

# **SOUTH HOLLAND DISTRICT COUNCIL**

## **ACCOUNTS**

**For the Year Ended 31 March 2012**

2011/12

**C o n t e n t s**

	Page
<b>FOREWORD</b>	
Explanatory Foreword	3 -16
<b>STATEMENT OF ACCOUNTS</b>	
Statement of Responsibilities for the Statement of Accounts	17
<b>CORE FINANCIAL STATEMENTS</b>	
Movement in Reserves Statement	18 - 19
Comprehensive Income and Expenditure Statement	20
Balance Sheet	21
Cash Flow Statement	22
Notes to the Accounts	23 - 92
<b>SUPPLEMENTARY FINANCIAL STATEMENTS</b>	
Housing Revenue Account Income and Expenditure Statement	93
Movement on the Housing Revenue Account Statement	94
Notes to the Housing Revenue Account Statement	95 - 100
Collection Fund Statement	101
Notes to the Collection Fund Statement	102 - 103
Group Accounts	104 - 108
Notes to Group Accounts	108 - 111
<b>AUDITOR'S REPORT</b>	
Independent auditor's report	112 - 114
<b>ANNUAL GOVERNANCE REPORT</b>	
Annual Governance Report	115 - 122
<b>GLOSSARY</b>	
Glossary of Terms	123 - 130

## **EXPLANATORY FOREWORD BY THE ASSISTANT DIRECTOR FINANCE**

This Accounts document provides information on how the Council has used the financial resources available to it. It 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 with 1.03 persons per hectare compared to an average for England and Wales of 3.77 people.

#### ***Population***

The latest population estimate for South Holland is 84,600 people (ONS revised mid 2010 population estimates, released mid 2011).

In the 2001 Census the total population of the District was 76,522, an increase of 13.4% over the 1991 Census (Lincolnshire increase 9.9%, England and Wales 2.5%). Figures from the 2011 Census will be available from September 2012.

The population is predicted to grow by a further 11% in the period 2010 to 2020, again higher than the projection for England and Wales.

The number of households in the District as at 31 March 2012 was 38,695.

#### ***Employment***

The South Holland economy is largely based upon agriculture, horticulture and food processing, as well as services connected to these industries such as distribution and packaging.

Unemployment rates remained below the national average. In April 2012 the claimant count is 3.3% compared with 3.1% in April 2011. The England & Wales comparative is 3.9% (Nomis April 2012).

The average weekly pay for a full time worker living in South Holland is £455.60 compared with £471.90 for the East Midlands, with the national average being £501.10 (Nomis 2011).

In the 10 years between 1995 and 2005 the number of employee jobs in the District grew by 64%, considerably higher than any other local district. (NOMIS, ONS Annual Business Inquiry Employee Analysis).

## 2. Political Structure

The Council holds elections for all District Councillors once every four years. Following the election on 5 May 2011 there were 25 Conservative, 11 Independent, and 1 Lincolnshire Independent councillor.

The Council operates with a Cabinet and Overview and Scrutiny function which comprises a Policy Development Panel and Performance Monitoring Panel.

The Cabinet is chaired by the Leader of the Council. The Cabinet has executive decision making powers and meets on a 5 - 6 weekly cycle. Each of the Cabinet members has an area of responsibility known as a 'portfolio' for which they have delegated powers to make executive decisions within their remit.

Although a number of areas of decision making are delegated to the Cabinet or the Senior Management Team, the full Council remains the ultimate decision making body of the Council. The Overview and Scrutiny Panels provide the role of challenge and scrutiny of recent and/or forthcoming executive decisions. Also the role of the Panels is to undertake reviews of specific issues or projects relevant to the Council's services or external scrutiny of partners who provide services that impact on the Council and/or residents of South Holland.

In accordance with the Local Government and Public Involvement in Health Act 2007 the Council was required to review its executive arrangements by 31 December 2010 and decide to adopt either a new Leader and Cabinet or a Mayor and Cabinet style executive. The Council decided to adopt a new Leader and Cabinet style executive which was also the preference expressed through a public consultation exercise. The revised arrangements were implemented in May 2011.

## 3. 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
- Review internal controls
- Review the internal audit programme
- Review Treasury Management practices
- Scrutinise the Treasury Management Strategy and performance
- To consider the appointment of the external auditor and their independence

## 4. Council Priorities

### ***Corporate Plan***

The Council has a corporate plan which covers a 4 year period, currently up to 2015, and is refreshed annually. The plan sets out the Council's Priorities which are:

- To be a Forward Looking Council
- To Enable Our Communities
- To Have Pride In South Holland
- To Support Our Local Economy
- To Develop Stronger Communities

A review was undertaken to assess the challenges facing the area, the people of South Holland, and the Council; additionally discussions were held with residents about what is important to them and about improvement. The corporate plan is all about achieving the vision for South Holland as a thriving, living, working rural community, a place that people are proud of, and about the Council's vision of being an efficient and well managed local authority that listens and acts upon local concerns.

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

### ***Service Business Plans***

The Council's business planning process includes individual plans at service level. The targets within these are set annually but cover a three year period to demonstrate continuous improvement. Targets may be set for Performance Indicators some of which are of national interest and others that are specific to this Council.

### ***Monitoring and Reporting***

The Council monitors and reports on the delivery of its priorities in the following ways:

- Monthly performance reports by service and by priority are produced through the performance management system and discussed by Portfolio Holders and Service Managers
- Quarterly Governance and Performance Monitoring Report – a detailed report covering performance against priorities, and financial position, is taken to Cabinet and the Performance Monitoring Panel

## **5. Review of 2011/12**

### ***Introduction***

The Council incurs both revenue and capital expenditure during the year. Revenue expenditure is generally on items that are consumed within one year, and is financed from government grants, council tax, council house rents and fees and charges. Capital expenditure, however, is on 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 2011/12. The main changes in 2011/12 to accounting policies relate to changes due to the implementation of FRS 30 Heritage Assets. Further information is provided within the Accounting Policies section of the Financial Statements.

### ***Joint Committee – South East Lincolnshire Joint Strategic Planning Committee***

A statutory joint committee, the South East Lincolnshire Joint Strategic Planning Committee, was formed during the year, with its membership comprising South Holland District Council,

Boston Borough Council and Lincolnshire County Council. It has been set up to undertake work for the councils on the production and maintenance of joint local development scheme documents. Under IFRS accounting requirements this is classified as a jointly controlled operation and each party recognises its share of relevant income and expenditure in its Accounts.

**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, as being held under the terms of a finance lease. As at 31 March 2012 these are valued at £422,000 (£635,000 at 31 March 2011).

The adoption of FRS 30 – Heritage Assets this year has meant the identification and accounting for assets held primarily for their contribution to the culture and knowledge of the local area.

A “desktop” revaluation of Housing Revenue Account assets was undertaken by an external valuer as at 31 March 2012. The revaluation was based on guidance issued in January 2011 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.

General Fund asset valuations have been reviewed at 31 March 2012; this has been carried out on a “desktop” basis. These valuations are in accordance with the Royal Institution of Chartered Surveyors Valuation Standards 6<sup>th</sup> Edition that was revised to reflect the requirements of the introduction of International Financial Reporting Standards. 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 i.e. the Council's Revenue Account**

The budget set by the South Holland for 2011/12 enabled the Council to freeze Council Tax at the same level as 2010/11. This gave a band D Council Tax of £157.03.

The budget requirement for the year was set at £12.598m representing the net cost of providing the council's services. This requirement was financed as follows:

	<b>Original Budget £000</b>
Government Formula Grant (Revenue Support Grant and re-distributed business rates)	7,398
Council Tax Income	5,200
<b>Budget Requirement</b>	<b>12,598</b>

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 2011/12.

	<b>Original Budget £000</b>	<b>Outturn £000</b>	<b>Variance £000</b>
<b>Expenditure</b>			
Employees	6,532	6,313	(219)
Other Running Costs (Premises, Transport and Supplies and Services)	6,472	6,197	(275)
Third Party Contracts	3,093	2,972	(121)
Transfer Payments – Housing and Council Tax Benefits and Concessionary Fares	21,769	23,170	1,401
Parish Precepts and Internal Drainage Board Levies	2,719	2,719	-
Capital Charges	1,021	884	(137)
Capital Grants and Contributions made to private tenants and external organisations	-	1,416	1,416
<b>Income</b>			
Government and Other Grants and Contributions	(23,430)	(25,729)	(2,299)
Rents, Fees and Charges	(3,176)	(3,420)	(244)
Recharges	(1,077)	(888)	(189)
Investment Income	(62)	(99)	(37)
<b>Net Service Expenditure</b>			
Movement to/(from) Earmarked Reserves	(920)	244	1,164
Statutory Adjustments	(343)	(1,181)	(838)
<b>Outturn for 2011/12</b>	<b>12,598</b>	<b>12,598</b>	<b>-</b>

### **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, Conversation Projects and set up costs for the back office merged service were 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).
- Government grants – includes additional in-year non-ringfenced revenue grants which were received during the year.
- Earmarked reserve movements were below the original budget due both to lower than forecast spending, and additional transfers into reserves to support future spending.

### **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 2011/12 original budget forecast a decrease in the HRA working balance for the year of £235,000. The outturn position shows an increase to HRA balances of £326,000, representing an underspend of £561,000.

The key reasons for the difference result from salary savings following a staffing restructure (£266,000), efficiencies achieved in repair and maintenance expenditure (£175,000), additional income generated (£88,000), and members delegated budgets (£59,000).

### **Housing Revenue Account (HRA) Reforms**

HRA reforms were introduced in the year by central government to end the system of housing subsidies. The self financing regime means that local authorities who retain housing stock, like South Holland, take on a share of the 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.

From April 2012 the Council has 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.

At its March meeting, Full Council considered a detailed and complex report on the reforms. It approved the HRA 30 year business plan, which incorporated an Asset Management Strategy for the Housing Stock 2012-2015, considered options for borrowing incorporated into the Treasury Management Strategy and future governance arrangements.

### ***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 £7.181m on capital investment. The final approved programme, was set at £74.455m. The large increase in budget was due to the HRA reforms. As part of the reforms the Council made a one off payment to the Department for Communities and Local Government (DCLG) of £67.456m. This payment was made on 28 March 2012 and has been treated as capital expenditure funded by borrowing from the Public Works Loans Board. Outturn for the year amounted to £72.745m which was £1.710m



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:

<b>Scheme</b>	<b>Final Budget £000</b>	<b>Outturn £000</b>	<b>Variance £000</b>
Improvement to Council Houses	2,962	2,871	(91)
Investment in ICT	122	257	135
Grants paid to private sector tenants	557	446	(111)
Grants - Other	753	497	(256)
Culture, Heritage and Sports	1,271	853	(418)
Gypsy and travellers' sites	879	89	(790)
Other Capital Projects	455	276	(179)
HRA Self Financing	67,456	67,456	-
<b>Total</b>	<b>74,455</b>	<b>72,745</b>	<b>(1,710)</b>

This expenditure was financed from the following sources:

	<b>Final Budget £000</b>	<b>Outturn £000</b>
Sale of Assets	1,035	790
Direct Revenue Financing	1,023	1,085
Capital Grants and Contributions	2,793	1,266
Major Repairs Allowance	2,148	2,148
HRA Self Financing Borrowing	67,456	67,456
<b>Total</b>	<b>74,455</b>	<b>72,745</b>

***Explaining the major differences:***

Of the £1.710m underspend, the principal schemes involved were:

- Gypsies and Travellers' sites  
Whilst spend of £89,000 was incurred on the development of Gypsies and Travellers' sites in the district (wholly funded from government grant), the remainder of this (£790,000) represents slippage against the approved programme, and will be carried forward to finance future spend.
- Nene Marine project  
A budget of £400,000 from Section 106 monies was set up for the Nene Marine project. Latest discussions with Lincolnshire County Council indicate that the District Council contribution will be £265,000. The project is dependent on agreement with Fenland District Council Harbour Management on the cost of supporting Nene Marine Community Interest Company in the management and negotiation of leases. The balance of the funding will be carried forward to 2012/13 and £135,000 will be returned to the S106 reserve for Sutton Bridge in line with the cabinet decision on the 15th November 2011.

- Council House External Wall Insulation  
An underspend of £98,000 occurred, primarily due to adverse weather conditions earlier in the year. A request to carry forward £100,000 of the budget for Council House External Wall Insulation was approved at the April 2012 Cabinet meeting.
- Disabled Facilities Adaptations  
Spending on Disabled Facilities Adaptations to council stock totalled £288,000 in the year; an underspend of £87,000 against the budget.
- Partnership Schemes In Conservation Areas (PSiCA) Conservation Grants  
There were project underspends of £97,000 in year. These are funded by external grant and a council contribution. The project will continue in 2012/13.

### ***Council Tax Collection***

The net collectable amount for 2011/12 Council Tax was £34.869m, of which £34.204m was received at the end of March 2012. This represents a collection rate of 98.1% against a target of 98.0%. (the 2010/11 in-year collection rate was 98.0%)

### ***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 £21.052m (£16.196m at 31 March 2011), 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 2012.

The IAS19 Balance Sheet position for the Council worsened in 2011/12, mainly due to returns on assets being below those estimated for the year. This followed a significant improvement in 2010/11, due to the change to future pension inflationary increases announced by the Government and the actual performance of the Fund being above original assumptions. In addition, the formation of Compass Point Business Services (East Coast) Ltd, effective from 1 August 2010, meant that a number of staff was transferred from the Council's employment to the Company, and as such the assets and liabilities relating to them were removed. The ongoing impact, relating to the transfer of staff, on the Council was a higher employer's contribution rate payable from April 2011. This ensures that the fund remains able to pay future pension liabilities.

Full details on pensions are set out in the Accounting Policies on pages 26-40 and in note 48 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 Council's approved Treasury Management Strategy. The shorter term investments earn lower interest rates, generally around bank rate (currently

0.5%). Higher rates are available for longer term investments, but our 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 2012 was £2.0m, with a further £2.0m held in business reserve accounts (£4.0m and £3.7m respectively at 31 March 2011).

