



**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended 31 March 2018**

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

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# NARRATIVE REPORT 2017/18

## 1. Introduction

This Report seeks to provide a summary and a straightforward explanation of the often complicated local government finance arrangements. It seeks to summarise the key events during the year, their associated financial impact and hopefully make the Financial Statements easier to understand. The Narrative Report, together with the Annual Governance Statement and the auditor's report, are outside the scope of the formal Accounts, but all of the documents constitute the Council's Financial Report for 2017/18.

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

- understand the financial position of the Council and its outturn for 2017/18;
- have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner;
- be assured that the financial position of the Council is secure.

In recent years the Council has experienced major financial challenges due to reductions in central government funding, volatility on financing and cost / income pressures on services. Changes introduced as part of the financial plan for 2015 to 2020 are assisting the Council to respond and meet these challenges particularly in respect of the medium term outlook. This shift in our financial focus, away from the traditional incremental approach to annual budgeting to a more strategic outcome focused approach, has been applied to all services during the course of the year, including the Landlord service for Council housing and the associated Housing Revenue Account (HRA).

The Council has faced a difficult year, with on-going reductions in Revenue Support Grant, but has applied sound and improving financial management in order to deal with the budget challenges and to continue to deliver on the Council's priorities. General Fund reserves have reduced by £0.7m with Housing Revenue Account Balances increasing by £3.8m.

The 2017/18 Budget and the Medium Term Financial Plan, approved by Council on 22 February 2017, shows a balanced position after a wide ranging look at all activities and we are actively seeking additional income, reductions in costs and more efficient ways of working to further improve this picture. Within the capital programme, funding has been allocated to support growth in the district, specifically for commercial investments, more affordable housing, investment in new technology and improvements to private sector housing.

To assist readers in understanding the financial position of South Holland, the Narrative Report is structured to provide additional information in the following sections:

- The accounting requirements for the production of the accounts
- Information on South Holland as a place
- Information about the Council structure and management
- A summary of the Financial Performance of the Council 2017/18
- Future financial challenges that the Council faces
- An explanation of the Financial Statements which follow the Narrative Report.

The 2017/18 accounts have been completed within the statutory deadlines set out in the Accounts and Audit Regulations 2015. The Council's approach to finance will continue to evolve, aiding the self-service nature of financial / service management in all operations. This working model also supports current, and future, changes in the Council as a whole as it strives to increase income, reduce costs, manage demand, transform working practices, introduce innovation and maintain performance.

## 2. Our District

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

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

The latest population estimate for South Holland is 92,390 which is an increase of 4,201 (4.8%) since the 2011 census. South Holland, along with North Kesteven, experienced the highest annual rate of increase in Lincolnshire. At 1.3%, this is higher than the national average.

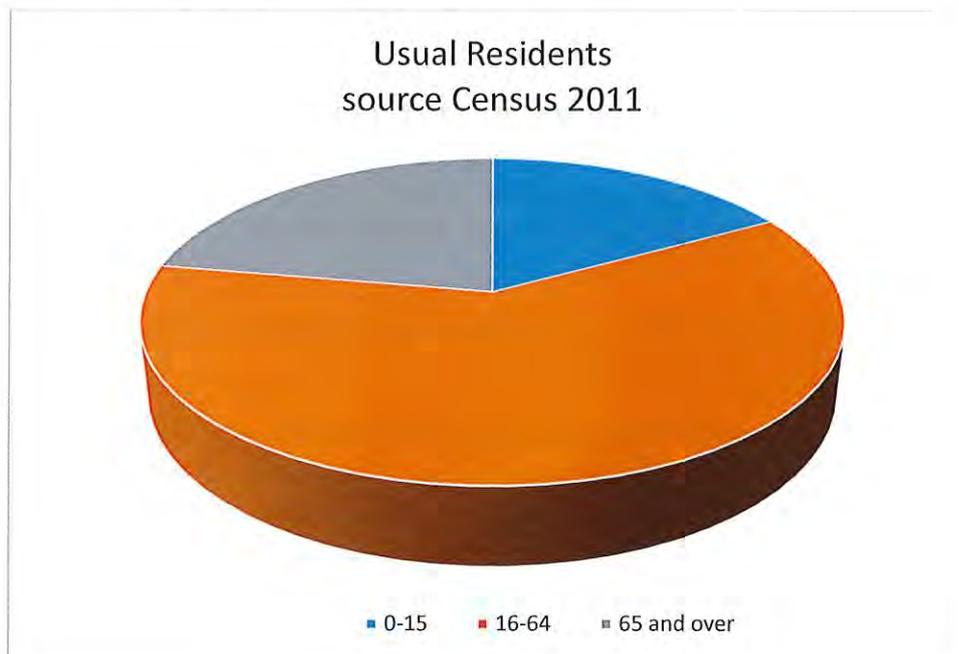
Working age population is estimated to be 51,738 (56%). Residents aged 65 and over make up approximately 24% of the population. It is predicted the population will increase to 102,000 by 2021, which is a higher rate of growth than generally predicted for England and Wales.

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

All statistics are based on the Office for National Statistics 2016 mid-year estimates.

The South Holland economy is largely based upon agriculture, horticulture and food processing, and their associated distribution and packaging services. Generally levels of unemployment are low compared to the national average.

South Holland's resident population is 51.2% female and 48.8% male. The average age of the South Holland district population is 43 years. The predominant age band in South Holland is 'Age 16 to 64' which represents 60.8% of the total district population.

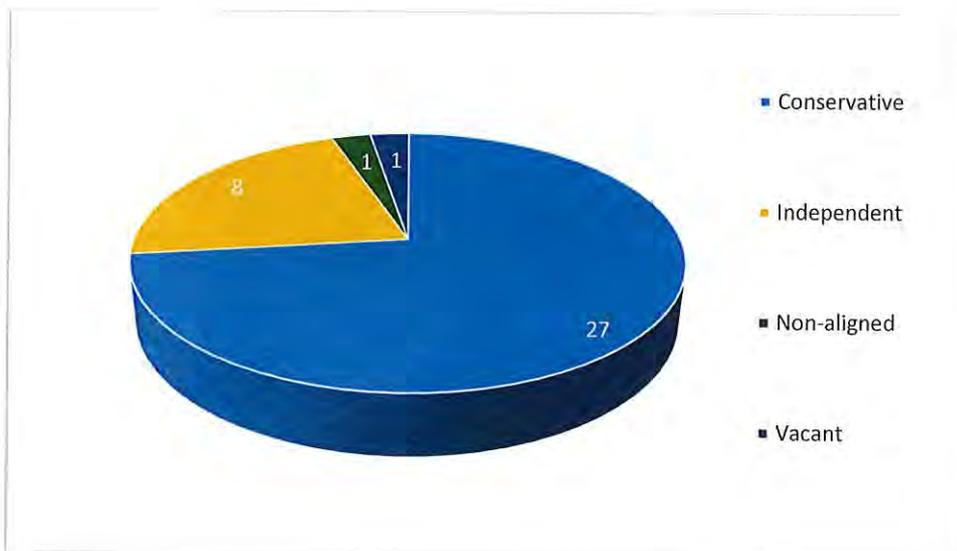


### 3. South Holland District Council

The Council, together with its partner organisations and external contractors, delivers a wide range of services to our residents, businesses and visitors. These are detailed in the table below categorised by the Council's Directorates:

Commercialisation	Economic development. Local plan and planning policy, Housing strategy, Public Protection, collection of all revenues, benefit services, corporate finance including investment income, government grants and other funding, and use of reserves.
Place	All council assets and property, building control, planning services, licensing, community services (including leisure, events, CCTV), environmental services (including refuse collection, recycling, green waste collection and street cleaning), housing services such as disabled facility grants, homelessness and housing advice, houses in multiple occupation. Also included is the Council's housing landlord service.
Strategy & Governance	Corporate improvement and performance, communications and marketing, corporate management, members, elections, human resources, ICT services.

South Holland is a district comprising 22 parishes. Most parishes have their own parish council, or parish meeting. The Council is composed of 37 Councillors. As at 31 March 2018 the political make-up of the Council was as follows:



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

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

All councillors meet together as the Council. Here councillors decide the Council's overall policies and set the budget and council tax each year. The Council holds to account the Executive and Committees. The Cabinet is made up of the Leader, Deputy Leader and Portfolio Holders. Each Portfolio Holder has specific responsibilities over an area of the Council's activities.

Cabinet Members are held to account by a system of scrutiny, which is also set out in the Constitution. Scrutiny of Executive decisions for 2017/18, including the setting of a balanced budget for 2018/19 has been undertaken by the following committees:

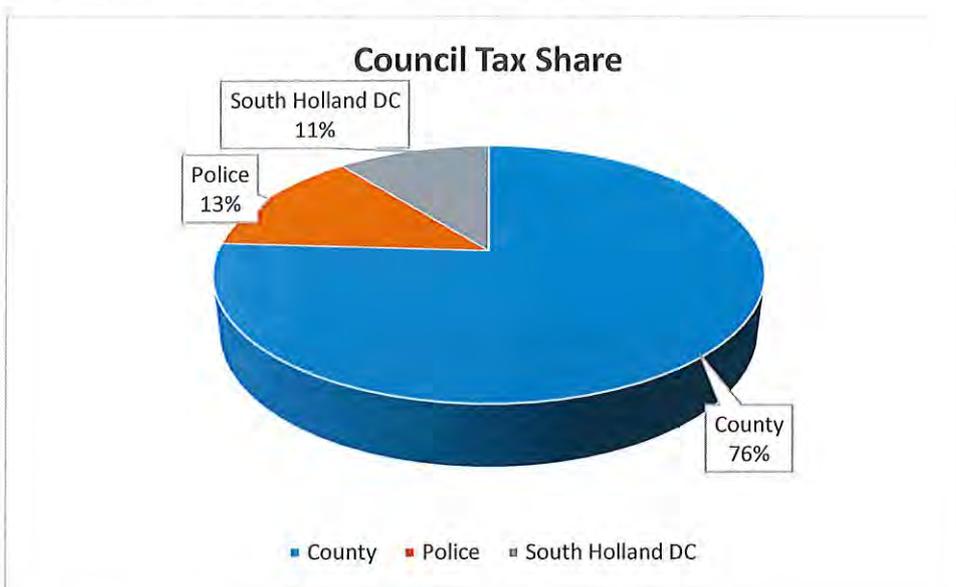
- Policy Development Panel
- Performance Management Panel
- Governance and Audit Committee

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

The Council's Commercial Property Assets have a total value of £1.446m and have generated £170k income in 2017/18.

We collected £26.164m of Business Rates in 2017/18, from 2,780 businesses, achieving a collection rate in year of 98.75%.

We collected £42.468m of Council Tax in 2017/18, from 40,503 homes, achieving a collection rate in year of 98.1%. The share of council tax is shown in the graph below.



We paid out £17,499k in Housing Benefits for 5,483 caseload.

In 2017 – 2018 we:

- collected 8,387 tonnes of recycling
- collected 20,967 tonnes of refuse
- carried out weekly refuse and recycling collections to 39,450 households in South Holland.

This equates to 2,051,400 scheduled recycling collections and 2,051,400 scheduled refuse collections from households in South Holland.

Of the recycling and refuse collections scheduled to be carried out we 'missed' 1,635. This equates to 99.60% of recycling and refuse collections carried out as scheduled.

We approved 700 planning applications in 2017/18.

Our Moving Forward Transformation Programme has delivered £1,382k of on-going savings in its first two years of operation.

#### 4. Council Priorities, Corporate Plan and Performance

Our ambition is to continue to increase the prosperity and wellbeing of our residents and businesses, whilst striving to protect and enhance the district's environment and its unique and historic character.

The Council has a corporate plan covering 2015 – 2019. Each year an annual delivery plan is drawn up to cover the actions for the next year. The business plan shows what the Council will do to meet the needs and aspirations of residents.

The Plan was refreshed in 2015 and extends to 2019. The Medium Term Financial Plan for 2017 to 2021 is closely aligned to the Council objectives, aims and priorities within the Corporate Plan.

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

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

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

The plan sets out the Council's priorities which are:

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

***“To have pride in South Holland by supporting the district and residents to develop and thrive”***

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

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

The priorities define the medium term goals of the Council and, as such, remain relatively constant from year to year, but the actions associated with them are set annually for each financial year. The Corporate Plan is aligned to the Medium Term Financial Plan. Both of these documents are available on the Council's website.

Delivery of the plan is monitored through a performance framework and annually the delivery of the plan is refreshed to ensure it is relevant to the current political and economic climate. Each Council service area has a number of team projects which deliver the corporate plan and these are monitored quarterly against the delivery plan to ensure the corporate plan is on track. Internally there is a monthly performance board which holds to account all performance indicators, team projects and audit recommendations to ensure delivery of the corporate plan and performance framework. Quarterly performance is reported to our Member scrutiny panel and subsequently to Cabinet as part of the constitutional governance.

## Achievements and Targets 2017/18

<b>How We Performed in 2017/18</b>			
<b>Developing safer, stronger, healthier and more independent communities while protecting the most vulnerable</b>	<b>Having pride in South Holland by supporting the district and residents to develop and thrive</b>	<b>Provide the right services, at the right time and in the right way</b>	<b>Encourage the local economy to be vibrant with continued growth</b>
Developed the South East Lincolnshire Local Plan	Secured £200k in <i>Pride in South Holland</i> funding. £100k for 2017/18 and a further £100k for 2018/19	Positively interacted with businesses across the district via our business breakfasts	Secured £12m from the government's Housing Infrastructure Fund to support both the delivery of the Spalding Western Relief Road and major housing growth towards the north of the town
Developed a new Lincolnshire Homelessness Strategy and launched the ACTion Lincs Project; a four year project aimed at turning around the lives of the 150 most vulnerable rough sleepers in Lincolnshire, supported by a successful bid to government for £1.3m in funding	Worked in partnership with the Police and the Food Standards Agency to prevent food fraud and crime and to crack down on the sale of illegal tobacco products in licensed premises	Successfully managed the closure of our cash office, while still ensuring high-quality service and maintaining customer satisfaction levels. Customers who made thousands of cash payments at our offices each month have now moved to making payments online, by telephone or through post offices and convenience stores around the district	Through Welland Homes Ltd (our housing investment company) we have secured 15 new houses for rent, and have secured the delivery of a further 15 houses over the next 12 months
Enabled the delivery of a total of 39 new affordable homes during 2017/18, and a total of 120 affordable homes are anticipated to be delivered during 2018/19	Conducted regular dog-fouling patrols across the district, both proactively and also in response to public. Ran the Bag it, Bin it campaign in Spring 2017	Further developed our shared management scheme with Breckland District Council, ensuring we deliver the best services possible, while providing value for money by sharing expertise and resources	Made 95 awards worth £747k to help local businesses develop and prosper through the Grants4Growth scheme. These have resulted in the creation of 41 jobs, and together with £2.6m in match funding from the businesses themselves, represents £3.4m in investment in the area
Reviewed our safeguarding policy and procedures to ensure we are effectively protecting children and vulnerable adults across the district	Developed the Safety Advisory Group which works with organisers of local events and other individuals and agencies to ensure the safety of the public	Introduced a trial agile working policy in the Public Protection team to deliver an efficient and effective service that can respond to the demands of residents	Submitted an Expression of Interest to MHCLG for a further 3 years funding to the Grants4growth project
Addressed poor housing conditions in Houses in Multiple Occupation (HMOs) with inspection and a regulatory programme	Mapped and digitised all the district's bin locations using satellite technology. Environmental services now use this data to collect refuse more efficiently and with better accuracy	Restructured our website and online processes to improve customer access to council services, including online forms for the Environmental Protection Services and Food Health and Safety	Delivered a Jobs Fair at the Castle Sports Complex in Spalding, working closely with DWP colleagues, attracting 50 exhibitors, and 550 attendees, an increase of 200 on last year

<b>Developing safer, stronger, healthier and more independent communities while protecting the most vulnerable</b>	<b>Having pride in South Holland by supporting the district and residents to develop and thrive</b>	<b>Provide the right services, at the right time and in the right way</b>	<b>Encourage the local economy to be vibrant with continued growth</b>
Gained £10k in funding from the Smokefree Lincolnshire Alliance, to promote smoke free messages across the district	Improved the monitoring of our leisure contracts	Further developed mobile working facilities to assist Public Protection Officers in the field and increase their efficiency	Signed a contract with Opportunity Peterborough to supply additional Economic Development resource to the Council
Supported Boston Women's Aid as it relaunched as the South Lincolnshire Domestic Abuse Service	Generated £115k in net income through garden waste collection	Enabled more than 50% of elected members to use digital agendas, saving on the cost of paper and printing	Supported local businesses with advice and support on planning and their growth and expansion plans
Supported families affected by anti-social behaviour and made referrals to Lincolnshire's Victim Support services where necessary	Actively engaged with businesses via the South Holland Pride officer to address litter surrounding local business premises	Increased the number of partnerships with businesses both as Primary Authority Partnership Agreements and informal working partnerships	Worked with Lincolnshire County Council to obtain a £3 million Local Growth Deal for the Holbeach Food Enterprise Zone
Delivered the Walking for Health programme across the district, celebrating the 10th anniversary of the launch of the '1 You' campaign	Supported the local food industry in improving food safety standards – reflected in the district's high National Food Hygiene Rating Scores	Worked towards the introduction of an Open for Business approach and obtained buy in from businesses attending the Business Breakfasts	A joint approach enabled the construction of a major roundabout at Holbeach, creating the road access and infrastructure needed for the development of the Food Enterprise Zone
Worked in partnership with the Fresh Produce Consortium to produce guidance on Food Health and Safety	Secured external funding allowing children and teachers from seven primary schools access to creative opportunities in the arts, including school visits, workshops and development for teachers	Maintained and updated the Town Apps mobile phone app	Supported local businesses with new business advice and information on food, health and safety, licensing and environmental protection
Supported local clubs and organisations providing healthy activities through the South Holland Health and Wellbeing Network		Invested in the Council's offices at Priory Road reconfiguring ground floor office space to enable DWP to collocate. In doing so the Council has secured a new income source, with residents inevitably benefitting from DWP, the Council and Citizens Advice Bureau being located in one place	Established EHT&C – a commercial trading arm of South Holland and Breckland Councils for advising, assisting and training businesses in all areas of environmental health. A total of 173 businesses have been provided with training in the first year
		Sustained the garden waste pilot service to be available to more people	

Developing safer, stronger, healthier and more independent communities while protecting the most vulnerable	Having pride in South Holland by supporting the district and residents to develop and thrive	Provide the right services, at the right time and in the right way	Encourage the local economy to be vibrant with continued growth
Secured £17k in funding for the second year of the SHout and About project			The Council has developed close working links with Boston College, based in Spalding. It is hoped that these developing relationships will help to improve employment and skills outcomes across the district. The college will be proactively working with the Council to develop work placement and apprenticeship opportunities.
Introduced the Mindfulness Training Programme			
Facilitated the delivery of <i>New Tricks</i> – a music workshop for older adults			
Supported people with early onset and newly diagnosed dementia through promoting the Focus Club			
Organised a 1940s weekend at Ayscoughfee Hall Museum that was attended by 10,000 visitors			
Worked with the Food Standards Agency on national guidance on clandestine entrants in freighted food imports			

## 5. Our People

The Council is headed by a shared Corporate Management Team (CMT). The team is shared with Breckland District Council along with other senior managers. The two Councils continue to exercise independent democratically-accountable local government in their respective areas, each having their own governance arrangements. The Corporate Management Team consists of a Chief Executive and three Executive Directors. Each Executive Director has overall responsibility for a directorate. The services included in each directorate are detailed on in Section 3 above.

The make-up of the Executive Management Team is as set out below:

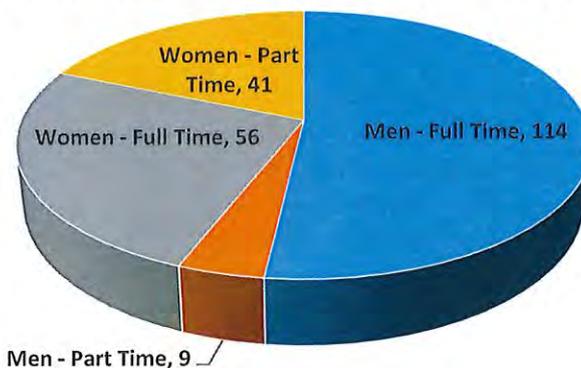


In addition there are 5 shared executive managers who are part of the Executive Management Team.

