SOUTH HOLLAND
DISTRICT COUNCIL

FINANCIAL STATEMENTS

For the Year Ended 31 March 2013

Contents

FINANCIAL STATEMENTS

EXPLANATORY FOREWORD
BY THE ASSISTANT DIRECTOR FINANCE

This Accounts document provides information on how the Council has used its available financial resources. This is required by law and sets out in concise form various statutory and other relevant information. The notes that follow provide a more straightforward explanation of the often complicated local government finance arrangements.

1. District Profile

Introduction
South Holland District covers a geographical area of 74,238 hectares and is situated in the south eastern corner of Lincolnshire. The District is located in the flat fenlands that have been reclaimed from the sea over the centuries. The District is made up of small rural communities and five towns: Crowland, Holbeach, Long Sutton, Spalding and Sutton Bridge. This area has a low population density of 1.2 persons per hectare (120 per km 2) compared to an average of 2.9 in the East Midlands and an average of 3.7 for England and Wales.

Population
The latest population estimate for South Holland is 88,300.

Spalding is the largest town in the District with a population of 28,722

In the 2001 Census the total population of the District was 76,522. The population grew by 15.4% between 2001 and 2011. 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 102,063 by 2021, which is a higher rate of growth than predicted for England and Wales

The number of households in the District as at 31 March 2013 was 37,300

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 - 2.7% in April 2013 compared to 3.3% April 2012 and 3.1% April 2011.

2. Governance and Audit

The Governance and Audit Committee was established by full Council at its Annual Meeting in May 2007. The purpose of the Committee is to monitor and, if necessary, make recommendations to review the corporate governance and audit arrangements for South Holland District Council. The key areas of responsibility for the Committee are to review:

- financial statements
- internal controls
- the internal audit programme
- Treasury Management practices and scrutinise strategy and performance

3. Council Priorities

Corporate Plan
This plan which covers a 4 year period, currently up to 2015.The plan sets out the Council's Priorities which are to:

- be a forward looking council
- enable our communities
- encourage pride In South Holland
- support our local economy
- develop stronger communities

The priorities define the medium term goals of the authority and as such remain relatively constant from year to year. Actions associated with them are set annually as a focus for each financial year.

4. Review of 2012/13

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

During the year Council spending is subject to regular monitoring. Monitoring reports are considered by the Corporate Management Team, with quarterly reports being presented to the Cabinet.

Accounting Policy Information
The Accounts of the Council comply with the relevant accounting practices laid down by the Accounting Standards authorities and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. Further information is provided within the Accounting Policies section of the Financial Statements.

Revaluation of the Council's fixed assets
Assets that bring longer-term benefits to the Council are generally valued in the Balance Sheet at fair value in their existing use, with the exception of infrastructure and community assets that are held at depreciated historical cost, investment properties (assets held primarily to generate rental income and/or for capital appreciation), which are held at market value and heritage assets, which are held at valuation or depreciated historic cost.

IFRS accounting arrangements require that certain assets that had been traditionally categorised as being held under operating leases are now included on the Council's Balance Sheet held under the terms of a finance lease. As at 31 March 2013 these are valued at £220,000 (£422,000 at 31 March 2012).

General Fund asset valuations have been reviewed at 31 March 2013; this has been carried out on a "desktop" basis, which means that the surveyor did not physically visit all of the properties. These valuations are in accordance with the Royal Institution of Charted Surveyors Valuation Standards 6th Edition which was revised to reflect the requirements of the introduction of International Financial Reporting Standards.

A “desktop” revaluation of Housing Revenue Account assets was also undertaken by an external valuer as at 31 March 2013. The revaluation was based on guidance issued for valuing housing stock. The guidance advised the continued use of an adjustment factor of 34% be applied to Council dwellings to reflect Existing Use Value for Social Housing.

Asset revaluations impact significantly on the Council’s Balance Sheet and Revenue Accounts, but not on Council Tax levels or Housing Rent levels.

The General Fund

The budget set by the South Holland for 2012/13 enabled the Council to reduce Council Tax to £156.60 compared to £157.03 in 2011/12.

The budget requirement for the year was set at £11.897m representing the net cost of providing the council’s services. This requirement was financed as follows:

	Original Budget £000
Government Formula Grant (Revenue Support Grant and re-distributed business rates)	6,657
Council Tax Income, Town and parish and Spalding Special Income	5,240
Budget Requirement	**11,897**

The following table identifies the variances in service expenditure, other operating costs, and income from grants, local taxpayers and other sources, compared in overall terms to the budget as approved by Council when setting the Council tax for 2012/13

	Original Budget £000	Outturn £000	Variance £000
Expenditure			
Employees	6,089	5,936	153
Other Running Costs (Premises, Transport and Supplies and Services)	5,837	5,716	121
Third Party Contracts	3,066	3,000	66
Transfer Payments – Housing and Council Tax Benefits	22,357	24,816	(2,459)
Parish Precepts and Internal Drainage Board Levies	2,764	2,764	-
Capital Charges	836	1,028	(192)
Capital Grants and Contributions made to private tenants and external organisations	-	744	(744)
Income			
Government and Other Grants and Contributions	(23,254)	(26,859)	3,605
Rents, Fees and Charges	(3,801)	(5,007)	1,206
Recharges	(1,312)	(748)	(564)
Investment Income	(50)	(147)	97
Net Service Expenditure	**12,532**	**11,243**	**1,289**
Movement to/(from) Earmarked Reserves	(96)	1,581	(1,677)
Statutory Adjustments	(539)	(1,018)	479
	11,897	**11,806**	**91**

Explaining the major differences:

The main differences between the budget and outturn were:

- *Transfer payments–rent allowance payments were above the estimate due to economic conditions. This additional expenditure is funded by the Department for Works and Pensions and is reflected in Government and Other Grants and Contributions.*
- *Capital grants and statutory adjustments – payments for Disabled Facilities Grants, Conservation Projects, Decent Homes, not included in the original budget. The impact on the General Fund is nil, as these costs are funded from capital resources (reversed out as part of statutory adjustments).*
- *Rents Fees and charges-Partly due to the recovery of Housing benefit overpayments being much higher than initially budgeted. A review of accounting treatment of income items was undertaken during 2012-13 which has seen an increase under this category with a corresponding reduction in recharges. This includes costs recharged to Breckland District Council for shared management and Compass Point for accommodation at Priory Road.*
- *Government grants – includes additional in-year non-ringfenced revenue grants received during the year.*
- *Earmarked reserve movements were above the original budget due both to lower than forecast spending and additional transfers into reserves to support future spending. This also includes the transfer of the New Homes Bonus and the Waste Incentive grant.*

Housing Revenue Account
The Council maintains a separate revenue account for recording all income and expenditure relating to the management and maintenance of its housing stock. This is known as the Housing Revenue Account (HRA) and the items to be charged and credited to it are prescribed by statute.

The 2012/13 original budget forecast an increase in the HRA working balance for the year, of £1.833m. The outturn position shows an increase to HRA balances of £3.258m, representing an underspend of £1.290m.

The key reasons for the difference result from employee related savings (£221,000) and an underspend (£867,000) on the HRA Capital Programme. Additional expenditure of £182,000 was incurred to reflect the actual rate of interest payable on the self financing debt taken by the Council in 2011/12.

Housing Revenue Account (HRA) Reforms
The HRA reforms introduced by central government have been running throughout to end the system of housing subsidies. The self financing regime means that local authorities retaining housing stock take on a share of government housing debt in return for greater autonomy in managing their HRA. This meant that the council borrowed £67.456m in March 2012 in return for retaining future housing rent income streams. The council no longer claims housing subsidy.

From April 2012 the Council has had the opportunity to run its housing 'business' more effectively, with more certainty than in the past. This freedom has the potential to deliver a much improved service to tenants, better maintenance of existing stock and the potential for the Council to build new housing for those in need.

With these new freedoms, however, come new responsibilities to undertake long term business planning and to take on new areas of risk previously borne by Central Government. A Steering Group has overseen the detailed preparations for self financing at South Holland District Council, including the development of a new business plan and 30 year financial modelling. Representatives on this Steering Group include the Portfolio Holders for Housing and Finance, representatives of South Holland Tenant's Group and key officers from Housing, Finance and Communications.

Capital Expenditure and Income
Capital Expenditure can be defined as that which generates an asset that has a useful life of more than one year. Capital accounts show the income and expense transactions made when the Council:

- Buys or sell land or property
- Builds new property
- Carries out major repairs to its properties
- Improves its properties
- Provides grants for the above type of activity

The original budget plan for the year was to spend £4.179m on capital investment. The final approved programme was set at £6.283m.

Further amendments were subsequently made to the revised budget, reflecting incomplete schemes brought forward from the previous year, as well as Central Heating schemes brought into 2012-13 from the 2013-14 programme.

In addition, slippage of £821,000 from 2012-13 was identified at budget setting time and added to the 2013-14 Capital programme.

- Gypsies and Travellers' sites £660,000
- Environmental Health Restructure £91,000
- Spalding Cemetery extension £50,000
- Priory Road Air Conditioning £20,000

Outturn for the year amounted to £4.811m which was £1.472m less than the final approved budget. The capital programme is reviewed by the Cabinet on a quarterly basis.

An analysis of Capital Expenditure incurred in the year (excluding finance leases) against the final approved budget is shown below:

Directorate	Final Budget £000	Outturn £000	Variance £000
Commissioning	1,382	892	490
Place and Governance	613	498	115
HRA	4,288	3,421	867
Total	**6,283**	**4,811**	**1,472**

This expenditure was financed from the following sources:

	Final Budget £000	Outturn £000
Use of Capital Receipts	850	637
Capital Grants and Contributions	1,052	1,025
Direct Revenue Financing/Use of Reserves	4,381	3,149
Total	**6,283**	**4,811**

Explaining the major differences:
Of the £1.472m underspend, the £869,000 of schemes were requested to be carried forward into 2013/14.

The principal schemes involved in the remainder of the underspend were:

- ICT projects -The underspend for 2012-13 is mostly due to Microsoft license upgrades of £90,000 that have now been incorporated into the revenue budget from 2013-14 at a value of £25,000 per annum. These will now be funded through an operating lease from existing revenue resources. A general provision for service driven ICT projects of £159,000 was built into the 12/13 capital programme, with only a few schemes identified as a priority for investment, meaning a large underspend at the year end.
- Disabled Adaptations £187,000 - grants agreed but not paid over
- Unfit and Disrepair grants £77,000 -a rolling programme
- Manor House Crowland dangerous buildings enforcement £32,000, now included in revenue as a charge on the property

Significance of Pension liabilities and assets

The application of International Accounting Standard (IAS) 19 has resulted in a net Pension Liability at the year end of £25.176m (£21.052m at 31 March 2012), 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. This amount is matched by a Pension Reserve in the Balance Sheet, and therefore has no impact on the Council's overall financial position at 31 March 2013.

During 2012-13, the IAS19 Balance Sheet position for the Council worsened by £4.124m. The impact of falling real bond yields during the year has seen the Council's share of pension fund liabilities increase by £8.028m to £66.289m. This has been partially offset by strong asset returns increasing the Council's share of pension fund assets by £3.904m to £41.113m.

Full details on pensions are set out in the Pensions Accounting Policy on pages 25 - 27 and in note 39 to the Core Financial Statements.

Treasury Management Performance

Investments

The Council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, confirms the Council's investment priorities as security of capital followed by liquidity.

The Council aims to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with high credit rated financial institutions, in accordance with the Councils approved Treasury Management Strategy. The shorter term investments earn lower interest rates, generally around 0.40% (bank rate currently 0.5%). Higher rates are available for longer term investments, but ability to access these is limited by the maturity limit set by the investment strategy and the level of core funds available for investment.

The value of short-term investments held at 31 March 2013 was £7.1m, with a further £4.9m held in business reserve accounts (£2.0m and £2.0m respectively at 31 March 2012).

Interest received during the year from investments was £168,000 which exceeded the Council's original budget of £65,000. This was due to higher than anticipated levels of funds for investment and higher one year interest rates. The interest received in the year is split between the General Fund and the Housing Revenue Account, in proportion to their reserve holdings.

Borrowing

The Council borrowed £67.456m from the Public Works Loan Board on 28 March 2012 to meet its liability arising from the Housing Revenue Finance Reforms. This was borrowed for a period of 50 years at a rate of 3.48%.

Reserves and Balances

The General Fund working balance at the end of the financial year is £2.034m, which will be carried over into 2013/14. The working balance is maintained to provide a financial cushion should something unexpected occur that leads to significant unplanned expenditure that would not be met from other sources or by specific government grants. The current minimum working balance for the General Fund is set at £1.3m.

The Council holds a number of earmarked General Fund reserves to finance future capital and revenue expenditure. The net transfer to earmarked reserves for the year was £1.581m. Additions occurred, primarily, due to transfers from the General Fund relating to in-year underspends and the receipt of external grant funding. Reductions supported spending on the delivery of the Council's priorities. The balance of General Fund earmarked reserves at 31 March 2013 was £5.009m (£3.428m at 31 March 2012). A full analysis of earmarked reserves is contained in note 8 to the accounts.

The Housing Revenue Account working balance at the end of the financial year was £5.213m. The current minimum working balance for the Housing Revenue Account is set at £1.5m, based on £170 per property. Earmarked HRA reserves of £200,000 have been set aside for risk management and insurance purposes.

Group Accounting - Compass Point Business Services

These Accounts incorporate the consolidation of Compass Point Business Services (East Coast) Ltd (CPBS (EC) Ltd), a joint venture between the Council and East Lindsey District Council that began trading on 1 August 2010, to provide IT, Human Resources, Finance, Revenues and Benefits, and Customer Services. South Holland owns 37%, of the company, and East Lindsey 63%, but voting rights are split 50:50. Each Council has three directors on the company board.

In setting up the joint service company with East Lindsey, the Council relied upon the Teckal procurement exemption that allows the new working arrangements to be put in place without going through a formal exercise. The key elements of a Teckal exemption are that the principal part of the company's activities are with the authority, that the authority exercises the same kind of control over the service provider as it does over its own departments, and that there is no private sector ownership of the service provider nor any intention that there should be any.

CPBS has delivered annual ongoing savings of £2.1m. In addition during 2012/13 an additional saving of £105,000 was achieved, split between ELDC and SHDC in the share 63% and 37% respectively.

Group Accounting – Red Lion Quarter Community Interest Company

The Council is the sole shareholder of the Red Lion Quarter Community Interest Company. During this financial year, the Authority intervened and wound down the company trading activities and developed a strategy to ensure a stable future for the facility. In 2012/13 the Council sold the facility to Boston College. Although not formally wound up, the company is effectively dormant.

Audit

The first draft of the accounts was authorised by the Assistant Director Finance on 25 June 2013. The accounts were then subject to audit by KPMG. This published version of the accounts follows the completion of the audit and formal approval by the Governance and Audit Committee, and was authorised for issue by the Assistant Director Finance on 18 September 2013, prior to the statutory deadline of 30 September.

5. 2013/14 and beyond

The Government's 2010 spending review announced significant ongoing reductions in public sector spending, including a 26% real terms reduction in the level of grant funding to Local Authorities between April 2011 and March 2015. Further reductions have been announced since then and a further Spending Review is due in June 2013 which is anticipated to make further significant cuts in public sector expenditure.

This reduction in funding has also been accompanied by changes in funding arrangements These changes include:

- reducing ring-fencing of government grants to give local authorities greater spending flexibility
- introducing changes to business rates whereby local authorities are incentivised to grow business rates and are able to keep a percentage share of any growth achieved.
- reducing funding to Local Authorities for Council Tax Support but allowing local authorities the freedom to decide who will benefit from council tax support in the future.
- reducing flexibility for local authorities to increase income from council tax by the requirement to hold a referendum if council tax is to be raised by more than a set percentage.

The changes that are now in place will create financial opportunities but also increase local financial risks and uncertainty.