Interest received during the year from investments was £127,000 which exceeded the Council's original budget of £70,000. 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 £1.943m, which will be carried over into 2012/13. 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 £244,000. 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 2012 was £3.428m (£3.184m at 31 March 2011). 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 £1.955m. The current minimum working balance for the Housing Revenue Account is set at £865,000, 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.

During 2011/12, savings of £2.1m were delivered by CPBS (EC) Ltd to the councils.

### ***Group Accounting – Red Lion Quarter Community Interest Company***

The Council is the sole shareholder of the Red Lion Quarter Community Interest Company. The development was formally opened on 5 April 2011, but initial performance proved problematic, and the Council has taken steps to intervene to protect the Council's interests and to ensure a sustainable future for the facility. During the year it had to take action to limit the risk to the Council, and will wind the company up at an appropriate point in the future.

### ***Risk Management***

During 2011/12 the Council has continued to improve and embed its risk management policy, and its risk registers have been transferred onto its performance management system. The Governance and Audit Committee review the risk reports bi-monthly to ensure that the Council's strategic, corporate, and operational risks are being effectively managed.

### ***Audit***

The first draft of the accounts was authorised by the Assistant Director Finance on 27 June 2012. The accounts were then subject to audit by the Audit Commission. 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 27 September 2012, prior to the statutory deadline of 30 September.

## **6. A look at 2012/13, and beyond**

### ***Council Tax Freeze Grants for 2011/12 and 2012/13***

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 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 authorities 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 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 is considering replacing the formula grant system with mechanisms which could allow councils to retain part of the future growth in their area's business rates yield. The proposed scheme was published in December 2011, and is expected to receive Royal Assent by summer 2012.

The government's proposals roll in the formula grant funding for fire authorities, shire county councils, London boroughs, the City of London, metropolitan districts and shire unitaries from the outset of the business rates retention scheme in April 2013. The new system would

mean that councils will, to some extent, be able to benefit from the future growth in local business rates revenues.

The government has indicated that it will consult on the precise details of the scheme and any regulations in summer 2012.

### ***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 either generate their income locally or partly locally, depending on their circumstances.

Estimated revenues are likely to have to be calculated at the start of the year by billing authorities – and payments to/from preceptors will be based on these estimates – with a reconciliation once the final outturn is known after the year end. Councils will therefore need to allow for any potential volatility in local rates revenues when setting their budgets – including estimating any levies they will have to pay government or safety nets they may receive from government.

Rates retention also raises accounting and collection fund issues which the government will need to develop proposals on.

### ***Council Tax Benefit Localisation from April 2013***

In 2010 the government announced plans to localise decision making on the award of council tax benefit (CTB). Its final proposals for England were published in December 2011 and are reflected in the Local Government Finance Bill.

A summary of the government's proposed new arrangements for localising council tax support in England is set out below.

- Council tax benefit will be localised from April 2013. This means that the uniform national scheme will be replaced with local schemes that vary from place to place. Government funding for council tax benefit will be reduced across England and Wales by around £480m or 10% (to £4.4bn per annum) from that date.
- Rather than being funded on the basis of actual claims/caseloads via Department for Work and Pensions subsidy (i.e. demand led) as at present, the government will provide an unringfenced specific grant to each local administering authority and preceptors (shire county councils, police and fire authorities and the GLA in London) in proportion to its share of council tax.
- The distribution arrangements for the grant will be determined by a separate consultation later in 2012. The government could simply apply a 10% cut to each authority's current actual subsidy levels or introduce a needs based formula which has regard to both existing claimant data and the relevant size of protected claimant groups (e.g. the number of pensioners) in each area.
- Pensioner households will not be affected and will continue to receive guaranteed council tax benefit on the same basis as at present. Subject to complying with equalities and related legislation, billing authorities will – in principle – be able to determine their own local policies for other claimant groups. They will, however, be required to consult with precepting authorities and other local stakeholders during summer/autumn 2012 before confirming their final schemes.

- As the grant is unringfenced, local authorities will be free to use any grant not allocated to council tax benefit claimants to support other services and/or reduce overall council tax levels. Billing authorities will also be free – if they so wish – to offer a higher level of support than the grant they receive.
- Billing authorities will be able to share the risks and costs associated with localising council tax with their precepting authorities – through the existing arrangements for sharing collection fund surpluses or deficits. Such deficits might arise where council tax collection rates fall because a less generous CTB scheme is being offered or where an authority pays out more in benefit than it receives in CTB support grant (either due to its own policy decisions or because eligible claimant numbers rise significantly year on year).
- If billing authorities absorb the reductions then the risks will also be shared with preceptors as the reduction in council tax income (from treating council tax support as a discount to the taxbase) will be greater than the council tax support grant (which will have been cut by 10%).

This change will affect local authority budgeting as CLG has indicated that billing authorities will in future be able to vary their precept instalment payments to preceptors (and to themselves) in year to deal with the volatility in their council tax support levels. Year end reconciliations and estimates will also take place through the collection fund surplus and deficit calculations – which affect budget calculations.

## 7. The Statement of Accounts

The financial statements consist of:

### ***Statement of Responsibilities (page 17)***

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

### ***Movement in Reserves Statement (pages 18-19)***

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. These are 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 20)***

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 21)***

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 is 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 22)***

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 23-92)***

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.

## **8. Supplementary Financial Statements:**

### **Housing Revenue Account Income and Expenditure Statement (page 93)**

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 94)**

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 95 - 100)**

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 101 - 103)**

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 104 - 111)**

These accounts consolidate the Council's accounts with that of its wholly owned subsidiaries, South Holland Homes and Red Lion Quarter Community Interest Companies, 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.

## **9. Further Information**

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

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For the 2011/12 accounts the inspection period is 31 May 2012 to 29 June 2012.

The Statement of Accounts is available on the Council's web-site, [www.sholland.gov.uk](http://www.sholland.gov.uk).



# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## The Council's Responsibilities:

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has 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 Statement of Accounts

## The Chief Financial Officer's Responsibilities

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

In preparing this Statement of Accounts, the Chief 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 2012

Mark Finch  
Assistant Director Finance

Dated: 26 September 2012

### **Approval of Accounts**

I confirm that these accounts were approved by the Audit and Governance Committee at its meeting held on the 19 September 2012.

Signed on behalf of South Holland District Council:

Cllr George Aley  
Chair of meeting approving the accounts

Dated: 26 September 2012

## MOVEMENT IN RESERVES STATEMENT

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

Restated 2010/11	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2010 carried forward</b>	<b>1,912</b>	<b>3,718</b>	<b>1,395</b>	-	<b>2,654</b>	<b>498</b>	<b>3,964</b>	<b>14,141</b>	<b>155,984</b>	<b>170,125</b>
Heritage Assets recognised at 1 April 2010	-	-	-	-	-	-	-	-	47	47
<b>Balance at 1 April 2010</b>	<b>1,912</b>	<b>3,718</b>	<b>1,395</b>	-	<b>2,654</b>	<b>498</b>	<b>3,964</b>	<b>14,141</b>	<b>156,031</b>	<b>170,172</b>
<b>Movement in Reserves during 2010/11</b>										
Surplus or (deficit) on provision of services	2,284	-	(52,513)	-	-	-	-	(50,229)	-	(50,229)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	12,887	12,887
<b>Total Comprehensive Income and Expenditure</b>	<b>2,284</b>	<b>-</b>	<b>(52,513)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(50,229)</b>	<b>12,887</b>	<b>(37,342)</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	(2,787)	-	52,947	-	(492)	(498)	(1,142)	48,028	(48,028)	-
<b>Net Increase/Decrease before transfers to Earmarked Reserves</b>	<b>(503)</b>	<b>-</b>	<b>434</b>	<b>-</b>	<b>(492)</b>	<b>(498)</b>	<b>(1,142)</b>	<b>(2,201)</b>	<b>(35,141)</b>	<b>(37,342)</b>
Transfers (to)/from Earmarked Reserves (Note 8)	534	(534)	(200)	200	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>31</b>	<b>(534)</b>	<b>234</b>	<b>200</b>	<b>(492)</b>	<b>(498)</b>	<b>(1,142)</b>	<b>(2,201)</b>	<b>(35,141)</b>	<b>(37,342)</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>1,943</b>	<b>3,184</b>	<b>1,629</b>	<b>200</b>	<b>2,162</b>	<b>-</b>	<b>2,822</b>	<b>11,940</b>	<b>120,890</b>	<b>132,830</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Gross Expenditure £000	2010/11			Gross Expenditure £000	2011/12	
	Gross Income £000	Net Expenditure £000			Gross Income £000	Net Expenditure £000
7,446	(6,761)	685	Central services to the public	7,255	(6,757)	498
3,293	(984)	2,309	Cultural and Related services *	2,940	(872)	2,068
4,468	(724)	3,744	Environment and Regulatory services *	4,242	(696)	3,546
8,758	(1,690)	7,068	Planning services *	3,764	(1,336)	2,428
1,085	(473)	612	Highways and transport services	263	(292)	(29)
13,089	(13,393)	(304)	Local authority housing (HRA)	14,374	(14,163)	211
-	-	-	- Exceptional item – HRA self-financing sum paid to Government (see page 8)	67,456	-	67,456
53,144	-	53,144	- Exceptional item – Impairment of dwelling stock	-	-	-
18,593	(17,863)	730	Other housing services	19,099	(18,422)	677
2,715	(726)	1,989	Corporate and democratic core	2,514	(429)	2,085
1,470	(4)	1,466	- Exceptional item – CPBS transformation costs	190	-	190
-	-	-	Non distributed costs	356	(13)	343
(7,299)	-	(7,299)	- Exceptional item – IAS19 pensions	-	-	-
<b>106,762</b>	<b>(42,618)</b>	<b>64,144</b>	<b>Cost of Services</b>	<b>122,453</b>	<b>(42,980)</b>	<b>79,473</b>
4,121	(599)	3,522	Other operating expenditure (Note 9)	3,053	(234)	2,819
3,941	(2,893)	1,048	Financing and investment income and expenditure (Note 10)	3,125	(2,843)	282
	(18,485)	(18,485)	Taxation and non-specific grant income (Note 11)		(13,205)	(13,205)
		<b>50,229</b>	<b>Deficit on the Provision of Services</b>			<b>69,369</b>
		671	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			(177)
		(13,558)	Actuarial (gains)/losses on pension assets/liabilities			4,495
		<b>(12,887)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>4,318</b>
		<b>37,342</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>73,687</b>

\* The disclosure requirements for 2011/12 require these services to be reported separately. This has meant the restatement of 2010/11 comparative figures.

## BALANCE SHEET

Restated 31 March 2011 £000		Notes	31 March 2012 £000
140,006	Property, Plant & Equipment	12	139,075
60	Heritage Assets	13	60
978	Investment Property	14	1,054
168	Intangible Assets	15	154
281	Long Term Debtors		193
<b>141,493</b>	<b>Long Term Assets</b>		<b>140,536</b>
4,009	Short Term Investments		2,027
61	Assets Held for Sale	21	152
41	Inventories	17	16
6,195	Short Term Debtors	19	6,270
3,821	Cash and Cash Equivalents	20	2,448
<b>14,127</b>	<b>Current Assets</b>		<b>10,913</b>
(6)	Short Term Borrowing		(6)
(4,947)	Short Term Creditors	22	(2,708)
<b>(4,953)</b>	<b>Current Liabilities</b>		<b>(2,714)</b>
(746)	Long Term Creditors		(284)
(16)	Long Term Borrowing		(67,466)
(16,196)	Other Long Term Liabilities	48	(21,052)
(879)	Capital Grants Receipts in Advance		(790)
<b>(17,837)</b>	<b>Long Term Liabilities</b>		<b>(89,592)</b>
<b>132,830</b>	<b>Net Assets</b>		<b>59,143</b>
	<u>Usable Reserves</u>	24	
1,943	General Fund		1,943
1,629	Housing Revenue Account		1,955
3,184	Earmarked Reserves – GF		3,428
200	– HRA		200
2,162	Capital Receipts Reserve		1,457
2,822	Capital Grants Unapplied		2,114
<b>11,940</b>			<b>11,097</b>
	<u>Unusable Reserves</u>	25	
9,770	Revaluation Reserve		9,719
127,341	Capital Adjustment Account		59,398
(16,196)	Pension Reserve		(21,052)
66	Deferred Capital Receipts		65
(58)	Collection Fund Adjustment Account		(47)
(33)	Accumulated Absences Adjustment Account		(37)
<b>120,890</b>			<b>48,046</b>
<b>132,830</b>	<b>Total Reserves</b>		<b>59,143</b>

## CASH FLOW STATEMENT

2010/11 £000		2011/12 £000	2011/12 £000
50,229	Net deficit on the provision of services		69,369
	Adjustments to net surplus or deficit on the provision of services for non-cash movements		
(2,324)	Depreciation	(2,538)	
(59,310)	Impairment and downward valuations	(2,003)	
(71)	Amortisation	(34)	
	Increase/(decrease) in interest debtors	49	
(645)	Increase/decrease in creditors	1,359	
912	Increase/decrease in debtors	(371)	
(2)	Increase/decrease in stock	(25)	
6,539	Movement in pensions liability	(361)	
(1,035)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(184)	
(2,002)	Other non-cash items charged to the net surplus or deficit on the provision of services	76	(4,032)
	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
600	Proceeds from the sale of PPE, investment property and intangible assets	231	
28	Any other items for which the cash effects are investing or financing cash flows	89	320
(7,081)	Net cash flows from Operating Activities (note 26)		65,657
8,864	Investing Activities (note 27)		2,573
240	Financing Activities (note 28)		(66,857)
<b>2,023</b>	<b>Net decrease in cash and cash equivalents</b>		<b>1,373</b>
5,844	Cash and cash equivalents at the beginning of the reporting period		3,821
<b>3,821</b>	<b>Cash and cash equivalents at the end of the reporting period (note 20)</b>		<b>2,448</b>