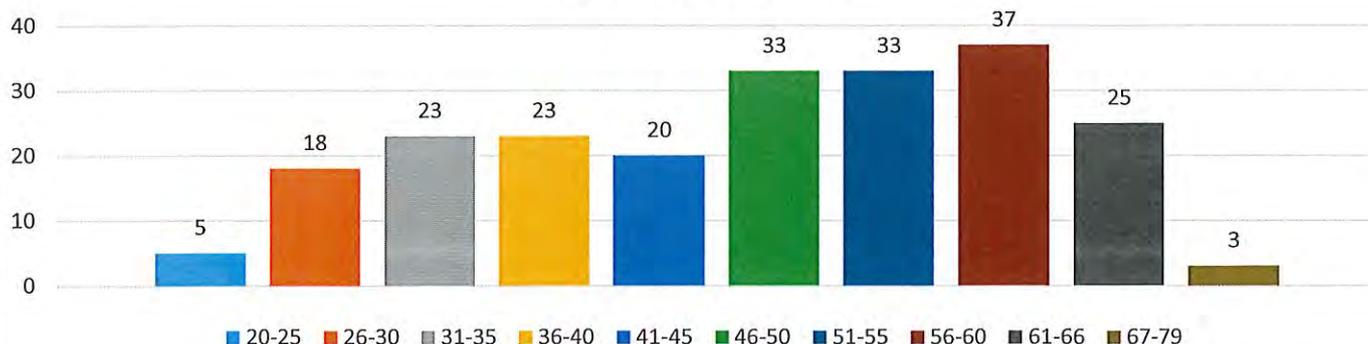
There is also a dedicated team of shared managers and service managers to support the delivery of services for both councils.

The Council employs 198.59 full time equivalent staff as at 31 March 2018. This includes 169 full time staff and 29.59 part time staff. Included in this number is 1 trainee. SHDC is expected to employ 6 apprentices as part of the Apprenticeship Levy target.

**Staff Gender and Full-time/ Part-time Profile**



**Age Ranges of Staff**



In 2010 the Council, in partnership with East Lindsey District Council, set up Compass Point Business Services (CPBS) to provide back office and business support services. The shared services delivered through CPBS include:

- Information Technology
- Customer Contact
- Revenues and Benefits
- Finance
- Human Resources and
- Health and Safety

## 6. Financial Performance

The Management Accounts below show the Council’s actual financial performance for the year compared to the budget, as reported to Cabinet in May 2018. Further information can be found in the Expenditure and Funding Analysis on page 23.

### General Fund

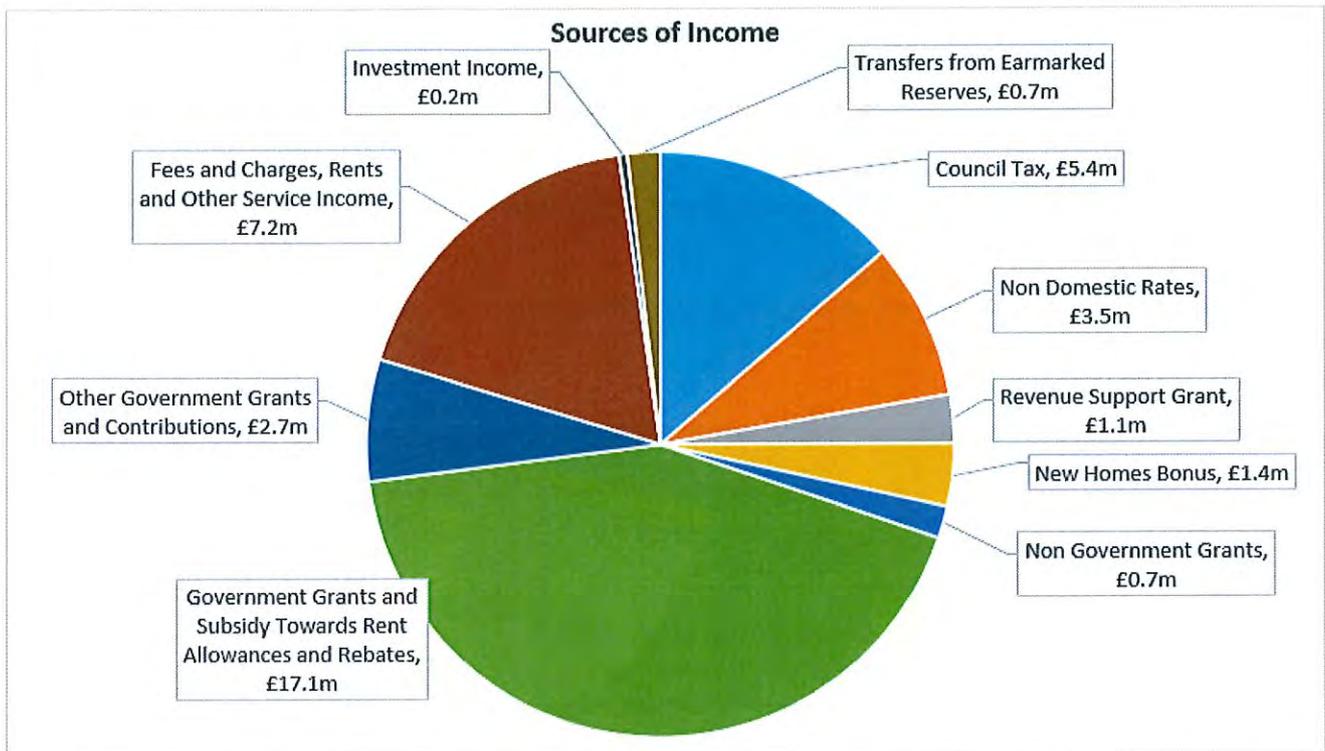
	2017/18 Budget (£000)	2017/18 Actual (£000)	2017/18 Variance (£000)
Growth and Commercialisation Directorate	110	538	428
Place Directorate – General Fund	4,361	4,276	(85)
Place Directorate – Investment Properties	(62)	(76)	(14)
Strategy and Governance Directorate	3,798	3,702	(96)
Statutory recharge to the HRA for support services	(880)	(1,041)	(161)
<b>Cost of Service</b>	<b>7,327</b>	<b>7,399</b>	<b>72</b>
Internal Drainage Boards and Parish Precepts	3,064	3,051	(13)
Investment Income (General Fund)	(88)	(174)	(86)
Transfers to /(from) General Fund Reserves*	1,098	1,098	-
<b>Net Expenditure</b>	<b>11,401</b>	<b>11,374</b>	<b>(27)</b>
<b>Funding</b>			
Council Tax	(5,416)	(5,416)	-
Government Grants	(3,133)	(3,420)	(287)
Retained NNDR	(2,852)	(2,552)	300
<b>Total Funding</b>	<b>(11,401)</b>	<b>(11,388)</b>	<b>13</b>
<b>Variance</b>	<b>-</b>	<b>(14)</b>	<b>(14)</b>

\* Transfer to reserves in respect of New Homes Bonus, nets off against Government Grants line.

### Revenue expenditure and income and the services provided

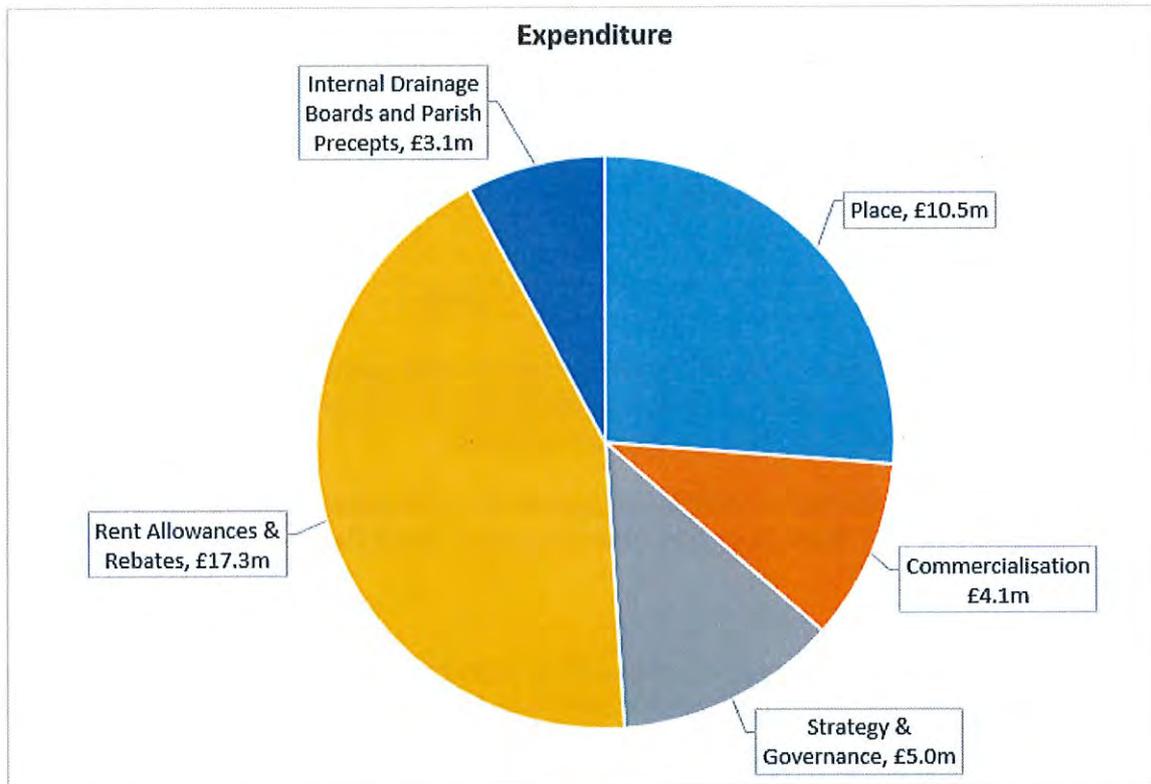
The following charts show in broad terms where the money came from, how it was spent and the services provided.

## Where the money came from



Continued low interest rates have impacted on the level of interest income received, therefore this figure remains low. This interest is used to support the revenue budgets.

## How the money was spent



Rent Allowances and Rebates include only costs relating to the actual benefits provided. They do not include any staffing or other related costs. These benefits are funded from Government grants as can be seen from the "where the money came from" graph.

Running expenses include costs relating to:

- Premises – such as rents, rates, electricity, water and similar
- Transport – such as cars, fares and similar
- Supplies and services – such as equipment, telephones, hired services and similar
- Contract payments for services provided by external contractors, e.g. Leisure

Employees expenditure includes costs relating to:

- Staffing – such as salaries, pensions, additional staff, professional subscriptions and similar costs.

Capital financing includes costs relating to:

- Capital expenditure – such as depreciation and de-valuations of assets and similar costs.

### Housing Revenue Account

	2017/18 Budget	2017/18 Actual	2017/18 Variance
Rent Income - Dwellings	(15,024)	(15,029)	(5)
Charges for Services and Facilities	(946)	(1,220)	(274)
Contributions to Expenditure	(37)	(22)	15
<b>Total Income</b>	<b>(16,007)</b>	<b>(16,271)</b>	<b>(264)</b>
Repairs and Maintenance	3,211	3,188	(23)
Supervision and Management	2,965	3,158	193
Rents, rates, taxes and other charges	71	67	(4)
Depreciation	2,300	2,907	607
Movement in the allowance for bad debts	119	54	(65)
Revaluation of Non-Current Assets	-	-	-
Statutory recharge to the HRA for support services	880	1,041	161
<b>Total Expenditure</b>	<b>9,546</b>	<b>10,415</b>	<b>869</b>
<b>Contribution from Operations</b>	<b>(6,461)</b>	<b>(5,856)</b>	<b>605</b>
Investment Income	(62)	(87)	(25)
Interest Payable on £67.456m	2,348	2,348	-
Capital expenditure charged in year	3,977	-	(3,977)
Other Adjustments	-	(189)	(189)
<b>Net (Surplus)/Deficit</b>	<b>(198)</b>	<b>(3,784)</b>	<b>(3,586)</b>

The Council set a balanced budget in March 2018, subject to successful delivery of the 'Moving Forward' transformation programme. This programme is a four year plan of projects to deliver efficiencies or generate additional income and is monitored by internal monitoring boards.

The full year outturn delivered savings or additional income of £538k relating to service provision in 2017/18 and is forecast to deliver £803k in savings or additional income in 2018/19. These figures have been reflected in budgets in the respective years.

### **Transparency**

The Government's transparency agenda encourages local authorities to make public data openly available. Details of transparency items such as the Council's spend on items over £500, contracts and pay, and benefits for senior officers can be found on our website:

<https://www.sholland.gov.uk/article/5272/Transparency>

### **Moving Forward Transformation Programme**

The Council recognises the challenges faced through reducing Government funding. Since 2016/17 our budgets have included a transformation programme 'Moving Forward'. This programme sets out the projects which the Council will undertake to deliver both improved customer outcomes (to both internal and external

customers) and financial efficiencies (savings or income generation). The programme includes four main themes:

- Digitalisation
- Aligning Public Services
- Commercialisation
- Organisational Design

The Council's aim is to remove dependency on Revenue Support Grant (RSG) and New Homes Bonus (NHB) whilst continuing to provide relevant services to our communities. The Council recognises that timely and successful delivery of this efficiency plan will be key to the success of its balanced budget over the medium term. Funding has been identified and set aside to support delivery of the transformation programme to cover one off costs of delivery and investment. In addition the Council has created a Growth and Investment Fund from income generated in the past from commercial property rentals and from utilising New Homes Bonus funding. This fund will be used to invest in projects which deliver economic or housing growth in the District or to invest in assets which generate an ongoing return.

Targets are flexed as necessary to allow for timing differences between years. The overall target by 2019/20 is £1.1m and this is on track to be achieved by this date.

### Capital financial performance

The capital outturn was reported to Cabinet in May and details the Council's capital programme for 2017/18 of which:

	Budget 2017/18 (£'000)	Actual Outturn 2017/18	Actual (under)/ Over spend
General Fund	5,066	2,606	(2,460)
Housing Revenue Account	10,007	3,369	(6,638)

This capital expenditure was funded from the following areas:

	General Fund (£'000)	Housing Revenue Account (£'000)
Capital Receipts	165	186
Capital Grants and Contributions	1,065	-
Internal Borrowing	1,121	-
Revenue Resources	255	15
Major Repairs Reserve	-	3,168
<b>Total</b>	<b>2,606</b>	<b>3,369</b>

An analysis of non-current assets and funding of the capital expenditure is shown in notes 13-17 and 35. Currently South Holland does not borrow externally to finance its capital programme, however the available capital funding is reducing year-by-year, therefore borrowing may be undertaken in future if the business case for a project supports it.

Based on the current budgeted projections, South Holland will be borrowing from internal balances by the end of the medium term financial plan, so available capital for future projects is limited unless it is relevant to use revenue funding, additional capital receipts are generated or the business case supports borrowing.

### Collection fund financial performance

The balance on the council tax Collection Fund at 31 March 2018 showed a £706k surplus. This will be shared between the District, Lincolnshire County Council and Lincolnshire Police and Crime Commissioner in proportion with each authority's relative precept. This surplus has resulted from a higher than budgeted tax base. SHDC's share is £88k.

The balance on the NNDR Collection Fund at 31 March 2018 showed a £959k surplus. This will be shared between the District, Lincolnshire County Council and the Government in proportion with each party's relative proportionate share. SHDC's share is £384k.

These balances were estimated and taken into account when setting the Council Tax for 2018/19 and changes since that time will be reflected in setting the Council Tax in 2019/20.

### Reserves and balances (GF and HRA)

Reserves and balances reduced by £5,545k during the year. Increases and (decreases) in reserves balances included:

	<b>£'000</b>
Pensions reserve	(259)
Revaluation reserve	103
Deferred Capital Receipts	(1)
Capital Adjustment Account	619
Other un-usable reserves	1,227
Usable reserves	<u>3,856</u>
<b>Total</b>	<b><u>5,545</u></b>

The value shown for the pensions reserve is an increase in the deficit. Further information on reserves can be found in the Movement in Reserves Statement and Note 24 to the Financial Statements.

### Pension fund

The accounts and notes with relation to the pension fund have been prepared in accordance with International Accounting Standard (IAS) 19. The Pension Fund liability shown in the Balance Sheet as at 31 March 2018 stands at £37,872k compared with £37,523k the previous year. This represents the liability to the Lincolnshire Pension Fund. This amount is matched by a pension reserve also shown in the Balance Sheet and therefore has no impact on the Council's overall financial position at 31 March 2018. The IAS 19 Balance Sheet position for the Council has worsened in 2017/18 and the IAS 19 pension deficit is larger in monetary terms at 31 March 2018. This is as a result of a decrease in the net discount rate over the period which has a negative impact and the worsened results from re-measurements resulting from the triennial review in March 2016, which have outweighed the higher than expected asset returns. The actuary uses a set of demographic assumptions that are consistent with those used for the Lincolnshire Pension Fund. These are highlighted in note 35. Following the results of the triennial review in 2016, the Council's budget includes both a pension contribution percentage and also a lump sum payment each year which is forecast to bring the pension scheme into a fully funded position over a 20-year term.

### Cash flows

The table below shows the level of investments held by the Council which are used to fund day to day cash flow requirements, achieve a return on investments to help support the low levels of council tax, support the reserves expenditure and to fund capital expenditure.

	2017/18 £'000	2016/17 £'000	Change £'000
Long Term Investments	927	927	0
Short Term Investments	32,597	29,290	3,307
Cash and Cash Equivalents	3,761	4,146	(385)
<b>Total</b>	<b>37,285</b>	<b>34,363</b>	<b>2,922</b>

Capital spend will reduce the cash held, however the Council does not currently have a need to borrow over the medium term. The Council's overall Capital Financing Requirement (CFR) which details the Council's underlying need to borrow can be found at Note 33.

There were no significant provisions, contingencies or write offs during the year. Full details on provisions and contingencies can be found at Note 22. However appeals from Business Rates (NNDR) continue to be a risk to the Council.

### Current economic climate, outlook and risk

The current economic climate and continuing reduction and uncertainty in Central Government funding continues to add pressures to the Council's budgets. Future changes relating to 100% retained Business Rates are now one year later than planned by Government, and should be implemented for 2020/21. The level of retention is unlikely to be the full 100%; it may be a 75% retention scheme.

The Fair Funding review has also been delayed until 2021/22. This is a fundamental review by Government on how to calculate the 'needs' of each authority in order to determine the amount of funding each local authority requires by way of grant. This continues to add further uncertainty for our budget setting in the medium term as funding levels past 2019/20 are not known.

Measures taken to reduce revenue expenditure and the implementation of our 'Moving Forward' transformation programme have meant that the Council started 2017/18 with a balanced budget with no impact on front line services, despite the reduced level of Government grant. This is subject to successful delivery of the Moving Forward programme. Successful delivery of the Moving Forward programme will ensure a balanced budget for the medium term. The Moving Forward programme includes funding set aside to enable delivery of projects which generate future returns and also includes a Growth and Investment Fund, which will support the Commercialisation strand of the Moving Forward programme by generating investment returns and promoting economic and housing growth in the region. The medium term plan also includes reduced reliance on Government RSG to nil from 2018/19 and a reduced reliance on New Homes Bonus over the medium term, with plans to reduce this dependency to nil.

The impact of Brexit on the Council's corporate objectives and finances is a concern, particularly in relation to inflation levels (which impact our major contracts) and the impact on businesses. The Council remains in a strong financial position over the medium term, with robust plans for transformation, capital spend and delivery of services as well as investment in our communities. Our Medium Term Financial Plan (MTFP) provides information on the Council's budget, Moving Forward programme and reserves and can be found on our website at <https://www.sholland.gov.uk/BudgetConsultation>

The current level of reserves held by the Council is considered adequate to withstand current pressures and to invest in Moving Forward projects, but it would not be financially sustainable to rely on these reserves to continue to fund the reduction in Central Government funding.