To date South Holland District Council has absorbed reductions in central government funding without any significant reductions in services. The Council has to deliver a significant number of statutory services and must meet these obligations within available funding. The Council has made significant progress in reviewing service costs and delivering efficiencies, but it will increasingly need to look at high cost services in order to deliver balanced budgets in the future.

Detailed below are some of the more significant changes in the local authority's financial regime and the financial risks and opportunities that the Council will need to address.

Council Tax Freeze Grants for 2012/13 and 2013/14

Following the government's confirmation that councils freezing or reducing their council taxes in 2011/12 would receive a grant until 2014/15 equivalent to what they would have generated in revenue from a 2.5% increase in Council Tax that year, every English local, police and fire authority took up this grant offer. From 2012/13 onwards this grant has been rolled into formula grant, although it will not be up rated annually for the movement in local tax base as originally envisaged.

The government has also confirmed that councils freezing or reducing their council taxes in 2012/13 would receive a one-off grant equivalent to what they would have generated in revenue from a 2.5% increase in Council Tax that year. The Council, along with most others, took up this grant – although this does mean that further savings will be required in future years, due to the one-off, one-year-only nature of the grant.

Local Government Resource Review and Business Rates Retention
The government has replaced the previous formula grant system with mechanisms which allow councils to retain part of the future growth in business rates yield. This change has come into effect from the start of 2013/14. This change is designed to incentivise local authorities to promote local business growth and hence business rate income. However, local authorities are also more exposed to risk if such income falls. The risk and reward will be significantly influenced by wider economic conditions, which are inherently uncertain.

Budgeting implications
The proposals will fundamentally affect local authority budgeting as councils will no longer receive guaranteed funding settlements from government in respect of their general grant, but will instead generate income locally or partly locally, depending on their circumstances.

Council Tax Benefit Localisation

From April 2013 changes to council tax support mean that instead of paying benefits according to rules that the Department of Works and Pensions set, local authorities set their own local scheme. Nationally, however, they will have 10% less money to do so. Certain groups, such as pensioners, will not be affected and will continue to receive guaranteed benefits.

South Holland District Council adopted the Government's transitional scheme making Council Tax support funding available according to new criteria while still operating within the reduced funding available. Similarly to Business Rates the influence of the wider economic conditions can also impose significant risks, as an increase in take up of support will no longer be funded by the government.

6. The Accounts
The financial statements consist of:

Statement of Responsibilities (page 15)
The responsibilities for the Accounts details the respective responsibilities of the Assistant Director Finance, as Chief Financial Officer, and the Council.

Movement in Reserves Statement (pages 16-17)
This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income 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/(from) earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement (page 18)
This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet (page 19)
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement (page 20)
The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Accounts (pages 21-87)
These are notes relating to the preceding financial statements which explain and provide additional information to the figures included within the statements. They have been prepared in accordance with the disclosure requirements of the Code of Practice. Note 1 sets out the Accounting Policies, which provide details of the framework within which the Council's accounts are prepared and published.

7. Supplementary Financial Statements:

Housing Revenue Account Income and Expenditure Statement (*page 88*)
The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The HRA Income and Expenditure Statement shows, in more detail, the income and expenditure on HRA services which is included in the whole authority Comprehensive Income and Expenditure Statement.

Movement on the Housing Revenue Account Statement (*page 89*)
This statement shows how the HRA Income and Expenditure Account surplus or (deficit) reconciles to the movement on the Housing Revenue Account balance for the year.

Notes to the Housing Revenue Statement (*pages 90 - 95*)
These are notes relating to the preceding financial statements which explain and provide additional information to the figures included within the statements.

Collection Fund Statement and Notes (*pages 96 - 98*)
This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-

domestic rates and Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

Group Accounts and Notes (*pages 99 – 106)*
These accounts consolidate the Council's accounts with that of its wholly owned subsidiary, South Holland Homes and its joint venture arrangement with East Lindsey District Council, Compass Point Business Services (East Coast) Ltd. The group accounts reflect the financial position of the group as a whole.

8. Further Information
Further information about the accounts is available from the Assistant Director Finance, Council Offices, Priory Road, Spalding, PE11 2XE.

The Accounts are available on the Council's web-site, www.sholland.gov.uk.

STATEMENT OF RESPONSIBILITIES FOR THE ACCOUNTS

The Council's Responsibilities:

The Council is required to:

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

The Chief Financial Officer's Responsibilities

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

In preparing these Accounts, the Chief Financial Officer has:

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

The Chief Financial Officer has also:

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

Certification by the Chief Finance Officer

I hereby certify that the Statement of Accounts gives a 'true and fair' view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2013

Mark Finch
Assistant Director Finance

Dated: 18 September 2013

Approval of Accounts

I confirm that these accounts were approved by the Audit and Governance Committee at its meeting held on the 24 September 2013.

Signed on behalf of South Holland District Council:

Cllr George Aley
Chair of meeting approving the accounts

Dated: 24 September 2013

MOVEMENT IN RESERVES STATEMENT

2012/13	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2012 carried forward	**1,943**	**3,428**	**1,955**	**200**	**1,457**	**2,114**	**11,097**	**48,046**	**59,143**
Movement in Reserves during 2012/13									
Surplus or (deficit) on provision of services	(2,060)	-	3,123	-	-	-	1,063	-	1,063
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(3,577)	(3,577)
Total Comprehensive Income and Expenditure	**(2,060)**	**-**	**3,123**	**-**	**-**	**-**	**1,063**	**(3,577)**	**(2,514)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	3,732	-	135	-	(38)	(471)	3,358	(3,358)	-
Net Increase/Decrease before transfers to Earmarked Reserves	**1,672**	**-**	**3,258**	**-**	**(38)**	**(471)**	**4,421**	**(6,935)**	**(2,514)**
Transfers (to)/from Earmarked Reserves (Note 8)	(1,581)	1,581	-						
Increase/Decrease in Year	**91**	**1,581**	**3,258**	**-**	**(38)**	**(471)**	**4,421**	**(6,935)**	**(2,514)**
Balance at 31 March 2013 carried forward	**2,034**	**5,009**	**5,213**	**200**	**1,419**	**1,643**	**15,518**	**41,111**	**56,629**

2011/12	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2011 carried forward	**1,943**	**3,184**	**1,629**	**200**	**2,162**	**2,822**	**11,940**	**120,890**	**132,830**
Movement in Reserves during 2011/12									
Surplus or (deficit) on provision of services	(1,142)	-	(68,227)	-	-	-	(69,369)	-	(69,369)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(4,318)	(4,318)
Total Comprehensive Income and Expenditure	**(1,142)**	**-**	**(68,227)**	**-**	**-**	**-**	**(69,369)**	**(4,318)**	**(73,687)**
Adjustments between accounting basis & funding basis under regulations (Note 7)	1,386	-	68,553	-	(705)	(708)	68,526	(68,526)	-
Net Increase/Decrease before transfers to Earmarked Reserves	**244**	**-**	**326**	**-**	**(705)**	**(708)**	**(843)**	**(72,844)**	**(73,687)**
Transfers (to)/from Earmarked Reserves (Note 8)	(244)	244	-	-	-	-	-	-	-
Increase/Decrease in Year	**-**	**244**	**326**	**-**	**(705)**	**(708)**	**(843)**	**(72,844)**	**(73,687)**
Balance at 31 March 2012 carried forward	**1,943**	**3,428**	**1,955**	**200**	**1,457**	**2,114**	**11,097**	**48,046**	**59,143**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000		2012/13 Gross Expenditure £000	2012/13 Gross Income £000	2012/13 Net Expenditure £000
7,255	(6,757)	498	Central services to the public	7,049	(6,725)	324
2,940	(872)	2,068	Cultural and Related services	2,825	(880)	1,945
4,242	(696)	3,546	Environmental and Regulatory services	4,142	(1,392)	2,750
3,764	(1,336)	2,428	Planning services	3,136	(1,406)	1,730
263	(292)	(29)	Highways and transport services	269	(282)	(13)
14,374	(14,163)	211	Local authority housing (HRA)	9,330	(15,315)	(5,985)
67,456	-	67,456	- Exceptional item – HRA self-financing sum paid to Government	-	-	-
19,099	(18,422)	677	Other housing services	20,437	(19,705)	732
2,514	(429)	2,085	Corporate and democratic core	2,442	(574)	1,868
190	-	190	- Exceptional item – CPBS transformation costs	-	-	-
356	(13)	343	Non distributed costs	24	-	24
122,453	**(42,980)**	**79,473**	**Cost of Services**	**49,654**	**(46,279)**	**3,375**
3,053	(234)	2,819	Other operating expenditure (Note 9)	6,372	(782)	5,590
3,125	(2,843)	282	Financing and investment income and expenditure (Note 10)	5,230	(2,403)	2,827
-	(13,205)	(13,205)	Taxation and non-specific grant income (Note 11)	-	(12,855)	(12,855)
		69,369	**(Surplus)/Deficit on the Provision of Services**			**(1,063)**
		(177)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			(174)
		4,495	Actuarial (gains)/losses on pension assets/liabilities			3,751
		4,318	**Other Comprehensive Income and Expenditure**			**3,577**
		73,687	**Total Comprehensive Income and Expenditure**			**2,514**

BALANCE SHEET

31 March 2012 £000		Notes	31 March 2013 £000
139,075	Property, Plant & Equipment	12	135,586
60	Heritage Assets	13	61
1,054	Investment Property	14	1,115
154	Intangible Assets	15	195
193	Long Term Debtors		156
140,536	**Non-Current Assets**		**137,113**
2,027	Short Term Investments		7,078
152	Assets Held for Sale	20	210
16	Inventories	17	32
6,270	Short Term Debtors	18	2,558
2,448	Cash and Cash Equivalents	19	5,551
10,913	**Current Assets**		**15,429**
(6)	Short Term Borrowing		(32)
(2,708)	Short Term Creditors	21	(2,554)
(2,714)	**Current Liabilities**		**(2,586)**
(284)	Long Term Creditors		(34)
(67,466)	Long Term Borrowing		(67,459)
(21,052)	Other Long Term Liabilities	39	(25,176)
(790)	Capital Grants Receipts in Advance		(658)
(89,592)	**Long Term Liabilities**		**(93,327)**
59,143	**Net Assets**		**56,629**
	Usable Reserves	23	
1,943	General Fund		2,034
1,955	Housing Revenue Account		5,213
3,428	Earmarked Reserves – General Fund		5,009
200	– HRA		200
1,457	Capital Receipts Reserve		1,419
2,114	Capital Grants Unapplied		1,643
11,097			**15,518**
	Unusable Reserves	24	
9,719	Revaluation Reserve		9,494
59,398	Capital Adjustment Account		56,767
(21,052)	Pension Reserve		(25,176)
65	Deferred Capital Receipts		63
(47)	Collection Fund Adjustment Account		2
(37)	Accumulated Absences Adjustment Account		(39)
48,046			**41,111**
59,143	**Total Reserves**		**56,629**

CASH FLOW STATEMENT

2011/12 £000	2011/12 £000		2012/13 £000	2012/13 £000
	(69,369)	Net (deficit)/surplus on the provision of services		1,063
4,032		Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 25)	7,149	
(320)	3,712	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 25)	(1,329)	5,820
	(65,657)	Net cash flows from Operating Activities		6,883
	(2,573)	Investing Activities (note 26)		(5,858)
	66,857	Financing Activities (note 27)		2,078
	(1,373)	**Net increase/(decrease) in cash and cash equivalents**		**3,103**
	3,821	Cash and cash equivalents at the beginning of the reporting period		2,448
	2,448	**Cash and cash equivalents at the end of the reporting period (note 19)**		**5,551**

NOTES TO THE ACCOUNTS

Contents

NOTE 1 – ACCOUNTING POLICIES

1. General Principles

The Accounts summarise the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare annual Accounts by the Accounts and Audit (England) Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. *It has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13: Based on International Financial Reporting Standards (IFRS).*

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

This section discloses the specific accounting policies adopted by the Council for the completion of the accounts.

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 carried as inventories on the Balance Sheet.

- Expenses in relation to services received, (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount, 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 instruments repayable without penalty on notice of not more than 24 hours. Cash Equivalents are held for the purpose of meeting short term commitments (no more than three months) rather than for investment or other purposes. During the year, the Council held amounts in Business Reserve accounts for credit risk and interest return purposes rather than placing them as fixed term investments, and the sum held in these accounts at the Balance Sheet date is classed as Cash and Cash Equivalents. Other call accounts and Money Market Funds have also been classified as Cash Equivalents, as these are readily convertible to known amounts of cash with insignificant risk of change in value, and are held for the purpose of meeting short-term cash commitments.

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.

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 fixed 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 fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement.

The Council has assessed the Minimum Revenue Provision (MRP) in accordance with the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. The charge in 2012/13 is based on 4% of the adjusted Capital Financing Requirement in accordance with option1 of the guidance, or for new borrowing under the prudential system the charge is based on option 3; the assets life method.

Depreciation, revaluation and impairment losses and amortisations 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 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 (e.g. cars) 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 benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date, or an officer’s decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Post-Employment Benefits

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

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 the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices; using a discount rate of 4.5% (5.2% in 2011/12), 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 seven components:

- **current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- **expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- **gains or losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.

- **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 appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and 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 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 Balance Sheet Date

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 Accounts 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 Accounts are adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the Accounts 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 Accounts.

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

The Council's investments have been treated as loans and receivables and are carried at the amortised cost, rather than fair value as the adjustment is deemed insignificant.

The Council has made a number of loans mainly in the form of car loans to staff and support to its subsidiary housing company. 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

During 2012/13 the Council did not hold any Available-for-sale financial instrument assets.

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 acquired using 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 or 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 or Taxation and Non-Specific Grant Income (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.

Local Services Support Grant

Local Services Support Grant is a general grant allocated by central government directly to local authorities as additional revenue funding. LSSG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

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 are accounted for as follows:-

- Chain Bridge Forge (formerly Blacksmith's shop) – current use
- Nature reserve – historic cost
- Civic regalia and Tulip paintings – insured value
- Community Beacon, Gas Wharf, Pill box, HMS Hornet bell and model of HMS Taku submarine – not included on the balance sheet as their value is deemed immaterial

The carrying amounts of heritage assets are reviewed when there is evidence of impairment for heritage assets, i.e. 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 18 in this note. 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 of service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance or Housing Revenue Account balance. The gains and losses are 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 and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. Interest in Companies and Other Entitles

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to produce Group Accounts. The Group Accounts included with the financial statements incorporate South Holland Homes and Compass Point Business Services (East Coast) Ltd.

14. Inventories and Long Term Contracts

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

Long term contracts are accounted for on the basis of charging the surplus or deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

15. 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, based on the amount at which the asset could be exchanged between knowledgeable parties at arms-length. 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 or Housing Revenue Account balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance or Housing Revenue Account balance. The gains and losses are therefore reversed out of the General Fund and Housing Revenue Account 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.

16. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

17. 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 as Lessee

Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

18. 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 CIPFA *Service Reporting Code of Practice 2012/13 (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.

19. 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.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council).

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 – fair value, determined using the basis of existing use value for social housing (EUV-SH)

- all other assets – fair 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair 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 fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair 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 Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line 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 by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line 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.

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, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Council's underlying need to borrow (the capital financing requirement)]. Receipts are appropriated to the Reserve from the General Fund balance or 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 fixed 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.

20. 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.

No provisions are held at the Balance Sheet date.

21. 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.

22. 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 possible that there will be an inflow of economic benefits or service potential.

23. 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 and Housing Revenue Account balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance or Housing Revenue Account balance in the Movement in Reserves Statement so that there is no net charge against council tax or housing rents for the expenditure.

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

24. Revenue Expenditure Funded from Capital under Statute

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

25. 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 UK 2013-14 has introduced the following changes in accounting policy, which will need to be adopted fully by the Council in the 2013-14 financial statements.