# NOTES TO THE ACCOUNTS

## Contents

	Page no
<b>Note 1</b> – Accounting Policies	26 - 40
<b>Note 2</b> – Accounting Standards Issued, Not Adopted	41
<b>Note 3</b> – Critical Judgements in Applying Accounting Policies	41
<b>Note 4</b> – Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty	41 - 42
<b>Note 5</b> – Material Items of Income and Expense	42
<b>Note 6</b> – Events after the Balance Sheet Date	43
<b>Note 7</b> – Adjustments between Accounting Basis and Funding Basis under Regulations	43 – 48
<b>Note 8</b> – Transfers to/from Earmarked Reserves	49
<b>Note 9</b> – Other Operating Expenditure	50
<b>Note 10</b> – Financing and Investment Income and Expenditure	50
<b>Note 11</b> – Taxation and Non-Specific Grant Income	50
<b>Note 12</b> – Property, Plant and Equipment	51 - 54
<b>Note 13</b> – Heritage Assets	54
<b>Note 14</b> – Investment properties	54 - 55
<b>Note 15</b> – Intangible Assets	55
<b>Note 16</b> – Financial Instruments	56 – 58
<b>Note 17</b> – Inventories	58
<b>Note 18</b> – Construction Contracts	58
<b>Note 19</b> – Debtors	59
<b>Note 20</b> – Cash and Cash Equivalentents	59
<b>Note 21</b> – Assets Held for Sale	59
<b>Note 22</b> – Creditors	59
<b>Note 23</b> – Provisions	60
<b>Note 24</b> – Usable Reserves	60

<b>Note 25</b> – Unusable Reserves	60 – 64
<b>Note 26</b> – Operating Activities	65
<b>Note 27</b> – Investing Activities	65
<b>Note 28</b> – Financing Activities	65
<b>Note 29</b> – Amounts Reported for Resource Allocation Decisions	65 - 69
<b>Note 30</b> – Acquired and Discontinued Operations	70
<b>Note 31</b> – Trading Operations	70
<b>Note 32</b> – Agency Services	70
<b>Note 33</b> – Road Charging Schemes	70
<b>Note 34</b> – Pooled Budgets	70
<b>Note 35</b> – Members’ Allowances	71
<b>Note 36</b> – Officers’ Remuneration	72 – 73
<b>Note 37</b> – External Audit Costs	73
<b>Note 38</b> – Dedicated Schools Grant	73
<b>Note 39</b> – Grant Income	74
<b>Note 40</b> – Related Parties	74 - 75
<b>Note 41</b> – Capital Expenditure and Capital Financing	76
<b>Note 42</b> – Leases	77 - 78
<b>Note 43</b> – PFI and Similar Contracts	78
<b>Note 44</b> – Impairment Losses	78
<b>Note 45</b> – Capitalisation of Borrowing Costs	78
<b>Note 46</b> – Termination Benefits	79
<b>Note 47</b> – Pension Schemes Accounted for as Defined Contribution Schemes	79
<b>Note 48</b> – Defined Benefit Pension Schemes	79 - 84
<b>Note 49</b> – Contingent Liabilities	84
<b>Note 50</b> – Contingent Assets	84
<b>Note 51</b> – Nature and Extent of Risks Arising from Financial Instruments	84 - 89



<b>Note 52</b> – Heritage Assets – Five Year Summary of Transactions	89
<b>Note 53</b> – Heritage Assets – Further Information on the Museum’s Collections	89
<b>Note 54</b> – Heritage Assets – Change in Accounting Policy	89 - 91
<b>Note 55</b> – Trust Funds	91 - 92

## **NOTE 1 – ACCOUNTING POLICIES**

### **1. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts 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 2011/12 and the Service Reporting Code of Practice 2010/11, 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 2011/12: Based on International Financial Reporting Standards (IFRS).

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

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, ie 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 2011/12 is based on 4% of the adjusted Capital Financing Requirement in accordance with option 1 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 5.2% (5.5% in 2010/11), 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 Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, 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 Statement of 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 2011/12 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. 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, Red Lion Quarter 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. 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.

## 17. 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 (SeRCOP) 2010/11*. 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.

## 18. 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 (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie 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.

## **19. Provisions**

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

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

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

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

No provisions are held at the Balance Sheet date.

## **20. Contingent Liabilities**

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

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

## **21. Contingent Assets**

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

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

## **22. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingences. Reserves are created by appropriating amounts out of the General Fund balance 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.

## **23. 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.

## **24. VAT**

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



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

For 2011/12, the only accounting policy change that needs to be reported relates to amendments to IFRS 7 Financial Instruments: Disclosures (transfers of financial assets). The 2012/13 Code of Practice will provide details of the disclosures required, which are expected to be minimal 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 Statement of 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 2012, 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 2012 a piece of surplus HRA land met these criteria and is therefore 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 Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Property, Plant and Equipment</b>	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.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £39,000 for every year that useful lives had to be reduced.</p>
<b>Pensions Liability</b>	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.	<p>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 £5.206m.</p> <p>However, the assumptions interact in complex ways. During 2011/12, the Council's actuaries advised that the pensions asset value had decreased by £0.731m, and liabilities had increased by £4.125m.</p>
<b>Arrears</b>	At 31 March 2012, the Council had a balance of sundry debtor and housing benefit overpayments of £0.855m. A review of debts suggested that an overall impairment allowance of £0.440m (51%) was appropriate.	If collection rates were to deteriorate, increasing the impairment for doubtful sundry debts to 60% of the total debt would require an additional £73,000 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 Statement of Accounts was authorised for issue by the Assistant Director Finance on 27 September 2012. Events taking place after this date are not reflected in the financial statements or notes.

The freehold of the Red Lion Quarter was transferred to Boston College on 7 September 2012. This allowed the outstanding debtor for the College's £2m contribution to the project to be recovered. The sale price was £325,000. Other costs and service charges were also recovered. In due course the Red Lion Quarter Community Interest Company will be wound up.

## **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 Reserve**

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.

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
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
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)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
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
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
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
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
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
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
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
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 48)	1,119	479				(1,598)
Employer's pensions contributions and direct payments to pensioners payable in the year	(866)	(371)				1,237
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
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
<b>Adjustments primarily involving the Accumulated Absences Account:</b>						
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)
<b>Total Adjustments</b>	<b>1,386</b>	<b>68,553</b>	<b>(705)</b>	<b>-</b>	<b>(708)</b>	<b>(68,526)</b>

2010/11	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
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non-current assets	810	129		1,595		(2,534)
Revaluation losses on Property Plant and Equipment	5,210	54,062				(59,272)
Movements in the market value of Investment Properties	38					(38)
Amortisation of intangible assets	70			1		(71)
Capital grants and contributions applied	(4,286)					4,286
Revenue expenditure funded from capital under statute	1,589	75				(1,664)
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	453	800				(1,253)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	(84)	(121)				205
Capital expenditure charged against the General Fund and HRA balances	(502)	(193)				695
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(786)				786	
Application of grants to capital financing transferred to the Capital Adjustment Account					(1,928)	1,928
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(320)	(286)	606			
Use of the Capital Receipts Reserve to finance new capital expenditure		-	(917)			917
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	177		(177)			
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			(1)			1

2010/11	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
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance credited to the HRA		(115)		115		-
Use of the Major Repairs Reserve to finance new capital expenditure				(2,209)		2,209
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 48)	(3,891)	(1,097)				4,988
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,254)	(297)				1,551
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
<b>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</b>	28					(28)
<b>Adjustments primarily involving the Accumulated Absences Account:</b>						
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	(39)	(13)				52
<b>Total Adjustments</b>	<b>(2,787)</b>	<b>52,947</b>	<b>(492)</b>	<b>(498)</b>	<b>(1,142)</b>	<b>(48,028)</b>



## 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 2011/12.

	Balance at 1 April 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Balance at 31 March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000
<b>General Fund</b>							
Affordable Housing Reserve	73	-	45	118	-	-	118
Benefits Development Reserve	29	(29)	-	-	-	-	-
Transformation Reserve	-	(259)	320	61	(341)	280	-
Capital Reserve	244	(83)	-	161	-	-	161
Climate Change Reserve	45	-	23	68	(1)	-	67
Community Cohesion Reserve	133	(211)	206	128	(34)	-	94
Community Development Reserve	7	(5)	-	2	(2)	-	-
Council Tax Reserve	296	-	500	796	(64)	540	1,272
Economic Development Reserve	25	(25)	-	-	-	-	-
Emergency Planning Reserve	-	-	-	-	-	10	10
Insurance Reserve	230	-	50	280	(23)	-	257
Organisational Development Reserve	1,455	(942)	100	613	(284)	185	514
Planning Reserve	587	(185)	-	402	(26)	20	396
Replacement and Refurbishment Reserve	543	(170)	125	498	(128)	86	456
Section 106 Reserve	17	-	5	22	(2)	-	20
Spalding Special Expenses	34	-	1	35	-	28	63
<b>Total General Fund</b>	<b>3,718</b>	<b>(1,909)</b>	<b>1,375</b>	<b>3,184</b>	<b>(905)</b>	<b>1,149</b>	<b>3,428</b>
<b>Housing Revenue Account</b>							
Insurance Reserve	-	-	200	200	-	-	200
<b>Total Earmarked Reserves</b>	<b>3,718</b>	<b>(1,909)</b>	<b>1,575</b>	<b>3,384</b>	<b>(905)</b>	<b>1,149</b>	<b>3,628</b>

**NOTE 9 – OTHER OPERATING EXPENDITURE**

2010/11 £000		2011/12 £000
563	Parish council precepts	584
2,129	Levies	2,133
178	Payments to the Government Housing Capital Receipts Pool	147
652	(Gains)/Losses on the disposal of non-current assets	(45)
<b>3,522</b>	<b>Total</b>	<b>2,819</b>

**NOTE 10 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

2010/11 £000		2011/12 £000
128	Interest payable and similar charges	149
1,057	Pensions interest cost and expected return on pension assets	369
(136)	Interest receivable and similar income	(127)
(1)	Income and Expenditure in relation to investment properties and changes in their fair value	(109)
<b>1,048</b>	<b>Total</b>	<b>282</b>

**NOTE 11 – TAXATION AND NON SPECIFIC GRANT INCOME**

2010/11 £000		2011/12 £000
(5,154)	Council tax income	(5,211)
(7,843)	Non domestic rates	(5,651)
(1,413)	Non-ringfenced government grants	(2,343)
(4,075)	Capital grants and contributions	-
<b>(18,485)</b>	<b>Total</b>	<b>(13,205)</b>

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

2011/12	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Movements on balances</b>								
<b>Cost or valuation</b>								
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
<b>At 31 March 2012</b>	<b>111,669</b>	<b>23,784</b>	<b>3,716</b>	<b>1,975</b>	<b>685</b>	<b>69</b>	<b>22</b>	<b>141,920</b>
<b>Accumulated Depreciation and Impairment</b>								
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
<b>At 31 March 2012</b>	<b>-</b>	<b>-</b>	<b>(2,157)</b>	<b>(618)</b>	<b>(70)</b>	<b>-</b>	<b>-</b>	<b>(2,845)</b>
<b>Net Book value</b>								
<b>at 31 March 2011 – Restated</b>	<b>112,281</b>	<b>23,779</b>	<b>1,438</b>	<b>1,502</b>	<b>636</b>	<b>69</b>	<b>301</b>	<b>140,006</b>
<b>at 31 March 2012</b>	<b>111,669</b>	<b>23,784</b>	<b>1,559</b>	<b>1,357</b>	<b>615</b>	<b>69</b>	<b>22</b>	<b>139,075</b>

2010/11								
Restated	Council Dwellings	Other Land and Buildings	vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
<b><u>Movements on balances</u></b>								
<b>Cost or valuation</b>								
<b>At 1 April 2010</b>	<b>166,077</b>	<b>21,041</b>	<b>3,604</b>	<b>1,773</b>	<b>677</b>	<b>69</b>	<b>3,514</b>	<b>196,755</b>
<b>Social Housing Discount factor adjustment</b>								
- charged to CIES	(51,435)	-	-	-	-	-	-	(51,435)
- charged to RR	(1,709)	-	-	-	-	-	-	(1,709)
<b>At 1 April 2010</b>	<b>112,933</b>	<b>21,041</b>	<b>3,604</b>	<b>1,773</b>	<b>677</b>	<b>69</b>	<b>3,514</b>	<b>143,611</b>
Additions	2,816	163	333	184	-	-	5,413	8,909
Donations	-	-	-	-	-	-	-	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	468	(350)	-	-	-	-	-	118
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,464)	(5,294)	-	-	-	-	-	(8,758)
Derecognition – disposals	(253)	(448)	(795)	-	-	-	-	(1,496)
Assets reclassified (to)/from Held for Sale	(156)	-	-	-	-	-	-	(156)
Assets reclassified (to)/from Other FAR categories	(62)	8,688	-	-	-	-	(8,626)	-
Other movements in cost or valuation	(1)	(16)	-	-	4	-	-	(13)
<b>At 31 March 2011</b>	<b>112,281</b>	<b>23,784</b>	<b>3,142</b>	<b>1,957</b>	<b>681</b>	<b>69</b>	<b>301</b>	<b>142,215</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2010	-	(95)	(2,090)	(301)	(24)	-	-	(2,510)
Depreciation charge	(1,347)	(597)	(403)	(154)	(17)	-	-	(2,518)
Depreciation written out to the Revaluation Reserve	650	657	-	-	-	-	-	1,307
Depreciation written out to the Surplus/Deficit on the Provision of Services	506	31	-	-	-	-	-	537
Derecognition – disposals	190	-	789	-	-	-	-	979
Other movements in depreciation and impairment	1	(1)	-	-	(4)	-	-	(4)
<b>At 31 March 2011</b>	<b>-</b>	<b>(5)</b>	<b>(1,704)</b>	<b>(455)</b>	<b>(45)</b>	<b>-</b>	<b>-</b>	<b>(2,209)</b>
<b>Net Book value</b>								
<b>at 1 April 2010</b>	<b>112,933</b>	<b>20,946</b>	<b>1,514</b>	<b>1,472</b>	<b>653</b>	<b>69</b>	<b>3,514</b>	<b>141,101</b>
<b>at 31 March 2011</b>	<b>112,281</b>	<b>23,779</b>	<b>1,438</b>	<b>1,502</b>	<b>636</b>	<b>69</b>	<b>301</b>	<b>140,006</b>