## Key Risks

Risk	Impact	Likelihood	Mitigation
Critical breach of ICT security	Attacks are happening with increasing frequency at present. Ransom and theft specialists are targeting banking details and personal information. This would lead to reputational damage, financial fines and poor outcomes for residents.	3/5 = Plausible	The ICT team continue with activities to aid in the prevention of critical breaches such as patching of servers and applications, patching of Wi-Fi infrastructure in line with latest threats and recommendations, patching of the Firewalls and Proxy servers, user guidance and training on security best practice, compliance to PSN standards and certificate obtained and continued work with DPO to reduce exposure from GDPR requirements.
Medium Term Financial Plan not delivered	The Medium Term Financial Plan includes a balanced position which is dependent on delivery of further savings	3/5 = Plausible	There are a number of controls in place to track delivery, including Moving Forward board, Performance, Risk and Audit Board and Finance Board
Uncertainty over future government funding settlement	Government funding reductions due to a weakening of the economy may be experienced during the period of the MTFP	3/5 = Plausible	4yr MTFP sets out programme to be free of reliance on RSG by 2019. Setting investment funds, commercial property and growth to ensure continued income. Star chamber exercises and constant forward looking reviews will be undertaken
Impact of business rate appeals	Business rate retention policy changes leave the council exposed to risks on collection and baseline income.	4/5 Likely	Financial provision has been made to cover the risk of current appeals, collection rates and growth.
Failure to maximise trading opportunities	Failure to maximise trading opportunities could result in lack of commercial exploitation of assets or income from trading arms	3/5 = Plausible	Governance is in place for MTFP through transformation board, finance board and Performance Risk and Audit Board which monitor the work towards maximising trading opportunities
Staff recruitment and retention at all levels within the organisation	Staff recruitment and retention issues could undermine the effectiveness of the organisations through loss of experience and knowledge	4/5 Likely	The mitigation for key senior posts that are vacant or serving their notice period will be to start recruitment and find suitable interim cover
General Data Protection Regulation Implementation	With the implementation of the General Data Protection Regulation, which replaces the Data Protection Act of 1998, there is a risk that the council will not manage its data appropriately and in line with the new regulations	3/5 = Plausible	Monthly meetings of the statutory information group have highlighted areas which need to be addressed and training was delivered in September for managers and proposed service Data Protection leads
Impact of Homelessness Reduction Act	Additional burdens on SHDC which may mean a reduced ability within the service to adhere to the act due to an unpredictable increase of persons approaching the housing options service. Capacity may be impacted by increased volumes of homeless applications, increased time needed to manage each case in order to fulfil the requirements of the new legislation and risk that the expansion of the duty could lead to a serious	4/5 Likely	Early working of the new duties imposed by the Act is showing the build-up of a backlog. Steps were taken in the planning but at 6 weeks into the Act these are being revised with potential resource implications to mitigate the risk

Risk	Impact	Likelihood	Mitigation
	shortfall in available temporary housing options to accommodate homeless individuals and families		
Impact of County Council Budget Reductions	Impact of County Council Budget Reductions. This will potentially impact on resident wellbeing.	3/5 = Plausible	Ensure that Place directorate are involved early in conversations to represent the council and its residents
Failure to deliver financial & non-financial outcomes of the approved Welland Homes business	Failure to deliver financial & non-financial outcomes of the approved business plan has implication in areas which include Legal, reputational and Financial. Risk also refers to capacity and expertise in the organisation to deliver the housing development requirement for both the HRA and Welland Homes.	3/5 = Plausible	Mitigations as follows; • Revised governance including strengthened terms of reference. • Improved communication on Council policies to the WH Board.
Contracts Monitoring	This risk covers the councils monitoring of contracts with external partners to ensure arrangements are financially secure and performing	3/5 = Plausible	Regular monitoring of contracts. Regular communication with external partners and stakeholders Keep up to date with external changes with partners
CPBS Failure to deliver core services	CPBS Failure to deliver core services - HR/IT/Finance/Revenues & Benefits	2/5 = Possible	Number of Governance processes in place including monitoring of performance in performance, risk and audit board. CPBS also has its own board with governance
Publication of gender pay gap under transparency legislation	The evolution of Transparency legislation will mean a requirement to publish the gap between male and female earnings within pay bandings. This could lead to increased scrutiny from the unions which may trigger a Unison audit. The collateral effect of the risk coming to fruition would be around reputational damage and legal ramifications of potentially backdated claims from workers	3/5 = Plausible	Proactively establish i) if there is a gender based pay gap within job roles and ii) to identify funding to cover any liability in this area should liability be identified. The Council advocates equitable and fair treatment of its employees and would not wish to perpetuate any such discrepancy
Failure to deliver Council's priorities	This would lead to missed targets and failure to deliver objectives and may result in the Council suffering reputational damage and a failure to deliver on residents' expectations	2/5 = Possible	The corporate delivery plan sets out how to achieve the corporate plan. This is underpinned by individual service plans and these are monitored at Performance, Risk and Audit board monthly
Failure to deliver Local Plan and its Delivery Plan	Failure to deliver Local Plan and its Delivery Plan - reputational and financial risk due to possible Secretary of State intervention. There is also a new risk emerging due to New Homes Bonus	1/5 = Unlikely	Dedicated senior officer and EMT support to deliver the local plan
Failure to effectively implement corporate business continuity plan	Failure could lead to an impact on delivery of services, loss of IT systems, ineffective communication or a failure to provide suitable premises	3/5 = Plausible	Working jointly with County to have business continuity post. Each team has a plan reviewed annually

Risk	Impact	Likelihood	Mitigation
Staff recruitment and retention within the shared services arrangement	This risk focuses on the recruitment and retention of staff within the shared management arrangement between Breckland and South Holland	3/5 = Plausible	A number of mitigations are being considered including - methods and channels of recruitment. Review and reshape our rewards packages. Understand the profile of the organisation. Develop organisational values and culture. Support new starters and flexible working. Development and career planning and flexible retirement options

The Performance, Risk and Audit Board reviews updates on corporate and operational risks on a quarterly basis and takes any remedial actions as necessary (for example, escalation to the Executive Management Team or Governance and Audit committee). Quarterly updates on the corporate risk register is provided to both the Executive Management Team and the Governance and Audit Committee. The Governance and Audit Committee is responsible for monitoring the arrangements in place for identification, monitoring and management of strategic risk.

The Council is always looking for new opportunities, such as sharing services with other Councils, service improvements and cost reductions through digital, etc. All opportunities will be examined on their own merits and business cases completed if the opportunity proves worth developing.

## 7. The Statement of Accounts

The Statements for the Council have been prepared on the going concern accounting basis, i.e. on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. This assessment has been possible due to the sound financial position of the Council, notably the delivery of a balanced outturn position for 2017/18, the establishment of a balanced budget for 2018/19 with an embedded transformation programme aimed at delivering ongoing savings. Additionally, the council has sufficient funds and reserves to meet its immediate financial commitments and has robust governance arrangements in place to monitor and control the Council's financial position.

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2018. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which in turn is underpinned by International Financial Reporting Standards.

A Glossary of key terms can be found at the end of this publication.

- **Expenditure and Funding Analysis** – shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's services
- **Group and South Holland District Council Movement in Reserves Statement** is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "usable", which can be invested in capital projects or services improvements, and "unusable" which must be set aside for specific purposes
- **Group and South Holland District Council Comprehensive Income and Expenditure Statement** – this records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area. The bottom half of the statement deals with corporate transactions and funding. Expenditure represents a combination of:
  - Services and activities that the Council is required to carry out by law (statutory duties) such as street cleaning, planning, refuse collection; and,
  - Discretionary expenditure focused on local priorities and needs.

- **Group and South Holland District Council Balance Sheet** is a “snapshot” of the Council’s assets, liabilities, cash balances and reserves at the year end date
- **Group and South Holland District Council Cash Flow Statement** shows the reason for changes in the Council’s cash balances during the year, and whether that change is due to operating activities, new investment, or financing activities
- **Accounting Policies** – these explain the basis of the figures presented in the accounts
- **Notes to the Accounts** – the accounts are supported by the notes to the financial statements. These notes include further detail relating to items in the main financial statements, assumptions made about the future and major estimations made.

### Supplementary Financial Statements

- **The Housing Revenue Account Statement** reflects the landlord function of the Council and is prepared in accordance with a statutory obligation to maintain a revenue account for local authority housing provision; Part 6 of the Local Government and Housing Act 1989.
- **Collection Fund** – this reflects the statutory requirement for the Council to maintain a separate account providing details of receipts of Council Tax and Business Rates, and any associated payments to precepting authorities, and the Government.

### Group Accounts

- The Council has produced Group Accounts for 2017/18, consisting of a Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement, consolidating the transactions relating to its subsidiary Companies South Holland Homes Community Interest Company and Welland Homes Ltd.

**Annual Governance Statement** – sets out the Council’s approach to corporate governance and how it manages its governance arrangements in accordance with the Code of Governance.

### 8. Further Information

Further information on the Statement of Accounts is available from Compass Point Business Services, who provide all financial services for the Council. This is available as follows:

- In writing - to Financial Services, Council Offices, Priors Road, Spalding, Lincs PE11 2XE.
- By telephone - 01775 761161
- By e-mail - to Customer Services at [info@sholland.gov.uk](mailto:info@sholland.gov.uk)

The accounts are available on our website at [www.sholland.gov.uk](http://www.sholland.gov.uk)

Christine Marshall, Executive Director Commercialisation and Section 151 Officer  
26 July 2018

## STATEMENT OF RESPONSIBILITIES

### The Council's Responsibilities

The Council is required to:

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

### The Chief Financial Officer's Responsibilities

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

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

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

### Certification by the Chief Financial Officer

I hereby certify that the unaudited Financial Statements give a 'true and fair' view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31 March 2018.



Christine Marshall  
Executive Director Commercialisation

Dated: 26 July 2018

### Approval of the Financial Statements

The Governance and Audit Committee approved the audited Financial Statements on 26 July 2018.

Signed on behalf of South Holland District Council:



Cllr George Aley  
Chair of meeting approving the accounts

Dated: 26 July 2018

## EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local Councils in comparison with those resources consumed or earned by Councils in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17				2017/18		
Net Expenditure Chargeable to the General Fund and HRA Balance £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net Expenditure Chargeable to the General Fund and HRA Balance £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
1,095	197	1,292	Growth and Commercialisation Directorate	1,661	91	1,752
1,360	(4,185)	(2,825)	Place Directorate	(2,643)	4	(2,639)
3,511	196	3,707	Strategy and Governance Directorate	3,877	410	4,287
-	(24,400)	(24,400)	Exceptional Item – Revaluation of Council Dwellings following change in Social Housing Factor for the East Midlands	-	-	-
<b>5,966</b>	<b>(28,192)</b>	<b>(22,226)</b>	<b>Net Cost of Services</b>	<b>2,895</b>	<b>505</b>	<b>3,400</b>
(6,981)	1,485	(5,496)	Other Income and Expenditure	(6,051)	(221)	(6,272)
<b>(1,015)</b>	<b>(26,707)</b>	<b>(27,722)</b>	<b>(Surplus) or Deficit</b>	<b>(3,156)</b>	<b>284</b>	<b>(2,872)</b>

General Fund Balance £000	HRA Balance £000	Total £000		General Fund Balance £000	HRA Balance £000	Total £000
2,101	8,968	11,069	<b>Opening Balance at 1 April</b>	<b>2,214</b>	<b>8,968</b>	<b>11,182</b>
113	-	113	(Surplus) or Deficit in Year (after transfers to/from earmarked reserves)	96	3,784	3,880
<b>2,214</b>	<b>8,968</b>	<b>11,182</b>	<b>Closing Balance at 31 March</b>	<b>2,310</b>	<b>12,752</b>	<b>15,062</b>

The notes to the accounts on pages 29 - 86 form an integral part of the Financial Statements.

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The Comprehensive Income and Expenditure 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 (or rents). The Council raises taxation and rents to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Gross Expenditure £000	Restated 2016/17 Gross Income £000	Net Expenditure £000		Gross Expenditure £000	2017/18 Gross Income £000	Net Expenditure £000
21,709	(20,417)	1,292	Growth and Commercialisation Directorate	21,640	(19,888)	1,752
17,986	(20,811)	(2,825)	Place Directorate	17,927	(20,566)	(2,639)
4,115	(408)	3,707	Strategy and Governance Directorate	4,706	(419)	4,287
(24,400)	-	(24,400)	Exceptional Item – Revaluation of Council Dwellings following change in Social Housing Factor for the East Midlands	-	-	-
<b>19,410</b>	<b>(41,636)</b>	<b>(22,226)</b>	<b>Cost of Services</b>	<b>44,273</b>	<b>(40,873)</b>	<b>3,400</b>
5,074	(1,466)	3,608	Other operating expenditure (Note 10)	4,829	(1,537)	3,292
5,209	(2,101)	3,108	Financing and investment income and expenditure (Note 11)	4,893	(1,928)	2,965
6,751	(18,963)	(12,212)	Taxation and non-specific grant income and expenditure (Note 12)	6,340	(18,869)	(12,529)
<b>36,444</b>	<b>(64,166)</b>	<b>(27,722)</b>	<b>(Surplus) or Deficit on the Provision of Services</b>	<b>60,335</b>	<b>(63,207)</b>	<b>(2,872)</b>
		(8,487)	Surplus on revaluation of property, plant and equipment assets			(988)
		6,128	Remeasurements of the net defined benefit liability			(1,685)
		<b>(2,359)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(2,673)</b>
		<b>(30,081)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(5,545)</b>

The notes to the accounts on pages 29 - 86 form an integral part of the Financial Statements.

**MOVEMENT IN RESERVES STATEMENT**

The Movement in Reserves Statement shows the movement from the start of the year to the end 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 'unusable reserves'. The Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

2017/18		2016/17		2015/16		2014/15		2013/14		2012/13	
General Fund Balance	£2,214	£8,343	£8,968	£200	£6,696	£3,572	£1,612	£31,605	£70,334	£101,939	£0
General Fund Earmarked Reserves	8,343	8,968	8,968	200	6,696	3,572	1,612	31,605	70,334	101,939	0
Housing Revenue Account	(1,923)	4,795	4,795	-	-	-	-	2,872	2,673	5,545	-
Total Comprehensive Income and Expenditure	(1,923)	4,795	4,795	-	-	-	-	2,872	2,673	5,545	-
Adjustments between accounting basis and funding basis under regulations (Note 8)	1,295	-	(1,011)	-	(261)	732	229	984	(984)	-	-
Increase/(Decrease) in 2017/18	(628)	-	3,784	-	(261)	732	229	3,856	1,689	5,545	-
Transfer to/(from) Earmarked Reserves	724	(724)	-	-	-	-	-	-	-	-	-
Balance at 31 March 2017	2,214	8,343	8,968	200	6,696	3,572	1,612	31,605	70,334	101,939	0
Balance at 31 March 2018 carried forward	2,310	7,619	12,752	200	6,435	4,304	1,841	35,461	72,023	107,484	0

	2016/17		2016/17		2016/17		2016/17		2016/17		2016/17	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>General Fund Balance</b>	2,101	2,796	(1,781)	2,796	2,101	2,796	(1,781)	2,796	2,101	2,796	(1,781)	2,796
	7,441	-	-	-	7,441	-	-	-	7,441	-	-	-
<b>General Fund Earmarked Reserves</b>	8,968	(29,503)	29,503	(29,503)	8,968	(29,503)	29,503	(29,503)	8,968	(29,503)	29,503	(29,503)
<b>Housing Revenue Account</b>	200	-	-	-	200	-	-	-	200	-	-	-
<b>HRA Earmarked Reserves</b>	2,609	993	-	993	2,609	993	-	993	2,609	993	-	993
<b>Major Repairs Reserve</b>	2,579	-	-	-	2,579	-	-	-	2,579	-	-	-
<b>Capital Receipts Reserve</b>	1,688	(76)	-	(76)	1,688	(76)	-	(76)	1,688	(76)	-	(76)
<b>Capital Grants Unapplied</b>	25,586	27,722	-	27,722	25,586	27,722	-	27,722	25,586	27,722	-	27,722
<b>Total Usable Reserves</b>	46,272	(21,703)	2,359	(21,703)	46,272	(21,703)	2,359	(21,703)	46,272	(21,703)	2,359	(21,703)
<b>Unusable Reserves</b>	71,858	21,703	30,081	21,703	71,858	21,703	30,081	21,703	71,858	21,703	30,081	21,703
<b>Total Authority Reserves</b>	101,939	30,081	30,081	30,081	101,939	30,081	30,081	30,081	101,939	30,081	30,081	30,081
	2,214	1,015	1,015	1,015	2,214	1,015	1,015	1,015	2,214	1,015	1,015	1,015
	8,343	902	902	902	8,343	902	902	902	8,343	902	902	902
	8,968	-	-	-	8,968	-	-	-	8,968	-	-	-
	200	-	-	-	200	-	-	-	200	-	-	-
	6,696	4,087	4,087	4,087	6,696	4,087	4,087	4,087	6,696	4,087	4,087	4,087
	3,572	993	993	993	3,572	993	993	993	3,572	993	993	993
	1,612	(76)	-	(76)	1,612	(76)	-	(76)	1,612	(76)	-	(76)
	31,605	27,722	-	27,722	31,605	27,722	-	27,722	31,605	27,722	-	27,722
	70,334	21,703	2,359	21,703	70,334	21,703	2,359	21,703	70,334	21,703	2,359	21,703
	101,939	30,081	30,081	30,081	101,939	30,081	30,081	30,081	101,939	30,081	30,081	30,081
	2,214	1,015	1,015	1,015	2,214	1,015	1,015	1,015	2,214	1,015	1,015	1,015
	8,343	902	902	902	8,343	902	902	902	8,343	902	902	902
	8,968	-	-	-	8,968	-	-	-	8,968	-	-	-
	200	-	-	-	200	-	-	-	200	-	-	-
	6,696	4,087	4,087	4,087	6,696	4,087	4,087	4,087	6,696	4,087	4,087	4,087
	3,572	993	993	993	3,572	993	993	993	3,572	993	993	993
	1,612	(76)	-	(76)	1,612	(76)	-	(76)	1,612	(76)	-	(76)
	31,605	27,722	-	27,722	31,605	27,722	-	27,722	31,605	27,722	-	27,722
	70,334	21,703	2,359	21,703	70,334	21,703	2,359	21,703	70,334	21,703	2,359	21,703
	101,939	30,081	30,081	30,081	101,939	30,081	30,081	30,081	101,939	30,081	30,081	30,081

The notes to the accounts on pages 29 - 86 form an integral part of the Financial Statements

## BALANCE SHEET

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

31 March 2017 £000		Note	31 March 2018 £000
176,484	Property, Plant and Equipment	13	176,743
107	Heritage Assets	14	107
739	Investment Property	15	740
329	Intangible Assets	16	170
927	Long Term Investments	17	927
539	Long Term Debtors		1,640
<b>179,125</b>	<b>Long Term Assets</b>		<b>180,327</b>
29,290	Short Term Investments		32,597
768	Assets Held for Sale	20	1,391
2,857	Short Term Debtors	18	4,010
5,261	Cash and Cash Equivalents	19	3,814
<b>38,176</b>	<b>Current Assets</b>		<b>41,812</b>
(1,115)	Cash and Cash Equivalents	19	(53)
(26)	Short Term Borrowing		(26)
(7,187)	Short Term Creditors	21	(7,433)
(200)	Grants Receipts in Advance - Capital		-
(1,831)	Provisions	22	(1,529)
<b>(10,359)</b>	<b>Current Liabilities</b>		<b>(9,041)</b>
(67,456)	Long Term Borrowing		(67,456)
(37,523)	Other Long Term Liabilities	35	(37,782)
(24)	Grants Receipts in Advance – Capital	31	(376)
<b>(105,003)</b>	<b>Long Term Liabilities</b>		<b>(105,614)</b>
<b>101,939</b>	<b>Net Assets</b>		<b>107,484</b>
31,605	<b>Usable Reserves</b>	23	35,461
70,334	<b>Unusable Reserves</b>	24	72,023
<b>101,939</b>	<b>Total Reserves</b>		<b>107,484</b>

The notes to the accounts on pages 29 - 86 form an integral part of the Financial Statements.

## CASH FLOW STATEMENT

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

2016/17 £000	2016/17 £000		2017/18 £000	2017/18 £000
	27,722	Net surplus on the provision of services		2,872
(17,108)		Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 25)	3,213	
(1,966)	(19,074)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 25)	(2,846)	367
	8,648	Net cash flows from Operating Activities		3,239
	(11,195)	Investing Activities (Note 26)		(5,203)
	(478)	Financing Activities (Note 27)		1,579
	(3,025)	Net increase/(decrease) in cash and cash equivalents		(385)
	7,171	Cash and cash equivalents at the beginning of the reporting period		4,146
	<b>4,146</b>	<b>Cash and cash equivalents at the end of the reporting period (Note 19)</b>		<b>3,761</b>

The notes to the accounts on pages 29 - 86 form an integral part of the Financial Statements.

## NOTES TO THE ACCOUNTS

### NOTE 1 – ACCOUNTING POLICIES

#### 1. General Principles

The Financial Statements summarise the Council's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS).

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

#### 1.1 Qualitative Characteristics of Financial Statements

##### **Relevance**

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

##### **Materiality**

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

##### **Faithful Representation**

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

##### **Comparability**

Information about the Council is more useful if it can be compared with similar information about other Councils and other accounting periods for the same Council. Comparability of financial information is essential for the purposes of decision making by enabling decision makers to choose between alternatives or make assessments about the stewardship of the Council's resources.

##### **Verifiability**

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

##### **Timeliness**

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

##### **Understandability**

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

#### 1.2 Underlying Assumptions

##### **Accruals Basis**

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

### **Going Concern**

The accounts have been prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future.

### **Primacy of Legislation Requirements**

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

The following sections (2-26) disclose the specific accounting policies adopted by the Council for the completion of the Financial Statements.

## **2. Accruals of Income and Expenditure**

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

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

## **3. Cash and Cash Equivalents**

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

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

## **4. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

There are no exceptional items in 2017/18.

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

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

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

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

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

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

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

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

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

## **7. Council Tax and Non-Domestic Rates**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### ***Accounting for Council Tax and NDR***

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## **8. Employee Benefits**

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

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

### ***Termination Benefits***

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

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

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

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

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

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

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

Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (2.5% in 2016/17), based on the indicative rate of return on high quality corporate bonds.

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

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

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

### Service Cost comprising

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

### Remeasurements comprising

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

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

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

### Discretionary Benefits

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

## 9. Events after the Reporting Period

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Financial Statements are adjusted to reflect such events

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

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

## **10. Financial Instruments**

### **Financial Liabilities**

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

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

### **Financial Assets**

Financial Assets are classified into two types:

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

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

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

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

The Council has made a number of loans and these are recognised in the Balance Sheet at the amount of principal outstanding and have not been adjusted for fair value.

