the Council and includes the net cost of all services financed by local taxpayers and Government Grants.

**Heritage Assets**

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**Housing Revenue Account**

Local authorities are required to maintain a separate account – the Housing Revenue Account – which sets out the expenditure and income arising from the provision of Council housing. Other services are charged to the General Fund.

**Impairment**

A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a fixed asset's market value and evidence of obsolescence or physical damage to the asset.

**Income**

These are amounts due to the Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment. Income is deemed to have been earned once the goods or the services have been supplied even if the payment hasn't been received (in which case the recipient is a debtor to the Council).

**Infrastructure Assets**

Fixed assets belonging to the Council that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

**Intangible Assets**

These are assets that do not have physical substance but are identifiable and controlled by the Council. Examples include Software Licenses.

**Internal Borrowing**

The use of internal cash balances to pay for the unfinanced element of capital expenditure rather than taking on additional external borrowing.

**International Financial Reporting Standards**

These are defined Accounting Standards that must be applied by all reporting entities to all Financial Statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with Financial Statements of other entities.

**Joint Arrangement**

An arrangement of which two or more parties have joint control.

**Joint Operation**

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

**Liabilities**

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current Liabilities are usually payable within one year of the Balance Sheet date.

**Materiality**

The concept that the Accounts should include all amounts which, if omitted or mis-stated, could be expected to lead to a distortion of the Financial Statements and ultimately mislead a user of the accounts.

**National Non Domestic Rates (Business Rates)**

This is one of the main sources of local taxation to local authorities. NNDR is the levy on business property, based on a national rate in the pound applied to the rateable value of the property.

**Net Book Value (NBV)**

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

**Net Debt**

Net debt is the Council's borrowings less cash and liquid resources.

**Net Realisable Value (NRV)**

NRV is the open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

**Non-Current Assets Fixed Assets)**

Assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.



**Non-Distributed Costs**

These are overheads for which no user now benefits and as such are not apportioned to services.

**Non-Operational Assets**

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

**Operational Assets**

Fixed assets held and occupied, used or consumed by the Council in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**Operational Boundary**

This reflects the maximum anticipated level of external debt consistent with budgets and forecast cash flows.

**Operating Lease**

This is a type of lease usually for computer equipment or office furniture and equipment where the balance of risks and rewards of holding assets remains with the lessor. The assets remain the property of the lessor and the lease costs are revenue expenditure to the Council.

**Precept**

The amount levied by various authorities that is collected by the Council on their behalf. The precepting authorities in South Holland are Lincolnshire County Council and the Police and Crime Commissioner for Lincolnshire.

**Prior Year Adjustment**

These are material adjustments which are applicable to an earlier accounting period arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Provision**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

**Public Works Loan Board (PWLb)**

A Central Government Agency which provides loans, for one year and above, to Councils at interest rates only slightly higher than those at which the government can borrow itself.

**Related Parties**

Related parties are Central Government, other Local Councils, precepting and levying bodies, subsidiary and associated companies. Related parties are deemed to include the Council's elected members, the Chief Executive and its Directors. For individuals identified as related parties, the following are also presumed to be related parties:-

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual or member of their close family or the same household has a controlling interest.

**Remuneration**

All sums paid to or receivable by an employee and sums due by way of expense allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received. Pension contributions payable by the employer are excluded.

**Reserves**

The accumulation of surpluses, deficits and appropriations arising from previous financial years. Reserves can either be usable; that is, available to meet the Council's future expenditure plans and unusable; that is, those maintained purely for accounting purposes.

**Revaluation Reserve**

The Reserve records the accumulated gains on the fixed assets held by the Council 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).

**Revenue Expenditure**

Expenditure incurred on the day-to-day running of the Council. This mainly includes employee costs, general running expenses and capital financing costs.

**Revenue Expenditure Funded From Capital under Statute (REFCUS)**

Expenditure incurred in year that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the Comprehensive Income and Expenditure Statement.

**Revenue Support Grant**

A grant paid by Central Government towards the cost of providing General Fund services.

**Service Reporting Code of Practice (SeRCOP)**

Prepared and published by CIPFA, SeRCOP establishes proper practices with regard to consistent financial reporting for services in England and Wales. It is given legislative backing by regulations which identify the accounting practices it requires as proper practices under the Local Government Act 2003.

**Service Potential**

Future benefits that an asset is expected to bring to the Council.

**Treasury Management**

This is the process by which the Council controls its cash flow and its borrowing and lending activities.

**Treasury Management Strategy**

A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council.