## 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

## Construction Contracts

At 31 March 2012, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years budgeted to cost £1.874m. Similar commitments at 31 March 2011 were £2.165m, mainly relating to works to dwellings. The major commitments are:

External Wall Insulation of council dwellings	£450,000
Kitchens and Bathroom replacement programme	£1,210,000
Reroofing council dwellings	£203,000
Fire Dampers at Priory Road offices	£11,000

## Effects of Changes in estimates

- In 2011/12, 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	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000		£000
Carried at historical cost	-	-	1,559	1,357	615	69	22	<b>3,622</b>
Valued at fair value as at:								
31 March 2012	111,669	23,784	-	-	-	-	-	<b>135,453</b>
31 March 2011	112,281	23,778	-	-	-	-	-	<b>136,059</b>
31 March 2010	112,932	20,945	-	-	-	-	-	<b>133,877</b>
31 March 2009	167,125	20,568	-	-	-	69	-	<b>187,762</b>
31 March 2008	194,937	17,032	-	-	-	1,270	-	<b>213,239</b>
<b>Total Cost or Valuation at 31 March 2012</b>	<b>111,669</b>	<b>23,784</b>	<b>1,559</b>	<b>1,357</b>	<b>615</b>	<b>69</b>	<b>22</b>	<b>139,075</b>

## NOTE 13 – HERITAGE ASSETS

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

	2010/11 £000	2011/12 £000
Cost or valuation		
<b>1 April</b>	<b>60</b>	<b>60</b>
Additions	-	-
Disposals	-	-
Revaluations	-	-
Depreciation	-	-
<b>31 March</b>	<b>60</b>	<b>60</b>

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 32. 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.

## NOTE 14 – INVESTMENT PROPERTIES

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:

	2010/11 £000	2011/12 £000
Rental Income from investment property	(85)	(66)
Direct operating expenses arising from investment property	47	33
<b>Net (gain)/loss</b>	<b>(38)</b>	<b>(33)</b>

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

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

	2010/11 £000	2011/12 £000
Balance at start of the year	1,015	978
Net gains/(losses) from fair value adjustments	(37)	76
<b>Balance at end of the year</b>	<b>978</b>	<b>1,054</b>

#### NOTE 15 – INTANGIBLE ASSETS

The Council accounts for its software as intangible assets. The intangible assets include both purchased licenses and internally generated software.

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 £34,000 charged to revenue in 2011/12 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

	2010/11 £000	2011/12 £000
<b>Balance at start of year:</b>		
- Gross carrying amounts	592	684
- Accumulated amortisation	(445)	(516)
Net carrying amount at start of year	<b>147</b>	<b>168</b>
Additions:		
- Purchases	92	20
Amortisation for the period	(71)	(34)
Other changes	-	-
<b>Net carrying amount at end of year</b>	<b>168</b>	<b>154</b>
<b>Comprising:</b>		
- Gross carrying amounts	684	704
- Accumulated amortisation	(516)	(550)
	<b>168</b>	<b>154</b>

## 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 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
<b>Investments</b>				
Loans and receivables	-	-	4,009	2,027
<b>Total investments</b>	-	-	<b>4,009</b>	<b>2,027</b>
<b>Debtors</b>				
Loans and receivables	281	193	-	-
Financial assets carried at contract amounts	-	-	3,723	3,307
<b>Total Debtors</b>	<b>281</b>	<b>193</b>	<b>3,723</b>	<b>3,307</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	16	67,466	6	6
<b>Total borrowings</b>	<b>16</b>	<b>67,466</b>	<b>6</b>	<b>6</b>
<b>Other Long Term Liabilities</b>				
Finance lease liabilities	746	284	-	-
<b>Total other long term liabilities</b>	<b>746</b>	<b>284</b>	-	-
<b>Creditors</b>				
Financial liabilities carried at contract amount	-	-	2,588	2,011
<b>Total creditors</b>			<b>2,588</b>	<b>2,011</b>

At 31 March 2012 the Council's borrowings consisted of £67.456m following the introduction of the Government's HRA reforms (see explanation in Explanatory Foreword), and an Interest Free Energy Efficiency Loan (granted during 2010/11), with £15,906 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.

The fair value paragraphs below set out the Council's policy on the assessment of the carrying values of certain assets and liabilities. 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.



			2011/12		
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for Sale	Assets and Liabilities at fair Value through Profit and Loss	Total
	£000	£000	£000	£000	£000
<b>Total expense in Surplus or Deficit on the Provision of Services</b>					
Interest income		(127)			(127)
<b>Total income in Surplus or Deficit on the Provision of Services</b>		<b>(127)</b>			<b>(127)</b>
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>					
<b>Net gain/(loss) for the year</b>		<b>(127)</b>			<b>(127)</b>

			2010/11		
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for Sale	Assets and Liabilities at fair Value through Profit and Loss	Total
	£000	£000	£000	£000	£000
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	-	-	-	-	-
Interest income		(136)			(136)
<b>Total income in Surplus or Deficit on the Provision of Services</b>		<b>(136)</b>			<b>(136)</b>
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>					
<b>Net gain/(loss) for the year</b>		<b>(136)</b>			<b>(136)</b>

### 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 (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that 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 2011		31 March 2012	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Long Term Borrowing	16	16	67,466	55,452
Financial liabilities (trade creditors)	2,534	2,534	1,588	1,588
Long-term creditors	-	-	-	-

ASSETS	31 March 2011		31 March 2012	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Money Market Loans	4,009	4,015	2,027	2,037
Long-Term Debtors	281	281	193	193

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 2012) 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 2012, the Council held £16,000 (2010/11 £41,000) worth of stock in the form of building maintenance materials, museum goods for resale and sundry items.

## NOTE 18 – CONSTRUCTION CONTRACTS

South Holland had no construction contracts in progress at 31 March 2012.

## NOTE 19 – DEBTORS

	31 March 2011 £000	31 March 2012 £000	31 March 2012 £000 Impairment Allowance	31 March 2012 £000 Net
Central Government Bodies	1,537	2,454	-	2,454
Other Local Authorities	1,010	760	-	760
Public corporations and trading funds	2,000	2,002	-	2,002
Other entities and individuals	1,648	1,854	(800)	1,054
<b>Total</b>	<b>6,195</b>	<b>7,070</b>	<b>(800)</b>	<b>6,270</b>

## NOTE 20 – CASH AND CASH EQUIVALENTS

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

	31 March 2011 £000	31 March 2012 £000
Cash held by the Authority	1	1
Bank current accounts	120	255
Short-term deposits with banks	3,700	2,192
<b>Total Cash and Cash Equivalents</b>	<b>3,821</b>	<b>2,448</b>

## NOTE 21 – ASSETS HELD FOR SALE

	2010/11 £000	2011/12 £000
<b>Balance outstanding at start of year</b>	<b>640</b>	<b>61</b>
Assets newly classified as held for sale:		
- Property, Plant and Equipment	155	186
Revaluation gains	-	-
Assets sold	(734)	(95)
<b>Balance outstanding at year-end</b>	<b>61</b>	<b>152</b>

## NOTE 22 – CREDITORS

	31 March 2011 £000	31 March 2012 £000
Central Government Bodies	1,356	281
Other Local Authorities	731	262
NHS bodies	-	-
Other entities and individuals	2,860	2,165
<b>Total</b>	<b>4,947</b>	<b>2,708</b>

## NOTE 23 – PROVISIONS

The Council held no provisions at the Balance Sheet date.

## NOTE 24 – USABLE RESERVES

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

## NOTE 25 – UNUSABLE RESERVES

<b>RESTATED 31 March 2011 £000</b>		<b>31 March 2012 £000</b>
9,770	Revaluation Reserve	9,719
127,341	Capital Adjustment Account	59,398
(16,196)	Pensions Reserve	(21,052)
66	Deferred Capital Receipts	65
(58)	Collection Fund Adjustment Account	(47)
(33)	Accumulated Absences Account	(37)
<b>120,890</b>	<b>Total Unusable Reserves</b>	<b>48,046</b>

### Revaluation Reserve

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

RESTATED 2010/11 £000		2011/12 £000	2011/12 £000
11,070	<b>Balance at 1 April</b>		<b>9,770</b>
(1,709)	<b>Adjustment for Social Housing Discount</b>		
2,833	Upward revaluation of assets	707	
(1,795)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(530)	
1,038	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		177
(266)	Difference between fair value depreciation and historical cost depreciation	(226)	
(363)	Accumulated gains on assets sold or scrapped	(2)	
(629)	Amount written off to the Capital Adjustment Account		(228)
<b>9,770</b>	<b>Balance at 31 March</b>		<b>9,719</b>

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is then reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

During the year the Council held no such investments.

### 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

2010/11 £000		2011/12 £000	2011/12 £000
<b>181,301</b>	<b>Balance at 1 April</b>		<b>127,341</b>
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
(2,534)	Charges for depreciation and impairment of non-current assets	(2,534)	
(59,272)	Revaluation losses on Property, Plant and Equipment	(2,003)	
(71)	Amortisation of intangible assets	(34)	
(1,664)	Revenue expenditure funded from capital under statute	(69,019)	
(1,250)	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	(186)	(73,776)
<b>(64,791)</b>			
363	Adjusting amounts written out of the Revaluation Reserve		2
266	Net written out amount of the cost of non-current assets consumed in the year		226
	<b>Capital financing applied in the year:</b>		
916	Use of the Capital Receipts Reserve to finance new capital expenditure	790	
2,209	Use of the Major Repairs Reserve to finance new capital expenditure	2,148	
4,258	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	477	
1,956	Application of grants to capital financing from the Capital Grants Unapplied Account	789	
206	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	240	
695	Capital expenditure charged against the General Fund and HRA balances	1,085	5,529
10,240			
(38)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		76
<b>127,341</b>	<b>Balance at 31 March</b>		<b>59,398</b>

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provision. No such account was required by the Council in 2011/12.

## 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.

2010/11 £000		2011/12 £000
<b>(36,293)</b>	<b>Balance at 1 April</b>	<b>(16,196)</b>
13,558	Actuarial gains and losses on pensions assets and liabilities	(4,495)
4,988	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	(1,598)
1,551	Employers pensions contributions and direct payments to pensioners payable in the year	1,237
<b>(16,196)</b>	<b>Balance at 31 March</b>	<b>(21,052)</b>

## Deferred Capital Receipts Reserve

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

2010/11 £000		2011/12 £000
<b>68</b>	<b>Balance at 1 April</b>	<b>66</b>
-	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
(2)	Transfer to the Capital Receipts Reserve upon receipt of cash	(1)
<b>66</b>	<b>Balance at 31 March</b>	<b>65</b>

## 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.

2010/11 £000		2011/12 £000
<b>(30)</b>	<b>Balance at 1 April</b>	<b>(58)</b>
	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	
(28)		11
<b>(58)</b>	<b>Balance at 31 March</b>	<b>(47)</b>

## Unequal Pay Back Pay Account

An Unequal Pay Back Pay Account compensates for the differences between the rate at which the Council provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants. No such account was required by the Council in 2011/12.

## 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.

2010/11 £000			2011/12 £000
<b>(85)</b>	<b>Balance at 1 April</b>		<b>(33)</b>
85	Settlement or cancellation of accrual made at end of the preceding year	33	
(33)	Amounts accrued at the end of the current year	(37)	(4)
52	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		(4)
<b>(33)</b>	<b>Balance at 31 March</b>		<b>(37)</b>



## NOTE 26 – CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items

2010/11 £000		2011/12 £000
(159)	Interest received	(78)
129	Interest paid	149
-	Dividends received	-

## NOTE 27 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

2010/11 £000		2011/12 £000
10,011	Purchase of property, plant and equipment, investment property, plant and intangible assets	4,845
145	Purchase of short-term and long-term investments	-
-	Other payments for investing activities	42
(602)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(232)
-	Proceeds from short-term and long-term investments	(2,000)
(690)	Other receipts from investing activities	(82)
<b>8,864</b>	<b>Net cash flows from investing activities</b>	<b>2,573</b>

## NOTE 28 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

2010/11 £000		2011/12 £000
(25)	Cash receipts of short- and long-term borrowing	(67,456)
-	Other receipts from financing activities	-
188	Cash Payments for the reduction of outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts	222
3	Repayments of short- and long-term borrowing	6
74	Other Payments for financing activities	371
<b>240</b>	<b>Net cash flows from financing activities</b>	<b>(66,857)</b>

## NOTE 29 – 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 2011/12 were taken by the Council's Cabinet on the basis of budget reports analysed across the Council's service areas. From Quarter 4 of 2011/12, the Cabinet decided to receive budget reports based on the revised Directorate structure, and this note is set out on that basis (and 2010/11 comparatives have been restated to facilitate comparison).