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

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

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

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

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

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

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

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

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

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

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

## **11. Government Grants and Contributions**

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

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

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

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

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

## **12. Heritage Assets**

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

Civic Regalia and Works of Art:

- Civic regalia and Tulip paintings – insurance value; valued by an external valuer

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

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

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

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

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see item 19 in this summary of significant accounting policies.

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

## **13. Intangible Assets**

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

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

- Computer software and licences – straight line basis

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

#### **14. Interest in Companies and Other Entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost.

#### **15. Joint Operations**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.

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

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

#### **16. Investment Property**

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

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

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

#### **17. Leases**

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

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

The Council has no finance lease commitments as at 31 March 2018.

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

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

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

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

## **18. Overheads and Support Services**

The cost of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

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

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

### ***Recognition***

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

### ***Measurement***

Assets are initially measured at cost, comprising;

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

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

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

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

- infrastructure assets, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective

- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

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

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

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

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

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

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

### ***Impairment***

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

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

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

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

### ***Depreciation***

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

Depreciation is calculated on the following bases:

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

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

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

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

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

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

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

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

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

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

### **20. Fair Value Measurement**

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

the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

## **21. 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 when the Council has an 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.

## **22. 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.

## **23. Contingent Assets**

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

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

## **24. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingences. Reserves are created by transferring amounts out of the General Fund Balance. 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 so that there is no net charge against council tax for the expenditure.

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

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

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

## **26. 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 ISSUED, NOT ADOPTED**

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2018.

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers.
- Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers.
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses.
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.
- Amendments to IFRS 16 Leases

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new accounting standard, but one which has not yet been implemented.

Certain aspects of the introduction of IFRS 9 have been adapted for local authorities, effectively removing the IFRS 9 implications. These cover such areas as soft loans, Lender Option Borrowing Option (LOBO) loans, immaterial transactions, exchanges of debt instruments and hedge accounting.

IFRS 9 Financial Instruments has been implemented in the 2018/19 CIPFA Accounting Code of Practice. Its introduction will see the classifications of financial assets change to Amortised Cost, Fair Value through Comprehensive Income and Fair Value through Profit and Loss, from the previous categories of Loans and Receivables, Available for Sale and Fair Value through Profit and Loss. The second main change will be the

introduction of a expected credit loss model for particular asset types, rather than an impairment of the asset resulting from a specific incident.

The impact of these changes on the Authority's financial position can be summarised as follows:

- The Authority currently holds shares in Welland Homes, a company wholly owned by the Council. Under the IFRS 9 changes these shares will be elected to be categorised as Fair Value through Comprehensive Income which, subject to any impairment, will be held at cost with further details of the company shown in the Group Accounts.
- The expected credit loss implications for those financial assets not treated as Fair Value are expected to be minimal for the majority of the treasury investments, as the Authority adopts strict credit quality arrangements in accordance with the CIPFA Treasury Management Code of Practice. In addition to the day to day treasury investments the Authority also has two outstanding loan agreements with Welland Homes totalling £1.529m. There is no indication of credit impairment or default at the time these accounts were finalised.

It is not anticipated that the above amendments will have a material impact on the information provided in the financial statements, i.e. there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services.

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

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

- There is uncertainty about future levels of funding for local government, notably issues around welfare reform and localisation of Business Rates, the Fair Funding Review and future financing through New Homes Bonus. Lincolnshire has been successful in bidding for pilot status for Business Rates, which will enable 100% retention of Business Rates locally during 2018/19. Arrangements for retention of Business Rates after this period are yet to be determined. The Council has determined that the information regarding future funding levels is not yet sufficient to provide an indication that the assets of the authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council has examined its leases, and classified them as either operational leases or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgements in determining whether the lease is a finance lease that transfers substantially all the risks and rewards incidental to ownership. With effect from 2018/19 financial accounts all lessee operational agreements (apart from those of less than 12 months or those of low value assets) are required to be shown on the Balance Sheet.
- One factor that has had a demonstrable impact in the past five years on the accounts concerns the assumptions surrounding pensions and the likelihood of legislative change and the impact of such change. The sensitivity analysis, shown in note 35 (pages 76-80), estimates the likely impact of changes to the assumptions used when reporting the pension liability .
- Investments - Investment in banks and other financial institutions are secure and will not suffer impairments.

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

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

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

### **Pensions Liability**

The estimation of the net liability (£37.782m at 31 March 2018) 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 expert advice about the assumptions to be applied.

During 2017/18, the actuaries advised that the net pension liability had increased by £0.259m. This is made up of:

- £1.685m actuarial gain
- £1.944m loss arising from employer contributions of £1.943m being less than the pension obligations of £3.887.

### **Debt Impairment**

At 31 March 2018, the Council had a balance of sundry debtor and housing benefit overpayments of £2.147m. A review of significant balances suggested that an impairment of doubtful debts of 51.15% (£1.098m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.

If collection rates were to deteriorate, increasing the impairment for doubtful debts to 60% of the total debt would require an additional £0.190m to be set aside as an allowance.

### **Business Rates**

Since the introduction of the Business Rates Retention Scheme effective from 1 April 2013, local authorities need to account for any reduction in Business Rates income and repayment to ratepayers, in respect of successful appeals against business rates for current and earlier years. A provision has been made in the accounts based on the best estimate of the amount that the Council might need to repay as a result of successful appeals up to 31 March 2018. For appeals already lodged, this estimate has been calculated using the latest Valuation Office Agency list of outstanding appeals with an assessment being made of the likely impact of those appeals, taking into account past national decisions together with any specific / local implications. This assessment has been undertaken by an external provider. A new three-stage appeals process was introduced on 1 April 2017, for appeals against the new 2017 rating list. The authority is yet to receive any appeals lodged against this rating list, therefore a provision has been made based on 4.7% of the net rates payable of the authority for appeals not yet lodged, in addition to the current provision for appeals against the 2010 rating list. This assumption is in line with an allowance made by Government to the adjustment to the Business Rates multiplier, representing the view as to the eventual impact of appeals on the 2017 rating list.

The Council's share of the provision as at 31 March 2018 (40% of £3.823m) is £1.529m, (£1.831m at 31 March 2017).

### **Fair Value Measurements**

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

Where Level 1 inputs are not available, the authority employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the external valuer).

Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in notes 13 and 15.

## NOTE 5 – EVENTS AFTER THE BALANCE SHEET DATE

The Financial Statements were authorised for issue by the Executive Director Commercialisation on 26 July 2018. Events taking place after this date are not reflected in the Financial Statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## NOTE 6 – NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Amounts	Adjustments for Capital Purposes £000	Net Change for the Pensions Adjustments £000	Other Differences £000	Total Adjustments £000
Growth and Commercialisation Directorate	29	62	-	91
Place Directorate	(473)	490	(13)	4
Strategy and Governance Directorate	242	161	7	410
Exceptional Item – Revaluation of Council Dwellings following change in Social Housing Factor for the East Midlands	-	-	-	-
<b>Net Cost of Services</b>	<b>(202)</b>	<b>713</b>	<b>(6)</b>	<b>505</b>
Other Income and Expenditure from the Funding Analysis	(230)	1,230	(1,221)	(221)
<b>Difference between General Fund (Surplus)/Deficit and Comprehensive Income and Expenditure Statement (Surplus)/Deficit</b>	<b>(432)</b>	<b>1,943</b>	<b>(1,227)</b>	<b>284</b>

2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Amounts	Adjustments for Capital Purposes £000	Net Change for the Pensions Adjustments £000	Other Differences £000	Total Adjustments £000
Growth and Commercialisation Directorate	190	7	-	197
Place Directorate	(4,227)	42	-	(4,185)
Strategy and Governance Directorate	296	(94)	(6)	196
Exceptional Item – Revaluation of Council Dwellings following change in Social Housing Factor for the East Midlands	(24,400)	-	-	(24,400)
<b>Net Cost of Services</b>	<b>(28,141)</b>	<b>(45)</b>	<b>(6)</b>	<b>(28,192)</b>
Other Income and Expenditure from the Funding Analysis	383	1,086	16	1,485
<b>Difference between General Fund (Surplus)/Deficit and Comprehensive Income and Expenditure Statement (Surplus)/Deficit</b>	<b>(27,758)</b>	<b>1,041</b>	<b>10</b>	<b>(26,707)</b>

## Adjustments for Capital Purposes

This column adds in depreciation and impairment, revaluation gains and losses and transfer to the Major Repairs Reserve for future capital investment in the service lines, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

## Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income are reflected as follows:

- **For services** this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

## Other Differences

Other differences between amounts debited or credited to the Comprehensive Income and Expenditure Statement and amounts payable or receivable to be recognised under statute are as follows:

- **For services** the other differences column recognises adjustments to the General Fund and Housing Revenue Account for accumulated absences.
- The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## NOTE 7 – EXPENDITURE AND INCOME ANALYSED BY NATURE

The authority's expenditure and income is analysed as follows:

<b>2017/18</b>	<b>SHDC Income and Expenditure £000</b>	<b>Remove amounts paid to/received from CPBS £000</b>	<b>Add CPBS subjective analysis £000</b>	<b>Total Income and Expenditure £000</b>
<b><u>Expenditure</u></b>				
Employee benefits expenses	10,954	-	2,563	13,517
Other service expenses	30,850	(3,072)	506	28,284
Depreciation, amortisation, impairment	2,859	-	89	2,948
Interest payments	2,347	-	-	2,347
Precepts and levies	3,051	-	-	3,051
Payments to Housing Capital Receipts Pool	431	-	-	431
Business Rates tariff and levy	6,340	-	-	6,340
Loss on disposal of non-current assets	1,347	-	-	1,347
Pensions interest cost	2,168	-	365	2,533
<b>Total Expenditure</b>	<b>60,347</b>	<b>(3,072)</b>	<b>3,523</b>	<b>60,798</b>
<b><u>Income</u></b>				
Income from council tax and non-domestic rates	(15,234)	-	-	(15,234)
Government grants and contributions	(21,997)	-	-	(21,997)
Other grants and contributions	(215)	-	-	(215)
Fees, charges and other service income	(23,020)	214	(41)	(22,847)
Interest and investment income	(261)	-	(1)	(262)
Changes in fair value of investment property	(1)	-	-	(1)
Gain on disposal of non-current assets	(1,537)	-	-	(1,537)
Expected return on pension assets	(1,289)	-	(288)	(1,577)
<b>Total Income</b>	<b>(63,554)</b>	<b>214</b>	<b>(330)</b>	<b>(63,670)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>(3,207)</b>	<b>(2,858)</b>	<b>3,193</b>	<b>(2,872)</b>

<b>2016/17</b>	<b>SHDC Income and Expenditure £000</b>	<b>Remove amounts paid to/received from CPBS £000</b>	<b>Add CPBS subjective analysis £000</b>	<b>Total Income and Expenditure £000</b>
<b><u>Expenditure</u></b>				
Employee benefits expenses	9,489	-	2,438	11,927
Other service expenses	31,335	(3,114)	410	28,631
Reversal of previous loss on revaluation of assets	(24,400)	-	-	(24,400)
Depreciation, amortisation, impairment	3,341	-	106	3,447
Interest payments	2,349	-	-	2,349
Precepts and levies	2,980	-	-	2,980
Payments to Housing Capital Receipts Pool	435	-	-	435
Business Rates tariff and levy	6,751	-	-	6,751
Loss on disposal of non-current assets	1,658	-	-	1,658
Pensions interest cost	2,436	-	395	2,831
<b>Total Expenditure</b>	<b>36,374</b>	<b>(3,114)</b>	<b>3,349</b>	<b>36,609</b>
<b><u>Income</u></b>				
Income from council tax and non-domestic rates	(14,744)	-	-	(14,744)
Government grants and contributions	(23,422)	-	-	(23,422)
Other grants and contributions	(569)	-	-	(569)
Fees, charges and other service income	(22,158)	251	(48)	(21,955)
Interest and investment income	(212)	-	(1)	(213)
Changes in fair value of investment property	(2)	-	-	(2)
Gain on revaluation of non-current assets	(165)	-	-	(165)
Gain on disposal of non-current assets	(1,465)	-	-	(1,465)
Expected return on pension assets	(1,471)	-	(325)	(1,796)
<b>Total Income</b>	<b>(64,208)</b>	<b>251</b>	<b>(374)</b>	<b>(64,331)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>(27,834)</b>	<b>(2,863)</b>	<b>2,975</b>	<b>(27,722)</b>

## NOTE 8 – ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

### General Fund Balance

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

## **Housing Revenue Account Balance**

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

## **Major Repairs Reserve**

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

## **Capital Receipts Reserve**

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

## **Capital Grants Unapplied**

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

£000	£000	£000	£000	£000	£000
Capital Grants Unapplied	Major Repairs Reserve	Capital Receipts Reserve	Housing Revenue Account	General Fund Balance	Adjustments to Revenue Resources
					<b>Adjustments to Revenue Resources</b>
					<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>
					• Pension costs
					• Council Tax and Non-Domestic Rates
					• Holiday pay
					• Movements in the market value of Investment Properties
					• Capital grants and contributions applied to capital financing
					• Capital grants and contributions not applied to capital financing
					• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure
265	-	-	2,774	2,361	<b>Total Adjustments to Revenue Resources</b>
					<b>Adjustments between Revenue and Capital Resources</b>
					Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve
					Administrative costs of non-current asset disposals
					Payments to the government housing receipts pool
					Posting of HRA resources from revenue to the Major Repairs Reserve
					Capital expenditure financed from revenue balances
					<b>Total Adjustments between Revenue and Capital Resources</b>
					<b>Adjustments to Capital Resources</b>
					Use of Capital Receipts Reserve to finance capital expenditure
					Use of Major Repairs Reserve to finance capital expenditure
					Use of capital grants to finance capital expenditure
					Cash payments in relation to deferred capital receipts
					<b>Total Adjustments to Capital Resources</b>
229	(261)	732	(1,011)	1,295	<b>Total Adjustments</b>

<b>Adjustments to Revenue Resources</b>				
				<b>Adjustments to Revenue Resources</b>
				<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>
				<ul style="list-style-type: none"> <li>• Pension costs</li> <li>• Council Tax and Non-Domestic Rates</li> <li>• Holiday pay</li> <li>• Movements in the market value of Investment Properties</li> <li>• Capital grants and contributions applied to capital financing</li> <li>• Capital grants and contributions not applied to capital financing</li> <li>• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure</li> </ul>
			2,141	<b>Total Adjustments to Revenue Resources</b>
			(21,207)	
89	-	-	(20,945)	
				<b>Adjustments between Revenue and Capital Resources</b>
				Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve
				Administrative costs of non-current asset disposals
				Payments to the government housing receipts pool
			435	Posting of HRA resources from revenue to the Major Repairs Reserve
			(36)	Capital expenditure financed from revenue balances
			399	<b>Total Adjustments between Revenue and Capital Resources</b>
				<b>Adjustments to Capital Resources</b>
				Use of Capital Receipts Reserve to finance capital expenditure
				Use of Major Repairs Reserve to finance capital expenditure
				Use of capital grants to finance capital expenditure
				Cash payments in relation to deferred capital receipts
				<b>Total Adjustments to Capital Resources</b>
				<b>Total Adjustments</b>
£000	£000	£000	£000	
General Fund Balance	Major Repairs Reserve	Capital Receipts Reserve	Housing Revenue Account	Capital Grants Unapplied
2,796	4,087	993	(29,503)	(76)
-	(3,036)	(7)	-	(165)
-	-	3	-	-
-	(3,036)	-	-	(165)
-	-	(10)	-	-
-	7,123	1,000	(8,558)	-
-	-	-	-	-
-	7,123	-	(7,123)	-
-	-	(435)	-	-
-	-	(31)	31	-
-	-	1,466	(1,466)	-
-	-	-	-	-
89	-	-	(20,945)	-
-	-	-	(21,207)	-
89	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	2	-
-	-	-	(8)	-
-	-	-	16	-
-	-	-	781	-
-	-	-	260	-

## NOTE 9 – MOVEMENTS IN 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 2017/18.

	Balance at 1 April 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance at 31 March 2017 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Balance at 31 March 2018 £000
<b>General Fund</b>							
Council Tax Reserve	2,704	(1,415)	793	2,082	(1,127)	344	1,299
Insurance Reserve	220	-	-	220	(220)	-	-
Investment and Growth Reserve	3,305	-	1,448	4,753	(675)	1,140	5,218
Replacement and Refurbishment Reserve	239	(150)	136	225	(171)	136	190
Transformation Reserve	973	(164)	-	809	(210)	-	599
Service Grant Income Reserve	-	-	254	254	(80)	139	313
<b>Total General Fund</b>	<b>7,441</b>	<b>(1,729)</b>	<b>2,631</b>	<b>8,343</b>	<b>(2,483)</b>	<b>1,759</b>	<b>7,619</b>
<b>Housing Revenue Account</b>							
Insurance Reserve	200	-	-	200	-	-	200
<b>Total Earmarked Reserves</b>	<b>7,641</b>	<b>(1,729)</b>	<b>2,631</b>	<b>8,543</b>	<b>(2,483)</b>	<b>1,759</b>	<b>7,819</b>

**NOTE 10 – OTHER OPERATING EXPENDITURE**

2016/17 £000		2017/18 £000
690	Parish Council Precepts	713
2,290	Internal Drainage Board Levies	2,338
435	Payments to the Government Housing Capital Receipts Pool	431
193	(Gains)/Losses on the disposal of non-current assets	(190)
<b>3,608</b>	<b>Total</b>	<b>3,292</b>

**NOTE 11 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

2016/17 £'000		2017/18 £'000
2,349	Interest payable and similar charges	2,347
1,035	Net interest on the net defined benefit liability	956
(213)	Interest receivable and similar income	(262)
(63)	Income and expenditure in relation to investment properties and changes in their fair value	(76)
<b>3,108</b>	<b>Total</b>	<b>2,965</b>

**NOTE 12 – TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE**

2016/17 £000		2017/18 £000
(5,195)	Council Tax income	(5,432)
(2,798)	Retained Business Rates income and expenditure	(3,462)
(1,666)	Revenue Support Grant	(1,072)
(2,347)	Non-ringfenced government grants	(2,348)
(206)	Capital grants and contributions	(215)
<b>(12,212)</b>	<b>Total</b>	<b>(12,529)</b>

**NOTE 13 – PROPERTY, PLANT AND EQUIPMENT - Movements on Balances**

	2017/18															
	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	£000	£000	£000	£000	£000	£000	£000	£000
<b>Movements on balances</b>																
<b>Cost or Valuation</b>																
<b>At 1 April 2017</b>	<b>147,724</b>	<b>24,101</b>	<b>4,554</b>	<b>2,140</b>	<b>962</b>	<b>716</b>	<b>78</b>	<b>180,275</b>								
Additions	3,158	345	427	25	-	-	-	3,955								
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	203	(484)	-	-	-	126	-	(155)								
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(699)	(196)	-	-	-	(1)	-	(896)								
Derecognition – disposals	(394)	(180)	-	-	-	(148)	-	(722)								
Assets reclassified (to)/from Held for Sale	(1,214)	-	-	-	-	(5)	-	(1,219)								
Other movements in cost or valuation	-	7	-	-	-	42	(49)	-								
<b>At 31 March 2018</b>	<b>148,778</b>	<b>23,593</b>	<b>4,981</b>	<b>2,165</b>	<b>962</b>	<b>730</b>	<b>29</b>	<b>181,238</b>								
<b>Accumulated Depreciation and Impairment</b>																
<b>At 1 April 2017</b>	-	-	(2,233)	(1,412)	(146)	-	-	(3,791)								
Depreciation charge	(2,714)	(412)	(542)	(162)	-	-	-	(3,830)								
Depreciation written out to the Revaluation Reserve	745	398	-	-	-	-	-	1,143								
Depreciation written out to the Surplus/Deficit on the Provision of Services	1,960	14	-	-	-	-	-	1,974								
Derecognition – disposals	9	-	-	-	-	-	-	9								
Other movements in depreciation and impairments	-	-	-	-	-	-	-	-								
<b>At 31 March 2018</b>	<b>-</b>	<b>-</b>	<b>(2,775)</b>	<b>(1,574)</b>	<b>(146)</b>	<b>-</b>	<b>-</b>	<b>(4,495)</b>								
<b>Net Book Value</b>																
<b>At 31 March 2018</b>	<b>148,778</b>	<b>23,593</b>	<b>2,206</b>	<b>591</b>	<b>816</b>	<b>730</b>	<b>29</b>	<b>176,743</b>								
<b>At 31 March 2017</b>	<b>147,724</b>	<b>24,101</b>	<b>2,321</b>	<b>728</b>	<b>816</b>	<b>716</b>	<b>78</b>	<b>176,484</b>								

2016/17

	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment		
<b>Movements on balances</b>										
<b>Cost or Valuation</b>										
<b>At 1 April 2016</b>	117,516	22,037	4,590	2,110	1,040	687	251	148,231		
Additions	2,900	233	-	73	-	-	53	3,259		
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	5,559	2,046	-	-	-	29	-	7,634		
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	22,993	(8)	-	-	-	-	-	22,985		
Derecognition – disposals	(476)	(433)	(36)	(43)	(77)	-	-	(1,065)		
Assets reclassified (to)/from Held for Sale	(768)	-	-	-	-	-	-	(768)		
Other movements in cost or valuation	-	226	-	-	(1)	-	(226)	(1)		
<b>At 31 March 2017</b>	147,724	24,101	4,554	2,140	962	716	78	180,275		
<b>Accumulated Depreciation and Impairment</b>										
<b>At 1 April 2016</b>	-	-	(1,673)	(1,238)	(146)	-	-	(3,057)		
Depreciation charge	(2,072)	(389)	(595)	(174)	-	-	-	(3,230)		
Depreciation written out to the Revaluation Reserve	478	381	-	-	-	-	-	859		
Depreciation written out to the Surplus/Deficit on the Provision of Services	1,584	9	-	-	-	-	-	1,593		
Derecognition – disposals	10	-	35	-	-	-	-	45		
Other movements in depreciation and impairments	-	(1)	-	-	-	-	-	(1)		
<b>At 31 March 2017</b>	-	-	(2,233)	(1,412)	(146)	-	-	(3,791)		
<b>Net Book Value</b>										
<b>At 31 March 2017</b>	147,724	24,101	2,321	728	816	716	78	176,484		
<b>At 31 March 2016</b>	117,516	22,037	2,917	872	894	687	251	145,174		

## Depreciation

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

- Council Dwellings – major components
  - Structure – 38-78 years
  - Roofs – 3-64 years
  - Kitchens – 4-22 years
  - Bathrooms – 3-27 years
  - Windows and Doors – 3-27 years
- Other Land and Buildings – 0-66 years
- Vehicles, Plant, Furniture & Equipment – 2-67 years
- Infrastructure – 13-40 years

## Capital Commitments

At 31 March 2018, the Council has entered into contracts for the enhancement of Property, Plant and Equipment in 2018/19 and future years budgeted at a cost of £3.0m. Similar commitments at 31 March 2017 were £2.9m, mainly relating to works to dwellings. The major commitments are:

- Kitchen and Bathrooms Replacements £1.2m
- Central Heating Replacements £1.6m
- Re-roofing £0.2m

## Effects of Changes in Estimates

No material changes were made to the Council's accounting estimates for Property, Plant and Equipment 2017/18.