The Council is required to disclose information relating to the impact of the accounting changes on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Council. The Council is required to disclose the estimated effect of the new standard in these financial statements.

IAS 19 Employee Benefits
The adoption of the 2011 amendments to IAS 19 by the Code will result in reclassifications of costs/information and disclosure changes resulting in more detailed principle based disclosures. The reclassifications are essentially a re-organisation of existing information and will be based on information provided by the Council's Actuaries. It is anticipated that the impact will have no material effect on the Councils accounts.

IAS 1 Presentation of Financial Statements
The adoption of the 2011 amendments to IAS 1 by the Code will result in a presentational change in the Comprehensive Income and Expenditure Statement, but will not impact on any of the amounts reported. This change will result in the amounts shown in Other Comprehensive Income and Expenditure being split into two groups;

i) those which will be re-classified subsequently to the Surplus/Deficit on Provision of Services when specific conditions are met; and
ii) those which will not be re-classified subsequently to the Surplus/Deficit on Provision of Services

This is only likely to affect available for sale financial assets (which would be shown in the Financial Instruments note). Currently, the Council does not hold any available for sale financial instruments.

IFRS 7 – Financial Instruments Disclosures
The adoption by the Code of IFRS 7 (Offsetting Financial Assets and Liabilities) will result in a change which requires information that will enable users of the council's financial statements to evaluate the effect or potential effect of netting arrangements. It is not anticipated that this change will have any impact on the financial statements of the Council as financial instruments are not shown netted off.

IAS 12 – Deferred Tax – Recovery of underlying assets
The standard is appropriate for those bodies which prepare Group Accounts. It is, however, anticipated that there will be no impact for the Council.

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 Accounts 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 is custodian trustee for the Ayscoughfee Hall and Gardens and Sir Halley Stewart Playing Field charities. These assets are not recorded on the Council's Balance Sheet as at 31 March 2013, or included in the Group Accounts. This is in accordance with guidance contained in the Code of Practice on Local Authority Accounting in the United Kingdom.

- Assets held for sale – The Code gives strict criteria which have to be met before assets can be classified as 'held for sale'. At 31 March 2013 the only assets held under this category were Housing Revenue Account dwellings in the process of disposal where it is likely that the sale will be completed within the next twelve months. The total value of these dwellings is shown under the Assets held for sale category on the Balance Sheet

- Categorisation of assets – The Code gives strict criteria for assets held as Investment Properties. For the Council, those assets which are held for rental income and/or capital appreciation (with a formal plan/policy detailing this) are classified as investment properties. Surplus land held by the Council which may be subject to capital appreciation, but is not part of a formal plan/policy, is held as surplus property plant & equipment.

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

The Accounts 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 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment Carrying value At 31 March 2013 £135.586m	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £40,000 for every year that useful lives had to be reduced.
Pensions Liability Carrying value At 31 March 2013 £25.176m	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £6.128m. However, the assumptions interact in complex ways. During 2012/13, the Council's actuaries advised that the pensions asset value had increased by £3.904m, and liabilities had increased by £8.028m.
Arrears Carrying value At 31 March 2013 £1.057m	At 31 March 2013, the Council had a balance of sundry debtor and housing benefit overpayments of £1.057m. A review of debts suggested that an overall impairment allowance of £0.470m (44%) was appropriate.	If collection rates were to deteriorate, increasing the impairment for doubtful debts to 60% of the total debt would require an additional £0.164m to be set aside as an allowance.

NOTE 5 – MATERIAL ITEMS OF INCOME AND EXPENSE

There are no material items of income and expense to report that have not already been disclosed in the Comprehensive Income and Expenditure Statement and the core financial statements.

NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE

The accounts were authorised for issue by the Assistant Director Finance on 18 September 2013. 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 2013, the figures in the financial statements and notes have been adjusted for all material items to reflect the impact of this information.

The financial statements have not been adjusted for the following items:

- From 1 April 2013 the new arrangements for the retention of business rates came into effect. One of the results of this is that local authorities assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list, including amounts which have previously been collected and paid across to Central Government in respect of 2012-13 and prior years. A provision will be required in 2013-14 to recognise the Council's respective share of these liabilities, however this is not made in 2012-13 as the liability does not rest with the Council until 1 April 2013. Based on current estimates the Council's share of liabilities could be in the region of £528,000.

NOTE 7 – 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 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 a 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 (or the deficit of resources that the Council is required to recover) at the end of the financial year. However, for Housing authorities, 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 or (where in deficit) that is required to be recovered from tenants in future years.

Major Repairs Reserve

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

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

2012/13	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	981	1,641	-	-	-	(2,622)
Revaluation losses on Property Plant and Equipment	19	1,309	-	-	-	(1,328)
Movements in the market value of Investment Properties	(56)	(6)	-	-	-	62
Amortisation of intangible assets	28	4	-	-	-	(32)
Capital grants and contributions applied	(511)	-	-	-	-	511
Revenue expenditure funded from capital under statute	789	-	-	-	-	(789)
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	2,936	454	-	-	-	(3,390)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(179)	(79)	-	-	-	258
Capital expenditure charged against the General Fund and HRA balances	(280)	(1,224)	-	-	-	1,504
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(43)	-	-	-	43	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(514)	514
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(335)	(447)	782	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	(637)	-	-	637
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	7	(7)	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	178	-	(178)	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	2	-	-	(2)

2012/13	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	(1,645)	-	1,645	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(1,645)	-	1,645
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 39)	1,136	463	-	-	-	(1,599)
Employer's pensions contributions and direct payments to pensioners payable in the year	(883)	(343)	-	-	-	1,226
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(49)	-	-	-	-	49
Adjustments primarily involving the Accumulated Absences Account:						
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	1	1	-	-	-	(2)
Total Adjustments	**3,732**	**135**	**(38)**	**-**	**(471)**	**(3,358)**

2011/12	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	854	1,680	-	-	-	(2,534)
Revaluation losses on Property Plant and Equipment	(135)	2,138	-	-	-	(2,003)
Movements in the market value of Investment Properties	(38)	(38)	-	-	-	76
Amortisation of intangible assets	30	4	-	-	-	(34)
Capital grants and contributions applied	(477)	-	-	-	-	477
Revenue expenditure funded from capital under statute	1,516	67,503	-	-	-	(69,019)
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	20	166	-	-	-	(186)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(159)	(81)	-	-	-	240
Capital expenditure charged against the General Fund and HRA balances	(501)	(584)	-	-	-	1,085
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(81)	-	-	-	81	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(789)	789
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(35)	(199)	234	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure			(790)			790
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	3	(3)	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	147	-	(147)	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	1	-	-	(1)

2011/12	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	-	(2,148)	-	2,148	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(2,148)	-	2,148
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 39)	1,119	479	-	-	-	(1,598)
Employer's pensions contributions and direct payments to pensioners payable in the year	(866)	(371)	-	-	-	1,237
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(11)	-	-	-	-	11
Adjustments primarily involving the Accumulated Absences Account:						
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	3	1	-	-	-	(4)
Total Adjustments	**1,386**	**68,553**	**(705)**	**-**	**(708)**	**(68,526)**

NOTE 8 – 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 2012/13.

	Balance at 1 April 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000	Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Balance at 31 March 2013 £000
General Fund							
Affordable Housing Reserve	**118**	-	-	**118**	-	-	**118**
Transformation Reserve	**61**	(341)	280	**-**	-	-	**-**
Capital Reserve	**161**	-	-	**161**	-	400	**561**
Climate Change Reserve	**68**	(1)	-	**67**	(23)	-	**44**
Community Cohesion Reserve	**128**	(34)	-	**94**	(25)	-	**69**
Community Development Reserve	**2**	(2)	-	**-**	-	-	**-**
Council Tax Reserve	**796**	(64)	540	**1,272**	(50)	856	**2,078**
Emergency Planning Reserve	**-**	-	10	**10**	-	-	**10**
Insurance Reserve	**280**	(23)	-	**257**	-	-	**257**
Organisational Development Reserve	**613**	(284)	185	**514**	(18)	598	**1,094**
Planning Reserve	**402**	(26)	20	**396**	(89)	7	**314**
Replacement and Refurbishment Reserve	**498**	(128)	86	**456**	(233)	136	**359**
Section 106 Reserve	**22**	(2)	-	**20**	(8)	-	**12**
Spalding Special Expenses	**35**	-	28	**63**	(12)	42	**93**
Total General Fund	**3,184**	**(905)**	**1,149**	**3,428**	**(458)**	**2,039**	**5,009**
Housing Revenue Account							
Insurance Reserve	**200**	-	-	**200**	-	-	**200**
Total Earmarked Reserves	**3,384**	**(905)**	**1,149**	**3,628**	**(458)**	**2,039**	**5,209**

NOTE 9 – OTHER OPERATING EXPENDITURE

2011/12 £000		2012/13 £000
584	Parish council precepts	620
2,133	Internal Drainage Board Levies	2,144
147	Payments to the Government Housing Capital Receipts Pool	178
(45)	(Gains)/Losses on the disposal of non-current assets	2,648
2,819	**Total**	**5,590**

NOTE 10 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2011/12 £000		2012/13 £000
149	Interest payable and similar charges	2,413
369	Pensions interest cost and expected return on pensions assets	674
(127)	Interest receivable and similar income	(187)
(109)	Income and Expenditure in relation to investment properties and changes in their fair value	(73)
282	**Total**	**2,827**

NOTE 11 – TAXATION AND NON SPECIFIC GRANT INCOME

2011/12 £000		2012/13 £000
(5,211)	Council tax income	(5,289)
(5,651)	Non domestic rates	(6,530)
(2,343)	Non-ringfenced government grants	(864)
-	Capital Grants and Contributions	(132)
-	Asset Exchange	(40)
(13,205)	**Total**	**(12,855)**

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT - Movements on Balances

2012/13	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
Movements on balances								
Cost or valuation								
At 1 April 2012	**111,669**	**23,784**	**3,716**	**1,975**	**685**	**69**	**22**	**141,920**
Additions	3,300	414	127	45	40	-	46	**3,972**
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(337)	373	-	-	-	-	-	**36**
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,577)	(709)	-	-	-	-	-	**(3,288)**
Derecognition – disposals	(178)	(2,917)	(559)	(101)	-	-	-	**(3,755)**
Assets reclassified (to)/from Held for Sale	(380)	-	-	-	-	-	-	**(380)**
Assets reclassified (to)/from Other FAR categories	-	(72)	20	-	-	65	(13)	**-**
Other movements in cost or valuation	-	-	-	-	-	-	-	**-**
At 31 March 2013	**111,497**	**20,873**	**3,304**	**1,919**	**725**	**134**	**55**	**138,507**
Accumulated Depreciation and Impairment								
At 1 April 2012	-	-	(2,157)	(618)	(70)	-	-	**(2,845)**
Depreciation charge	(1,327)	(568)	(454)	(155)	(25)	-	-	**(2,529)**
Depreciation written out to the Revaluation Reserve	12	124	-	-	-	1	-	**137**
Depreciation written out to the Surplus/Deficit on the Provision of Services	1,268	476	-	-	-	-	-	**1,744**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	(92)	-	-	-	-	-	**(92)**
Derecognition – disposals	45	59	558	-	-	-	-	**662**
Other movements in depreciation and impairment	2	1	-	-	-	(1)	-	**2**
At 31 March 2013	**-**	**-**	**(2,053)**	**(773)**	**(95)**	**-**	**-**	**(2,921)**
Net Book value								
at 31 March 2012	**111,669**	**23,784**	**1,559**	**1,357**	**615**	**69**	**22**	**139,075**
at 31 March 2013	**111,497**	**20,873**	**1,251**	**1,146**	**630**	**134**	**55**	**135,586**

2011/12	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
Movements on balances								
Cost or valuation								
At 1 April 2011	**112,281**	**23,784**	**3,142**	**1,957**	**681**	**69**	**301**	**142,215**
Additions	3,208	185	219	18	-	-	76	**3,706**
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(273)	(102)	-	-	-	153	-	**(222)**
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,230)	(29)	-	-	-	-	-	**(3,259)**
Derecognition – disposals	(283)	(25)	-	-	-	-	-	**(308)**
Assets reclassified (to)/from Held for Sale	(34)	-	-	-	-	(153)	-	**(187)**
Assets reclassified (to)/from Other FAR categories	-	(29)	355	-		-	(355)	**(29)**
Other movements in cost or valuation	-	-	-	-	4	-	-	**4**
At 31 March 2012	**111,669**	**23,784**	**3,716**	**1,975**	**685**	**69**	**22**	**141,920**
Accumulated Depreciation and Impairment								
At 1 April 2011	-	(5)	(1,704)	(455)	(45)	-	-	**(2,209)**
Depreciation charge	(1,336)	(557)	(453)	(163)	(25)	-	-	**(2,534)**
Depreciation written out to the Revaluation Reserve	(21)	444	-	-	-	-	-	**423**
Depreciation written out to the Surplus/Deficit on the Provision of Services	1,144	112	-	-	-	-	-	**1,256**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	**-**
Derecognition – disposals	212	5	-	-	-	-	-	**217**
Other movements in depreciation and impairment	1	1	-	-	-	-	-	**2**
At 31 March 2012	**-**	**-**	**(2,157)**	**(618)**	**(70)**	**-**	**-**	**(2,845)**
Net Book value								
at 31 March 2011 – Restated	**112,281**	**23,779**	**1,438**	**1,502**	**636**	**69**	**301**	**140,006**
at 31 March 2012	**111,669**	**23,784**	**1,559**	**1,357**	**615**	**69**	**22**	**139,075**

Depreciation

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

- Council Dwellings – 30-65 years
- Other Land and Buildings – 3-60 years
- Vehicles, Plant, Furniture & Equipment – 5% - 25% of carrying value
- Infrastructure – 2-19 years

Capital Commitments

At 31 March 2013, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years budgeted at a cost of £1.304m. Similar commitments at 31 March 2012 were £1.874m, mainly relating to works to dwellings. The major commitments are:

External Wall Insulation of council dwellings	*£200,000*
Kitchens and Bathroom replacement programme	*£1,100,000*

Effects of Changes in Estimates

- In 2012/13, no material changes were made to the Council's accounting estimates for Property, Plant and Equipment.

Revaluations

The Council carries out a rolling programme to ensure that all Property, Plant and Equipment required to be measured at fair value is regularly revalued. A full revaluation of all council housing stock and other land and buildings is undertaken every 5 years. In addition, 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 Fair 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. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

	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 £000
Carried at historical cost	-	-	1,251	1,146	630	134	55	**3,216**
Valued at fair value as at:								
31 March 2013	111,497	20,873	-	-	-	-	**-**	**132,370**
31 March 2012	111,669	23,784	-	-	-	-	**-**	**135,453**
31 March 2011	112,281	23,778	-	-	-	-	**-**	**136,059**
31 March 2010	112,932	20,945	-	-	-	-	**-**	**133,877**
31 March 2009	167,125	20,568	-	-	-	69	**-**	**187,762**
Total Cost or Valuation at 31 March 2013	**111,497**	**20,873**	**1,251**	**1,146**	**630**	**134**	**55**	**135,586**

NOTE 13 – HERITAGE ASSETS

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

	2011/12 £000	2012/13 £000
Cost or valuation		
1 April	**60**	**60**
Revaluations	-	1
31 March	**60**	**61**

The council's heritage assets are valued in a number of ways, in accordance with the CIPFA Code of Practice and the accounting policies listed on page 29. For those items included on the balance sheet, current use value (Chain Bridge Forge), historic cost (Nature reserve), and insured value (Civic regalia and Tulip paintings) have been used. A number of other items identified as heritage assets (Community beacon, Gas Wharf, Pill box, HMS Hornet bell and the model of HMS Taku submarine) have not been included on the balance sheet as their value is deemed immaterial for the Accounts.