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:

	Corporate Management	Place and Governance	Commissioning	Housing Revenue Account	Total
Directorate Income and Expenditure 2011/12	£000	£000	£000	£000	£000
Fees, charges & other service income	(193)	(1,135)	(3,703)	(13,518)	(18,549)
Government grants	-	(23,705)	(481)	(645)	(24,831)
<b>Total Income</b>	<b>(193)</b>	<b>(24,840)</b>	<b>(4,184)</b>	<b>(14,163)</b>	<b>(43,380)</b>
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
<b>Total Expenditure</b>	<b>782</b>	<b>28,910</b>	<b>10,754</b>	<b>12,572</b>	<b>53,018</b>
<b>Net Expenditure</b>	<b>589</b>	<b>4,070</b>	<b>6,570</b>	<b>(1,591)</b>	<b>9,638</b>

Restated	Corporate Management	Place and Governance	Commissioning	Housing Revenue Account	Total
Directorate Income and Expenditure 2010/11	£000	£000	£000	£000	£000
Fees, charges & other service income	(70)	(987)	(3,219)	(12,714)	(16,990)
Government grants	-	(22,777)	(1,671)	(679)	(25,127)
<b>Total Income</b>	<b>(70)</b>	<b>(23,764)</b>	<b>(4,890)</b>	<b>(13,393)</b>	<b>(42,117)</b>
Employee expenses	834	1,647	3,870	2,320	8,671
Other service expenses	998	24,980	7,065	8,737	41,780
Capital Charges	6	104	1,061	1,597	2,768
<b>Total Expenditure</b>	<b>1,838</b>	<b>26,731</b>	<b>11,996</b>	<b>12,654</b>	<b>53,219</b>
<b>Net Expenditure</b>	<b>1,768</b>	<b>2,967</b>	<b>7,106</b>	<b>(739)</b>	<b>11,102</b>

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

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

	2010/11 £000	2011/12 £000
Net expenditure in the Directorate Analysis	11,102	9,638
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	53,023	69,802
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	19	33
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>64,144</b>	<b>79,473</b>

## 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.

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)
Taxation and non specific grant income	-	-	-	(13,205)	-	(13,205)
Government grants and contributions	(24,831)	-	(24,831)	-	-	(24,831)
Gain or Loss on Disposal of Fixed Assets	-	-	-	(45)	-	(45)
<b>Total Income</b>	<b>(43,380)</b>	<b>-</b>	<b>(43,380)</b>	<b>(13,377)</b>	<b>(261)</b>	<b>(57,018)</b>
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
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-
<b>Total expenditure</b>	<b>53,018</b>	<b>69,802</b>	<b>122,820</b>	<b>3,306</b>	<b>442</b>	<b>126,568</b>
<b>Surplus or deficit on the provision of services</b>	<b>9,638</b>	<b>69,802</b>	<b>79,440</b>	<b>(10,071)</b>	<b>181</b>	<b>69,550</b>

Restated 2010/11	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	(17,537)	-	(17,537)	-	(88)	(17,625)
Interest and investment income	-	-	-	(136)	-	(136)
Taxation and non specific grant income	-	-	-	(18,485)	(97)	(18,582)
Government grants and contributions	(25,157)	-	(25,157)	-	-	(25,157)
Gain or Loss on Disposal of Fixed Assets	-	-	-	(599)	-	(599)
<b>Total Income</b>	<b>(42,694)</b>	<b>-</b>	<b>(42,694)</b>	<b>(19,220)</b>	<b>(185)</b>	<b>(62,099)</b>
Employee expenses	10,180	-	10,180	-	4	10,184
Other service expenses	40,587	1,664	42,251	-	59	42,310
Pensions accounting adjustments	-	(7,299)	(7,299)	-	-	(7,299)
Depreciation, amortisation and impairment	3,029	58,658	61,687	-	-	61,687
Interest Payments	-	-	-	129	-	129
Precepts & Levies	-	-	-	2,692	-	2,692
Change in Investment Property value	-	-	-	38	-	38
Payments to Housing Capital Receipts Pool	-	-	-	177	-	177
Pensions interest cost & Expected return on assets	-	-	-	1,057	-	1,057
Gain or Loss on Disposal of Fixed Assets	-	-	-	1,231	-	1,231
<b>Total expenditure</b>	<b>53,796</b>	<b>53,023</b>	<b>106,819</b>	<b>5,324</b>	<b>63</b>	<b>112,206</b>
<b>Surplus or deficit on the provision of services</b>	<b>11,102</b>	<b>53,023</b>	<b>64,125</b>	<b>(13,896)</b>	<b>(122)</b>	<b>50,107</b>

## NOTE 30 – ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during the year.

## NOTE 31 – 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 2011/12 are as follows:

		2010/11		2011/12	
		£000	£000	£000	£000
Markets are provided in Spalding, Holbeach, Long Sutton and Crowland	Turnover	(130)		(141)	
	Expenditure	192		167	
	Deficit		62		26
The Council provides off street car parking predominantly within Spalding	Turnover	(284)		(289)	
	Expenditure	393		227	
	(Surplus)/Deficit		109		(62)
The Council lets 10 industrial units at Crowland	Turnover	(33)		(36)	
	Expenditure	404		29	
	(Surplus)/Deficit		371		(7)
<b>Net (Surplus)/Deficit on trading operations</b>			<b>542</b>		<b>(43)</b>

## NOTE 32 – AGENCY SERVICES

The Council does not provide any significant agency services.

## NOTE 33 – ROAD CHARGING SCHEMES UNDER THE TRANSPORT ACT 2000

The Council does not have any road charging schemes.

## NOTE 34 – POOLED BUDGETS

There are no pooled budget arrangements in 2011/12.

## NOTE 35 – MEMBERS’ ALLOWANCES

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

	2010/11 £000	2011/12 £000
Salaries	211	213
Allowances	107	104
Expenses	19	19
<b>Total</b>	<b>337</b>	<b>336</b>

## NOTE 36 – OFFICERS’ REMUNERATION

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

		Salary, Fees and Allowances £	Expenses Allowances £	Compensation for Loss of Office £	Pension Contribution £	Total £
<b>Chief Executive</b>	2010/11	118,742	871	-	25,574	145,187
	2011/12	124,000	593	-	30,752	155,345
<b>Corporate Director</b>	2010/11	80,873	414	23,997	133,291	238,575
	2011/12	-	-	-	-	-
<b>Corporate Director (took on S151 role wef 1 August 2010)</b>	2010/11	65,167	784	79,000	12,544	157,495
	2011/12	-	-	-	-	-
<b>Monitoring Officer</b>	2010/11	58,481	263	30,000	67,611	156,355
	2011/12	54,311	3,616	-	13,469	71,396
<b>Section 151 Officer (to 31 July 2010)</b>	2010/11	20,448	9	-	3,943	24,400
	2011/12	-	-	-	-	-

Following negotiations and formal approval by both councils in August 2010, the Chief Executive provides services for both the Council and Breckland District Council. He is formally employed by the Council, and Breckland District Council is recharged 50% of his salary and other remuneration. As South Holland District Council is the employing Council, the full costs of his employment are shown in the note above.

From 1 April 2011, joint management arrangements between the Council and Breckland District Council were implemented. The costs of implementing the arrangements were shared 50:50 with Breckland District Council, as are the ongoing costs. Each employer shows the full cost in their own Accounts, along with the sum recharged as part of the joint management arrangements. In 2011/12, the arrangement cost £1.672m, with £836,000 included in this Council’s financial statements.



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	2010/11 Number of Employees	2011/12 Number of Employees
£50,000 – £54,999	-	1
£55,000 – £59,999	2	-
£60,000 – £64,999	2	-
£65,000 – £69,999	2	-

The changes to the numbers of staff in each band between 2010/11 and 2011/12 relate in the main to the joint management arrangements with Breckland District Council that took effect in April 2011.

### NOTE 37 – 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:

	2010/11 £000	2011/12 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	149	107
Fees payable to the Audit Commission in respect of statutory inspections	-	-
Fees payable to the Audit Commission for the certification of grant claims and returns for the year	15	15
Fees payable in respect of other services provided by the Audit Commission during the year	-	-
<b>TOTAL *</b>	<b>164</b>	<b>122</b>

\* A rebate of £8,000 was provided in 2011/12 making the net payable to the Audit Commission £114,000. The rebate received during 2010/11 was £8,000 making the net payable amount £156,000.

In 2010/11, £30,000 of the total external audit services fee was payable to the Audit Commission in respect of work undertaken in response to an objection raised by an elector to an item within the Council's 2010/11 Accounts. Also included are £10,000 in additional costs incurred during the audit of the 2011/12 Accounts (2010/11 £16,000).

### NOTE 38 – DEDICATED SCHOOLS GRANT

Not applicable to South Holland District Council.

## NOTE 39 – GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12.

	2010/11 £000	2011/12 £000
<b>Credited to Taxation and Non Specific Grant income</b>		
Revenue Support Grant	(1,139)	(1,747)
National Non-Domestic Rates	(7,843)	(5,651)
Council Tax Freeze Grant	-	(117)
New Homes Bonus Scheme Grant	-	(401)
Local Services Support Grant	-	(78)
Area Based Grant	(246)	-
Grants in relation to capital expenditure	(4,075)	-
<b>Total</b>	<b>(13,303)</b>	<b>(7,994)</b>
<b>Credited to Services</b>		
Council Tax and Housing Benefit Subsidy	(21,951)	(23,048)
Council Tax and Housing Benefit Administration	(628)	(622)
Concessionary Fares	(186)	-
Supporting People Grant	(677)	(636)
Disabled Facilities Grant	(210)	(286)
Homelessness Grant	(78)	(104)
RHCPG – Private Sector Housing Grant	(623)	-
Connecting Communities	(42)	-
LPSA2 Grant	(66)	-
EMDA Red Lion Quarter	(120)	-
English Heritage PSICA Conservation grant	(123)	(158)
Choosing Health	(145)	(104)
Arts Council	(87)	(86)
Other Grants	(221)	(235)
<b>Total</b>	<b>(25,157)</b>	<b>(25,279)</b>

## NOTE 40 – 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

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 29 on reporting for resources allocation decisions. Grants received from government departments are set out in the subjective analysis on note 29 on reporting for resource

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 2011/12 is shown in Note 35. During 2011/12, 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**

During 2011/12 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 2011/12, the Council contributed £625,000 towards the cost of Breckland-employed managers under this arrangement, and received £211,000 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 transactions between the Council and CPBS, is included in the Explanatory Foreword at page 11, and in the Group Accounts at pages 105 – 112.

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 55.

## NOTE 41 – 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.

	2010/11	2011/12
	£000	£000
<b>Opening Capital Financing Requirement</b>	<b>3,736</b>	<b>4,161</b>
Capital Investment		
Property, Plant and Equipment	8,810	3,706
Investment Properties	-	-
Intangible Assets	92	21
Revenue Expenditure Funded from Capital under Statute	1,664	69,019
Provision for finance leases	99	-
<b>Sources of finance</b>		
Capital receipts	(917)	(790)
Government grants and other contributions	(6,214)	(1,266)
Major Repairs Allowance	(2,209)	(2,148)
<b>Sums set aside from revenue:</b>		
Direct revenue contributions	(695)	(1,085)
MRP	(18)	(18)
Finance leases - repayments	(187)	(222)
<b>Closing Capital Financing Requirement</b>	<b>4,161</b>	<b>71,378</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing (supported by government financial assistance)	-	-
Increase in underlying need to borrowing (unsupported by government financial assistance)	326	67,217
Assets acquired under finance leases	99	-
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>425</b>	<b>67,217</b>

## NOTE 42 – 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 2011 £000	31 March 2012 £000
Vehicles, Plant, Furniture and Equipment	635	422
	<b>635</b>	<b>422</b>

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 2011 £000	31 March 2012 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	222	240
Non-Current	525	284
Finance costs payable in future years	189	90
<b>Minimum lease payments</b>	<b>936</b>	<b>614</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
Not later than 1 year	222	240	322	304
Later than 1 year and not later than 5 years	524	284	614	310
Later than 5 years	-	-	-	-
	<b>746</b>	<b>524</b>	<b>936</b>	<b>614</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 no contingent rents were payable by the Council (nil in 2010/11).

#### 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 small number of items of land and property under operating leases.

In addition, in 2011/12 the Council received £190,000 from Compass Point Business Services (East Coast) Ltd in respect of the usage of office space (£341,000 in 2010/11 for office space and equipment). No formal long term arrangement currently exists.

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

	31 March 2011 £000	31 March 2012 £000
Not later than 1 year	9	10
Later than 1 year and not later than 5 years	18	30
Later than 5 years	4	2
	<b>31</b>	<b>42</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 no contingent rents were receivable by the Council (nil in 2010/11).

## NOTE 43 – PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

There were no PFI's and similar contracts during 2011/12.

## NOTE 44 – 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 2011/12, the Council has not recognised any impairment losses.

## NOTE 45 – CAPITALISATION OF BORROWING COSTS

Under IAS 23 Borrowing Costs, the Council is required to disclose the amount of borrowing costs capitalised in the year and the capitalisation rate used, in relation to qualifying assets. The Council did not incur any such costs in 2011/12 (2010/11 nil).

## NOTE 46 – TERMINATION BENEFITS

The sum of £71,000 was payable to officers in 2011/12 (£105,000 in 2010/11) as the Council continued to review its structures to maintain efficiency and value for money – see below for the number of exit packages and total cost per band.

In addition, as part of the shared senior management arrangements with Breckland District Council that were formally implemented in April 2011 (this excludes the Chief Executive sharing initiative that commenced in August 2010), the Council terminated the contracts of a number of employees, incurring liabilities of £399,778 in 2010/11, the cost of which was equally shared between the two Councils.

### Exit packages

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	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11 £	2011/12 £
£0-£20,000	6	7	4	4	10	11	65,216	70,865
£20,001-£40,000	-	-	2	-	2	-	53,653	-
£40,001-£60,000	-	-	2	-	2	-	81,129	-
£60,001-£160,000	1	-	2	-	3	-	305,156	-

The total cost shown in the table above of £70,865 has been charged to the Council's Comprehensive Income and Expenditure Statement in the current year (£505,154 in 2010/11).

## NOTE 47 – PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

The Council has no pension schemes that are accounted for as defined contribution schemes.