## Revaluations

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

In addition due regard has been taken of amendments introduced in the CLG document "Stock Valuation for Resource Accounting – Guidance for Valuers 2010". The basis of valuation is Current Value (EUV) for non-housing property and Existing Use Value for Social Housing (EUV – SH) for Council dwellings. Surplus property is valued at Fair Value, estimated at highest and best use from a market participant's perspective.

Revaluations during 2017/18 were undertaken by Darren Fabris BSc (Hons) MRICS, RICS Registered Valuer (Kier) and Guy S C Harbord MA MRICS, IRRV (Hons), RICS Registered Valuer (Wilks Head and Eve).

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	-	-	4,981	2,165	962	-	29	8,136
Valued at fair value as at: 31 March 2018	148,778	23,593	-	-	-	730	-	173,101
<b>Total Cost or Valuation</b>	<b>148,778</b>	<b>23,593</b>	<b>4,981</b>	<b>2,165</b>	<b>962</b>	<b>730</b>	<b>29</b>	<b>181,237</b>

### Fair Value Hierarchy – Surplus Assets

Details of the authority's surplus assets and information about the fair value hierarchy as at 31 March 2018 is as follows:

Fair Value Level 2 2016/17 £000		Fair Value Level 2 2017/18 £000
716	Surplus Land	730
<b>716</b>	<b>Balance at end of the year</b>	<b>730</b>

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

#### Significant Observable Inputs – Level 2

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

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

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

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

#### Highest and best use of Surplus Assets

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

#### Valuation Process for Surplus Assets

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

## NOTE 14 – HERITAGE ASSETS

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

2016/17 £000		Civic Regalia and Works of Art	Archaeological Sites, Smallholdings and other Land and Sites of Special Interest	Total
		2017/18 £000	2017/18 £000	2017/18 £000
	<b>Cost or valuation</b>			
113	1 April	62	45	107
(6)	Revaluations	-	-	-
<b>107</b>	<b>31 March</b>	<b>62</b>	<b>45</b>	<b>107</b>

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

Heritage assets recognised on the Council's Balance Sheet:

Civic Regalia and Works of Art:

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

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

- Chain Bridge Forge – recorded at existing use value as determined by the Council's external valuer, Guy S C Harbord MA MRICS, IRRV (Hons), RICS Registered Valuer Wilks, Head and Eve and were last valued on 31 March 2018.
- Nature reserve – recorded at Historic Cost.

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

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

## NOTE 15 – INVESTMENT PROPERTY

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

2016/17		2017/18
£000		£000
(90)	Rental Income from investment property	(88)
29	Direct operating expenses arising from investment property	13
(2)	Net (gains)/losses from fair value adjustments	(1)
<b>(63)</b>	<b>Net (gain)/loss</b>	<b>(76)</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.

2016/17		2017/18
£000		£000
737	Balance at start of the year	739
2	Net gains/(losses) from fair value adjustments	1
	Transfers:	
-	To/from Property, Plant and Equipment	-
<b>739</b>	<b>Balance at end of the year</b>	<b>740</b>

### Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2018 is as follows:

Fair Value Level 2		Fair Value Level 2
2016/17		2017/18
£000		£000
739	Commercial Industrial Units	740
<b>739</b>	<b>Balance at end of the year</b>	<b>740</b>

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

#### Significant Observable Inputs – Level 2

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

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

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

Valuation inputs for rental and yield which are directly applicable i.e. an almost identical property let to a similar covenant on the same repairing and insuring terms for a similar term to the valuation subject are said

to be 'observable inputs' as they are directly comparable with limited adjustment and are said to be a Level 2 in the fair value hierarchy.

### Highest and best use of Investment Properties

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

### Valuation Process for Investment Properties

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

### NOTE 16 – INTANGIBLE ASSETS

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The carrying amount of intangible assets is amortised on a straight-line basis, over 3 to 10 years. The amortisation of £196,000 was charged to an overhead account and then absorbed across service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

2016/17 £000		2017/18 £000
1,280	<b>Balance at start of year:</b>	
(716)	- Gross carrying amounts	1,273
	- Accumulated amortisation	(944)
<b>564</b>	Net carrying amount at start of year	<b>329</b>
	Additions:	
(7)	- Purchases	49
(228)	Amortisation for the period	(196)
-	Derecognition	(12)
<b>329</b>	<b>Net carrying amount at end of year</b>	<b>170</b>
	<b>Comprising:</b>	
1,273	- Gross carrying amounts	1,310
(944)	- Accumulated amortisation	(1,140)
<b>329</b>		<b>170</b>

## NOTE 17 – FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
<b>Investments</b>				
Loans and receivables				
Principal	-	-	27,500	29,248
Accrued interest	-	-	63	42
Available for Sale Financial Assets				
Certificates of Deposit	-	-	5,034	-
Unquoted equity investment at cost	927	927	-	-
<b>Total Investments</b>	<b>927</b>	<b>927</b>	<b>32,597</b>	<b>29,290</b>
<b>Cash and Cash Equivalents</b>				
Loans and receivables	-	-	3,761	4,146
<b>Total Cash and Cash Equivalents</b>	<b>-</b>	<b>-</b>	<b>3,761</b>	<b>4,146</b>
<b>Debtors</b>				
Loans and receivables				
Mortgages and car loans	73	72	38	58
Welland Homes	1,529	409	-	-
Trade debtors	-	-	1,638	1,267
<b>Total included in Debtors</b>	<b>1,602</b>	<b>481</b>	<b>1,676</b>	<b>1,325</b>
<b>Borrowings</b>				
Amortised cost				
Principal	(67,456)	(67,456)	-	-
Accrued interest	-	-	(26)	(26)
<b>Total included in Borrowings</b>	<b>(67,456)</b>	<b>(67,456)</b>	<b>(26)</b>	<b>(26)</b>
<b>Creditors</b>				
Amortised cost				
Trade creditors	-	-	(1,412)	(1,391)
<b>Total included in Creditors</b>	<b>-</b>	<b>-</b>	<b>(1,412)</b>	<b>(1,391)</b>

## Income, expense, gains and losses

	2017/18			
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for Sale	Total
	£000	£000	£000	£000
Interest expense	2,347	-	-	2,347
Interest income	-	(228)	(34)	(262)
<b>Net expenditure in Surplus or Deficit on the Provision of Services</b>	<b>2,347</b>	<b>(228)</b>	<b>(34)</b>	<b>2,085</b>
<b>Net loss/(gain) for the year</b>	<b>2,347</b>	<b>(228)</b>	<b>(34)</b>	<b>2,085</b>

	2016/17			
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available for Sale	Total
	£000	£000	£000	£000
Interest expense	2,349	-	-	2,349
Interest income	-	(173)	(40)	(213)
<b>Net expenditure in Surplus or Deficit on the Provision of Services</b>	<b>2,349</b>	<b>(173)</b>	<b>(40)</b>	<b>2,136</b>
<b>Net loss/(gain) for the year</b>	<b>2,349</b>	<b>(173)</b>	<b>(40)</b>	<b>2,136</b>

### Fair Value of Financial Assets

The Council has a shareholding interest in the UK Municipal Bonds Agency. The shares are carried at cost of £50,000 and have not been valued as a fair value cannot be measured reliably. The company has been created with a view to providing funds to the public sector. The authority did not intend to dispose of the shares at the Balance Sheet date.

The authority is also the sole shareholder of Welland Homes Limited, which is the Council's wholly owned Housing Development Company. The majority of the shares were purchased on 20<sup>th</sup> March 2017 and are categorised as Level 3 inputs due to there being no active market for the shares. The Company had a total equity value of £1,066,166 as at 31 March 2018 but is not currently operating at a profit. On this basis the Council has deemed the £877,066 cost of the equity stake to be fair value. A more detailed assessment will be made in 2018/19 following the introduction of new accounting regulations under IFRS 9. The authority did not intend to dispose of the shares at the Balance Sheet date.

### Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels 1 and 2 during the year.

## Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

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

Financial liabilities and financial assets represented by loans and receivables, long term debtors and creditors are carried in the Balance Sheet at amortised cost.

Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

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

The fair values calculated are as follows:

LIABILITIES	31 March 2018		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Borrowing	(67,482)	(89,209)	(67,482)	(88,807)

For long term borrowing, the fair value is higher than the carrying amount because the authority's portfolio of loans includes fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £89.209m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets, termed the PWLB Certainty Interest rates. A supplementary measure of the fair value as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £67.482m would be valued at £89.209m. But, if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £113.763m.

ASSETS	31 March 2018		31 March 2017	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Short Term investments	32,597	32,597	29,290	29,318
Welland Homes	1,529	1,529	409	409

As the investments referred to in the above table are short term the fair value is assumed to be the carrying value.

The loans to Welland Homes were made at the market rate at the time of issue. As at 31<sup>st</sup> March 2018 there had been no material changes to the market rates so the fair value of the loans are deemed to be unchanged.

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

## NOTE 18 – DEBTORS

31 March 2017 Net £'000		31 March 2018 Gross £'000	31 March 2018 Impairment £'000	31 March 2018 Net £'000
698	Central government bodies	1,542	-	1,542
190	Other local authorities	92	-	92
1,969	Other entities and individuals	4,151	(1,775)	2,376
<b>2,857</b>	<b>Total</b>	<b>5,785</b>	<b>(1,775)</b>	<b>4,010</b>

## NOTE 19 – CASH AND CASH EQUIVALENTS

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

31 March 2017 £000		31 March 2018 £000
1	Cash held by the Council	-
-	Bank current accounts	281
5,260	Deposits with Banks on Instant Access	3,533
<b>5,261</b>	<b>Cash and Cash Equivalents categorised as Current Assets</b>	<b>3,814</b>
(1,115)	Bank current accounts	(53)
<b>(1,115)</b>	<b>Cash and Cash Equivalents categorised as Current Liabilities</b>	<b>(53)</b>
<b>4,146</b>	<b>Total Cash and Cash Equivalents</b>	<b>3,761</b>

## NOTE 20 – ASSETS HELD FOR SALE

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

2016/17 £000		2017/18 £000
<b>607</b>	<b>Balance outstanding at start of year</b>	<b>768</b>
768	Assets newly classified as held for sale:	
	- Property, Plant and Equipment	1,390
-	Assets declassified as held for sale:	
	- Property, Plant and Equipment	(171)
(607)	Assets sold	(596)
-	Enhancements	-
-	Other Movements	-
<b>768</b>	<b>Balance outstanding at year end</b>	<b>1,391</b>

## NOTE 21 – CREDITORS

2016/17 £000		2017/18 £000
(4,115)	Central government bodies	(4,384)
(1,195)	Other local authorities	(1,293)
(1,877)	Other entities and individuals	(1,756)
<b>(7,187)</b>	<b>Total</b>	<b>(7,433)</b>

## NOTE 22 – PROVISIONS

	Business Rate Appeals £000
<b>Balance at 1 April 2017</b>	<b>(1,831)</b>
Additional provisions made in 2017/18	(657)
Amounts used in 2017/18	721
Unused amounts reversed in 2017/18	238
<b>Balance at 31 March 2018</b>	<b>(1,529)</b>

The provision represents South Holland's share (40% of £3.823m) of the total provision for appeals against the rateable values set by the Valuation Office Agency (VOA) not settled as at 31 March 2018. The total provision has been recognised in the Collection Fund Statement (page 92).

## NOTE 23 – USABLE RESERVES

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

## NOTE 24 – UNUSABLE RESERVES

31 March 2017 £000		31 March 2018 £000
23,008	Revaluation Reserve	23,111
85,589	Capital Adjustment Account	86,208
(37,523)	Pensions Reserve	(37,782)
53	Deferred Capital Receipts Reserve	52
(732)	Collection Fund Adjustment Account	489
(61)	Accumulated Absences Account	(55)
<b>70,334</b>	<b>Total Unusable Reserves</b>	<b>72,023</b>

### Revaluation Reserve

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

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

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

2016/17 £000	2016/17 £000		2017/18 £000	2017/18 £000
	<b>14,870</b>	<b>Balance at 1 April</b>		<b>23,008</b>
8,508		Upward revaluation of assets	2,465	
(21)		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,477)	
	<b>8,487</b>	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		<b>988</b>
(253)		Difference between fair value depreciation and historical cost depreciation	(427)	
(96)		Accumulated gains on assets sold or scrapped	(458)	
	<b>(349)</b>	Amount written off to the Capital Adjustment Account		<b>(885)</b>
	<b>23,008</b>	<b>Balance at 31 March</b>		<b>23,111</b>

### Capital Adjustment Account

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

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

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2016/17 £000	2016/17 £000		2017/18 £000	2017/18 £000
	62,483	<b>Balance at 1 April</b>		<b>85,589</b>
		<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
(3,230)		Charges for depreciation and impairment of non-current assets	(3,830)	
24,589		Reversal of Revaluation losses on Property, Plant and Equipment	1,078	
(228)		Amortisation of intangible assets	(196)	
(438)		Revenue expenditure funded from capital under statute	(865)	
(1,627)		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	(1,322)	
	19,066			(5,135)
	96	Adjusting amounts written out of the Revaluation Reserve		458
	253	Net written out amount of the cost of non-current assets consumed in the year		427
		<b>Capital financing applied in the year:</b>		
10		Use of the Capital Receipts Reserve to finance new capital expenditure	351	
3,036		Use of the Major Repairs Reserve to finance new capital expenditure	3,168	
442		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,043	
165		Application of grants to capital financing from the Capital Grants Unapplied Account	36	
		Statutory provision for the financing of capital investment charged against the General Fund balance		
-		Minimum Revenue Provision	-	
-		Voluntary Revenue Provision	-	
36		Capital expenditure charged against the General Fund and HRA balances	270	
	3,689			4,868
	2	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		1
	<b>85,589</b>	<b>Balance at 31 March</b>		<b>86,208</b>

## Pensions Reserve

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

2016/17 £000		2017/18 £000
<b>(30,354)</b>	<b>Balance at 1 April</b>	<b>(37,523)</b>
(6,128)	Remeasurements of the net defined benefit liability	1,685
(2,798)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(3,887)
1,757	Employer's pensions contributions and direct payments to pensioners payable in the year	1,943
<b>(37,523)</b>	<b>Balance at 31 March</b>	<b>(37,782)</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.

2016/17 £000		2017/18 £000
<b>56</b>	<b>Balance at 1 April</b>	<b>53</b>
(3)	Transfer to the Capital Receipts Reserve upon receipt of cash	(2)
-	Other Movements	1
<b>53</b>	<b>Balance at 31 March</b>	<b>52</b>

## Collection Fund Adjustment Account

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

2016/17 £000		2017/18 £000
(716)	<b>Balance at 1 April</b>	(732)
	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	
(16)		1,221
(732)	<b>Balance at 31 March</b>	<b>489</b>

## Accumulated Absences Account

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

2016/17 £000	2016/17 £000		2017/18 £000	2017/18 £000
	(67)	<b>Balance at 1 April</b>		(61)
67		Settlement or cancellation of accrual made at the end of the preceding year	61	
(61)		Amounts accrued at the end of the current year	(55)	
	6	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		6
	(61)	<b>Balance at 31 March</b>		<b>(55)</b>

## NOTE 25 – CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items

2016/17 £000		2017/18 £000
250	Interest received	206
(2,349)	Interest paid	(2,347)

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

2016/17 £000		2017/18 £000
3,230	Depreciation	3,830
(24,589)	Impairment and downward valuations	(1,078)
11	Impairment & revaluation losses on HRA non dwellings	-
228	Amortisation of intangible assets	196
37	(Increase)/decrease in interest debtors	(56)
1,012	Increase in creditors	(1,468)
147	(Increase)/decrease in debtors	(1,173)
1,041	Movement in pension liability	1,943
149	Contribution to/(from) provisions	(302)
1,627	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	1,321
(2)	Movement in Investment Property Values	(1)
1	Other non-cash items charged to the net surplus or deficit on the provision of services	1
<b>17,108</b>		<b>3,213</b>
	<i>Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities</i>	
(531)	Capital Grants credited to surplus or deficit on the provision of services	(1,335)
(1,435)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,511)
<b>(1,966)</b>		<b>(2,846)</b>

## NOTE 26 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

2016/17 £000		2017/18 £000
(3,280)	Purchase of property, plant and equipment, investment property, plant and intangible assets	(3,869)
(126,877)	Purchase of short term investments	(71,500)
(578)	Other payments for investing activities	(1,152)
1,438	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,512
117,700	Proceeds from sale of short term investments	68,249
402	Other receipts from investing activities	1,557
<b>(11,195)</b>	<b>Net cash flows from investing activities</b>	<b>(5,203)</b>

## NOTE 27 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

2016/17 £000		2017/18 £000
-	Cash payments for the reduction of outstanding liabilities relating to finance leases	-
(478)	Other payments for financing activities	1,579
<b>(478)</b>	<b>Net cash flows from financing activities</b>	<b>1,579</b>

## NOTE 28 – MEMBERS’ ALLOWANCES

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

	2017/18 £000	2016/17 £000
Basic Allowance	226	230
Special Responsibility Expenses	147	148
	15	16
<b>Total</b>	<b>388</b>	<b>394</b>

## NOTE 29 – OFFICERS’ REMUNERATION

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

		Salary, Fees and Allowances £	Expenses Allowances £	Pension Contribution £	Redundancy Payments £	Total £
<b>Executive Manager</b>	2017/18	62,806	1,747	10,285	-	74,838
	2016/17	59,549	3,254	10,421	-	73,224

The Council has entered into a shared management arrangement with Breckland District Council where the two Councils share members of the management team. The Executive Manager referred to in the table above is employed by South Holland District Council and Breckland District Council employs eight other members of the management team.

Details relating to the cost of this arrangement are included in the Related Party Transactions Note 32.