No disposals or additions were identified during the year. The increase in the year end value is as a result of a small increase in the value of the Chain Bridge Forge.

NOTE 14 – 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:

	2011/12 £000	2012/13 £000
Rental Income from investment property	(66)	(63)
Direct operating expenses arising from investment property	33	52
Net (gains)/losses from fair value adjustments	(76)	(62)
Net (gain)/loss	**(109)**	**(73)**

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.

	2011/12 £000	2012/13 £000
Balance at start of the year	978	1,054
Net gains/(losses) from fair value adjustments	76	62
Other Changes	-	(1)
Balance at end of the year	**1,054**	**1,115**

NOTE 15 – INTANGIBLE ASSETS

The Council accounts for its software as intangible assets. The intangible assets include purchased licenses.

Most 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. The amortisation of £32,000 charged to revenue in 2012/13 was charged to the IT Service cost centre and then absorbed as an overhead across all the 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

	2011/12 £000	2012/13 £000
Balance at start of year:		
- Gross carrying amounts	684	704
- Accumulated amortisation	(516)	(550)
Net carrying amount at start of year	**168**	**154**
Additions:		
- Purchases	20	90
Amortisation for the period	(34)	(32)
Other changes- write off obsolete assets	-	(17)
Net carrying amount at end of year	**154**	**195**
Comprising:		
- Gross carrying amounts	704	731
- Accumulated amortisation	(550)	(536)
	154	**195**

NOTE 16 – FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

	Long Term		Short Term	
	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000
Investments				
Loans and receivables	-	-	2,027	7,078
Total investments	**-**	**-**	**2,027**	**7,078**
Debtors				
Loans and receivables	193	156	-	-
Financial assets carried at contract amounts	-	-	3,307	670
Total Debtors	**193**	**156**	**3,307**	**670**
Borrowings				
Financial liabilities at amortised cost	(67,466)	(67,459)	(6)	(32)
Total borrowings	**(67,466)**	**(67,459)**	**(6)**	**(32)**
Other Long Term Liabilities				
Finance lease liabilities	(284)	(34)	(240)	(251)
Total other long term liabilities	**(284)**	**(34)**	**(240)**	**(251)**
Creditors				
Financial liabilities carried at contract amount	-	-	(1,771)	(1,140)
Total creditors	**-**	**-**	**(1,771)**	**(1,140)**

At 31 March 2013 the Council's borrowings consisted of £67.482m (including £26,000 accrued interest) following the introduction of the Government's HRA reforms and an Interest Free Energy Efficiency Loan (granted during 2010/11), with £9,544 outstanding at the year end. Any further borrowing will be subject to the Council deciding whether prudent to do so; this will be informed by the setting of the Annual Prudential Indicators.

Soft Loans made by the Council

The Council has made advances to staff for car loans and to the Housing Company that attract lower than market interest rates, and has received an interest free loan to assist energy efficiency works. The amounts of these advances mean that adjustments to fair value would be very small, and have been deemed immaterial. Therefore, no fair value adjustments have been made for these "soft loans" in the financial statements.

Income, expense, gains and losses

	2012/13		
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Total
	£000	£000	£000
Interest expense	2,413	-	2,413
Interest income	-	(187)	(187)
Net expenditure in Surplus or Deficit on the Provision of Services	**2,413**	**(187)**	**2,226**
Net loss/(gain) for the year	**2,413**	**(187)**	**2,226**

	2011/12	
	Financial Assets: Loans and receivables	Total
	£000	£000
Interest income	(127)	(127)
Total income in Surplus or Deficit on the Provision of Services	**(127)**	**(127)**
Net loss/(gain) for the year	**(127)**	**(127)**

Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables 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 will take place over the remaining term of the instruments, using the following assumptions:

- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

LIABILITIES	31 March 2012		31 March 2013	
	Carrying amount £000 Restated	Fair Value £000	Carrying amount £000	Fair Value £000
Borrowing	(67,472)	(55,452)	(67,491)	(59,579)
Financial liabilities (trade creditors)	(1,771)	(1,771)	(1,140)	(1,140)
Finance lease liabilities	(524)	(524)	(285)	(285)

Values at 31 March 2012 restated to reflect Long and Short Term liabilities.

ASSETS	31 March 2012		31 March 2013	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Money Market Loans	2,027	2,037	7,078	7,096
Long-Term Debtors	193	193	156	156

Financial liabilities represent trade creditors, and long term borrowing following the implementation of the HRA self-financing regime. Fair value for trade creditors is taken to be the invoiced value.

For the long term borrowing, the fair value has been assessed by the Council's advisors, Sector Treasury Services, as significantly below the carrying value due to the discount rate used in their calculation.

The fair value of the assets is higher than the principal amount because the Council's portfolio of investments includes investments 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 2013) attributable to the commitment to receive interest above current market rates.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

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

NOTE 17 – INVENTORIES

At 31 March 2013, the Council held £32,000 (2011/12 £16,000) worth of stock in the form of building maintenance materials, museum goods for resale and sundry items.

NOTE 18 – DEBTORS

	31 March 2012 £000 Net	31 March 2013 £000 Gross	31 March 2013 £000 Impairment Allowance	31 March 2013 £000 Net
Central Government Bodies	2,454	976	-	976
Other Local Authorities	760	341	-	341
Public corporations and trading funds	2,002	-	-	-
Other entities and individuals	1,054	1,944	(703)	1,241
Total	**6,270**	**3,261**	**(703)**	**2,558**

NOTE 19 – CASH AND CASH EQUIVALENTS

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

	31 March 2012 £000	31 March 2013 £000
Cash held by the Authority	1	1
Bank current accounts	255	456
Short-term deposits with banks	2,192	5,094
Total Cash and Cash Equivalents	**2,448**	**5,551**

NOTE 20 – ASSETS HELD FOR SALE

	2011/12 £000	2012/13 £000
Balance outstanding at start of year	**61**	**152**
Assets newly classified as held for sale:		
- Property, Plant and Equipment	186	378
Assets sold	(95)	(320)
Balance outstanding at year-end	**152**	**210**

NOTE 21 – CREDITORS

	2011/12 £000	2012/13 £000
Central Government Bodies	(281)	(697)
Other Local Authorities	(262)	(242)
NHS bodies	-	(7)
Other entities and individuals	(2,165)	(1,608)
Total	**(2,708)**	**(2,554)**

NOTE 22 – PROVISIONS

The Council held no provisions at the Balance Sheet date.

NOTE 23 – USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement. Note 8 details Earmarked Reserves movements.

NOTE 24 – UNUSABLE RESERVES

31 March 2012 £000		31 March 2013 £000
9,719	Revaluation Reserve	9,494
59,398	Capital Adjustment Account	56,767
(21,052)	Pensions Reserve	(25,176)
65	Deferred Capital Receipts	63
(47)	Collection Fund Adjustment Account	2
(37)	Accumulated Absences Account	(39)
48,046	**Total Unusable Reserves**	**41,111**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). 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.

2011/12 £000	2011/12 £000		2012/13 £000	2012/13 £000
	9,770	**Balance at 1 April**		**9,719**
707		Upward revaluation of assets	546	
(530)		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(372)	
	177	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		174
(226)		Difference between fair value depreciation and historical cost depreciation	(226)	
(2)		Accumulated gains on assets sold or scrapped	(173)	
	(228)	Amount written off to the Capital Adjustment Account		(399)
	9,719	**Balance at 31 March**		**9,494**

Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account 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 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve

2011/12 £000	2011/12 £000		2012/13 £000	2012/13 £000
	127,341	**Balance at 1 April**		**59,398**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(2,534)		Charges for depreciation and impairment of non-current assets	(2,622)	
(2,003)		Revaluation losses on Property, Plant and Equipment	(1,328)	
(34)		Amortisation of intangible assets	(32)	
(69,019)		Revenue expenditure funded from capital under statute	(789)	
(186)		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	(3,390)	
	(73,776)			**(8,161)**
	2	Adjusting amounts written out of the Revaluation Reserve		173
	226	Net written out amount of the cost of non-current assets consumed in the year		226
		Capital financing applied in the year:		
790		Use of the Capital Receipts Reserve to finance new capital expenditure	637	
2,148		Use of the Major Repairs Reserve to finance new capital expenditure	1,645	
477		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	511	
789		Application of grants to capital financing from the Capital Grants Unapplied Account	514	
240		Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	258	
1,085		Capital expenditure charged against the General Fund and HRA balances	1,504	
	5,529			5,069
	76	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		62
	59,398	**Balance at 31 March**		**56,767**

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.

2011/12 £000		2012/13 £000
(16,196)	**Balance at 1 April**	**(21,052)**
(4,495)	Actuarial gains and losses on pensions assets and liabilities	(3,751)
(1,598)	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	(1,599)
1,237	Employers pensions contributions and direct payments to pensioners payable in the year	1,226
(21,052)	**Balance at 31 March**	**(25,176)**

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.

2011/12 £000		2012/13 £000
66	**Balance at 1 April**	**65**
(1)	Transfer to the Capital Receipts Reserve upon receipt of cash	(2)
65	**Balance at 31 March**	**63**

Collection Fund Adjustment Account

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

2011/12 £000		2012/13 £000
(58)	**Balance at 1 April**	**(47)**
11	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	49
(47)	**Balance at 31 March**	**2**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund balance or 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.

	2011/12 £000			2012/13 £000
	(33)	**Balance at 1 April**		**(37)**
33		Settlement or cancellation of accrual made at end of the preceding year	37	
(37)	(4)	Amounts accrued at the end of the current year	(39)	(2)
	(4)	Amount by which officer remuneration charges to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(2)
	(37)	**Balance at 31 March**		**(39)**

NOTE 25 – CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items

2011/12 £000		2012/13 £000
78	Interest received	136
(149)	Interest paid	(2,413)

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

2011/12 £000		2012/13 £000
2,538	Depreciation and Impairment of non-current assets	2,622
2,003	Revaluation losses	1,328
-	Impairment & revaluation losses on HRA non dwellings	215
34	Amortisation of intangible assets	32
(1,359)	Increase/decrease in creditors	(445)
(49)	Increase/decrease in interest and dividend debtors	(51)
371	Increase/decrease in debtors	(244)
25	Increase/decrease in stock	(16)
361	Movement in Pension Liability	373
184	Carrying Amount of non-current assets and non-current assets held for sale, sold or derecognised	3,390
-	Movement in Investment Property Values	(62)
(76)	Other non-cash items charged to the net surplus or deficit on the provision of services	7
4,032		**7,149**
	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(89)	Capital Grants credited to surplus or deficit on the provision of services	(554)
(231)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(775)
3,712		**5,820**

NOTE 26 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

2011/12 £000		2012/13 £000
(4,845)	Purchase of property, plant and equipment, investment property, plant and intangible assets	(4,095)
-	Purchase of short-term and long-term investments	(5,000)
(42)	Other payments for investing activities	(66)
232	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,767
2,000	Proceeds from short-term and long-term investments	-
82	Other receipts from investing activities	536
(2,573)	**Net cash flows from investing activities**	**(5,858)**

NOTE 27 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

2011/12 £000		2012/13 £000
67,456	Cash receipts of short- and long-term borrowing	-
(222)	Cash Payments for the reduction of outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts	(240)
(6)	Repayments of short- and long-term borrowing	(6)
(371)	Other Payments for financing activities	2,324
66,857	**Net cash flows from financing activities**	**2,078**

NOTE 28 – AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. In practice, decisions about resource allocation in 2012/13 were taken by the Council's Cabinet on the basis of the Directorate structure, and this note is set out on that basis.

Reports to members are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- only some charges 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 2012/13	Place and Governance £000	Commissioning £000	Housing Revenue Account £000	Total £000
Fees, charges & other service income	(1,515)	(4,025)	(14,689)	(20,229)
Government grants	(24,804)	(684)	(626)	(26,114)
Total Income	**(26,319)**	**(4,709)**	**(15,315)**	**(46,343)**
Employee expenses	1,599	4,560	2,391	8,550
Other service expenses	28,079	4,998	4,184	37,261
Capital Charges	84	833	1,645	2,562
Total Expenditure	**29,762**	**10,391**	**8,220**	**48,373**
Net Expenditure	**3,443**	**5,682**	**(7,095)**	**2,030**

Directorate Income and Expenditure 2011/12	Corporate Management £000	Place and Governance £000	Commissioning £000	Housing Revenue Account £000	Total £000
Fees, charges & other service income	(193)	(1,135)	(3,703)	(13,518)	(18,549)
Government grants	-	(23,705)	(481)	(645)	(24,831)
Total Income	**(193)**	**(24,840)**	**(4,184)**	**(14,163)**	**(43,380)**
Employee expenses	401	1,163	4,507	2,397	8,468
Other service expenses	381	27,668	5,442	8,491	41,982
Capital Charges	-	79	805	1,684	2,568
Total Expenditure	**782**	**28,910**	**10,754**	**12,572**	**53,018**
Net Expenditure	**589**	**4,070**	**6,570**	**(1,591)**	**9,638**

For 2012-13 Corporate Management has been included within Place and Governance to fit the Directorate Structure.

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 the Council's Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2011/12 £000	2012/13 £000
Net expenditure in the Directorate Analysis	9,638	2,030
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	69,802	1,334
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	33	11
Cost of Services in Comprehensive Income and Expenditure Statement	**79,473**	**3,375**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of the Council's 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.

2012/13	Directorate analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Cost of Services	Corporate	Group Accounts adjustments	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(20,229)	-	64	(20,165)	(63)	(150)	(20,378)
Interest and investment income	-	-	-	-	(187)	-	(187)
Income from Council Tax	-	-	-	-	(5,289)	-	(5,289)
Government grants and contributions	(26,114)	-	-	(26,114)	(7,566)	-	(33,680)
Gain or loss on disposal of fixed assets	-	-	-	-	(782)	-	(782)
Pensions expected return on assets	-	-	-	-	(2,091)	-	(2,091)
Change in investment property value	-	-	-	-	(62)	-	(62)
Total Income	**(46,343)**	-	**64**	**(46,279)**	**(16,040)**	**(150)**	**(62,469)**
Employee expenses	8,550	-	(19)	8,531	19	-	8,550
Other service expenses	37,261	-	(34)	37,227	33	(32)	37,228
Pensions accounting adjustments	-	(301)	-	(301)	-	-	(301)
Depreciation, amortisation and impairment	2,562	1,635	-	4,197	-	-	4,197
Interest payments	-	-	-	-	2,413	(2)	2,411
Precepts & Levies	-	-	-	-	2,764	-	2,764
Payments to Housing Capital Receipts Pool	-	-	-	-	178	-	178
Pensions interest cost	-	-	-	-	2,765	-	2,765
Gain or loss on disposal of fixed assets	-	-	-	-	3,430	-	3,430
Total expenditure	**48,373**	**1,334**	**(53)**	**49,654**	**11,602**	**(34)**	**61,222**
Surplus or deficit on the provision of services	**2,030**	**1,334**	**11**	**3,375**	**(4,438)**	**(184)**	**(1,247)**

2011/12	Directorate analysis	Amounts not reported to management for decision making	Cost of Services	Corporate	Group Accounts adjustments	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(18,549)	-	(18,549)	-	(261)	(18,810)
Interest and investment income	-	-	-	(127)	-	(127)
Income from Council Tax	-	-	-	(5,211)	-	(5,211)
Government grants and contributions	(24,831)	-	(24,831)	(7,994)	-	(32,825)
Gain or Loss on Disposal of Fixed Assets	-	-	-	(45)	-	(45)
Total Income	**(43,380)**	**-**	**(43,380)**	**(13,377)**	**(261)**	**(57,018)**
Employee expenses	8,468	-	8,468	-	-	8,468
Other service expenses	41,982	67,456	109,438	-	442	109,880
Pensions accounting adjustments	-	343	343	-	-	343
Depreciation, amortisation and impairment	2,568	2,003	4,571	-	-	4,571
Interest Payments	-	-	-	149	-	149
Precepts & Levies	-	-	-	2,717	-	2,717
Change in Investment Property value	-	-	-	(76)	-	(76)
Payments to Housing Capital Receipts Pool	-	-	-	147	-	147
Pensions interest cost & Expected return on assets	-	-	-	369	-	369
Total expenditure	**53,018**	**69,802**	**122,820**	**3,306**	**442**	**126,568**
Surplus or deficit on the provision of services	**9,638**	**69,802**	**79,440**	**(10,071)**	**181**	**69,550**

NOTE 29 – TRADING OPERATIONS

The Council has established 3 trading units (industrial units, off street car parking and markets) where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of those units in 2012/13 are as follows:

		2011/12		2012/13	
		£000	£000	£000	£000
Markets are provided in Spalding, Holbeach, Long Sutton and Crowland	Turnover	(141)		(131)	
	Expenditure	167		160	
	Deficit		26		29
The Council provides off street car parking predominantly within Spalding	Turnover	(289)		(277)	
	Expenditure	227		242	
	(Surplus)/Deficit		(62)		(35)
The Council lets 10 industrial units at Crowland	Turnover	(36)		(59)	
	Expenditure	29		30	
	(Surplus)/Deficit		(7)		(29)
Net (Surplus)/Deficit on trading operations			**(43)**		**(35)**

NOTE 30 – MEMBERS' ALLOWANCES

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

	2011/12 £000	2012/13 £000
Salaries	213	212
Allowances	104	108
Expenses	19	18
Total	**336**	**338**

NOTE 31 – OFFICERS' REMUNERATION

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

		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Pension Contribution £	Total £
Chief Executive	2012/13	103,333	-	4,641	-	25,627	133,601
	2011/12	124,000	-	593	-	30,752	155,345
Monitoring Officer	2012/13	57,521	-	963	-	14,265	72,749
	2011/12	54,311	-	3,616	-	13,469	71,396

The authority has entered into a shared management arrangement with Breckland Council where the two councils share members of the management team. The senior employees shown in the above table provide services for both the Council and for Breckland Council. These employees are formally employed by South Holland District, and Breckland Council is recharged 50% of their salary and other remuneration and expenses. As South Holland District Council is the employing Council, their full costs are shown in the note above.