## NOTE 48 – 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	
	2010/11 £000	2011/12 £000
<b>Comprehensive Income and Expenditure Statement</b>		
<i>Cost of Services:</i>		
cost current service	1,254	886
past service costs	(6,032)	-
settlements and curtailments	(1,267)	343
<i>Financing and Investment Income and Expenditure</i>		
interest cost	3,727	2,943
expected return on scheme assets	(2,670)	(2,574)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>(4,988)</b>	<b>1,598</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>		
actuarial gains and losses	(13,558)	4,495
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(18,546)</b>	<b>6,093</b>
<b>Movement in Reserves Statement</b>		
reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	<b>4,988</b>	<b>(1,598)</b>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
employers' contributions payable to scheme	1,451	1,135
retirement benefits payable to pensioners	100	102



The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £19.724m (£15.229m at 31 March 2011).

### Assets and Liabilities in Relation to Post-employment Benefits

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

	Local Government Pension Scheme	
	2010/11 £000	2011/12 £000
<b>Opening balance at 1 April</b>	77,219	54,136
Current service cost	1,254	886
Interest cost	3,727	2,943
Contributions by scheme participants	386	287
Actuarial gains and losses	(14,425)	2,468
Benefits paid	(2,179)	(2,802)
Past service costs	(6,032)	-
Curtailments	44	343
Settlements	(5,858)	-
<b>Closing balance at 31 March</b>	<b>54,136</b>	<b>58,261</b>

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.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public sector pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This had the effect of reducing the Council's liabilities in the Lincolnshire County Council pension fund by £6.032m and this amount was recognised in 2010/11 as a past service gain in accordance with guidance set down in UTIF (Urgent Issues Task Force) Abstract 48, since the change is considered to be a change in benefit entitlement. However, there was no impact on the General Fund or Housing Revenue Account balance.

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

	Local Government Pension Scheme	
	2010/11 £000	2011/12 £000
Opening balance at 1 April	40,926	37,940
Expected rate of return	2,670	2,574
Actuarial gains and losses	(867)	(2,027)
Assets distributed on settlements	(4,547)	-
Employer contributions	1,551	1,237
Contributions by scheme participants	386	287
Benefits paid	(2,179)	(2,802)
<b>Closing balance at 31 March</b>	<b>37,940</b>	<b>37,209</b>

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 £0.554m (2010/11 £2.611m).

### Scheme History

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
<b>Present value of liabilities:</b>					
Local Government Pension Scheme	(47,163)	(46,368)	(75,618)	(52,726)	(56,813)
Discretionary Benefits	(1,423)	(1,345)	(1,601)	(1,410)	(1,448)
Fair value of assets in the Local Government Pension Scheme	38,937	31,868	40,926	37,940	37,209
<b>Surplus/(deficit) in the scheme:</b>					
Local Government Pension Scheme	(8,226)	(14,500)	(34,692)	(14,786)	(19,604)
Discretionary Benefits	(1,423)	(1,345)	(1,601)	(1,410)	(1,448)
<b>Total</b>	<b>(9,649)</b>	<b>(15,845)</b>	<b>(36,293)</b>	<b>(16,196)</b>	<b>(21,052)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The net liability of £21.052m has a significant impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £59.143m. 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 2013 are £1.072m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2013 are £0.102m.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method using an estimate of the pensions that will be payable in future years dependent 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		Discretionary Benefits	
	2010/11	2011/12	2010/11	2011/12
<i>Long-term expected rate of return on assets in the scheme:</i>				
Equity investments	7.5%	6.2%	-	-
Bonds	4.9%	4.4%	-	-
Property	5.5%	4.4%	-	-
Cash	4.6%	3.5%	-	-
<i>Mortality assumptions:</i>				
Longevity at 65 for current pensioners:				
- Men	21.2	21.2	21.2	21.2
- Women	23.4	23.4	23.4	23.4
Longevity at 65 for future pensioners:				
- Men	23.7	23.7	-	-
- Women	25.7	25.7	-	-
Rate of inflation	3.6%	3.1%	3.6%	3.1%
Rate of increase in salaries - * 1% to 2011/12, then 5.1%				
** 1% to 2014/15, then 4.8%	5.1% *	4.8% **	-	-
Rate of increase in pensions	2.8%	2.5%	2.8%	2.5%
Rate for discounting scheme liabilities	5.5%	4.8%	5.5%	4.8%
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%	-	-

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

	2010/11 %	2011/12 %
Equity Investments	76	74
Debt Instruments	12	13
Other Assets	12	13
	<b>100</b>	<b>100</b>

## History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
Differences between the expected and actual return on assets	(16.9)	(32.2)	17.0	(3.2)	(78.5)
Experience gains and losses on liabilities	0.6	0.0	0.0	(12.2)	0.0

### NOTE 49 – CONTINGENT LIABILITIES

At 31 March 2012, the Council had identified no material contingent liabilities.

### NOTE 50 – CONTINGENT ASSETS

At 31 March 2012, the Council had identified no material contingent assets.

### NOTE 51 – 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 2 March 2011 and is available on the Council's website. The key issues within the strategy are:

- the Authorised Limit for 2011/12 was set at £5m. This is the maximum limit of external borrowings or other long term liabilities.
- the Operational Boundary was expected to be £3.5m. 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 £3.491m and £0.873m 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 will bring 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 will need to ensure effective governance arrangements are in place for the management of the HRA. In addition management of the £67.456m of debt is an area which is new to the authority and will be 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 2 March 2011, 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 there is a restriction to use only 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 2012 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 2012 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2012 %	Estimated maximum exposure to default and uncollectability at 31 March 2012 £000	Estimated maximum exposure at 31 March 2011 £000
	A	B	C	(A x C)	
Customers	1,056	11.6	11.6	122	191

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. The past due but not impaired amount can be analysed by age as follows:

	<b>31 March 2011 £000</b>	<b>31 March 2012 £000</b>
Less than three months	4,307	3,671
Three to six months	1,243	2,361
Six months to one year	250	330
More than one year	980	708
	<b>6,780</b>	<b>7,070</b>

### Liquidity Risk

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

The Council has ready access to borrowings from the money markets to cover any day to day cash flow 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:

	<b>31 March 2011 £000</b>	<b>31 March 2012 £000</b>
Less than one year	228	246
Between one and two years	158	254
Between two and five years	199	40
Between five and ten years	183	-
More than ten years	-	67,456
	<b>768</b>	<b>67,996</b>

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. Also, the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow requirements.

## 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 payable on variable rate borrowings	-
Increase in interest receivable on variable rate investments	40
Increase in government grant receivable for financing costs	90
Impact on Surplus or Deficit on the Provision of Services	<b>130</b>
Share of overall impact debited to the HRA	29

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 52 – HERITAGE ASSETS: FIVE-YEAR SUMMARY OF TRANSACTIONS**

As set out in the accounting policy note on page 32, the Council only holds a limited number of Heritage Assets. These have been held for a number of years, and there were no additions or disposals in the five years to 31 March 2012.

#### **NOTE 53 – 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 54 – HERITAGE ASSETS: CHANGE IN ACCOUNTING POLICY**

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Council. As set out in the summary of significant accounting policies, the Council now requires heritage assets to be carried in the balance sheet at valuation.

Heritage assets

For 2011/12 the Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (that are now to be classified as heritage assets) that were donated to the Council were held at valuation as a proxy for historical cost. The Council's accounting policies for recognition and measurement of heritage assets are set out in the Council's summary of significant accounting policies (see page 32).

In applying the new accounting policy, the Council has identified that the nature reserve and other assets, previously held as community assets within property, plant and equipment at £13,000, should now be recognised as heritage assets. The Council has also recognised an additional £47,000 for the recognition of heritage assets that were not previously recognised in the Balance Sheet. This increase is recognised in the Revaluation Reserve. The 31 March 2011 Balance Sheet and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy. The balance sheet as at 1 April 2010 has not been included in these Accounts due to the small impact of the change in policy, although the paragraph below sets out the change.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying amount of the Heritage Assets was valued at £60,000 (the element that was previously recognised in property, plant and equipment and reclassified amounted to £13,000).
- The adjustments that were required to be made to the opening 2010/11 Balance Sheet values are therefore:

	Opening balances as at 1 April 2010	Restatement	Restatement required to opening balances as at 1 April 2010
	£000	£000	£000
Property, Plant and Equipment (prior to Social Housing Discount factor adjustment)	194,258	(13)	194,245
Heritage Assets	-	60	60
Long Term Assets	195,665	47	195,712
Total Net Assets	170,125	47	170,172
Unusable Reserves	155,984	47	156,031
Net Worth/Total Reserves	170,125	47	170,172

#### Comprehensive Income and Expenditure Statement

There has been no restatement to any of the lines in the 2010/11 Comprehensive Income and Expenditure Statement as no impairments were realised during the year.

#### Movement in Reserves Statement

The restatement of the relevant lines of the Movement in Reserves Statement, as at 31 March 2011, as a result of the application of this new accounting policy is presented in the table below.

	As previously stated 31 March 2011	As Restated 31 March 2011	Restatement 2011
	£000	£000	£000
Balance at the end of the previous reporting period – 31 March 2010	170,125	170,172	47
Balance at the end of the current reporting period – 31 March 2011	132,783	132,830	47

## Balance Sheet

The resulting restated Balance Sheet for 31 March 2011 is provided on page 21. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

	As previously stated 31 March 2011 £000	As Restated 31 March 2011 £000	Restatement 2011 £000
Property, Plant and Equipment	140,019	140,006	(13)
Heritage Assets	-	60	60
Long Term Assets	141,446	141,493	47
Total Net Assets	132,783	132,830	47
Unusable Reserves	120,843	120,890	47
Net Worth/Total Reserves	132,783	132,830	47

The effect of the change in accounting policy in 2010/11 has been that heritage assets are recognised at £60,000 on the Balance Sheet at 31 March 2011, resulting in an increase to the Revaluation Reserve of £47,000 and property, plant and equipment being restated by the amount of heritage assets previously recognised at cost in community assets (a sub-classification of property, plant and equipment) of £13,000.

### **NOTE 55 – 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

Trust fund revenue account	Expend £000	2010/11 Income £000	Net £000	Expend £000	2011/12 Income £000	Net £000
Ayscoughfee Hall and Gardens	365	(24)	341	400	(32)	368
Sir Halley Stewart Playing Field	45	(2)	43	30	(3)	27

**SUPPLEMENTARY FINANCIAL STATEMENTS**

**HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT**

	2010/11 £000	2011/12 £000
<b>Expenditure</b>		
Repairs and Maintenance	2,721	2,728
Supervision and Management	3,433	3,201
Rents, Rates, Taxes and Other Charges	18	40
Negative HRA Subsidy Payable (Note 7)	4,393	4,529
Depreciation (Note 3)	1,597	1,684
Revaluation of Non-current Assets (Note 4)	54,062	2,137
Movement in the allowance for bad debts	9	55
HRA Self Financing Debt payment	-	67,456
<b>Total Expenditure</b>	<b>66,233</b>	<b>81,830</b>
<b>Income</b>		
Dwelling Rents	(11,807)	(12,585)
Non Dwelling Rents	(118)	(122)
Charges for Services & Facilities	(1,468)	(1,315)
Contribution towards expenditure	-	(141)
<b>Total Income</b>	<b>(13,393)</b>	<b>(14,163)</b>
<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>	<b>52,840</b>	<b>67,667</b>
HRA services share of Corporate and Democratic Core	483	335
HRA share of other amounts included in the whole authority		
Cost of Services but not allocated to specific services	(1,606)	103
<b>Net Cost of HRA Services</b>	<b>51,717</b>	<b>68,105</b>
(Gain) or loss on sale of HRA non-current assets	517	(30)
Interest Payable and similar charges	64	107
Interest and investment income	(18)	(28)
Pensions interest cost and expected return on pensions assets (Note 9)	233	111
Movement in the Market Value of Investment Property	-	(38)
<b>Deficit for the year on HRA services</b>	<b>52,513</b>	<b>68,227</b>

## MOVEMENT ON THE HRA STATEMENT

	2010/11 £000	2011/12 £000
Balance on the HRA at the end of the previous year	1,395	1,629
Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement	(52,513)	(68,227)
Adjustments between accounting basis and funding basis under statute	52,947	68,553
Net (increase) or decrease before transfers to or from reserves	434	326
Transfer (to) or from reserves	(200)	-
(Increase) or decrease in year on the HRA	234	326
<b>Balance on the HRA at the end of the current year</b>	<b>1,629</b>	<b>1,955</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### NOTE 1 – HOUSING REVENUE ACCOUNT NON CURRENT 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 2010/11).

Analysis of Housing Non-current Assets Net Book Value	At 31 March 2011		At 31 March 2012	
	EUV-SH £000	EUV-VP £000	EUV-SH £000	EUV-VP £000
<b>Property Plant and Equipment</b>				
Dwelling stock	112,281	330,238	111,669	328,439
Other Land and Buildings	1,376	n/a	1,346	n/a
Infrastructure – Housing Sewerage	1,139	n/a	1,027	n/a
Vehicles, Plant and Equipment	432	n/a	279	n/a
Surplus Asset not for Sale	69	n/a	69	n/a
<b>Non Operational Assets</b>				
Land held for development				
<b>Intangible Non Current Assets</b>	21	n/a	18	n/a
<b>Investment Properties</b>	25		62	
<b>Total</b>	<b>115,343</b>	<b>330,238</b>	<b>114,470</b>	<b>328,439</b>

### NOTE 2 – HOUSING STOCK

The Council was responsible for managing 3,881 dwellings at 31 March 2012 (3,884 at 31 March 2011). The stock is analysed below by number of bedrooms. In addition the Council has an equity share in 10 shared ownership properties, with the Council's equity share being equivalent to 4.5 dwellings.