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	2017/18 Number of Employees	2016/17 Number of Employees
£50,000 – £54,999	1	1
£55,000 – £59,999	1	1

A service review was undertaken resulting in liabilities of £265,555 (£10,700 in 2016/17) during 2017/18. The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
£0-£20,000	28	2	3	2	31	4	240,613	10,700
£20,001 - £40,000	1	-	-	-	1	-	24,942	-
<b>Total cost included in bandings and in CIES</b>							<b>265,555</b>	<b>10,700</b>

## NOTE 30 – EXTERNAL AUDIT COSTS

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

	2017/18 £000	2016/17 £000
<b>Statutory Audit Services</b>		
Fees payable to KPMG LLP with regard to external audit services carried out for the year by the appointed auditor for the year	45	45
Fees payable to KPMG LLP with regard to certification of grants and claims	8	7
	<b>53</b>	<b>52</b>
<b>Other Audit Services</b>		
Share of fees payable to KPMG LLP with regard to external audit services carried out for the year on behalf of Compass Point Business Services.	7	7
Fees payable to KPMG LLP with regard to certification of Capital Receipts Pooling claim	3	3
	<b>10</b>	<b>10</b>
<b>Total</b>	<b>63</b>	<b>62</b>

## NOTE 31 – GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18.

	2017/18 £000	2016/17 £000
<b>Credited to Taxation and Non Specific Grant Income and Expenditure</b>		
Revenue Support Grant	(1,072)	(1,666)
S31 Grant – Business Rate Grant	(836)	(447)
New Homes Bonus Scheme Grant	(1,384)	(1,734)
Other non-specific grants	(128)	(166)
Grants in relation to capital expenditure	(215)	(206)
<b>Total</b>	<b>(3,635)</b>	<b>(4,219)</b>
<b>Credited to Services</b>		
Housing Benefit Subsidy	(17,053)	(18,295)
Council Tax and Housing Benefit Administration	(335)	(361)
Discretionary Housing Payments	(112)	(83)
Disabled Facilities Grant	(585)	(325)
Health Improvement	(5)	(86)
Large Sites and Housing Zones – Capacity Funding	-	(224)
Other Housing Benefit Grants to Deliver Local Initiatives	-	(91)
Electoral Commission	(9)	(17)
Homelessness Grants	(78)	-
Grants for Growth	(737)	(26)
Land Charges New Burdens Grant	(12)	-
Other grants	(343)	(264)
<b>Total</b>	<b>(19,269)</b>	<b>(19,772)</b>
<b>Sources of Grants:</b>		
Central Government	(21,997)	(23,422)
Other Local Authorities	(628)	(493)
Other Bodies	(279)	(76)
<b>Total</b>	<b>(22,904)</b>	<b>(23,991)</b>

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

### Grants Received in Advance - Capital

	2017/18 £000	2016/17 £000
<b>Short Term Liabilities</b>		
MHCLG – Gypsy and Travellers	-	(200)
<b>Long Term Liabilities</b>		
MHCLG – Gypsy and Travellers	(209)	-
Private Developers – S106 Funding	(167)	(24)
<b>Total</b>	<b>(376)</b>	<b>(224)</b>

## NOTE 32 – RELATED PARTIES

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

### Central Government

UK Central Government has significant influence over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits).

Details of material transactions with Central Government are shown below. 2016/17 comparators shown in brackets.

• Funding from Government	Note 31	£22.197m (£23.422m)
• Non-Domestic Rates Share Payable	Collection Fund	£11.116m (£12.818m)
• Debtors	Note 18	£1.542m (£0.698m)
• Creditors	Note 21	£4.384m (£4.115m)

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in note 28. During 2017/18 a number of members had links to local Parish Councils, held positions on Internal Drainage Boards and other Local Community associations. Two members are Directors of Compass Point Business Services (East Coast) Ltd (joint venture with East Lindsey District Council). During 2017/18 five members were Directors of South Holland Local Housing Community Interest Company; four remained Directors at 31<sup>st</sup> March 2018.

Payments to Companies during the year (other than to those companies mentioned above) for which members are directors, amounted to £56,000 (£39,000 in 2016/17).

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

### Other Public Bodies

Joint management arrangements exist between the Council and Breckland District Council. The costs of this arrangement are shared 60:40 between the two Councils. During the year, the Council paid Breckland £1.073m (£1.007m in 2016/17) for shared Breckland employee and related costs and received £252,282 (£173,807 in 2016/17) from Breckland for payment of shared South Holland employees and related costs. There was an outstanding balance of £39,043 due by South Holland and Breckland owed South Holland a balance of £64,438 at the end of March 2018.

### Entities Controlled or Significantly Influenced by the Council

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

Joint merged service organisation arrangements for the shared provision of a number of back office services with East Lindsey District Council were implemented with effect from 1 August 2010, delivered through Compass Point Business Service (East Coast) Ltd (CPBS). The Council's share of the Company's assets, liabilities, income and expenditure are shown in note 39. There are no significant balances outstanding between the Council and the Company at 31 March 2018.

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

**South Holland Homes and Welland Homes Ltd**

The Council has two wholly owned subsidiary companies, South Holland Local Housing Community Interest Company and Welland Homes Ltd. Information and transactions for the year are set out in the group accounts.

**NOTE 33 – 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.

	2017/18	2016/17
	£000	£000
<b>Opening Capital Financing Requirement</b>	<b>71,166</b>	<b>69,892</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	3,951	3,259
Intangible Assets	39	(7)
Revenue Expenditure Funded from Capital under Statute	865	438
Long Term Investments – Welland Homes	-	877
Long Term Debtor – Welland Homes	1,120	409
<b>Sources of finance</b>		
Capital receipts	(351)	(10)
Government grants and other contributions	(1,080)	(607)
Major Repairs Reserve	(3,168)	(3,036)
<b>Sums set aside from revenue:</b>		
Direct revenue contributions	(255)	(36)
Impairment & revaluation losses on HRA non dwellings	-	(11)
Other adjustments to the CFR	(1)	(2)
<b>Closing Capital Financing Requirement</b>	<b>72,286</b>	<b>71,166</b>
<b>Explanation of movements in year</b>		
Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	1,120	1,274
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>1,120</b>	<b>1,274</b>

**NOTE 34 – LEASES****Council as Lessee****Operating Leases**

The Council has acquired some of its vehicle fleet by entering into operating leases, with typical lives of five years. It also has entered into some property leases.

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

	31 March 2018 £000	31 March 2017 £000
Not later than 1 year	29	87
Later than 1 year and not later than 5 years	43	59
	<b>72</b>	<b>146</b>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2017/18 £000	2016/17 £000
Minimum lease payments	90	84
	<b>90</b>	<b>84</b>

### Council as Lessor

#### *Operating Leases*

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

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

	31 March 2018 £000	31 March 2017 £000
Not later than 1 year	121	130
Later than 1 year and not later than 5 years	13	93
Later than 5 years	-	26
	<b>134</b>	<b>249</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 2017/18 no contingent rents were receivable by the Council (2016/17 nil).

### NOTE 35 – DEFINED BENEFIT PENSION SCHEMES

#### Participation in Pension Schemes

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

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

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

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

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

### Transactions Relating to Post-employment Benefits

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

	Local Government Pension Scheme	
	2017/18 £000	2016/17 £000
<b>Comprehensive Income and Expenditure Statement</b>		
<i>Cost of Services:</i>		
<i>Service cost comprising</i>		
Current service cost	2,788	1,750
Past Service costs (including curtailments)	143	13
<i>Financing and Investment Income and Expenditure</i>		
Net interest expense	956	1,035
<b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>3,887</b>	<b>2,798</b>
<i>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>		
<i>Remeasurement of net defined benefit liability comprising:</i>		
Return on plan assets (excluding the amount included in the net interest expense)	148	(8,832)
Actuarial (gains) and losses arising on changes in demographic assumptions	-	(1,539)
Actuarial (gains) and losses arising on changes in financial assumptions	(1,851)	16,178
Other experience	18	321
<b>Total Remeasurements recognised in Other Comprehensive Income and Expenditure</b>	<b>(1,685)</b>	<b>6,128</b>
<b>Total Post-employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>2,202</b>	<b>8,926</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(1,943)	(1,041)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
Employers' contributions payable to scheme	1,847	1,659
Contributions in respect of unfunded benefits	96	98

## Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme	
	2017/18	2016/17
	£000	£000
Present Value of the defined obligation	(101,233)	(100,051)
Fair Value of plan assets	63,451	62,528
<b>Net Liability arising from defined benefit obligation</b>	<b>(37,782)</b>	<b>(37,523)</b>

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

	Local Government Pension Scheme	
	2017/18	2016/17
	£000	£000
Opening fair value scheme assets	62,528	52,732
Interest Income	1,577	1,796
Remeasurement gain/(loss)		
The return on plan assets, excluding the amount included in the net interest expense	(148)	8,832
Contributions from employer	1,847	1,659
Contributions from employees into the scheme	420	429
Contributions in respect of unfunded benefits	96	98
Benefits paid	(2,869)	(3,018)
<b>Closing fair value of scheme assets</b>	<b>63,451</b>	<b>62,528</b>

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

	Local Government Pension Scheme	
	2017/18	2016/17
	£000	£000
Opening Balance at 1 April	100,051	83,086
Current Service Cost	2,788	1,750
Past Service Cost	143	13
Interest Cost	2,533	2,831
Contributions from scheme participants	420	429
<i>Remeasurements (gains) and losses:</i>		
Actuarial (gains) and losses arising on changes in demographic assumptions	-	(1,539)
Actuarial losses arising from changes in financial assumptions	(1,851)	16,178
Other experience	18	321
Benefits paid	(2,869)	(3,018)
<b>Closing Balance at 31 March</b>	<b>101,233</b>	<b>100,051</b>

**Local Government Pension Scheme assets comprised:**

	Fair Value of Scheme Assets			
	2017/18		2016/17	
	Quoted prices in active markets £000	% of total assets	Quoted prices in active markets £000	% of total assets
Cash and Cash Equivalents	776	1%	443	1%
Equity Instruments				
Consumer	4,660	7%	7,029	11%
Manufacturing	3,608	6%	919	1%
Energy and utilities	1,759	3%	1,621	3%
Financial institutions	4,364	7%	4,319	7%
Health and care	2,699	4%	-	-
Information technology	4,936	8%	2,407	4%
Other	-	-	5,133	8%
Debt Securities				
Corporate Bonds – Investment grade	-	-	5,812	9%
Corporate Bonds – Non Investment grade	-	-	-	-
UK Government	-	-	2,019	3%
Other	-	-	-	-
Property				
UK Property	5,378	8%	5,690	9%
Overseas Property	474	1%	190	-
Private Equity	1,027	2%	1,444	2%
Investment Funds and Unit Trusts				
Equities	17,605	28%	17,178	28%
Bonds	7,501	12%	-	-
Infrastructure	924	1%	940	2%
Other	7,740	12%	7,384	12%
<b>Total Assets</b>	<b>63,451</b>	<b>100%</b>	<b>62,528</b>	<b>100%</b>

**Basis for estimating Assets and Liabilities**

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

The Local Government Pension Scheme has been assessed by Hymans Robertson, an independent firm of actuaries; estimates for the Lincolnshire Pension Fund are based on the latest full valuation of the scheme as at 31 March 2016.

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

	Local Government Pension Scheme	
	2017/18	2016/17
<i>Mortality assumptions:</i>		
Longevity at 65 for current pensioners (years):		
- Men	22.1	22.1
- Women	24.4	24.4
Longevity at 65 for future pensioners (years):		
- Men	24.1	24.1
- Women	26.6	26.6
Rate of inflation	3.4%	3.4%
Rate of increase in salaries	2.8%	2.8%
Rate of increase in pensions	2.4%	2.4%
Rate for discounting scheme liabilities	2.6%	2.5%

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Approximate % increase to Employer Liability	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	9%	7,810
0.5% increase in the Salary Increase Rate	1%	964
0.5% increase in the Pension Increase Rate	8%	6,750

### Impact on the Council's Cash Flows

The contributions paid by the Council are set by the Fund Actuary at each triennial actuarial valuation, the most recent being 31 March 2016. The employer's contributions rate, over the period to 31 March 2020, has been stabilised. The stabilisation mechanism implemented is for employer contribution rates to increase at 1% p.a from the 2016/17 level.

Employer contributions payable to the scheme in 2018/19 are estimated to be £1.744m.

The weighted average duration of the defined benefit obligation for scheme members is 16.4 years, 2017/18 (16.4 years 2016/17).

## **NOTE 36 – CONTINGENT LIABILITIES**

At 31 March 2018 the Council has identified the following material contingent liability:

### **NNDR Appeals**

The Council has made provision for NNDR Appeals based upon its best estimate of known appeals as at 31 March 2018, plus an estimate for appeals lodged against the 2017 ratings list, for which appeals have not yet been received. It is not possible to accurately quantify appeals that have yet to be lodged with the Valuation Office Agency, so there is a risk that national and local appeals will have a significant impact on the Financial Statements.

## **NOTE 37 – CONTINGENT ASSETS**

At 31 March 2018 the Council has identified the following material contingent assets:

### **Section 106 Agreements**

The Council has signed a number of S106 agreements that require developers to make payments to the Council at some future date dependent upon certain events taking place, for example, when a development actually starts on site. The contributions generally have conditions attached to them requiring the Council to spend the monies in specific areas and on specific items. The largest contributions that the Council are expecting to receive are from Spalding Power Stations and Holland Park.

### **Decent Homes Loans**

The Council has, for a number of years, been giving property owners loans to enable them to improve their homes to meet a decent standard. These loans have been registered with Land Registry and will only become repayable, together with interest and a proportion of the increased property value, once the dwelling is sold or otherwise disposed of. The disposal and therefore repayment could be many years in the future. Loans outstanding as at 31 March 2018 are £447,000 (£437,000 at 31 March 2017).

## **NOTE 38 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

### **Key risks**

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

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

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

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

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash).

### **Credit Risk**

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits with a financial institution located in each category.

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

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

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

The full Investment Strategy for 2017/18 was approved by Council on 22 February 2017 and is available on the Council's website.

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

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £17.6m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2018 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 2018 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2018 %	Estimated maximum exposure to default and uncollectability at 31 March 2018 £000	Estimated maximum exposure at 31 March 2017 £000
	A	B	C	(A x C)	
Debtors	1,676	1.18%	1.18%	20	31

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for its customers, such that £127,435 of the £1,000,000 trade debtor balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2018 £000	31 March 2017 £000
Less than three months	885	435
Three to six months	12	6
Six months to one year	16	33
More than one year	87	78
<b>TOTAL</b>	<b>1,000</b>	<b>552</b>

During the reporting period the Council held no collateral as security.

## Liquidity Risk

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

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

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

	31 March 2018 £000	31 March 2017 £000
Less than one year	26	26
More than ten years	67,456	67,456
	<b>67,482</b>	<b>67,482</b>

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

## Refinancing and maturity risk

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

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

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

## Market Risk

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

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

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

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

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

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

	£000
Increase in interest receivable on variable rate investments	104
Increase in government grant receivable for financing costs	11
Impact on Surplus or Deficit on the Provision of Services	<b>115</b>
Share of overall impact debited to the HRA	23

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

**Price Risk** - The Council does not generally invest in equity share or marketable bonds. However, it does have shareholdings in Compass Point Business Services (East Coast) Ltd, a joint venture with East Lindsey District Council.

It also holds an equity stake in the UK Municipal Bonds Agency and is the sole shareholder of Welland Homes Limited, which is the Council's wholly owned Housing Development Company. The £0.877m equity investment in Welland Homes is classified as 'available for sale', meaning that all subsequent movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure. A general shift of 5% in the general price of the equity investment (positive or negative) would thus have resulted in a £0.044m gain or loss being recognised in the Other Comprehensive Income and Expenditure for 2017/18.

**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 39 – JOINT OPERATION

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

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

Compass Point Business Services' attributable proportion included in the Council's Balance Sheet as at 31 March 2018:

31 March 2017 £000		31 March 2018 £000
3	Property, Plant and Equipment	4
113	Intangible Assets	37
<b>116</b>	<b>Long Term Assets</b>	<b>41</b>
33	Short Term Debtors	28
351	Cash and Cash Equivalents	418
<b>384</b>	<b>Current Assets</b>	<b>446</b>
(30)	Cash and Cash Equivalents	(53)
(220)	Short Term Creditors	(166)
<b>(250)</b>	<b>Current Liabilities</b>	<b>(219)</b>
<b>(2,715)</b>	<b>Other Long Term Liabilities</b>	<b>(2,761)</b>
<b>(2,465)</b>	<b>Net Liabilities</b>	<b>(2,493)</b>
	<b>Usable Reserves</b>	
150	General Fund	233
	<b>Unusable Reserves</b>	
116	Capital Adjustment Account	41
(2,715)	Pension Reserve	(2,761)
(16)	Accumulated Absences Adjustment Account	(6)
<b>(2,615)</b>		<b>(2,726)</b>
<b>(2,465)</b>	<b>Total Reserves</b>	<b>(2,493)</b>

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

31 March 2017 £'000		31 March 2018 £'000
2,438	Gross Pay, National Insurance and Pensions	2,563
(35)	Premises Related Expenses	(36)
37	Transport Related Expenses	43
408	Supplies and Services	499
106	Depreciation and Amortisation	89
<b>2,954</b>	<b>Gross Operating Expenditure</b>	<b>3,158</b>
(48)	Other Income	(41)
<b>2,906</b>	<b>Cost of Services</b>	<b>3,117</b>
70	Net interest on the net defined benefit liability	77
(1)	Interest receivable and similar income	(1)
<b>2,975</b>	<b>(Surplus)/Deficit on the Provision of Services</b>	<b>3,193</b>
668	Remeasurements of the net defined benefit liability	(306)
<b>3,643</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>2,887</b>

## NOTE 40 – TRUST FUNDS

The Council is custodian trustee for:

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

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

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

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

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

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

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

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

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

Ayscoughfee Hall and Gardens £1,269,000 last revalued as at 31 March 2018.

Sir Halley Stewart Playing Field £115,800 last revalued as at 31 March 2018.

Trust fund revenue Account	Expenditure £000	2017/18			2016/17		
		Income £000	Net £000	Expenditure £000	Income £000	Net £000	
Ayscoughfee Hall and Gardens	309	(23)	<b>286</b>	382	(26)	<b>356</b>	
Sir Halley Stewart Playing Field	39	(9)	<b>30</b>	24	(9)	<b>15</b>	

**SUPPLEMENTARY FINANCIAL STATEMENTS**

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

2016/17 £000		2017/18 £000
	<b>Expenditure</b>	
2,944	Repairs and maintenance	3,188
3,547	Supervision and management	3,657
50	Rents, rates, taxes and other charges	67
2,296	Depreciation of non-current assets (Note 6)	2,907
(24,565)	Revaluation of non-current assets	(1,266)
75	Debt management expenses	85
66	Movement in the allowance for bad debts	54
<b>(15,587)</b>	<b>Total Expenditure</b>	<b>8,692</b>
	<b>Income</b>	
(15,307)	Dwelling rents	(15,029)
(1)	Non-dwelling rents	-
(1,131)	Charges for services & facilities	(1,220)
(30)	Contribution towards expenditure	(22)
<b>(16,469)</b>	<b>Total Income</b>	<b>(16,271)</b>
<b>(32,056)</b>	<b>Net income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>	<b>(7,579)</b>
354	HRA share of Corporate and Democratic Core	458
<b>(31,702)</b>	<b>Net income for HRA Services</b>	<b>(7,121)</b>
	<b>HRA Share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement</b>	
(361)	Gain on sale of HRA non-current assets	(158)
2,347	Interest payable and similar charges	2,347
(62)	Interest and investment income	(87)
275	Net interest on the net defined benefit liability	238
-	Capital grants and contributions	(14)
<b>(29,503)</b>	<b>Surplus for the year on HRA services</b>	<b>(4,795)</b>

The accompanying notes form an integral part of the Financial Statements.

## MOVEMENT ON THE HRA STATEMENT

2016/17 £000		2017/18 £000
8,968	Balance on the HRA at the end of the previous reporting period	8,968
29,503	Surplus for the year on the HRA Income and Expenditure Statement	4,795
(29,503)	Adjustments between accounting basis and funding basis under statute	(1,011)
<b>8,968</b>	<b>Balance on the HRA at the end of the current reporting period</b>	<b>12,752</b>

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

2016/17 £000		2017/18 £000
(361)	Gain or loss on sale of HRA non-current assets	(158)
2	Employee Benefits	(4)
260	HRA Share of contributions to or from the Pension's Reserve	431
(7,123)	Transfers to the Major Repairs Reserve	(2,907)
-	Application of Capital Grants to Capital Adjustment Account	(14)
2,296	Differences relating to changes in property values	
(24,577)	Funding of depreciation from Capital Adjustment Account	2,907
	Reversal of Revaluation losses on HRA Property	(1,266)
<b>(29,503)</b>	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>	<b>(1,011)</b>

The accompanying notes form an integral part of the Financial Statements.

## NOTES TO THE HOUSING REVENUE ACCOUNT

### NOTE 1 – PURPOSE OF HRA STATEMENT

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

### NOTE 2 – HOUSING STOCK

The Council was responsible for managing 3,804 dwellings at 31 March 2018 (3,823 at 31 March 2017). The stock is analysed below by number of bedrooms. The Council has an equity share in 5 shared ownership properties, with the Council's equity share being equivalent to 2.5 dwellings.