Breckland Council employs four other members of the management team, the Deputy Chief Executive, the Director Commissioning, the Assistant Director Finance, and the Assistant Director Commissioning. The Council is charged 50% of their salaries and other remuneration and expenses.

In January 2013 the Chief Executive retired and a temporary arrangement was put in place whereby the Chief Executive of Luton Borough Council has assumed the position for an initial period of three months, although this was subsequently extended.

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	2011/12 Number of Employees	2012/13 Number of Employees
£50,000 – £54,999	1	1
£55,000 – £59,999	-	1
£60,000 – £64,999	-	-
£65,000 – £69,999	-	-

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	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12 £	2012/13 £
£0-£20,000	7	7	4	-	11	7	70,865	43,825
Total cost included in bandings							70,865	43,825
Add: Amounts provided for in CIES not included in bandings							-	-
Total cost included in CIES							**70,865**	**43,825**

NOTE 32 – EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

	2011/12 £000	2012/13 £000
Fees payable to the appointed auditor (KPMG in 2012/13, Audit Commission in 2011/12) with regard to external audit services carried out for the year	107	58
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	15	9
Fees payable in respect of other services provided by the Audit Commission	-	2
TOTAL	**122**	**69**

Additional Audit fees of £14,500 were paid to the Audit Commission during 2012-13 which related to the 2011-12 annual audit. In addition a rebate of £7,500 was received giving a total audit fee for 2011-12 of £129,000.

NOTE 33 – GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13.

	2011/12 £000	2012/13 £000
Credited to Taxation and Non Specific Grant income		
Revenue Support Grant	(1,747)	(127)
National Non-Domestic Rates	(5,651)	(6,530)
Council Tax Freeze Grant	(117)	(117)
New Homes Bonus Scheme Grant	(401)	(528)
Local Services Support Grant	(78)	(78)
New Burdens Grant	-	(14)
Grants in relation to capital expenditure	-	(132)
Total	**(7,994)**	**(7,526)**
Credited to Services		
Council Tax and Housing Benefit Subsidy	(23,048)	(23,936)
Council Tax and Housing Benefit Administration	(622)	(575)
Supporting People Grant	(636)	(626)
Disabled Facilities Grant	(286)	(320)
Homelessness Grant	(104)	-
English Heritage PSICA Conservation grant	(158)	(99)
Choosing Health	(104)	(144)
Arts Council	(86)	(44)
Council Tax Reform Grant	-	(84)
Police and Crime Commissioner Elections and Panel	-	(102)
Waste Collection Support Scheme Grant	-	(356)
Other Grants	(235)	(177)
Total	**(25,279)**	**(26,463)**

NOTE 34 – 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 significant influence over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation decisions.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2012/13 is shown in Note 30. During 2012/13, a number of members were also directors of the Council's wholly owned subsidiary companies, South Holland Local Housing Community Interest Company and Red Lion Quarter Community Interest Company; also directors of Compass Point Business Services (East Coast) Ltd (joint venture with East Lindsey District Council), and members of Internal Drainage Boards, Citizens' Advice Bureau and other local community associations.

Details of specific transactions where members declared their interest are recorded in the Register of Members' Interest, open to public inspection at the Council Offices during office hours.

Officers

Up to his departure on 31 January 2013, the Chief Executive was a director of Compass Point Business Services (East Coast) Ltd, by virtue of his position as Chief Executive of the Council.

No other material transactions were identified.

Other Public Bodies

In April 2011, joint senior management arrangements between the Council and Breckland District Council were implemented. This followed the arrangements put in place for the sharing of the Council's Chief Executive with Breckland District Council, which were approved and implemented during 2010/11. The costs of these arrangements are shared 50:50 with Breckland. In 2012/13, the Council contributed £606,000 (£625,000 in 2011/12) towards the cost of Breckland-employed managers under this arrangement, and received £292,000 (£211,000 in 2011/12) in reimbursement towards the costs of South Holland managers.

Entities Controlled or Significantly Influenced by the Council

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. Information regarding the company and the transactions between the Council and CPBS, are shown in the group Accounts at pages 99 -106.

The Council also has two wholly owned subsidiary companies, South Holland Local Housing Community Interest Company and Red Lion Quarter Community Interest Company. Details on the companies and transactions in the year are also set out in the Group Accounts.

The Council is also the custodian for the Ayscoughfee Hall and Gardens, Sir Halley Stewart Playing Field, Weston St Mary's Village Hall and IVO Day Care Centre Trusts. Details of the transactions with the larger Trusts are shown in Note 45.

NOTE 35 – 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.

	2011/12 £000	2012/13 £000
Opening Capital Financing Requirement	**4,161**	**71,378**
Capital Investment		
Property, Plant and Equipment	3,706	3,972
Intangible Assets	21	90
Revenue Expenditure Funded from Capital under Statute	69,019	789
Sources of finance		
Capital receipts	(790)	(637)
Government grants and other contributions	(1,266)	(1,025)
Major Repairs Allowance	(2,148)	(1,645)
Land swap at no cost	-	(40)
Sums set aside from revenue:		
Direct revenue contributions	(1,085)	(1,504)
MRP	(18)	(17)
Finance leases - repayments	(222)	(241)
Impairment & revaluation losses on HRA non dwellings	-	(215)
Closing Capital Financing Requirement	**71,378**	**70,905**
Explanation of movements in year		
Increase/(Decrease) in underlying need to borrowing (unsupported by government financial assistance)	67,217	(473)
Increase/(decrease) in Capital Financing Requirement	**67,217**	**(473)**

NOTE 36 – LEASES

Council as Lessee

Finance Leases

The Council has acquired a number of items of Vehicles, Plant and Equipment under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following amounts:

	31 March 2012 £000	31 March 2013 £000
Vehicles, Plant, Furniture and Equipment	422	220
	422	**220**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2012 £000	31 March 2013 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	240	251
Non-Current	284	34
Finance costs payable in future years	90	26
Minimum lease payments	**614**	**311**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000
Not later than 1 year	240	251	304	275
Later than 1 year and not later than 5 years	284	34	310	36
	524	**285**	**614**	**311**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2012/13 no contingent rents were payable by the Council (nil in 2011/12).

Operating Leases

The Council has acquired a small number of items of equipment by entering into operating leases, with typical lives of 2-3 years. The values are not material.

Council as Lessor

Finance Leases

The Council has not leased out any property on a finance lease basis.

Operating Leases

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

In addition, in 2012/13 the Council received £190,000 from Compass Point Business Services (East Coast) Ltd in respect of the usage of office space (£190,000 in 2011/12). No formal long term arrangement currently exists.

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

	31 March 2012 £000	31 March 2013 £000
Not later than 1 year	10	46
Later than 1 year and not later than 5 years	30	96
Later than 5 years	2	3
	42	**145**

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 2012/13 no contingent rents were receivable by the Council (nil in 2011/12).

NOTE 37 – IMPAIRMENT LOSSES

The Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Notes 12 and 15 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances.

During 2012/13, the Council recognised an impairment loss of £91,983 (2011/12 Nil) in respect of land at Roseview Drive, Holbeach. This land was acquired for the purpose of building a permanent site for the gypsies and travellers who had set up an unofficial site at Cranmore Lane, Holbeach. The land has been given to the site occupants in exchange for the site at Cranmore Lane. The amount of the impairment has been calculated as the difference between the amount of expenditure to acquire the land at Roseview Drive, Holbeach and the value of land at Cranmore Lane, Holbeach that the Council received in exchange. The land at Cranmore Lane will be held by the Council as community land.

NOTE 38 – TERMINATION BENEFITS

The Council terminated the contracts of a number of employees in 2012/13 incurring liabilities of £43,825 (£70,865 in 2011/12) – see Note 31 for the number of exit packages and total cost per band.

NOTE 39 – 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, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Lincolnshire County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions' liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

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 is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement, the General Fund balance and the Housing Revenue Account balance via the Movement in Reserves Statement during the year

	Local Government Pension Scheme	
	2011/12 £000	2012/13 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
cost current service	886	901
settlements and curtailments	343	24
Financing and Investment Income and Expenditure		
interest cost	2,943	2,765
expected return on scheme assets	(2,574)	(2,091)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**1,598**	**1,599**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
actuarial gains and losses	4,495	3,751
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**6,093**	**5,350**
Movement in Reserves Statement		
reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	**(1,598)**	**(1,599)**
Actual amount charged against the General Fund Balance for pensions in the year:		
employers' contributions payable to scheme	1,135	1,122
retirement benefits payable to pensioners	102	104

The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure in the actuarial gains and losses on pension assets and liabilities line was at 31 March 2013 is a loss of £23.475m and at 31 March 2012 was a loss of £19.724m.

Assets and Liabilities in Relation to Post-employment Benefits

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

	Local Government Pension Scheme	
	2011/12 £000	2012/13 £000
Opening balance at 1 April	**54,136**	**58,261**
Current service cost	886	901
Interest cost	2,943	2,765
Contributions by scheme participants	287	278
Actuarial gains and losses	2,468	6,610
Benefits paid	(2,802)	(2,550)
Curtailments and Settlements	343	24
Closing balance at 31 March	**58,261**	**66,289**

For the preceding two tables, the Code of Practice disclosure requirements include a split between the Local Government Pension Scheme and Discretionary Benefits. This split has not been made as the proportion relating to discretionary benefits is deemed immaterial.

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	2011/12 £000	2012/13 £000
Opening balance at 1 April	**37,940**	**37,209**
Expected rate of return	2,574	2,091
Actuarial gains and losses	(2,027)	2,859
Employer contributions	1,237	1,226
Contributions by scheme participants	287	278
Benefits paid	(2,802)	(2,550)
Closing balance at 31 March	**37,209**	**41,113**

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

The actual return on scheme assets in the year was £4.951m (2011/12 £0.554m).

Scheme History

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Present value of liabilities:					
Local Government Pension Scheme	(46,368)	(75,618)	(52,726)	(56,813)	(64,837)
Discretionary Benefits	(1,345)	(1,601)	(1,410)	(1,448)	(1,452)
Fair value of assets in the Local Government Pension Scheme	**31,868**	**40,926**	**37,940**	**37,209**	**41,113**
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	(14,500)	(34,692)	(14,786)	(19,604)	(23,724)
Discretionary Benefits	(1,345)	(1,601)	(1,410)	(1,448)	(1,452)
Total	**(15,845)**	**(36,293)**	**(16,196)**	**(21,052)**	**(25,176)**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The net liability of £25.176m has a significant impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £56.629m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary

- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 are £1.080m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £0.104m.

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. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. Estimates for the Lincolnshire County Council Fund are based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme 2011/12	2012/13
Long-term expected rate of return on assets in the scheme:		
Equity investments	6.2%	4.5%
Bonds	4.4%	4.5%
Property	4.4%	4.5%
Cash	3.5%	4.5%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
- Men	21.2	21.2
- Women	23.4	23.4
Longevity at 65 for future pensioners:		
- Men	23.7	23.7
- Women	25.7	25.7
Rate of inflation	3.1%	3.2%
Rate of increase in salaries*	4.8%	5.1%
Rate of increase in pensions	2.5%	2.8%
Rate for discounting scheme liabilities	4.8%	4.5%
Take-up of option to convert annual pension into retirement lump sum - pre April 2008 service	25%	25%
Take-up of option to convert annual pension into retirement lump sum - post April 2008 service	63%	63%

* Salary increases are assumed to be 1% p.a. until 31 March 2015, reverting to the long term assumption shown thereafter.

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	2011/12 %	2012/13 %
Equity Investments	74	77
Debt Instruments	13	13
Other Assets	13	10
	100	**100**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008/09 %	2009/10 %	2010/11 %	2011/12 %	2012/13 %
Differences between the expected and actual return on assets	(32.2)	17.0	(3.2)	(5.43)	6.96
Experience gains and losses on liabilities	(0.03)	0.06	(12.19)	1.42	(0.15)

NOTE 40 – CONTINGENT LIABILITIES

At 31 March 2013 (31 March 2012, nil), the Council has identified the following material contingent liabilities.

Planning Issue

The authority is involved with a planning complaint that had been referred to the Local Government Ombudsman. It is a complex issue which has been considered by Council at a number of meetings, the most recent on 15 May 2013. The Council has accepted the Ombudsman's findings and approved an alternative compensation payment. The other party has recently initiated judicial review proceedings against the Council which are being defended.

Property Searches

South Holland District Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a claim of approximately £30,000 plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is £50,000 plus interest and costs. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behavior. It is not clear what the value of any such claim would be against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

Contractual Arrangements

The authority is engaged in talks with a contractor over values included within one of its service contracts. There is a potential for court action being required to settle the issue if the two parties cannot reach agreement.

NOTE 41 – CONTINGENT ASSETS

At 31 March 2013 (31 March 2012 nil), the Council has identified the following material contingent assets:

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 2013 are £427,000 (31 March 2012 £321,000).

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.

NOTE 42– 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 payment

- **refinancing 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 procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code and the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;

- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;

- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - the Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - its maximum and minimum exposures to the maturity structure of its debt;
  - its maximum annual exposures to investments maturing beyond a year.

- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance;

These are required to be reported and approved at or before the Council's annual Council Tax budget setting meeting. They are reported with the annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported at the end of each financial year.

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 8 March 2012 and is available on the Council's website. The key issues within the strategy are:

- the Authorised Limit for 2012/13 was set at £75.456m. This is the maximum limit of external borrowings or other long term liabilities.

- the Operational Boundary was expected to be £72.456m. This is the expected level of debt and other long term liabilities during the year.

- the maximum amounts of fixed and variable interest rate exposure were set at £75.472m and £8m respectively, based on the Council's net debt.