Analysis of Housing Stock at 31 March 2012					
	1 Bed	2 Bed	3 Bed	3+ Bed	Total
HRA Housing Stock	781	1,491	1,592	17	3,881
Shared Ownership	1	6	3	-	10
<b>Total</b>	<b>782</b>	<b>1,497</b>	<b>1,595</b>	<b>17</b>	<b>3,891</b>

### NOTE 3 - DEPRECIATION

	2010/11 £000	2011/12 £000
Depreciation		
Dwelling Stock	1,347	1,336
Other Land and Buildings	66	65
Infrastructure - Housing Sewerage	120	127
Vehicles, Plant & Equipment	63	152
	<b>1,596</b>	<b>1,680</b>
Amortisation		
Intangible Assets	1	4
<b>Total</b>	<b>1,597</b>	<b>1,684</b>

### NOTE 4 – REVALUATION OF HOUSING NON CURRENT ASSETS

The total value of revaluation losses of £2.137m (£54.062m loss in 2010/11) for the year has been charged to the HRA Income and Expenditure Account. The 2010/11 losses related to the reduction in value as at 1 April 2010 on Council dwellings following the change in the prescribed discount factor for social housing. The reduction in value reflects the current economic recession and market conditions. There were no impairments other than those relating to a general fall in prices and the change to the prescribed discount factor for social housing.

### NOTE 5 – HOUSING REVENUE ACCOUNT CAPITAL EXPENDITURE AND FINANCING

	2010/11 £000	2011/12 £000
<b>Housing Capital Accrued Expenditure and Financing</b>		
<b>Expenditure</b>		
Improvements and Enhancements to Council Dwellings	2,816	3,145
Improvements to Wastewater Treatments	59	15
Improvements to Sheltered Accommodation	104	133
Information Systems	133	48
HRA Self Financing Debt	-	67,456
<b>Total</b>	<b>3,112</b>	<b>70,797</b>
<b>Financing</b>		
Borrowing	506	67,456
Capital Receipts	205	609
Major Repairs Reserve	2,209	2,148
Direct Revenue Financing	192	584
<b>Total</b>	<b>3,112</b>	<b>70,797</b>



## NOTE 6 – HOUSING REVENUE ACCOUNT CAPITAL RECEIPTS

	2010/11 £000	2011/12 £000
<b>Housing Revenue Account Capital Receipts</b>		
<b>Usable Capital Receipts at 1 April</b>	<b>1,351</b>	<b>1,251</b>
Right to buy sales in relation to dwellings	235	199
Mortgage repayments	6	2
Land Sales	44	-
Administration costs	(3)	(3)
Receipts used to finance capital expenditure	(205)	(609)
Receipts Pooling to CLG	(177)	(147)
<b>Usable Capital Receipts at 31 March</b>	<b>1,251</b>	<b>693</b>

## NOTE 7 – HOUSING SUBSIDY

The Housing Revenue Account makes a subsidy payment to the Government. This payment is made up of a negative Housing Amount and results from the fact that income exceeds overall expenditure on the notional HRA, and is said to have a negative entitlement to subsidy. The total amount payable is made up of the following elements:

	2010/11 £000	2011/12 £000
HRA Subsidy		
<b>Housing Element</b>		
Prior year adjustments	5	8
Management and Maintenance Allowance	5,235	5,351
Major Repairs Allowance	2,121	2,148
Additional Major Repairs Allowance brought forward from 2010/11	(410)	-
Charges for Capital	85	102
Assumed Rental Income	(11,429)	(12,162)
Additional subsidy for interest on self-financing loan	-	24
<b>Amount Payable</b>	<b>4,393</b>	<b>4,529</b>

## NOTE 8 – RENT ARREARS

The net rent arrears at 31 March 2012 amounted to £274,000 (£215,000 in 2010/11) and are analysed as follows:

	31 March 2011 £000	31 March 2012 £000
<b>Rent Arrears Due From</b>		
Current Tenants	120	160
Former Tenants	93	112
Garages	2	2
<b>Total</b>	<b>215</b>	<b>274</b>
These arrears include all charges due from tenants: rents, service charges and other charges.		
Allowance for doubtful debts	(103)	(137)

## NOTE 9 – RETIREMENT BENEFITS

Note 48 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.

	2010/11 £000	2011/12 £000
<b>HRA Income and Expenditure Statement</b>		
Net Cost of HRA Services included in CIES		
Current Service Cost	276	265
HRA Share of Other amounts included in CIES		
Interest Cost	820	883
Expected Return on assets in the scheme	(587)	(772)
Past Service and Curtailment	(1,606)	103
<b>Deficit for the year on HRA services</b>	<b>(1,097)</b>	<b>479</b>
<b>Statement of movement on the HRA balance</b>		
Net charges made for retirement benefits in accordance with IAS 19	<b>1,097</b>	<b>(479)</b>
<b>Actual amount charged against the HRA Balance for pensions in the year:</b>		
Employer's contributions payable to scheme	297	371

## NOTE 10 – STATEMENT OF MOVEMENT ON THE HRA BALANCE

	2010/11 £000	2011/12 £000
<b>Adjustments between accounting basis and funding basis under statute</b>		
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	54,137	69,522
Capital Expenditure funded by the HRA	(193)	(584)
Leasing Adjustment	7	-
Employee Benefit Accrual	(13)	1
Gain or loss on sale of HRA fixed assets	517	(30)
Net charges made for retirement benefits in accordance with IAS 19	(1,097)	479
Employer's contributions payable to the Lincolnshire County Council Pension Fund and retirement benefits payable direct to pensioners	(297)	(371)
Transfer to/(from) Major Repairs Reserve	(114)	(464)
<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>	<b>52,947</b>	<b>68,553</b>

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

## NOTE 11 – MAJOR REPAIRS RESERVE

As part of the HRA Subsidy the Council receives resources to maintain the value of its housing stock. This is known as the Major Repairs Allowance (MRA) and is available to fund capital expenditure on HRA assets. It amounted to £2.148m in 2011/12 (£2.121m in 2010/11).

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

In both 2011/12 and 2010/11 the amount of MRA exceeded the depreciation charge to the HRA.

Unspent MRA funds may be carried over from one year to the next.

	2010/11 £000	2011/12 £000
<b>Major Repairs Reserve</b>		
<b>Balance at 1 April</b>	<b>498</b>	<b>-</b>
Depreciation on Fixed Assets		
Dwellings	1,347	1,336
Other Assets	249	348
Transfer (to)/from Housing Revenue Account		
Depreciation on other fixed assets	(249)	(348)
Excess of MRA over depreciation on dwellings	364	812
Capital expenditure funded from MRA	(2,209)	(2,148)
<b>Balance at 31 March</b>	<b>-</b>	<b>-</b>

## COLLECTION FUND STATEMENT

	2010/11 £000	2011/12 £000
<b>Amounts required by statute to be credited to the Collection Fund</b>		
<b>Council Tax</b>		
Income from Council Tax	(34,508)	(34,781)
Council Tax Benefit	(5,726)	(5,724)
<b>Income collectable from business ratepayers</b>		
Income from NNDR	(19,154)	(21,553)
<b>Contribution towards previous year's estimated Collection Fund surplus/(deficit)</b>		
Distribution of surplus/(Collection of deficit) -		
Lincolnshire County Council	(157)	(303)
Lincolnshire Police Authority	(26)	(51)
South Holland District Council	(23)	(44)
<b>Total</b>	<b>(59,594)</b>	<b>(62,456)</b>
<b>Amounts required by statute to be debited to the Collection Fund</b>		
<b>Precepts and demands from major preceptors Council</b>		
Lincolnshire County Council	30,087	30,197
Lincolnshire Police Authority	5,061	5,080
South Holland District Council	5,205	5,244
<b>Business Rates</b>		
Contribution to the NNDR pool	19,041	21,440
NNDR allowance costs and adjustments	113	113
<b>Impairment of debts/appeals</b>		
Amounts written-off (net)	211	47
Increase in provision for uncollectable amounts	90	249
<b>Total</b>	<b>59,808</b>	<b>62,370</b>
<b>(Surplus)/Deficit for the year</b>	<b>214</b>	<b>(86)</b>
<b>Collection Fund balance</b>		
Deficit at beginning of year	234	448
(Surplus)/Deficit for the year	214	(86)
<b>Deficit at end of year</b>	<b>448</b>	<b>362</b>

## 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, £1,430.04 (2010/11 £1,429.35), 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	27	25.9	5/9	14.4
A	14,289	12,796.2	6/9	8,530.8
B	8,042	7,522.6	7/9	5,850.9
C	9,344	8,780.2	8/9	7,804.6
D	3,860	3688.9	9/9	3,688.9
E	1,670	1601.2	11/9	1,957.0
F	347	330.9	13/9	478.0
G	92	85.4	15/9	142.4
H	6	5.5	18/9	11.0
				28,478.0
Band D Equivalents				
Allowance for non-collection (0.5%)				142.0
<b>District Tax Base</b>				<b>28,336.0</b>

### 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 2011/12 there are two multipliers, the non-domestic rating multiplier of 43.3p and the small business non-domestic rating multiplier of 42.6p. 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 2012 was £63.598m (31 March 2011 £63.676m).

### NOTE 3 – COLLECTION FUND SURPLUS

As at 31 March 2012, the Collection Fund shows a deficit of £362,000 (31 March 2011, a deficit of £448,000).

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

	2010/11 £000	2011/12 £000
Lincolnshire County Council	334	268
Lincolnshire Police Authority	56	47
South Holland District Council	58	47
<b>Total</b>	<b>448</b>	<b>362</b>

**GROUP ACCOUNTS**  
**Group Movement in Reserves Statement**

2011/12	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's Share of Reserves of Subsidiaries and Joint Ventures	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2011</b>	1,943	3,184	1,629	200	2,162	-	2,822	11,940	120,890	132,830	166	132,996
<b>Movement in Reserves during 2011/12</b>												
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)	-	(4,620)
<b>Total Comprehensive Income and Expenditure</b>	(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)	-	-	-
<b>Net Increase/Decrease before transfers to Earmarked Reserves</b>	244	-	326	-	(705)	-	(708)	(843)	(72,844)	(73,687)	(436)	(74,123)
Transfers to/from Earmarked Reserves	(244)	244	-	-	-	-	-	-	-	-	-	-
<b>Balance at 31 March 2012</b>	1,943	3,428	1,955	200	1,457	-	2,114	11,097	48,046	59,143	(270)	58,873



Restated 2010/11	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's Share or Reserves of Subsidiaries and Joint Ventures	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2010</b>	<b>1,912</b>	<b>3,718</b>	<b>1,395</b>	-	<b>2,654</b>	<b>498</b>	<b>3,964</b>	<b>14,141</b>	<b>155,984</b>	<b>170,125</b>	<b>421</b>	<b>170,546</b>
<b>Heritage Assets recognised at 1 April 2010</b>	-	-	-	-	-	-	-	-	<b>47</b>	<b>47</b>	<b>421</b>	<b>170,593</b>
<b>1,912</b>	<b>3,718</b>	<b>1,395</b>	-	<b>2,654</b>	<b>498</b>	<b>3,964</b>	<b>14,141</b>	<b>156,031</b>	<b>170,172</b>	<b>421</b>	<b>170,593</b>	
<b>Movement in Reserves during 2010/11</b>												
Surplus or (deficit) on provision of services	2,284	-	(52,513)	-	-	-	-	(50,229)	-	(50,229)	498	(49,731)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	12,887	12,887	-	12,887
<b>Total Comprehensive Income and Expenditure</b>	<b>2,284</b>	<b>-</b>	<b>(52,513)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(50,229)</b>	<b>12,887</b>	<b>(37,342)</b>	<b>498</b>	<b>(36,844)</b>
Adjustments between Group Accounts and authority accounts	-	-	-	-	-	-	-	-	-	-	(753)	(753)
Adjustments between accounting basis & funding basis under regulations	(2,787)	-	52,947	-	(492)	(498)	(1,142)	48,028	(48,028)	-	-	-
<b>Net Increase/Decrease before transfers to Earmarked Reserves</b>	<b>(503)</b>	<b>-</b>	<b>434</b>	<b>-</b>	<b>(492)</b>	<b>(498)</b>	<b>(1,142)</b>	<b>(2,201)</b>	<b>(35,141)</b>	<b>(37,342)</b>	<b>(255)</b>	<b>(37,597)</b>
Transfers to/from Earmarked Reserves	534	(534)	(200)	200	-	-	-	-	-	-	-	-
<b>Increase/Decrease in 2010/11</b>	<b>31</b>	<b>(534)</b>	<b>234</b>	<b>200</b>	<b>(492)</b>	<b>(498)</b>	<b>(1,142)</b>	<b>(2,201)</b>	<b>(35,141)</b>	<b>(37,342)</b>	<b>(255)</b>	<b>(37,597)</b>
<b>Balance at 31 March 2011</b>	<b>1,943</b>	<b>3,184</b>	<b>1,629</b>	<b>200</b>	<b>2,162</b>	<b>-</b>	<b>2,822</b>	<b>11,940</b>	<b>120,890</b>	<b>132,830</b>	<b>166</b>	<b>132,996</b>

## Group Comprehensive Income and Expenditure Statement

Gross Expenditure £000	2010/11			2011/12		
	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
7,446	(6,761)	685	Central services to the public	7,255	(6,757)	498
3,293	(984)	2,309	Cultural and Related services	3,355	(984)	2,371
4,468	(724)	3,744	Environment and Regulatory services	4,242	(696)	3,546
8,746	(1,794)	6,952	Planning services	3,764	(1,336)	2,428
1,085	(473)	612	Highways and transport services	263	(292)	(29)
66,233	(13,393)	52,840	Local authority housing (HRA)	81,830	(14,163)	67,667
18,583	(17,863)	720	Other housing services	19,135	(18,579)	556
4,185	(730)	3,455	Corporate and democratic core	2,704	(429)	2,275
(7,299)	-	(7,299)	Non distributed costs	356	(13)	343
<b>106,740</b>	<b>(42,722)</b>	<b>64,018</b>	<b>Cost of Services</b>	<b>122,904</b>	<b>(43,249)</b>	<b>79,655</b>
4,120	(599)	3,521	Other operating expenditure	3,053	(234)	2,819
3,941	(2,893)	1,048	Financing and investment income and expenditure	3,124	(2,843)	281
-	(18,485)	(18,485)	Taxation and non-specific grant income		(13,205)	(13,205)
		<b>50,102</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>69,550</b>
		5	Tax expenses of subsidiaries		(4)	(4)
		<b>50,107</b>	<b>Group (Surplus)/Deficit</b>			<b>69,546</b>
		672	Surplus or deficit on revaluation of non-current assets			(177)
		(13,558)	Actuarial gains/losses on pension assets/liabilities			4,495
		(377)	Share of other comprehensive income and expenditure of joint ventures			306
		<b>(13,263)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>4,624</b>
		<b>36,844</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>74,170</b>