Analysis of Housing Stock at 31 March 2018	1 Bed	2 Bed	3 Bed	3+ Bed	Total
HRA Housing Stock					
Houses	-	342	1,507	13	1,862
Bungalow	667	1,006	-	-	1,673
Flats	110	154	-	-	264
Shared Ownership	1	1	3	-	5
<b>Total</b>	<b>778</b>	<b>1,503</b>	<b>1,510</b>	<b>13</b>	<b>3,804</b>

### NOTE 3 – RENT ARREARS

Rent arrears at 31 March 2018 amounted to £547,000 (£523,000 in 2016/17) and are analysed as follows:

	31 March 2018 £000	31 March 2017 £000
<b>Rent Arrears Due From</b>		
Residential - Current Tenants	317	322
- Former Tenants	212	181
Non Residential - Garages	18	20
<b>Total</b>	<b>547</b>	<b>523</b>
These arrears include all charges due from tenants: rents, service charges and other charges.		
Allowance for bad debts	(295)	(266)

## NOTE 4 – ASSET VALUES

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

	31 March 2018 £000	31 March 2017 £000
<b>Property, Plant and Equipment</b>		
Council Dwellings	148,778	147,724
Other Land and Buildings	283	283
Infrastructure – Housing Sewerage	514	630
Vehicles, Plant and Equipment	162	11
Surplus Assets	333	308
Community Assets	46	46
	<b>150,116</b>	<b>149,002</b>
<b>Non-operational assets</b>		
Assets Under Construction	29	78
<b>Intangible Non-Current Assets</b>	54	69
<b>Assets Held For Sale</b>	1,386	768
<b>Total</b>	<b>151,585</b>	<b>149,917</b>

## NOTE 5 – VACANT POSSESSION

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

	2017/18 £000	2016/17 £000
Vacant possession value	354,234	351,726

## NOTE 6 – DEPRECIATION

	2017/18 £000	2016/17 £000
<b>Depreciation</b>		
Council dwellings	2,714	2,072
Other Land and Buildings	5	27
Infrastructure - Housing Sewerage	141	142
Vehicles, Plant & Equipment	6	6
	<b>2,866</b>	<b>2,247</b>
<b>Amortisation</b>		
Intangible Assets	41	49
<b>Total</b>	<b>2,907</b>	<b>2,296</b>

**NOTE 7 – CAPITAL EXPENDITURE AND FINANCING**

	2017/18 £000	2016/17 £000
<b>Housing Capital Expenditure and Financing</b>		
<b>Expenditure</b>		
Improvements and enhancements to Council Dwellings	3,158	2,926
New Build – Council Dwellings	-	53
Improvements to wastewater treatments	25	73
Information systems	186	-
<b>Total Expenditure</b>	<b>3,369</b>	<b>3,052</b>
<b>Financing</b>		
Capital receipts	186	16
Major Repairs Reserve	3,168	3,036
Grants and Contributions	15	-
<b>Total Financing</b>	<b>3,369</b>	<b>3,052</b>

**NOTE 8 – CAPITAL RECEIPTS FROM DISPOSAL OF ASSETS**

	2017/18 £000	2016/17 £000
Sale of Council Houses under the Right to Buy Scheme	1,240	1,443
Repayment of Discount	76	-
Sale of Void Property	-	-
Sale of HRA Land	-	22
Mortgage repayments	2	3
<b>Total from Disposals</b>	<b>1,318</b>	<b>1,468</b>

**NOTE 9 – MAJOR REPAIRS RESERVE**

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

	2017/18 £000	2016/17 £000
<b>Balance at 1 April</b>	<b>6,696</b>	<b>2,609</b>
Transfers from the HRA		
Depreciation	2,907	2,296
Funding set-aside for Capital Investment	-	4,827
Financing of Capital Investment	(3,168)	(3,036)
<b>Balance at 31 March</b>	<b>6,435</b>	<b>6,696</b>

**COLLECTION FUND STATEMENT**

2016/17			2017/18			
Council Tax £000	Non-Domestic Rates £000	Total £000		Council Tax £000	Non-Domestic Rates £000	Total £000
(41,043)		(41,043)	<b>Income</b>			
	(26,696)	(26,696)	Council Tax receivable (Note 2)	(43,267)		(43,267)
			Non-Domestic Rates receivable (Note 3)		(26,549)	(26,549)
			Transitional Protection Payments			
	(1,213)	(1,213)	Contributions towards previous year's Collection Fund deficit			
			Central Government		(716)	(716)
-	(970)	(970)	South Holland District Council	-	(573)	(573)
-	(242)	(242)	Lincolnshire County Council	-	(143)	(143)
<b>(41,043)</b>	<b>(29,121)</b>	<b>(70,164)</b>	<b>Total Income</b>	<b>(43,267)</b>	<b>(27,981)</b>	<b>(71,248)</b>
			<b>Expenditure</b>			
			Precepts, demands and shares			
	12,818	12,818	Central Government		11,116	11,116
5,132	10,255	15,387	South Holland District Council	5,350	8,893	14,243
29,949	2,564	32,513	Lincolnshire County Council	31,556	2,223	33,779
5,346		5,346	Police and Crime Commissioner for Lincolnshire	5,525		5,525
	2,414	2,414	Transitional Protection Payments		2,424	2,424
			Impairment of debts/appeals			
115	142	257	Increase in allowance for impairment	176	16	192
	521	521	Increase/(decrease) in provision for appeals (Note 4)		(161)	(161)
	111	111	Cost of Collection Allowance		107	107
	243	243	Renewable Energy		312	312
			Contributions towards previous year's Collection Fund surplus			
140	-	140	South Holland District Council	65	-	65
812	-	812	Lincolnshire County Council	378	-	378
148		148	Police and Crime Commissioner for Lincolnshire	67		67
<b>41,642</b>	<b>29,068</b>	<b>70,710</b>	<b>Total Expenditure</b>	<b>43,117</b>	<b>24,930</b>	<b>68,047</b>
<b>599</b>	<b>(53)</b>	<b>546</b>	<b>(Surplus)/Deficit arising during year</b>	<b>(150)</b>	<b>(3,051)</b>	<b>(3,201)</b>
(1,155)	2,145	990	Deficit/(surplus) at beginning of year	(556)	2,092	1,536
<b>(556)</b>	<b>2,092</b>	<b>1,536</b>	<b>Deficit/(surplus) at end of year (Note 5)</b>	<b>(706)</b>	<b>(959)</b>	<b>(1,665)</b>

## NOTES TO THE COLLECTION FUND STATEMENT

### NOTE 1 – PURPOSE OF COLLECTION FUND STATEMENT

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

### NOTE 2 – COUNCIL TAX RECEIVABLE

Council Tax income derives from charges raised according to the value of residential properties that have been classified into eight Valuation Bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lincolnshire County Council, Police and Crime Commissioner for Lincolnshire and South Holland District Council, together with the relevant Parish requirement.

This is then divided by the council tax base, i.e. the number of properties in each valuation band, converted to an equivalent number of band D dwellings and adjusted for discounts and exemptions.

The council tax base was calculated as follows:

Band	No. of properties on Valuation List	No. of chargeable dwellings	Ratio	Band D equivalent dwellings
A (with Disabled Relief)		25	5/9	14
A	15,227	11,058	6/9	7,372
B	8,596	7,182	7/9	5,586
C	9,800	8,668	8/9	7,705
D	4,109	3,901	9/9	3,901
E	1,790	1,675	11/9	2,047
F	366	345	13/9	498
G	102	92	15/9	153
H	13	7	18/9	14
Band D Equivalents				27,290
Allowance for non-collection (1.46%)				(398)
<b>District Tax Base</b>				<b>26,892</b>

The basic amount of council tax for a band D property including an average parish charge, £1,577.86 (2016/17 £1,523.77), is then multiplied by the ratio specified for the particular band to give an individual amount due.

### NOTE 3 – NON-DOMESTIC RATES RECEIVABLE

Under the arrangements for non-domestic rates, the Council collects rates for its area based on local rateable values (determined by the Valuation Office Agency, an executive agency of HM Revenue and Customs) multiplied by the multiplier (determined by the Government). For 2017/18 there are two multipliers, the non-domestic rating multiplier of 47.9p and the small business non-domestic rating multiplier of 46.6p.

The Council's total Non-Domestic Rates Rateable Value at 31 March 2018 was £60.181m (31 March 2017 £62.279m).

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

The Collection Fund provides for a provision for appeals against the Rateable Value set by the Valuation Office Agency (VOA) not settled at 31 March 2018.

	Business Rate Appeals	
	£000	£000
<b>Balance at 1 April 2017</b>		<b>(4,578)</b>
Amounts used in 2017/18		594
		(3,984)
Additional provisions made in 2017/18	(1,642)	
Unused amounts reversed in 2017/18	1,803	
Decrease in Provision		161
<b>Balance at 31 March 2018</b>		<b>(3,823)</b>

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

As at 31 March 2018, the net surplus on the Collection Fund is £1.665m (Net deficit £1.536m at 31 March 2017).

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

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

2016/17			2017/18	
Council Tax £000	Non-Domestic Rates £000		Council Tax £000	Non-Domestic Rates £000
	1,046	Central Government		(479)
(70)	837	South Holland District Council	(88)	(384)
(413)	209	Lincolnshire County Council	(525)	(96)
(73)		Police and Crime Commissioner for Lincolnshire	(93)	
<b>(556)</b>	<b>2,092</b>	<b>(Surplus)/deficit</b>	<b>(706)</b>	<b>(959)</b>

## GROUP ACCOUNTS

The Council is not required to produce a Group Expenditure and Funding Analysis.

### GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2016/17				2017/18		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
21,709	(20,417)	1,292	Growth and Commercialisation Directorate	21,640	(19,861)	1,779
17,979	(20,776)	(2,797)	Place Directorate	17,930	(20,669)	(2,739)
4,115	(363)	3,752	Strategy and Governance Directorate	4,706	(419)	4,287
			Exceptional Item – Revaluation of Council Dwellings following change in Social Housing Factor for the East Midlands			
(24,400)	-	(24,400)		-	-	-
<b>19,403</b>	<b>(41,556)</b>	<b>(22,153)</b>	<b>Cost of Services</b>	<b>44,276</b>	<b>(40,949)</b>	<b>3,327</b>
5,074	(1,466)	3,608	Other operating expenditure	4,829	(1,537)	3,292
5,209	(2,151)	3,058	Financing and investment income and expenditure	4,893	(2,258)	2,635
6,751	(18,963)	(12,212)	Taxation and non-specific grant income and expenditure	6,340	(18,869)	(12,529)
<b>36,437</b>	<b>(64,136)</b>	<b>(27,699)</b>	<b>Deficit on the Provision of Services</b>	<b>60,338</b>	<b>(63,613)</b>	<b>(3,275)</b>
			Tax expenses of subsidiaries	71	-	71
			<b>Group Deficit on the Provision of Services</b>	<b>60,409</b>	<b>(63,613)</b>	<b>(3,204)</b>
		(8,487)	Surplus on revaluation of property, plant and equipment assets			(988)
		6,128	Remeasurements of the net defined benefit liability			(1,685)
		<b>(2,359)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(2,673)</b>
		<b>(30,058)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(5,877)</b>

The accompanying notes form an integral part of the Financial Statements.

**GROUP MOVEMENT IN RESERVES STATEMENT**

2017/18	General Fund Balance	General Fund Earmarked Reserves	Housing Revenue Account	HRA Earmarked Reserve	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's Share of Reserves of Subsidiaries	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2017</b>	2,214	8,343	8,968	200	6,696	3,572	1,612	31,605	70,334	101,939	978	102,917
<b>Movement in Reserves during 2017/18</b>												
Total Comprehensive Income and Expenditure	(1,973)	-	4,795	-	-	-	-	2,822	2,673	5,495	382	5,877
Adjustments between group accounts and authority accounts	90	-	-	-	-	-	-	90	-	90	(90)	-
<b>Net (Increases)/Decreases before transfers</b>	<b>(1,883)</b>	<b>-</b>	<b>4,795</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,912</b>	<b>2,673</b>	<b>5,585</b>	<b>292</b>	<b>5,877</b>
Adjustments between accounting basis & funding basis under regulations	1,295	-	(1,011)	-	(261)	732	229	984	(984)	-	-	-
<b>Increase/Decrease in Year</b>	<b>(588)</b>	<b>-</b>	<b>3,784</b>	<b>-</b>	<b>(261)</b>	<b>732</b>	<b>229</b>	<b>3,856</b>	<b>1,689</b>	<b>5,585</b>	<b>292</b>	<b>5,877</b>
Transfer to/from Earmarked Reserves	724	(724)	-	-	-	-	-	-	-	-	-	-
<b>Balance at 31 March 2018 carried forward</b>	<b>2,350</b>	<b>7,619</b>	<b>12,752</b>	<b>200</b>	<b>6,435</b>	<b>4,304</b>	<b>1,841</b>	<b>35,501</b>	<b>72,023</b>	<b>107,524</b>	<b>1,270</b>	<b>108,794</b>

The accompanying notes form an integral part of the Financial Statements.

2016/17	General Fund Balance	General Fund Earmarked Reserves	Housing Revenue Account	HRA Earmarked Reserve	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total usable Reserves	Unusable Reserves	Total Authority Reserves	Authority's Share of Reserves of Subsidiaries	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2016</b>	<b>2,101</b>	<b>7,441</b>	<b>8,968</b>	<b>200</b>	<b>2,609</b>	<b>2,579</b>	<b>1,688</b>	<b>25,586</b>	<b>46,272</b>	<b>71,858</b>	<b>1,001</b>	<b>72,859</b>
<b>Movement in Reserves during 2016/17</b>												
Total Comprehensive Income and Expenditure	(1,836)	-	29,503	-	-	-	-	27,667	2,359	30,026	32	30,058
Adjustments between group accounts and authority accounts	55	-	-	-	-	-	-	55	-	55	(55)	-
<b>Net (Increases)/Decreases before transfers</b>	<b>(1,781)</b>	<b>-</b>	<b>29,503</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,722</b>	<b>2,359</b>	<b>30,081</b>	<b>(23)</b>	<b>30,058</b>
Adjustments between accounting basis & funding basis under regulations	2,796	-	(29,503)	-	4,087	993	(76)	(21,703)	21,703	-	-	-
<b>Increase/(Decrease) in Year</b>	<b>1,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,087</b>	<b>993</b>	<b>(76)</b>	<b>6,019</b>	<b>24,062</b>	<b>30,081</b>	<b>(23)</b>	<b>30,058</b>
Transfer to/from Earmarked Reserves	(902)	902	-	-	-	-	-	-	-	-	-	-
<b>Balance at 31 March 2017 carried forward</b>	<b>2,214</b>	<b>8,343</b>	<b>8,968</b>	<b>200</b>	<b>6,696</b>	<b>3,572</b>	<b>1,612</b>	<b>31,605</b>	<b>70,334</b>	<b>101,939</b>	<b>978</b>	<b>102,917</b>

A description of the nature and purpose of each of the usable reserves can be found in Note 9 on page 52. Unusable reserves can be found in Note 24 on pages 65-69.

The accompanying notes form an integral part of the Financial Statements.

## GROUP BALANCE SHEET

31 March 2017 £000		31 March 2018 £000
176,484	Property, Plant and Equipment	176,743
107	Heritage Assets	107
2,126	Investment Property	4,209
329	Intangible Assets	170
50	Long Term Investments	50
130	Long Term Debtors	111
<b>179,226</b>	<b>Long Term Assets</b>	<b>181,390</b>
29,290	Short Term Investments	32,597
768	Assets Held for Sale	1,391
2,933	Short Term Debtors	4,010
6,336	Cash and Cash Equivalents	4,407
<b>39,327</b>	<b>Current Assets</b>	<b>42,405</b>
(1,115)	Cash and Cash Equivalents	(53)
(26)	Short Term Borrowing	(26)
(7,194)	Short Term Creditors	(7,441)
(200)	Grants Receipts in Advance - Capital	-
(1,831)	Provisions	(1,529)
<b>(10,366)</b>	<b>Current Liabilities</b>	<b>(9,049)</b>
(67,456)	Long Term Borrowing	(67,456)
(37,790)	Other Long Term Liabilities	(38,049)
-	Long Term Provisions	(71)
(24)	Grants Receipts in Advance – Capital	(376)
<b>(105,270)</b>	<b>Long Term Liabilities</b>	<b>(105,952)</b>
<b>102,917</b>	<b>Net Assets</b>	<b>108,794</b>
32,238	<b>Usable Reserves</b>	36,149
70,679	<b>Unusable Reserves</b>	72,645
<b>102,917</b>	<b>Total Reserves</b>	<b>108,794</b>

The accompanying notes form an integral part of the Financial Statements.

## GROUP CASH FLOW STATEMENT

2016/17 £000	2016/17 £000		2017/18 £000	2017/18 £000
	27,699	Net surplus on the provision of services		3,275
(17,096)		Adjustments to net surplus or deficit on the provision of services for non-cash movements	3,289	
(2,015)	(19,111)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(3,217)	72
	8,588	Net cash flows from Operating Activities		3,347
	(10,544)	Investing Activities		(5,753)
	(478)	Financing Activities		1,579
	(2,434)	Net increase/(decrease) in cash and cash equivalents		(867)
	7,655	Cash and cash equivalents at the beginning of the reporting period		5,221
	<b>5,221</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>4,354</b>

The accompanying notes form an integral part of the Financial Statements.

The Council is the sole owner of two subsidiary companies: South Holland Local Housing Community Interest Company ("South Holland Homes"), and Welland Homes Ltd ("Welland Homes"), holding 100% of the issued share capital in each. It therefore has control over both of these entities and is required to prepare group accounts, which reflect the financial position, financial performance and cash flows of the group.

### Explanatory Notes to the Group Accounts

Where figures in the group accounts differ materially from the Council's accounts, the relevant explanatory notes have been prepared on a consolidated basis. The notes below give information on the areas that have materially changed on consolidation of the group entities into the Council's accounts.

### Accounting Policies

The financial statements of South Holland Homes and Welland Homes have been prepared in accordance with the Financial Reporting Standard 102 Section 1A - "The Financial Reporting Standard applicable in the UK and Republic of Ireland". There are no significant differences in the accounting policies of the subsidiary companies and the Council that would cause a material adjustment in the consolidation of the Group Accounts. Any statutory adjustments between accounting and funding basis included in the Council's accounting policies do not apply to the subsidiary company.

Notes within the group accounts have not been provided except where there are material differences to those provided in the notes above.

## GROUP INVESTMENT PROPERTY

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

2016/17 £000		2017/18 £000
(117)	Rental Income from investment property	(226)
31	Direct operating expenses arising from investment property	95
(51)	Net (gains)/losses from fair value adjustments	(372)
<b>(137)</b>	<b>Net (gain)/loss</b>	<b>(503)</b>

There are no restrictions on the Group's ability to realise the value inherent in its investment property or on the Group's right to the remittance of income and the proceeds of disposal.

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

2016/17 £000		2017/18 £000
1,524	Balance at start of the year	2,126
550	Additions resulting from acquisitions	1,710
52	Net gains/(losses) from fair value adjustments	373
-	Transfers: To/from Property, Plant and Equipment	-
<b>2,126</b>	<b>Balance at end of the year</b>	<b>4,209</b>

### Fair Value Hierarchy

Details of the Group's investment properties and information about the fair value hierarchy as at 31 March 2018 is as follows:

Fair Value Level 2 2016/17 £000		Fair Value Level 2 2017/18 £000
739	Commercial Industrial Units	740
1,387	Residential Investment Property	3,469
<b>2,126</b>	<b>Balance at end of the year</b>	<b>4,209</b>

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

#### Significant Observable Inputs – Level 2

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

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

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

Valuation inputs for rental and yield which are directly applicable i.e. an almost identical property let to a similar covenant on the same repairing and insuring terms for a similar term to the valuation subject are

said to be 'observable inputs' as they are directly comparable with limited adjustment and are said to be a Level 2 in the fair value hierarchy.

### Highest and best use of Investment Properties

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

### Valuation Process for Investment Properties

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

## GROUP CASH AND CASH EQUIVALENTS

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

31 March 2017 £000		31 March 2018 £000
1	Cash held by the Council	-
1,075	Bank current accounts	874
5,260	Deposits with Banks on Instant Access	3,533
<b>6,336</b>	<b>Cash and Cash Equivalents categorised as Current Assets</b>	<b>4,407</b>
(1,115)	Bank current accounts	(53)
<b>(1,115)</b>	<b>Cash and Cash Equivalents categorised as Current Liabilities</b>	<b>(53)</b>
<b>5,221</b>	<b>Total Cash and Cash Equivalents</b>	<b>4,354</b>

## ADDITIONAL INFORMATION

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 2017/18 relating to the interests in the companies and joint venture or in the entities themselves that are not disclosed elsewhere in the Accounts.

### South Holland Local Housing Community Interest Company – South Holland Homes

South Holland Homes was established by the Council in 2008/09 for the purpose of accessing social housing grant from the Homes and Communities Agency. This was in order to provide affordable and social housing for the benefit of the local community. In 2009/10, 6 new properties were constructed. These are tenanted and managed by the Council.

In 2017/18 the Council collected rent of £25,945 on behalf of the Company and charged management, support fees and other expenses of £8,878. There was an outstanding balance of £8,878 due to the Council at 31 March 2018 (£9,368 31 March 2017).

### Retained Surplus/Deficit

In 2017/18 the company made a profit after tax of £14,905 (2016/17 £15,337). This is included in the Group Comprehensive Income and Expenditure Statement.

### ***Assets and Liabilities***

At 31 March 2018, South Holland Homes held fixed assets valued at £836,600 and current assets totalling £523,381. Liabilities consisted of short term creditors of £12,104, and long term creditors of £267,000.

### ***Commitments under capital contracts***

At 31 March 2018 the company had no commitments under capital contracts (31 March 2017 nil).

### ***Inter-organisation Balances***

Group accounting regulations require that inter-organisation balances be removed. The following balances were removed in 2017/18:

Debtors – Nil (2016/17 Nil)  
Creditors – £8,878 (2016/17 £9,368)

### ***Inter-organisation transactions***

Group accounting regulations require that inter-organisation transactions be removed. The following transactions were removed in 2017/18:

Rent £25,945 (2016/17 £26,595)  
Management and support fees and other expenses £8,878 (2016/17 £9,104)

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

### **Welland Homes Ltd**

During 2015/16 the Council established a wholly owned subsidiary company, Welland Homes Ltd, in order to meet a number of social and economic objectives including increasing housing supply in the area to address existing demand and meet the needs of a growing population. In 2016/17, 4 new build residential properties were purchased.