- the maximum and minimum exposures to the maturity structure of any new fixed rate debt were set at 100% and 0% respectively.

The introduction of Self Financing to the HRA from April 2012 brings with it the challenge and responsibility of ensuring a robust and affordable business plan for the HRA. It is anticipated that significant revenue surpluses will be generated and any investment of the surpluses into the development of the service or enhancement of the stock will need to be carefully managed to ensure sustainability.

The Council has ensured that effective governance arrangements are in place for the management of the HRA, by giving the Governance and Audit Committee the responsibility for overseeing the HRA Business Plan. In addition management of the £67.456m of debt is an area which is new to the authority and is monitored by reference to the Treasury Management Strategy.

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

Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied. Details of the Investment Strategy, approved by Council on 8 March 2012, can be found on the Council's website.

One of the key areas of the Investment Strategy is that the minimum criteria for investment counterparties include the creditworthiness service provided by Sector. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poors - forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

Credit risk is managed by avoiding a concentration of investments in too few counterparties or countries (although in the current financial climate the ratings restrict the Council to mainly UK based institutions), and by using the creditworthiness approach outlined above. The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2013 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 2013 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2013 %	Estimated maximum exposure to default and uncollectability at 31 March 2013 £000	Estimated maximum exposure at 31 March 2012 £000
	A	*B*	*C*	*(A x C)*	
Customers	670	9.8	9.8	65	122

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 £365,000 of the £670,000 balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2012 £000	31 March 2012 Restated* £000	31 March 2013 £000
Less than three months	3,671	2,920	402
Three to six months	2,361	20	2
Six months to one year	330	108	66
More than one year	708	259	200
	7,070	**3,307**	**670**

* Restated to reflect trade debtors as disclosed in Note 16.

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 needs, 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 plus finance lease principal payments) is as follows:

	31 March 2012 £000	31 March 2013 £000
Less than one year	246	283
Between one and two years	254	37
Between two and five years	40	-
More than ten years	67,456	67,456
	67,996	**67,776**

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

Refinancing and maturity risk

In managing its cash reserves the Council maintains an investment portfolio. Whilst its cash flow procedures are considered against the refinancing risk procedures, the longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to the maturity of 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 whilst the treasury team considers the operational risks within the approved parameters. This includes monitoring the maturity profile of investments to ensure that sufficient liquidity is available for the Council's day to day cash flow needs.

Market Risk

Interest Rate Risk - The Council is exposed to risk in terms of its exposure 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, where material, 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 will affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.
The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The 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.

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

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

	£000
Increase in interest receivable on variable rate investments	50
Increase in government grant receivable for financing costs	66
Impact on Surplus or Deficit on the Provision of Services	**116**
Share of overall impact debited to the HRA	23

The 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.

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 43 – HERITAGE ASSETS: FIVE-YEAR SUMMARY OF TRANSACTIONS

As set out in the accounting policy note on page 29, the Council only holds a limited number of Heritage Assets which have been held for number of years. There were no additions or disposals in the five years to 31 March 2013. A small increase in the value of the Chain Bridge Forge (formerly Blacksmith's shop) accounts for the overall increase in Heritage Assets at 31 March 2013.

NOTE 44 – HERITAGE ASSETS: FURTHER INFORMATION ON THE MUSEUM'S COLLECTIONS

The Council has not recognised any museum artefacts as Heritage Assets, as the items held in Ayscoughfee museum are deemed to be on loan to the museum, and therefore not owned by the Council.

NOTE 45 – 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

The Council, as trustee, holds the deeds on behalf of the people of Spalding. It is a registered charity (515905)

Sir Halley Stewart Playing Field

This is a 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 £470,000, last revalued as at 31 March 2011
Sir Halley Stewart Playing Field £145,000, last revalued as at 31 March 2011

	2011/12			2012/13		
Trust fund revenue account	Expend £000	Income £000	Net £000	Expend £000	Income £000	Net £000
Ayscoughfee Hall and Gardens	400	(32)	368	318	(24)	294
Sir Halley Stewart Playing Field	30	(3)	27	23	(7)	16

SUPPLEMENTARY FINANCIAL STATEMENTS

HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE ACCOUNT

	2011/12 £000	2012/13 £000
Expenditure		
Repairs and Maintenance	2,728	3,096
Supervision and Management	3,201	2,988
Rents, Rates, Taxes and Other Charges	40	43
Negative HRA Subsidy Payable (Note 7)	4,529	(11)
Depreciation (Note 3)	1,684	1,645
Revaluation of Non-current Assets (Note 4)	2,137	1,524
Debt Management Expenses	-	1
Movement in the allowance for bad debts	55	44
HRA Self Financing Debt payment	67,456	-
Total Expenditure	**81,830**	**9,330**
Income		
Dwelling Rents	(12,585)	(13,594)
Non Dwelling Rents	(122)	(133)
Charges for Services & Facilities	(1,315)	(1,361)
Contribution towards expenditure	(141)	(227)
Total Income	**(14,163)**	**(15,315)**
Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	**67,667**	**(5,985)**
HRA services share of Corporate and Democratic Core	335	334
HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services	103	1
Net Cost of HRA Services	**68,105**	**(5,650)**
(Gain) or loss on sale of HRA non-current assets	(30)	7
Interest Payable and similar charges	107	2,367
Interest and investment income	(28)	(39)
Pensions interest cost and expected return on pensions assets (Note 9)	111	198
Movement in the Market Value of Investment Property	(38)	(6)
Deficit/(Surplus) for the year on HRA services	**68,227**	**(3,123)**

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

	2011/12 £000	2012/13 £000
Balance on the HRA at the end of the previous year	**1,629**	**1,955**
Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement	**(68,227)**	**3,123**
Adjustments between accounting basis and funding basis under statute	68,553	135
Net increase before transfers to or from reserves	**326**	**3,258**
Transfer (to) or from reserves	-	-
Increase in year on the HRA	**326**	**3,258**
Balance on the HRA at the end of the current year	**1,955**	**5,213**

NOTES TO THE HOUSING REVENUE ACCOUNT

From 1 April 2012 the Housing Revenue Account subsidy system was abolished and instead the HRA must now be "self financing". The Council now retains all rental income but in exchange had to take on debt of £67.456m being a proportion of the National Housing debt.

NOTE 1 – HOUSING REVENUE ACCOUNT - ASSETS

The prescribed basis of valuation for operational property is Existing Use Value for Social Housing (EUV-SH). This reflects the valuation for a property, if it were sold with sitting tenants paying rents at less than open market rents and enjoying tenants' rights including the Right to Buy. The EUV-SH is calculated by applying an adjustment factor to the Existing Use Value for Vacant Possession (EUV-VP). This adjustment measures the difference between market and local authority rents at a regional level, and is calculated based on the ratio of the local authority rents to private sector rents applicable for Housing Benefit at the Regional level. The adjustment percentage for the East Midlands is 34% (34% in 2011/12).

Analysis of Housing Non-current Assets Net Book Value	At 31 March 2012		At 31 March 2013	
	EUV-SH £000	EUV-VP £000	EUV-SH £000	EUV-VP £000
Property Plant and Equipment				
Dwelling stock	**111,669**	328,439	**111,497**	327,932
Other Land and Buildings	**1,346**	n/a	**1,217**	n/a
Infrastructure – Housing Sewerage	**1,027**	n/a	**905**	n/a
Vehicles, Plant and Equipment	**279**	n/a	**168**	n/a
Surplus Asset not for Sale	**69**	n/a	**50**	n/a
Non Operational Assets				
Assets Under Construction			**46**	
Intangible Non Current Assets	**18**	n/a	**32**	n/a
Investment Properties	**62**		**67**	
Assets Held For Sale *(see note)			**210**	
Total	**114,470**	**328,439**	**114,192**	**327,932**

*Note: Assets Held for Sale have not been disclosed in previous years

NOTE 2 – HOUSING STOCK

The Council was responsible for managing 3,876 dwellings at 31 March 2013 (3,881 at 31 March 2012). The stock is analysed below by number of bedrooms. In addition the Council has an equity share in 9 shared ownership properties, with the Council's equity share being equivalent to 3.5 dwellings.

Analysis of Housing Stock at 31 March 2013					
	1 Bed	**2 Bed**	**3 Bed**	**3+ Bed**	**Total**
HRA Housing Stock	781	1,490	1,590	15	3,876
Shared Ownership	1	5	3	-	9
Total	**782**	**1,495**	**1,593**	**15**	**3,885**

NOTE 3 - DEPRECIATION

	2011/12 £000	**2012/13 £000**
Depreciation		
Dwelling Stock	1,336	1,327
Other Land and Buildings	65	65
Infrastructure - Housing Sewerage	127	122
Vehicles, Plant & Equipment	152	127
	1,680	**1,641**
Amortisation		
Intangible Assets	4	4
Total	**1,684**	**1,645**

NOTE 4 – REVALUATION OF HOUSING NON CURRENT ASSETS

The total value of revaluation losses of £1.524m (£2.137m loss in 2011/12) for the year has been charged to the HRA Income and Expenditure Account. The reduction in value reflects the current economic recession and market conditions. The new "HRA Self Financing" regulations effective from 2012/13 provide for transitional arrangements (to 2017) for the dwellings element of this loss to be reversed out of the HRA to the Capital Adjustment Account and therefore have no impact on the HRA working balance. However, there is no transitional arrangement for the non dwellings element of losses (where no revaluation gains exist) to be reversed out. An amount of £215,252 has therefore remained as a charge to the HRA**.** There were no impairments other than those relating to a general fall in prices. There was no change in the prescribed discount factor for social housing.

NOTE 5 – HOUSING REVENUE ACCOUNT CAPITAL EXPENDITURE AND FINANCING

	2011/12 £000	2012/13 £000
Housing Capital Accrued Expenditure and Financing		
Expenditure		
Improvements and Enhancements to Council Dwellings	3,145	3,212
New Build – Council Dwellings	-	27
Improvements to Wastewater Treatments	15	-
Improvements to Sheltered Accommodation	133	150
Information Systems	48	33
HRA Self Financing Debt	67,456	-
Total	**70,797**	**3,422**
Financing		
Borrowing	67,456	-
Capital Receipts	609	536
Grants & Contributions	-	17
Major Repairs Reserve	2,148	1,645
Direct Revenue Financing	584	1,224
Total	**70,797**	**3,422**

NOTE 6 – HOUSING REVENUE ACCOUNT CAPITAL RECEIPTS

	2011/12 £000	2012/13 £000
Housing Revenue Account Capital Receipts		
Usable Capital Receipts at 1 April	**1,251**	**693**
Right to buy sales in relation to dwellings	199	294
Mortgage repayments	2	2
Land Sales	-	153
Administration costs	(3)	(7)
Receipts used to finance capital expenditure	(609)	(536)
Payments to the Government Housing Capital Receipts Pool	(147)	(178)
Usable Capital Receipts at 31 March	**693**	**421**

NOTE 7 – HOUSING SUBSIDY

Prior to 1 April 2012, the Housing Revenue Account made a subsidy payment to the Government. This payment was made up of a negative Housing Amount and results from the fact that assumed rental income exceeded expenditure on the notional HRA giving rise to a negative entitlement to subsidy. Under the current "self financing" regime there is no longer a requirement for the Housing Revenue Account to make this payment. The total amount payable for 2011/12 was made up of the following elements:

	2011/12 £000
HRA Subsidy	
Housing Element	
Prior year adjustments	8
Management and Maintenance Allowance	5,351
Major Repairs Allowance	2,148
Charges for Capital	102
Assumed Rental Income	(12,162)
Additional subsidy for interest on self-financing loan	24
Amount Payable	**4,529**

NOTE 8 – RENT ARREARS

The net rent arrears at 31 March 2013 amounted to £259,000 (£274,000 in 2011/12) and are analysed as follows:

	31 March 2012 £000	31 March 2013 £000
Rent Arrears Due From		
Current Tenants	160	174
Former Tenants	112	83
Garages	2	2
Total	**274**	**259**
These arrears include all charges due from tenants: rents, service charges and other charges.		
Allowance for doubtful debts	(137)	(115)

NOTE 9 – RETIREMENT BENEFITS

Note 39 to the Core Financial Statements provides a detailed explanation of the accounting requirements for pension costs. The following transactions have been made in the HRA to reflect its share of the pension fund transactions in the year.

	2011/12 £000	2012/13 £000
HRA Income and Expenditure Statement		
Net Cost of HRA Services included in CIES		
Current Service Cost	265	264
HRA Share of Other amounts included in CIES		
Interest Cost	883	810
Expected Return on assets in the scheme	(772)	(612)
Past Service and Curtailment	103	1
Deficit for the year on HRA services	**479**	**463**
Statement of movement on the HRA balance		
Net charges made for retirement benefits in accordance with IAS 19	**(479)**	**(463)**
Actual amount charged against the HRA Balance for pensions in the year:		
Employer's contributions payable to scheme	371	343

NOTE 10 – STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

	2011/12 £000	2012/13 £000
Adjustments between accounting basis and funding basis under statute		
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	69,522	1,224
Capital Expenditure funded by the HRA	(584)	(1,224)
Employee Benefit Accrual	1	1
Gain or loss on sale of HRA fixed assets	(30)	14
Net charges made for retirement benefits in accordance with IAS 19	479	463
Employer's contributions payable to the Lincolnshire County Council Pension Fund and retirement benefits payable direct to pensioners	(371)	(343)
Transfer to/(from) Major Repairs Reserve	(464)	-
Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	**68,553**	**135**

In accordance with proper accounting practice, the 2011/12 charge to the HRA (and Comprehensive Income and Expenditure Statement) for the £67.456m self-financing loan was reversed out through the Capital Adjustment Account, ensuring it had no impact on rent payers.

NOTE 11 – MAJOR REPAIRS RESERVE

The Council previously received a Major Repairs Allowance (MRA) as part of the old Housing Subsidy system to help maintain the value of housing stock. From 2012/13 the Housing Subsidy system was replaced as part of the Governments proposals to allow the Housing Revenue Account to become self financing. The Major Repairs Reserve under the new system is credited with depreciation charges from the Housing Revenue Account. These funds are then available to fund capital expenditure on HRA assets.

	2011/12 £000	2012/13 £000
Major Repairs Reserve		
Balance at 1 April	**-**	**-**
Depreciation on Fixed Assets		
Dwellings	1,336	1,327
Other Assets	348	318
Transfer to/(from) Housing Revenue Account		
Depreciation on other fixed assets	(348)	-
Excess of MRA over depreciation on dwellings	812	-
Capital expenditure funded from MRA	(2,148)	(1,645)
Balance at 31 March	**-**	**-**

COLLECTION FUND STATEMENT

	2011/12 £000	2012/13 £000
Amounts required by statute to be credited to the Collection Fund		
Council Tax		
Income from Council Tax	(34,781)	(35,378)
Council Tax Benefit	(5,724)	(5,657)
Income collectable from business ratepayers		
Income from NNDR	(21,553)	(22,767)
Contribution towards previous year's estimated Collection Fund surplus/(deficit)		
Distribution of surplus/(Collection of deficit) -		
Lincolnshire County Council	(303)	(319)
Lincolnshire Police Authority	(51)	(54)
South Holland District Council	(44)	(47)
Total	**(62,456)**	**(64,222)**
Amounts required by statute to be debited to the Collection Fund		
Precepts and demands from major preceptors Council		
Lincolnshire County Council	30,197	30,331
Lincolnshire Police Authority	5,080	5,305
South Holland District Council	5,244	5,288
Business Rates		
Payment to National Pool	21,440	22,654
Cost of Collection Allowance	113	113
Impairment of debts/appeals		
Amounts written-off (net)	47	39
Increase in provision for uncollectable amounts	249	116
Total	**62,370**	**63,846**
(Surplus) for the year	**(86)**	**(376)**
Collection Fund balance		
Deficit at beginning of year	448	362
(Surplus) for the year	(86)	(376)
(Surplus)/Deficit at end of year	**362**	**(14)**

NOTES TO THE COLLECTION FUND

NOTE 1 – COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties that have been classified into eight Valuation Bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lincolnshire County Council, Lincolnshire Police Authority 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. The basic amount of Council Tax for a band D property including an average parish charge, £1,437.87 (2011/12 £1,430.04), is then multiplied by the ratio specified for the particular band to give an individual amount due.