## Group Balance Sheet

Restated 31 March 2011 £000	Notes	31 March 2012 £000
140,751	Property, Plant & Equipment	139,780
60	Heritage Assets	60
978	Investment Property	1,054
168	Intangible Assets	154
213	Long Term Debtors	193
<b>142,170</b>	<b>Long Term Assets</b>	<b>141,241</b>
4,009	Short Term Investments	2,027
61	Assets Held for Sale	152
85	Inventories	29
6,216	Short Term Debtors	6,261
3,924	Cash and Cash Equivalents	2,659
<b>14,295</b>	<b>Current Assets</b>	<b>11,128</b>
(6)	Short Term Borrowing	(6)
(5,050)	Short Term Creditors	(3,021)
(5)	Current Tax Liability	-
(304)	Liabilities in Joint Ventures	(610)
<b>(5,365)</b>	<b>Current Liabilities</b>	<b>(3,637)</b>
(1,013)	Long Term Creditors	(551)
(16)	Long Term Borrowing	(67,466)
(16,196)	Other Long Term Liabilities	(21,052)
(879)	Capital Grants Receipts in Advance	(790)
<b>(18,104)</b>	<b>Long Term Liabilities</b>	<b>(89,859)</b>
<b>132,996</b>	<b>Net Assets</b>	<b>58,873</b>
11,903	Usable Reserves	11,253
121,093	Unusable Reserves	47,620
<b>132,996</b>	<b>Total Reserves</b>	<b>58,873</b>

## Group Cash Flow

2010/11 £000		2011/12 £000
50,168	Net (surplus) or deficit on the provision of services	69,550
(57,634)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(4,322)
628	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	320
<b>(6,838)</b>	<b>Net cash flows from Operating Activities</b>	<b>65,548</b>
8,863	Investing Activities	2,574
240	Financing Activities	(66,857)
<b>2,265</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>1,265</b>
6,189	Cash and cash equivalents at the beginning of the reporting period	3,924
<b>3,924</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>2,659</b>

The Council has prepared group account statements that include the financial transactions of South Holland Local Housing Community Interest Company and Red Lion Quarter (formerly known as the Food Heritage) Community Interest Company as they are wholly owned subsidiary companies, and 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.

### Accounting Policies

The financial statements of South Holland Local Housing and Red Lion Quarter Community Interest Companies have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007), 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 2011/12 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 55 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, with another two sold in 2011/12. The remainder are being marketed for sale. 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 2011/12 the company made a profit of £121,011 (2010/11 £47,634). 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 2012, South Holland Homes held fixed assets valued at £690,000, and current assets totalling £229,584. Liabilities consisted of short term creditors of £5,227, and long term creditors of £584,484 including loans of £68,522 to be repaid to the Council in future years.

### Commitments under capital contracts

At 31 March 2012 the company had no commitments for capital works (31 March 2010 nil).

### Government and Local Authority Grants

No grants were received in 2011/12 (a total of £175,912 was received by the company in 2010/11, including £109,162 from the Council).

### Inter-organisation Balances

Group accounting regulations require that inter-organisation balances be removed. The following balances were removed in 2011/12:-

- Debtors – for rent due on new build properties £10,551 (2010/11 £6,449)
- Loan – to assist property refurbishment £48,322 (2010/11 £48,322)
- Loan – working capital £20,000 (2010/11 £20,000)

### Inter-organisation transactions

Group accounting regulations require that inter-organisation transactions be removed. The following transactions were removed in 2011/12:-

- Rent £22,937 (2010/11 £11,043)
- Management fees £7,510 (2010/11 £9,600)
- Loan repayment and interest £nil and £726 respectively (2010/11 £6,903 and £740 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.

### **Red Lion Quarter Community Interest Company (RLQIC) – Red Lion Quarter**

In 2009/10 the Council set up a wholly owned subsidiary company, Red Lion Quarter (originally named the Food Heritage Local Community Interest Company), for the purpose of providing support for local businesses connected with the food and associated industry, including the provision of a training restaurant in conjunction with an education provider.

Capital works on the building that the company operates on were completed late in 2010/11, with the food hall opening during March 2011. The training restaurant also opened at this time.

During 2011/12, due to difficult trading conditions, the food hall was closed, and discussions are ongoing to determine the future of the company and the asset.

### Voting Rights

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

### Retained Surplus/Deficit

In 2011/12 the company made a loss of £300,000. 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 2012, Red Lion Quarter held fixed assets of £15,000, and current assets of £7,000, with current liabilities totalling £287,000. In addition, a tax refund of £5,000 was recognised.

### Commitments under capital contracts

At 31 March 2012 the company had no commitments under capital contracts.

### Inter-organisation Balances

Group accounting regulations require that inter-organisation balances be removed. The following balances were held at the year end (2010/11 nil):-

- £10,000 debtor
- £22,000 creditor

### Inter-organisation transactions

Group accounting regulations require that inter-organisation transactions be removed. The following transactions were removed in 2011/12:-

- £7,700 grant received from the Council

### Red Lion Quarter Community Interest Company Accounts

Further information about the accounts of Red Lion Quarter is available from the Company Secretary, 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 2011/12 the company's comprehensive income statement shows a net loss of £0.827m (2010/11 a net return of £1.018m). Of this the Council's proportion of £0.306m (2010/11 (£0.377m)) is included in the Group Comprehensive Income and Expenditure Statement. At 31 March 2012, the net worth of CPBS was (£1.648m) (2010/11 (£0.821m)), taking into account the pension deficit of £1.840m calculated as at 31 March 2012 (31 March 2011 deficit of £1.840m). The Council's proportion of the net worth that has been incorporated into the Group Accounts Balance Sheet is (£0.610m), (2010/11 (£0.304m)).

### Voting Rights

At 31 March 2012, 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

### 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**

## **Opinion on the financial statements**

I have audited the financial statements of South Holland District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2011/12.

This report is made solely to the members of South Holland District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

## **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. My 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 me 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 and 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, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of South Holland District Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.



## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself 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 me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

### **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, 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 me to consider under the Code of Audit Practice in satisfying myself 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 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I 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 my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, South Holland District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

### **Delay in certification of completion of the audit**

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion. I will also be unable to certify the audit as complete until I have certified the 2010/11 audit; I am currently investigating issues raised by a local government elector in an objection to the accounts.

*Signature*

Tony Crawley  
District Auditor  
Unit 10  
Whitwick Business Centre  
Stenson Road  
Coalville  
LE76 4JP

26 September 2012

# ANNUAL GOVERNANCE STATEMENT

## Scope of responsibility

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](http://www.sholland.gov.uk)

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit (Amendment) Regulations 2011 for authorities to prepare a statement of internal control.

## The Council's 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 31 March 2012 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.

## Purpose and Outcomes

### 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. The plan was reviewed during the year and priorities were revised to reflect the changing economic environment.

## **Partnership working**

Partnerships in which we have a financial or other significant interest in 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 1 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**

The Council is the sole shareholder of the Red Lion Quarter Community Interest Company, with two councillors on the board of directors. The development was formally opened on 5 April 2011, but initial performance proved problematic, and the Council has taken steps to intervene to protect the Council's interests and to ensure a sustainable future for the facility. It has taken action to limit the risk to the Council, and will wind the company up at an appropriate point. 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 will be reviewed by the Performance Monitoring Panel.

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.

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.

Both councils have overseen this transition programme through meetings of a Joint Management Team, supported by an internal audit programme of reviews. 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 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.

## **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. This is reviewed annually through the Council's annual report – formally reporting progress against plan. The quality of service delivery is

measured monthly by service management teams and reviewed by the Senior Management Team. Quarterly service and financial performance is reported formally to Cabinet. All performance is subject to detailed review and challenge by Overview and Scrutiny 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. A dedicated system, Performance Plus was introduced to improve performance reporting in 2010/11, this has enhanced management information and improved data quality. Portfolio holders now receive their own reports tailored to their services, and information is published on the Council's website to provide access to the wider public stakeholders. The system is also used to assist and improve the management of risk.

### **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. Members' 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 Members for decision have first received consideration in respect of all appropriate and necessary, legal, financial and professional matters. 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 members, in line with the Localism Act 2011. The Act gave Councils 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 its arrangements for dealing with complaints against Members 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" (e.g. 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's financial management arrangements conform to these guidelines.

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. It had been intended to undertake a complete review of the constitution during the year to reflect changes to the management structure following the decision to operate a shared management team with Breckland District Council. However work has been held to reflect the potential for Great Yarmouth to join the shared management arrangement (although that did not transpire) and to allow for the changes that will be required from the Localism Act to be incorporated. It is anticipated that a software package will be available that will facilitate the exercise, and the work will now be completed during 2012-13.

### **Member and officer development**

The Council has been reassessed under the Investors in People accreditation and is committed to the development of Members and staff at all levels of the organisation. The review concluded

that relationships between Council managers and staff, and that of Members, appear to be at a very high level.

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 assessors. The authority remains committed to helping Members 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 Statement of Community Involvement guides engagement relating to the production of planning documents and on planning applications. 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. We have received community cohesion funding from the Government and are progressing with a number of community based projects e.g. transnational projects, intergenerational film projects.

### **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.

### **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 a designated Scrutiny Officer. 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. Risk Management has been integrated with Performance Management as the risk register has been incorporated into the Performance Plus performance management system.

### **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 Members 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 Members. 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. The process begins with a review of the Chief Executive by Elected Members and moves through the organisation to every member of staff.

#### **Process for maintaining and reviewing the governance framework's 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 has been informed by the Senior Management Team on the development and maintenance of the governance environment. It is also informed by our Internal Auditor's annual report and by comments from our External Auditor 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. Risk management



is deemed to be 'Performing Well' with governance, internal control and financial control all 'Performing Adequately – some improvements required'. Some issues have been brought to the attention of the Governance and 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:

- Testing on the Payroll system was not able to be completed as the current system controls do not permit 'view only' access to the systems.
- The review of the Accounts Payable system identified areas of improvement around staff roles, authorisation of orders and matching of invoices to orders.
- The bank account is not fully reconciled at the end of the financial year, with a small reconciling figure being used in the accounts, although work is continuing in the new financial year to ensure that current year reconciliations are completed in a timely manner.
- The Policy and Procedure Framework for AX System security is still under development. Internal Audit identified the need for further development around monitoring and oversight of administrator functions, reporting on levels of user access and procedures to routinely validate the accuracy of active user accounts.
- ICT Disaster Recovery arrangements have not been tested, and details of critical systems and recovery priorities have not been reviewed since the formation of CPBS, which has prevented Internal Audit from providing assurance that in the event of a disaster the arrangements would satisfy current business needs.

A local taxpayer has raised an objection to the authority's 2010/11 statement of accounts, which means that the auditor has not been able to issue a certificate at this stage. The Audit Commission are investigating a number of issues put forward by the ratepayer, before they produce a final report on the matter. The issues are in relation to the Traveller site at Holbeach. The Council has provided evidence to assist the enquiry and is continuing with plans to deliver two additional sites funded from the original grant from central government. The cost of this investigation is likely to be in the region of £30,000.

Following initial trading difficulties of the Red Lion Quarter Community Interest Company that lead the Council to take back control of the premises, the authority set up a Task Group to investigate the project, and make recommendations so that it would not repeat the experience in future. The group has met a number of times to gather evidence and has produced a report with a number of recommendations.

These have been drawn up into an action plan to ensure that that the authority strengthens its governance project management arrangements to avoid recurrence with future schemes.

The previous Annual Governance Statement raised an issue about a planning complaint that had been referred to the Local Government Ombudsman. The Ombudsman subsequently reissued her report, which was considered at Council meetings on 19 December 2011, 11 April 2012 and 25 July 2012. The Council accepted the Ombudsman's findings and approved an alternative compensation payment.

A review covering the Business as Usual and the Transformation budgets was carried out by internal audit to support the partner authorities' governance arrangements of CPBS. The final

report, issued in July 2011, recognised some issues with a “limited assurance” opinion. The two partner authorities have worked with the company to address the issues and have introduced revised operating protocols that reflect the evolving nature of the business, while ensuring that the council’s governance and reporting arrangements are robust and transparent. A post implementation review of the transformation project was also considered by the Governance and Audit Committee.

**Certification**

In preparing our Annual Governance Statement we have considered the views of both Internal and External assurance providers, evaluated ourselves against a testing matrix of good governing principles. This work has provided a basis for reports to senior management and the Governance and Audit Committee, who have concluded that our governance arrangements are both satisfactory and effective. In addition a self assessment of assurance from our senior managers (although limited) has informed this statement and will be considered in detail by the Corporate Management Team. We are declaring no exceptional items at the time of producing this statement and will actively seek ongoing improvements under the stewardship of the Corporate Management Team.

Signed: .....  
(Leader)

.....  
(Chief Executive)

September 2012

## **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 Statement of Accounts is 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 Statement of Accounts is 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 Statement of 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.

## **NEGATIVE SUBSIDY**

If the Subsidy Housing Revenue Account produces a result, which assumes that the Council's income is higher than its expenditure, a "negative subsidy" situation arises. In this case the Council must pay an amount equivalent to the deficit, from its Housing Revenue Account to the government. This arrangement ceases at the end of 2011/12.

## **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 policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

## **PROVISION**

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

## **PUBLIC WORKS LOAN BOARD (PWLB)**

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

## **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.