The Council Tax base was calculated as follows:

Band	No. of Chargeable homes	No. of chargeable homes after effect of discounts	Ratio	Band D equivalent dwellings
AA	-	31	5/9	17
A	14,717	12,818	6/9	8,545
B	8,207	7,437	7/9	5,784
C	9,558	8,831	8/9	7,850
D	3,944	3,809	9/9	3,809
E	1,723	1,612	11/9	1,970
F	350	329	13/9	475
G	96	86	15/9	144
H	13	20	18/9	10
Band D Equivalents				28,604
Allowance for non-collection (0.5%)				(143)
District Tax Base				**28,461**

NOTE 2 – BUSINESS RATES

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 2012/13 there are two multipliers, the non-domestic rating multiplier of 45.8p and the small business non-domestic rating multiplier of 45.0p. The total non-domestic rates due, less certain reliefs and deductions, is paid into a National Non-Domestic Rate Pool administered by the Government. The Government then redistributes the sums paid back to local authorities' General Funds on the basis of a fixed amount per head of population.

The Council's total Non-Domestic Rates Rateable Value at 31 March 2013 was £63.014m (31 March 2012 £63.598m).

NOTE 3 – COLLECTION FUND SURPLUS

As at 31 March 2013, the Collection Fund shows a surplus of £14,000 (31 March 2012, a deficit of £362,000).

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

	2011/12 £000	2012/13 £000
Lincolnshire County Council	268	(10)
Police and Crime Commissioner for Lincolnshire (previously Lincolnshire Police Authority)	47	(2)
South Holland District Council	47	(2)
Total	**362**	**(14)**

GROUP ACCOUNTS
Group Movement in Reserves Statement

2012/13	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries and Joint Ventures £000	Total Reserves £000
Balance at 31 March 2012	**1,943**	**3,428**	**1,955**	**200**	**1,457**	**2,114**	**11,097**	**48,046**	**59,143**	**(270)**	**58,873**
Movement in Reserves during 2012/13											
Surplus or (deficit) on the provision of services	(2,060)	-	3,123	-	-	-	1,063	-	1,063	184	1,247
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(3,577)	(3,577)	(344)	(3,921)
Total Comprehensive Income and Expenditure	**(2,060)**	**-**	**3,123**	**-**	**-**	**-**	**1,063**	**(3,577)**	**(2,514)**	**(160)**	**(2,674)**
Adjustments between Group Accounts and authority accounts	-	-	-	-	-	-	-	-	-	187	187
Adjustments between accounting basis & funding basis under regulations	3,732	-	135	-	(38)	(471)	3,358	(3,358)	-	-	-
Net Increase/Decrease before transfers to Earmarked Reserves	**1,672**	**-**	**3,258**	**-**	**(38)**	**(471)**	**4,421**	**(6,935)**	**(2,514)**	**27**	**(2,487)**
Transfers to/from Earmarked Reserves	(1,581)	1,581	-							-	-
Increase/Decrease in 2012/13	**91**	**1,581**	**3,258**	**-**	**(38)**	**(471)**	**4,421**	**(6,935)**	**(2,514)**	**27**	**(2,487)**
Balance at 31 March 2013	**2,034**	**5,009**	**5,213**	**200**	**1,419**	**1,643**	**15,518**	**41,111**	**56,629**	**(243)**	**56,386**

2011/12	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries and Joint Ventures £000	Total Reserves £000
Balance at 31 March 2011	**1,943**	**3,184**	**1,629**	**200**	**2,162**	**2,822**	**11,940**	**120,890**	**132,830**	**166**	**132,996**
Movement in Reserves during 2011/12											
Surplus or (deficit) on the provision of services	(1,142)	-	(68,227)	-	-	-	(69,369)	-	(69,369)	(181)	(69,550)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(4,318)	(4,318)	(302)	(4,620)
Total Comprehensive Income and Expenditure	**(1,142)**	**-**	**(68,227)**	**-**	**-**	**-**	**(69,369)**	**(4,318)**	**(73,687)**	**(483)**	**(74,170)**
Adjustments between Group Accounts and authority accounts	-	-	-	-	-	-	-	-	-	47	47
Adjustments between accounting basis & funding basis under regulations	1,386	-	68,553	-	(705)	(708)	68,526	(68,526)	-	-	-
Net Increase/Decrease before transfers to Earmarked Reserves	**244**	**-**	**326**	**-**	**(705)**	**(708)**	**(843)**	**(72,844)**	**(73,687)**	**(436)**	**(74,123)**
Transfers to/from Earmarked Reserves	(244)	244	-	-	-	-	-	-	-	-	-
Balance at 31 March 2012	**1,943**	**3,428**	**1,955**	**200**	**1,457**	**2,114**	**11,097**	**48,046**	**59,143**	**(270)**	**58,873**

Group Comprehensive Income and Expenditure Statement

2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000		2012/13 Gross Expenditure £000	2012/13 Gross Income £000	2012/13 Net Expenditure £000
7,255	(6,757)	498	Central services to the public	7,049	(6,725)	324
3,355	(984)	2,371	Cultural and Related services	2,817	(880)	1,937
4,242	(696)	3,546	Environment and Regulatory services	4,142	(1,392)	2,750
3,764	(1,336)	2,428	Planning services	3,136	(1,406)	1,730
263	(292)	(29)	Highways and transport services	269	(282)	(13)
81,830	(14,163)	67,667	Local authority housing (HRA)	9,330	(15,315)	(5,985)
19,135	(18,579)	556	Other housing services	20,413	(19,855)	558
2,704	(429)	2,275	Corporate and democratic core	2,442	(574)	1,868
356	(13)	343	Non distributed costs	24	-	24
122,904	**(43,249)**	**79,655**	**Cost of Services**	**49,622**	**(46,429)**	**3,193**
3,053	(234)	2,819	Other operating expenditure	6,372	(782)	5,590
3,124	(2,843)	281	Financing and investment income and expenditure	5,228	(2,403)	2,825
	(13,205)	(13,205)	Taxation and non-specific grant income	-	(12,855)	(12,855)
		69,550	**(Surplus) or Deficit on Provision of Services**			**(1,247)**
	(4)	(4)	Tax expenses of subsidiaries			-
		69,546	**Group (Surplus)/Deficit**			**(1,247)**
		(177)	Surplus or deficit on revaluation of non-current assets			(174)
		4,495	Actuarial gains/losses on pension assets/liabilities			3,751
		306	Share of other comprehensive income and expenditure of joint ventures			344
		4,624	**Other Comprehensive Income and Expenditure**			**3,921**
		74,170	**Total Comprehensive Income and Expenditure**			**2,674**

Group Balance Sheet

31 March 2012 £000		31 March 2013 £000
139,780	Property, Plant & Equipment	136,276
60	Heritage Assets	61
1,054	Investment Property	1,115
154	Intangible Assets	195
193	Long Term Debtors	67
141,241	**Non-Current Assets**	**137,714**
2,027	Short Term Investments	7,078
152	Assets Held for Sale	210
29	Inventories	40
6,261	Short Term Debtors	2,561
2,659	Cash and Cash Equivalents	5,839
11,128	**Current Assets**	**15,728**
(6)	Short Term Borrowing	(32)
(3,021)	Short Term Creditors	(2,544)
(610)	Liabilities in Joint Ventures	(954)
(3,637)	**Current Liabilities**	**(3,530)**
(551)	Long Term Creditors	(233)
(67,466)	Long Term Borrowing	(67,459)
(21,052)	Other Long Term Liabilities	(25,176)
(790)	Capital Grants Receipts in Advance	(658)
(89,859)	**Long Term Liabilities**	**(93,526)**
58,873	**Net Assets**	**56,386**
11,253	Usable Reserves	16,055
47,620	Unusable Reserves	40,331
58,873	**Total Reserves**	**56,386**

Group Cash Flow

2011/12 £000		2012/13 £000
(69,550)	Net (surplus) or deficit on the provision of services	1,247
4,322	Adjustments to net surplus or deficit on the provision of services for non-cash movements	7,118
(320)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(1,348)
(65,548)	Net cash flows from Operating Activities	**7,017**
(2,574)	Investing Activities	(5,910)
66,857	Financing Activities	2,078
(1,265)	**Net (increase) or decrease in cash and cash equivalents**	**3,185**
3,924	Cash and cash equivalents at the beginning of the reporting period	2,659
-	Removal of Red Lion Quarter cash included at the beginning of the reporting period	(5)
2,659	**Cash and cash equivalents at the end of the reporting period**	**5,839**

The Council has prepared group account statements that include the financial transactions of South Holland Local Housing Community Interest Company as a wholly owned subsidiary company together with the relevant proportion of Compass Point Business Services (East Coast) Limited - using the equity method - as it is a joint venture between the Council and East Lindsey District Council. Up to 2011/12 the group accounts also included the financial transactions of the Red Lion Quarter Community Interest Company. However, the facility that the company occupied was sold in July 2012 and although not officially wound up the company was effectively dormant. Any transactions in the months April to July 2012 are not material and therefore have not been included.

Accounting Policies

The financial statements of South Holland Local Housing have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008), and therefore not under IFRS. There are no significant differences in the accounting policies of the companies and the Council that would cause a material adjustment in the consolidation of the Group Accounts. Otherwise, the accounting policies of the group entities are in accordance with those of the Council.

There are no additional notes which require disclosure for these Group Accounts other than those already included within the single entity accounts. The notes that follow relating to each entity are produced to assist the reader's understanding of the relationship between the Council and the entity.

Contingent Liabilities

There are no contingent liabilities for 2012/13 relating to the interests in the companies and joint venture or in the entities themselves that are not disclosed elsewhere in the Accounts.

The Council is also the custodian for a number of trusts; Transactions relating to these trusts are included in the Council's single entity Comprehensive Income and Expenditure Statement (see note 45 in the core financial statements). Under IFRS, as under UK GAAP, the fixed assets for the Ayscoughfee Hall and Gardens and Sir Halley Stewart Playing Field are not included in the Council's Balance Sheet. The trusts are not included as group accounts as transactions are included in the core financial statements, and disclosure of the scale of their operations is given in the notes to the accounts.

South Holland Local Housing Community Interest Company (SHLHCIC) – South Holland Homes

In 2008/09 the Council set up a wholly owned subsidiary company, South Holland Homes, 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 the construction of 6 new properties commenced, which were completed and let in the summer of 2010, and are tenanted and managed by the Council. In 2010/11 the Company was gifted 8 former Council houses which it prepared for sale and put on the market in the autumn of 2010. One sale was completed in 2010/11, another two in 2011/12, and a further 2 in 2012/13. The remaining 3 properties are in the process of being sold with the completion of the sale expected during 2013/14. Receipts from the sale of these properties will be reinvested into the provision of further affordable homes.

Voting Rights

The Council controls the majority of the voting rights of the company.

Retained Surplus/Deficit

In 2012/13 the company made a profit of £125,751 (2011/12 £121,011). This is included in the Group Comprehensive Income and Expenditure Statement. The Council's liability in respect of meeting any deficits is limited to the unpaid share capital (the share capital is £100 fully paid up).

Assets and Liabilities

At 31 March 2013, South Holland Homes held fixed assets valued at 690,000, and current assets totalling £310,155. Liabilities consisted of short term creditors of £7,659, and long term creditors of £536,872 including loans of £269,872 to be repaid to the Council in future years.

Commitments under capital contracts

At 31 March 2013 the company had no commitments for capital works (31 March 2012 nil).

Government and Local Authority Grants

No grants were received in 2012/13 (nil in 2010/11).

Inter-organisation Balances
Group accounting regulations require that inter-organisation balances be removed. The following balances were removed in 2012/13:-

- Debtors – for rent due on new build properties £14,382 (2011/12 £10,551)
- Creditors – for other expenses £2,862 (2011/12 -£1,590)
- Long Term Creditors - £249,162 (2011/12 £249,162) potentially repayable to South Holland District Council
- Loans – to assist property refurbishment £20,802 (2011/12 £48,322)
- Loan – working capital £20,000 was repaid (2011/12- £Nil)
- Loan - £27,612 was repaid (2011/12 - £Nil)

Inter-organisation transactions

Group accounting regulations require that inter-organisation transactions be removed. The following transactions were removed in 2012/13:-

- Rent £23,364 (2011/12 £22,937)
- Management fees £7,510 (2011/12 £7,510)
- Other expenses of £412 (2011/12 £3,135).
- Loan repayment and interest £409 and £150 respectively (2011/12 £nil and £726 respectively)

South Holland Homes Accounts

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

Compass Point Business Services (East Coast) Limited - (CPBS)

On 1 August 2010, the Council and East Lindsey District Council transferred the operations of a number of their back-office services (IT, Finance, Human Resources, Revenues and Benefits, and Customer Services) to CPBS.

CPBS is accounted for as a joint venture between the two founding Councils, and has been incorporated into the group accounts using the equity method. This requires that each Council incorporates the relevant proportion of CPBS' financial position at the year end into its Group Accounts. For South Holland, the relevant proportion is 37%.

In 2012/13 the company's comprehensive income statement shows a net loss/return of £0.931m (2011/12 a net loss of £0.827m). Of this the Council's proportion of £0.344m (2011/12 (£0.306m)) is included in the Group Comprehensive Income and Expenditure Statement. At 31 March 2013, the net worth of CPBS was (£2.579m) (2011/12 (£1.648m)), taking into account the pension deficit of £1.840m calculated as at 31 March 2013 (31 March 2012 deficit of £1.840m). The Council's proportion of the net worth that has been incorporated into the Group Accounts Balance Sheet is (£0.954m), (2011/12 (£0.610m)).

Voting Rights

At 31 March 2013, the Council had 50% of the voting rights of the company.

Accounting Policies

The company's accounting policies are in line with the Council's accounting policies

Council Interest

The Council has the following interest in its joint venture company, Compass Point Business Services (East Coast) Limited.

2011/12 £000		2012/13 £000
378	Current Assets	342
729	Long Term Assets	655
(560)	Current Liabilities	(546)
(1,157)	Long term Liabilities	(1,405)
(610)	**Shown in Balance Sheet**	**(954)**
(306)	Interest in Income and Expenditure	(344)
(916)	**Total interest in joint venture company**	**(1,298)**

Compass Point Business Services (East Coast) Limited Company Accounts

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

Events after the Balance Sheet date

There were no material events after the Balance Sheet date that would have affected the Group Accounts, to report.

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 2013 on pages 16 to 106. 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 2012/13.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. 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 Assistant Director Finance and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Assistant Director Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. 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 and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. 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 and the Group as at 31 March 2013 and of the Authority's and the Group's expenditure and income for the year then ended;

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 111 to 118 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 explanatory foreword 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 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or

- any recommendations have been made under section 11 of the Audit Commission Act 1998; or

- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

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 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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 audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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, the Authority 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 on the specified criteria published by the Audit Commission in November 2012, 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 ending 31 March 2013.

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 Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Tony Crawley
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
St Nicholas House
31 Park Row
Nottingham
NG1 6FQ
24 September 2013

ANNUAL GOVERNANCE STATEMENT

Scope of responsibilities
South Holland District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and 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, the Council is also responsible for ensuring that there is a sound system of governance which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

To this effect 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

This statement explains how South Holland District Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations (England) 2011 Regulation 4(3).

The purpose of the Governance Framework
The governance framework comprises the systems and processes, and cultures and values, for the direction and control of the Authority and its activities through which it accounts to, engages with and leads the community. Our governance framework enables us to monitor the achievement of our strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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 (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 our policies, aims and objectives. Through it we evaluate the likelihood of those risks being realised and the impact should they be realised, to enable us to manage them efficiently, effectively and economically.

The governance framework has been in place at the Authority for the year ended March 2013 and up to the date of approval of the Statement of Accounts.

The framework has continued to be reviewed and amended to reflect new working arrangements with Compass Point Business Services (East Coast) Ltd and the joint South Holland District Council and Breckland District Council management arrangements.

The governance framework

Strategic leadership - Our corporate plan covering the period 2011 to 2015 sets out our high level plans for delivering our longer term vision for South Holland to be a thriving, living, working, rural community. It explains the context of the area of South Holland, the challenges we face, and how the views of residents have influenced our priorities for action. The corporate plan is about what we, the District Council, plan to do over the four year period.

***Partnership working* -** Partnerships in which we have a financial or other significant interest are recorded in our partnerships log. The log is updated each year and this informs our assurance framework. The Council's financial regulations 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. This work is strengthened by our involvement in the Greater Lincolnshire Risk Forum, of which we are a member.

The Council entered into a shared management arrangement with Breckland District Council with effect from 1st April 2011. Despite the commitment to sharing a management team the two councils will continue to exercise independent democratically accountable local government in their respective areas, each having its own governance arrangements.

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 the Chief Executives of both authorities. The company has regularly reported its progress on performance of services to the client officer, with a quarterly shareholder performance reported to Scrutiny. The company's business plan is approved annually by council. The ongoing governance arrangements are set out in the Service Level Agreements (SLA), and a Management Agreement is in place that sets out the partnership arrangements, principles and parameters. The governance arrangements and SLAs were reviewed during the year along with the Management Agreement, and brought up to date to reflect the evolution of the company from transition phase to 'business as usual'. Further work has been undertaken with the assistance of internal audit to ensure the governance arrangements and systems of internal controls remain sufficient during a period of transformation and evolution.

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.

The Council is the sole shareholder of the Red Lion Quarter Community Interest Company, with two councillors on the board of directors. Having previously intervened in the company's trading activities to reduce the Council's risk exposure, in 2012/13 the Council sold the building to Boston College to ensure a stable future for the facility. Although not formally wound up, the company is effectively dormant.

The Council appointed a Task Group to review the Red Lion Quarter project paying particular attention to the original business case; the set up, management and operation of the Community Interest Company; the governance procedures; and the performance monitoring of the business. The Task Group produced a final report to Cabinet in July 2012, which highlighted the Group's findings and made a number of recommendations. Management have subsequently produced an action plan to ensure that the lessons learned from this project can be used to improve processes and procedures for future projects. Progress on this action plan has been reviewed by the Performance Monitoring Panel

Quality of service - Our annual business planning processes are part of our integrated planning framework which ensures that service planning and related resource management flow from the Council's Corporate Plan. We measure the overall effectiveness of our service delivery through the Council's performance management framework. Quarterly service and financial performance is reported formally to Cabinet.
All performance is subject to detailed review and challenge by the Performance Monitoring Panel who report on areas of concern to the Cabinet. The Council has reviewed its basket of corporate performance indicators in light of its priorities and national changes to local authority

performance reporting, and formally reports on a quarterly basis to the Performance Monitoring Panel and Cabinet.

***Transparency* -** As a Council we want to be publicly accountable and present our work with openness and transparency. As such, any expenditure over £500 (including VAT) with external suppliers has been made available online in a monthly report, as part of a move to make this information more easily accessible. These reports are published approximately 10 working days after the end of each calendar month. The authority also reports on the pay and benefits for senior officers as well as its Pay Policy and contracts register.

Functions and roles

***Effective leadership* -** The Constitution documents 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. Councillors' roles and responsibilities are defined in both generic and specific job descriptions that have been tested through consultation and based on a recommended 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. Further work has been recently undertaken to update the standard, and training provided to officers.

***Working relationships* -** The Constitution sets out the Scheme of Delegation to Officers including the conditions of 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.

Conduct and behaviour

***Standards of conduct* -** On 1st July 2012 arrangements for Standards changed as a result of the Localism Act 2011. Until this time, the behaviour of Councillors was regulated by a member Code of Conduct supported by a number of protocols applying the principles of the code to the Council's activity. The Standards Committee ensured high standards of conduct by Members of the Authority, offering regular training opportunities. It advised on the adoption or revisions to the Code of Conduct for Members. The Committee also received and considered reports where complaints had been referred for investigation. It regularly monitored the effectiveness of the implementation of the Code.

After the 1st July 2012, the new arrangements were implemented for dealing with complaints against councillors, in line with the Localism Act 2011. The Act gave Council's the freedom to adopt their own local Code of Conduct and South Holland District Council chose to adopt a Code based on the LGA template code (available on the Council website). The Council set and agreed it's arrangements for dealing with complaints against Councillors and these are now in place (further details of the arrangements are available on the Council's website). The Council also appointed an Independent Person, a new role defined in the Localism Act 2011. Under the new arrangements, the Monitoring Officer considers complaints in the first instance and consults with the Independent Person where necessary. Although the Standards Committee was dissolved as permitted under the Localism Act 2011, a Standards Panel has been established to consider complaints that have been investigated. All arrangements for Standards will be reviewed as the new system is embedded

The Council also has an Employee Code of Conduct and there are a number of specific policies set out on the Council's intranet sub site "working here" (eg on bullying, sickness etc).

Financial and risk management - The Assistant Director Finance is designated the responsible officer for the administration of the Council's financial affairs 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 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.

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 regularly 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 (Assistant Director Democratic Services) and the Chief Finance Officer (Assistant Director Finance) 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. A complete review is in progress to attempt to align the constitution with that of Breckland Council. A Members' working group has been formed to work jointly with Breckland Council and to represent the interests of both councils. The aim is for each authority to have a working constitution that is closely aligned to the other, while recognising that each authority remains an independent democratic organisation. The work will be completed during 2013-14, along with a review of the code of corporate governance following updated best practice guidance from CIPFA and Solace on 'Delivering good governance in local government'.

***Councillor and officer development* -** The Council has been reassessed under the Investors in People accreditation and is committed to the development of councillors and staff at all levels of the organisation. Feedback following the review confirmed that 'the Council continues to comply very, very well.'

In March 2010 the Council was accredited with the Member Development Charter. This was following an assessment which was completed by Local Government East Midlands Councils assessors. The authority remains committed to helping councillors develop the skills to serve their communities and participates in the Lincolnshire Member Development Programme.

***Community engagement* -** The Council is committed to listening to and involving the community and consistently demonstrates that it does. 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 on-line capability.

Organisational values
The Council has adopted a set of organisational values and behaviours:-

We value our citizens. We will conduct our business in an open and accountable way.

We value our customers. We will always listen and treat them courteously and fairly. We will effectively deal with their enquiries, service requests, suggestions and complaints.

We value our staff and elected members. We will enable them to do their jobs well.

We value honesty and integrity. We will always tell the truth and our actions will be consistent with these values.

We value the environment in which we live. We will act responsibly towards its future.

We value giving value for money. We will balance the cost, standard and customer view of the services we provide.

The complaints procedure ensures customers get their needs met in a fast, courteous, fair and consistent manner and a resolution is achieved as quickly as possible. Complaints are taken very seriously and the Council learns from issues raised to help improve services. The complaint procedure was reviewed and simplified during this period for implementation from April 2013.

Scrutiny and managing risk

***Scrutiny* -** The Constitution sets out how the Council operates and the process for policy and decision making. Full Council has overall responsibility for the Constitution, Scheme of Delegation, Budget and Policy Framework. There are two scrutiny committees the Performance Monitoring Panel and the Performance Development Panel. The panels are supported by designated Scrutiny Officer resource.

Committee-web is an intranet system used to ensure that agendas are set and decision making documented in a comprehensive and consistent manner.

***Risk Management* -** The Council's risk management arrangements are embedded in its Corporate Risk Management Strategy and risk registers. The Council has updated its risk policy and process guide during the year to align the framework to reflect latest guidance and to ensure that shared officers with Breckland District Council operate to the same arrangements at both authorities.

Risk management remains an integral part of the Council's day to day thinking. All Member decisions are supported by a commentary on the risks involved in taking the decision (or not taking the decision) with this developing greater Member appreciation of risk, not least through reports into the Governance and Audit Committee.

***Legal powers* -** The Council understands its legal powers and limitations, and seeks 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.

Capacity and capability

***Skills and resources* -** 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.

***Development and performance* -** The Council provides a full range of development opportunities for Councillors. Staff performance is managed using a new 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 the corporate priorities and goals. All Council employees have an annual Performance Development Review which are followed up and monitored by the reviewer and reviewee throughout the year via informal progress discussions.

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 Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

When Council approves the organisation's budget and policy framework it ensures that changes improve or maintain the effectiveness of its governance arrangements.

The Governance and Audit Committee has a responsibility to advise on the effectiveness of our 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 our 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 full, substantial, limited or no assurance by internal audit.

From the work undertaken by Internal Audit during the year the Head of Internal Audit and Risk Management has provided an opinion on the effectiveness of South Holland District Council's arrangements for governance, risk management and control arrangements. Financial control and risk management are deemed to be 'Performing Well' with governance and internal control 'Performing Adequately – some improvements required'. Some issues have been brought to the attention of the Governance & Audit Committee. These items have been highlighted in the next section. All are subject to action plans to improve the control environment.

The Governance and Audit Committee ensures the effective implementation of recommendations from our internal and external auditors and considers the effectiveness of our internal control environment.

Significant governance issues
The work of Internal Audit is highlighted in the Internal Audit Annual Report. The report has raised some concerns on service delivery arrangements, management of risks and operation of controls and has only been able to provide 'limited assurance' for some of our controls. The report reflected on the internal audit reviews conducted during the year and identified some areas for improvement:

- Further improvements on reporting would help strengthen the improvements made during the year to the performance management arrangements.
- Lessons learnt from the review of the Red Lion Quarter project are being put in place to strengthen project management arrangements. These will need to be implemented for future projects.
- The Council should adopt a more strategic approach to income generation, balancing the Council's appetite for income maximisation to the impact on service users and delivery.
- Although the Council had adopted a sound approach to the production of an HRA business plan, it should make improvements to the HRA governance arrangements moving forward.
- ICT Disaster Recovery arrangements have not been tested, and details of critical systems and recovery priorities should be reviewed.

The authority is involved with a planning complaint that had been referred to the Local Government Ombudsman. It is a complex issue which has been considered by Council at a number of meetings, the most recent on 15 May 2013. The Council has accepted the Ombudsman's findings and approved an alternative compensation payment. The other party has recently initiated judicial review proceedings against the Council which are being defended.

The ongoing levels of reduction in public expenditure, combined with major changes in the funding of local government present major governance challenges to the Council along with most other local authorities. While South Holland has a balanced budget in the coming financial year, it will have to implement a transformation programme to address budget shortfalls over the medium term. A combination of growth (to generate income) and efficiency measures are planned, and will go through appropriate scrutiny and formal approval before being committed in the budget and medium term financial plan.

Certification
We are satisfied that appropriate arrangements are in place to address improvements identified in our review of compliance. Progress on these improvements and on addressing mitigating risks will be monitored by Corporate Management Team and Governance and Audit Committee through the year.

Signed:………………………………… …………………………………..

(Leader) (Chief Executive)

24th September 2013

GLOSSARY OF TERMS

ACCOUNTING PERIOD

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

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

ACTUARIAL GAINS AND LOSSES

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

- Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- The actuarial assumptions have changed

ASSET

An item having value to the Council in monetary terms. Assets are categorised as either ‘current’ or ‘fixed’:

- A current asset will be consumed or cease to have material value within the next financial year e.g. cash and stock
- A fixed asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be tangible e.g. South Holland Centre, or intangible, e.g. computer software licences.

AUDIT OF ACCOUNTS

An independent examination of the Council’s financial affairs.

BALANCE SHEET

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

BUDGET

The forecast of net revenue and capital expenditure over the accounting period.

CAPITAL EXPENDITURE
Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

CAPITAL FINANCING

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants and contributions, revenue reserves and earmarked reserves.

CAPITAL PROGRAMME

The capital schemes the authority intends to carry out over a specific period of time.

CAPITAL RECEIPT

The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure within rules set down by the government but they cannot be used to finance revenue expenditure.

CASH FLOW STATEMENT

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

CIPFA

The Chartered Institute of Public Finance and Accountancy.

COLLECTION FUND

A separate fund that records the income and expenditure relating to Council Tax and Non-Domestic rates.

COMMUNITY ASSETS

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

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The revenue account of the Council that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

CONSISTENCY

The concept that the accounting treatment of like items, within an accounting period and from one period to the next, are the same.

CONTINGENT ASSET

A contingent asset is a possible asset arising from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events, not wholly within the Council's accounts.

CONTINGENT LIABILITY

A contingent liability is either:

- A possible obligation arising from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events not, wholly within the Council's control, or

- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose organisations. The cost of these activities are thus over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

CREDITOR

Amount owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

DEBTOR

Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

DEFINED BENEFIT PENSION 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.

DEPRECIATION

The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Council's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

DISCRETIONARY BENEFITS (PENSIONS)
Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

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

EXPECTED RETURN ON PENSION ASSETS

For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

EXTRAORDINARY ITEMS

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period.

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

GOING CONCERN

The concept that the Accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

GOVERNMENT GRANTS

Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be specific to a particular scheme or may support the revenue spend of the Council in general.

HOUSING BENEFITS

A system of financial assistance to individuals towards certain housing costs administered by councils and subsidised by central government.

HOUSING REVENUE ACCOUNT (HRA)

A separate account to the General Fund, which includes the income from council house rents and expenditure on managing and maintaining its housing stock.

IMPAIRMENT

A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet.

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

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Council's intangible assets comprise of computer software licences.

INTEREST COST (PENSIONS)

For a defined benefit scheme, the expected increase during the period, calculated at the present value of the scheme liabilities due to the benefits being one period closer to settlement.

INVESTMENTS (PENSION FUND)

The investments of the Pension Fund will be accounted for in the statements of that fund. However, councils are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

LIABILITY

A liability is where the Council owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.

- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

LIQUID RESOURCES

The current asset investments that are readily disposable by the Council without disrupting its business and are either:

- Readily convertible to known amounts of cash, at or close to, the carrying amount, or

- Traded in an active market

LONG-TERM CONTRACT

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

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.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

MOVEMENT IN RESERVES STATEMENT

The statement that 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.

NET BOOK VALUE

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

The Council's borrowings less cash and liquid resources.

NON-DISTRIBUTED COSTS

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

NATIONAL NON-DOMESTIC RATES (NNDR)

The National Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by the government and multiplied by the assessed rateable value of the premises they occupy. It is collected by the Council on behalf of central government and then redistributed back to support the cost of 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.

OPERATING LEASE

A lease where the ownership of the fixed asset remains with the lessor.

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.

PAST SERVICE COST (PENSIONS)

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

PENSION SCHEME LIABILITIES

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

PRIOR YEAR ADJUSTMENT

Material adjustments applicable to previous years arising from changes in accounting polices 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.

RATEABLE VALUE

The annual assumed rental of a hereditament, which is used for Business Rate purposes.

RELATED PARTIES

For the Council’s purposes, related parties are deemed to include the Council’s members, the Chief Executive, its Directors and their close family and household members.

RELATED PARTY TRANSACTIONS

The Code of Practice requires the disclosure of any material transactions between the Council and related parties to ensure that stakeholders are aware when these transactions occur, the amount and their implications.

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.

RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

REVENUE EXPENDITURE

The day-to-day expenses of providing the Council's services.

REVENUE SUPPORT GRANT

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

USEFUL ECONOMIC LIFE

The period over which the Council will derive benefits from the use of a fixed asset.