During 2017/18, Welland Homes purchased a further 11 new build residential properties. All 15 properties are rented to private tenants at market value. Welland Homes also purchased a piece of land for future residential development. The Council committed to providing financial support to Welland Homes in the form of a £1,393,261 loan facility, to be used to construct residential property. At 31 March 2018 Welland Homes had drawn down £187,676 of this loan. In respect of this loan, there was an outstanding amount of £187,761 due to the Council at 31 March 2018 including £85 interest due on the loan. There was also an outstanding amount of £1,341,642 due to the Council at 31 March 2018, for a loan drawn down by Welland Homes during 2016/17 and 2017/18, for the purchase of 15 residential properties.

The Council recharged expenses incurred on behalf of Welland Homes of £72,137 in the year.

### ***Retained Surplus/Deficit***

In 2017/18 the company made a profit after tax of £317,736 (2016/17 a loss of £88,361). This is included in the Group Comprehensive Income and Expenditure Statement.

### ***Assets and Liabilities***

At 31 March 2018, Welland Homes held fixed assets valued at £2,592,417 and current assets totalling £78,646. Liabilities consisted of short term creditors of £4,950, long term creditors of £1,529,318 and a provision for a deferred tax liability of £70,629.

### ***Commitments under capital contracts***

At 31 March 2018 the company had commitments under capital contracts totalling £1.717m (31 March 2017 £1.365m).

### ***Inter-organisation Balances***

Group accounting regulations require that inter-organisation balances be removed. The following balances were removed in 2017/18:

Creditors – £1,529,403 (2016/17 £408,851)

### ***Inter-organisation transactions***

Group accounting regulations require that inter-organisation transactions be removed. The following transactions were removed in 2017/18:

Management and support fees and other expenses £27,151 (2016/17 £71,657)

Further information about the accounts of Welland Homes is available from the Company Secretary, V Cherry, Council Offices, Priory Road, Spalding, Lincolnshire, PE11 2XE.

# ANNUAL GOVERNANCE STATEMENT

For the Year Ended 31 March 2018

## Scope of responsibilities

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

In discharging this overall responsibility, South Holland District Council is also responsible for ensuring that there is a sound system of governance which facilitates the effective exercise of its functions, guarantees that the financial and operational management of the authority is effective and includes arrangements for the management of risk.

South Holland District Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is available on our website at [www.sholland.gov.uk](http://www.sholland.gov.uk). This statement explains how South Holland District Council has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2015 (England) in relation to consideration of the findings of a review of the system of internal control and approval and publication of an annual governance statement.

## The purpose of the Governance Framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically. It cannot eliminate all risk and can only provide reasonable and not absolute assurance of effectiveness.

The Governance Framework has been in place at South Holland District Council for the year ended 31 March 2018 and up to the date of approval of the Financial Statements.

## The Governance Framework

**Vision and Priorities** – the Council's ambition is to continue to increase the prosperity and wellbeing of residents and businesses, whilst striving to protect and enhance the district's environment and its unique and historic character. Council priorities are:

- To develop safer, stronger, healthier and more independent communities while protecting the most vulnerable,
- To have pride in South Holland by supporting the district and residents to develop and thrive,
- To provide the right services, at the right time and in the right way, and
- To encourage the local economy to be vibrant with continued growth.

**Quality of Services** - The Council has an established Performance Management Strategy which sets out how it monitors both performance and the delivery of objectives and risks. The framework for managing performance has been completely reviewed in light of changes to the business planning and shared management arrangements, with new performance measures also being developed to reflect the change in central government policy to move away from national targets to those that better identify with local requirements'.

**Operational Governance** - The Council has produced an operational governance document which is the overarching driver for the shared management officer led groups/boards which report to the Executive Management Team (EMT) and then through to Corporate Management Team (CMT) as required. Each group/board is supported with agreed terms of reference and the minutes and actions are reviewed by EMT. EMT manages the business of the Council and CMT manages the escalation of corporate level issues risks and decisions. The groups/boards cover a wide range of areas; Finance, Performance Risk and Audit, Joint Safeguarding and Transformation.

**Constitution and Responsibilities** - A comprehensive document setting out the Council's constitution exists which sets out the clearly defined structure for the Council's organisational and decision-making arrangements based upon a Cabinet/Executive model. It sets out how the Council operates, what matters are reserved for decision by the whole Council, the responsibilities of the Cabinet and the matters reserved for collective and individual decisions, and the powers delegated to panels, committees and community councils. In essence the different roles can be summarised as follows:

- Council decides upon certain policies and other specialist functions that cannot be delegated elsewhere including the setting of the council tax,
- A limited number of policies are reserved to the Council, either by the Council's own choice or because they are allocated by law (together these are known as the Policy Framework). Subject to any specific legislative requirements, the Cabinet is responsible for all policies outside of the Policy Framework,
- Cabinet works to a Key Decision Plan of forthcoming decisions for up to twelve months ahead,
- All decisions, along with formal minutes of all committee meetings are published on the Council's website,
- The work of the Cabinet and the Council as a whole is supported by the Overview and Scrutiny Committees through the Policy Development Panel and the Performance Monitoring Panel and associated task and finish groups. The Panels scrutinise decisions made by the Cabinet, and those delegated to officers, and review services provided by the Council and its partners. The Panels have developed their own work programme for the review of Council services in addition to scrutinising the work of the Cabinet. The Panels can 'call-in' a decision which has been made by the Executive but not yet implemented,
- The Governance and Audit Committee is responsible for monitoring the effective development and operation of corporate governance in the Council. It provides independent assurance of the adequacy of the governance arrangements, including the risk management framework, the associated control environment, financial and non-financial performance including exposure to risk and potential threats to the control environment. It also has the responsibility for the approval of the Statements of Accounts and review of treasury policy and outturn, separate committees exist for Planning and Licensing,
- Delegation arrangements to committees, the Executive and officers are set out in detail within the constitution, and
- Regular meetings take place between relevant senior officers and members of the Council to discuss and propose policy.

The constitution also includes sections on standing orders, financial regulations and conduct of meetings. The constitution as a whole is reviewed periodically with interim updates as and when appropriate. A complete review of the constitution was carried out in 2015/16 to ensure that it remains relevant and effective. Formal adoption of the revised constitution was made at Full Council in January 2016 and there is a standing item at Full Council for any minor updates to be made.

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

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

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

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

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.

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

**Working relationships** - The Constitution of the Council sets out a number of delegated authorities for Officers, including the conditions of such delegations. Other delegations may also be granted separately from the constitution and these are recorded in a log maintained by the Monitoring Officer.

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, which align to the corporate Core Values and help to identify the types of behaviour the Council wishes to promote, develop and engender.

**Codes of Conduct** - The Council's constitution contains codes of conduct applying to members as well as a protocol for councillor/officer relationships. These have enabled the authority to develop an inclusive culture over the years, whereby members and officers work together to deliver the Council's vision and quality services to its residents. The codes include reference to the need to declare any interests which may conflict with the individual's role at the Council and such registers for councillors and officers are maintained by the Council. The Members' Code of Conduct was reviewed during 2016-17

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

#### **Partnership working**

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

The South Holland District Council shared management arrangement with Breckland District Council is now well established. This commitment to sharing a management team does not encompass the elected Councils which will continue to exercise independent democratically accountable local government in their respective districts, each having its own governance arrangements. A Memorandum of Understanding is in place, and sets out the governance arrangements for shared management and joint working.

**Group Companies** - Compass Point Business Services (East Coast) Ltd. (CPBS) was set up by South Holland and East Lindsey District Councils in August 2010 to deliver human resources, customer services, ICT, revenues and benefits, and financial services to the two authorities. South Holland District Council owns a 37%

stake in the company with the remaining share being owned by East Lindsey District Council. Each authority has equal voting rights.

The CPBS Board of Directors includes Councillors and Chief Officers of both authorities. The company has regularly reported its progress on performance of services to the Monitoring Officer, with quarterly shareholder performance being subject to Scrutiny.

An annual business plan is approved by Council. The ongoing governance arrangements are set out in the Service Level Agreement (SLA), and a management Agreement is in place that sets out the partnership arrangements, principles and parameters.

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

Welland Homes Limited was set up during 2015/16 and became fully operational in 2016/17 with the Council as the sole shareholder. The Board of Directors is responsible for preparing the Director's report, Financial Statements and governance arrangements for the company. Officers of the Council work within this framework to deliver services to the company and Welland Homes operates within the governance arrangements of the Council when delivering services to the authority.

### ***Transparency***

The Council strives to be publicly accountable and to present its work with openness and transparency. As such, the authority routinely publishes data on its website in accordance with the requirements of the Local Government Transparency Code 2015.

## **Functions and roles**

### ***Financial management***

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

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

### ***Risk Management***

The Council's risk management arrangements are embedded in its Corporate Risk Management Strategy and risk registers. South Holland District Council has developed its performance system to maintain a register of the key strategic risks it considers it faces along with the actions planned or taken to mitigate these risks, which have been monitored by Performance, Risk and Audit Board, Executive Management Team and the Governance and Audit Committee on a regular basis. Risk logs are also being used to manage the risks for key projects and partnerships, along with other project management techniques, and all key decisions are required to be assessed for risks. All committee reports contain a mandatory risk section to ensure that members can consider the risks and opportunities of any recommendations or options, so that the consideration of risk forms an integral part of all decision making.

### ***Data Protection***

Much work has been undertaken to reflect the requirements of the new General Data Protection Regulation (GDPR). The regulation comes into force in May 2018, though the new Data Protection Act is still progressing through Parliament. Guidance from the Information Commissioner's Office continues to be released and our policies, practices and procedures are being updated to reflect the changes and the guidance as it is issued.

Oversight is being given to the introduction of GDPR by the Executive Manager for Governance and a corporate governance group, the Statutory Information Group.

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

The Council has a Councillor Development Working Group and provides opportunities to all members to undertake appropriate Development, both on first election and on an on-going basis. In addition certain regulatory committees require member training before undertaking that role. The Council is working towards reaccreditation for the Member Development Charter.

Staff performance is managed using a performance development framework. The Performance Development Review (PDR) process improves communications and ensures employees have clear objectives and an understanding of how they contribute to corporate priorities and goals. All Council employees have an annual Performance Development Review which is followed up and monitored by the reviewer and reviewee throughout the year. PDR's include a process for identifying training and development needs, in addition to aligning to the corporate core values and competence frameworks required by staff.

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

Senior officers are also expected to keep abreast of developments in their profession at all times and attend suitable training to maintain their professional competency.

### ***Community engagement***

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

### ***Review of effectiveness***

South Holland District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Consortium Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The review of effectiveness covers all group activities undertaken by the Council with other partners.

***The Council*** approves and keeps under regular review all the strategic policies which it reserves for its own consideration, including:

- The Constitution,
- The Corporate Business Plan,
- The Medium Term Financial Plan and Capital Strategy,
- The Licensing Authority Policy Statement,
- The Corporate Asset Management Strategy,
- The Treasury Management and Investment Strategies, and
- The Gambling Policy.

### ***The Leader***

- Executive powers vest in the Leader and the Leader has approved delegations to the Cabinet and Executive Members (Portfolio Holders). The Leader exercises executive functions which have not been expressly delegated to Cabinet or the other Executive Members.

***The Cabinet*** is appointed by the Leader and carries out the executive functions of the Council as required by legislation and the Council's constitution and accordingly:

- Takes executive decisions,

- Approves policies other than those reserved for Council, and
- Recommends to Council policies and budgetary decisions.

**The Executive** consists of the Leader and Executive Members (Portfolio Holders), who together are the Cabinet and most day to day 'executive' decisions fall to the Executive under the law.

**The Overview and Scrutiny Commission** may undertake any work relating to the four key principles of scrutiny as follows:

- Hold the Executive to Account (Call-In),
- Performance Management,
- Assist Policy Development and Review, and
- Internal/External Scrutiny.

#### **The Governance and Audit Committee**

- Considers and approves audit plans,
- Considers audit reports,
- Comments on the work of audit in addressing the authority's significant risks,
- Satisfies itself that the control and governance arrangements have operated effectively by considering audit and risk reports and undertaking ad hoc reviews,
- Annually self-assess themselves against best practice guidance to check their effectiveness,
- Approves the Statements of Accounts,
- Reviews treasury policy and performance, and
- Consider standards issues.

**Executive and Corporate Management.** CMT review political and corporate responsibility, direction and delivery of corporate plan, direction and delivery of resources, horizon scanning and key controls. EMT receives regular reports from a variety of governance boards which have been set up to manage corporate performance and risk. These boards cover performance and risk, employee relations, safeguarding, health and safety, emergency planning, and finance, as well as the statutory officers group. There are a number of other groups covering cross cutting themes and specific services.

**Managers** have carried out self-assessments of the processes and controls they have in place to allow them to achieve their service objectives. These are reviewed by Finance to provide assurance that effective controls were in place.

**External Auditors** review the Council's arrangements for:

- Preparing accounts in compliance with statutory and other relevant requirements,
- Ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice, and
- Managing performance to secure economy, efficiency and effectiveness in the use of resources.

External audit is provided by KPMG. Following the annual audit KPMG issues an ISA 260 Report to the Governance and Audit Committee covering the opinion on the financial statements, value for money and the Whole of Government Accounts submission. The Council takes appropriate action where improvements need to be made. From the work undertaken by External Audit during the year, one issue has been raised, regarding the level of access that the external software provider, Midland HR, has to the system. A third party assurance report has been provided by Midland HR, to give assurance that this privileged access does not present a risk.

#### **Internal Audit**

The S151 Officer has provided the Internal Audit service through a contract with Eastern Internal Audit Services Ltd which monitors the effectiveness of the control environment and reports specific recommendations to the senior management and the Governance and Audit Committee. **The Head of Internal Audit** provides an independent opinion on the framework of governance, risk management and control, which is incorporated in the Annual Report and Opinion. The Head of Internal Audit also places reliance on the outcomes of the work undertaken by East Lindsey District Council in relation to the services provided by Compass Point Business Services.

The internal audit conclusions are scored as either Substantial, Reasonable, Limited or No assurance by internal audit.

From the work undertaken by Internal Audit during the year, the Head of Internal Audit provides an opinion on the effectiveness of South Holland District Council's arrangements for governance, risk management and control; for the 2017/18 financial year the opinion concluded is of limited assurance.

In relation to the issues noted by the Head of Internal Audit in 2016/17 most of these have been addressed, with the following issues remaining:

- Invoice and credit note authorisation remains a weakness, with staff being able to raise these without the required approval and the audit trail for credit notes has declined with only verbal authorisation being noted.
- There continues to be issues with completing Finance audits on time, with management responses being delayed and two audits (Payroll and Budget Management) not being completed until June 2018.

Internal Audit Work has identified the following weaknesses which are deemed to be significant enough for inclusion within the Annual Governance Statement:

- There are control weaknesses in the area of Section 106 Arrangements with management needing to address the issues to mitigate the risks of financial loss and reputational damage.
- Asset Management at the Council also has control weaknesses that need addressing by management to ensure that the risks associated with a potential loss of income are mitigated.
- There are control weaknesses in Revenues in relation to Council Tax and National Non-Domestic Rates to mitigate the risks of financial loss to the Council, and it is important to ensure that the agreed policy for write offs becomes embedded within normal processes,.
- Control weaknesses were identified within Payroll and HR, and issues noted in relation to GDPR must be addressed as a matter of urgency, to mitigate the potential financial and reputational risks to the Council.

All issues raised are subject to action plans to improve the control environment.

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

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

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

#### **Update to Significant Governance Issues 2016/17**

- **The ongoing delivery of the Council's Transformation Programme, based on Digitalisation, Aligning Public Services, Organisational Design and Commercialisation** - The Moving Forward Programme has now completed its third year. In 2017/18 it has achieved confirmed savings of £506k (75%) against an MTFP target of £675k. A complete review of the Moving Forward programme is currently underway.
- **The continuing need to develop commercial partnership working to deliver houses and support economic growth** - The Council has a number of strong partnerships with private and public sector bodies with a role in supporting housing and economic growth. These partnerships include local SME house builders, Homes England, the Greater Lincolnshire Local Enterprise Partnership, key local businesses, housing associations and Lincolnshire County Council Highways. This partnership working has supported an increase in housing 'starts' for 2017/18, and has assisted in securing £12m in government funding to unlock a key major housing site in Spalding.
- **The development of a clear plan of approach to the forthcoming review of the Council's Leisure Contract** - A clear plan is in place for the review of leisure, project governance is in place and good progress is being made.

- **Delivering the Corporate Plan aim of being a Landlord of choice will necessitate a continued strengthening of the HRA including commencement of the Affordable Housing programme** - The Council is currently pursuing two sites for development as affordable housing through the HRA. Both sites are at pre-planning stage. The Council is also pursuing its aim of becoming a 'landlord of choice' through its activity through Welland Homes Ltd. The company owns 15 properties, and has a pipeline of a further 15, which will be made available in the market for private rent. These properties will be managed to the highest standard.
- **Ongoing and additional impact of business rate retention arrangements and pooling arrangements within Greater Lincolnshire** - Ongoing monitoring has taken place through 2017/18. Lincolnshire has been successful in bidding for pilot status for Business Rates, which will enable 100% retention of Business Rates locally during 2018/19.
- **Continuing impact of reduced government funding, reductions in housing rents and implications of right to buy and other national housing policies** - The Council did not utilise New Homes Bonus to balance the budget for 2018/19. There is continued investment in growth and commercialisation, with a view to securing future Council Tax and Business Rate income streams. The impact of national policy changes in relation to housing continue to be monitored proactively.
- **Continued potential impact of Welfare Reform** - Spalding Jobcentre is now scheduled to move to Full Universal Credit Service in July 2018, with the DWP's latest planning assumptions for migration of existing claims to be complete by the end of 2022. The Council has commenced planning and preparation in 2017/18 ready for implementation in July 2018, and is working closely with the DWP.
- **Ongoing and additional impact of Housing Benefit subsidy particularly in respect of Local Authority error rates** - The final subsidy position for 2016/17 following audit was positive, and the Council received full subsidy. Through 2017/18 Local Authority error continues to be monitored closely, with prioritisation of activity to control LA error within the end position of 0.42%.

### **Significant Governance Issues 2017/18**

The work of Internal Audit is highlighted in their Annual Report and Opinion which raises concerns on invoice and credit note authorisation, completion of CPBS audits, asset management and section 106 arrangements. The review of effectiveness provides limited overall assurance on the Governance system. As a result of this an enhanced level of focus will be required over the forthcoming year to address these issues and substantial work is already underway. Specific opportunities for improvement in risk management and internal controls have been identified as part of this process and are included in action plans for relevant officers and are noted on the Head of Internal Audit's annual opinion.

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

- The need to deliver a balanced revenue budget in future years as part of the Medium Term Financial Plan
- The ongoing delivery of the Council's Transformation Programme, based on Digitalisation, Aligning Public Services, Organisational Design and Commercialisation,
- The continuing need to develop commercial partnership working to deliver houses and support economic growth,
- Delivering the Corporate Plan aim of being a Landlord of choice will necessitate a continued strengthening of the HRA including commencement of the Affordable Housing programme,
- Ongoing and additional impact of business rate retention arrangements and pooling arrangements within Greater Lincolnshire,
- Continuing impact of reduced government funding, reductions in housing rents and implications of right to buy and other national housing policies,
- Continued potential impact of Welfare Reform,
- Ongoing and additional impact of Housing Benefit subsidy particularly in respect of Local Authority error rates.

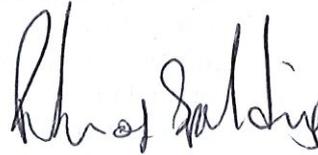
## Certification

We are satisfied that appropriate arrangements are in place to address improvements identified in our review of effectiveness. Progress on these improvements and mitigation of risks will be monitored by the Executive Management Team and Governance and Audit Committee through the year and be considered in our next annual review.



**Anna Graves**  
**Chief Executive**

Date: 26th July 2018



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

Date: 26th July 2018

## GLOSSARY OF TERMS

### **Accounting Period**

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

### **Accruals Basis**

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

### **Actuarial Gains and Losses**

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

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

### **Appointed Auditors**

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

### **Balance Sheet**

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

### **Balances**

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

### **Capital Adjustment Account**

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

### **Capital Expenditure**

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

### **Capital Receipts**

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

### **Carrying Amount**

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

### **Cash Flow Statement**

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

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

CIPFA is the leading professional accountancy body for public services

### **Collection Fund**

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

**Community Assets**

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

**Contingent Liabilities or Assets**

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

**Council Tax**

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

**Council Tax Requirement**

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

**Creditors**

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

**Current Service Cost**

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

**Curtailement**

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

**Debtors**

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

**Deferred Capital Receipts**

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

**Defined Benefit Scheme**

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

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

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

**Depreciation**

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

**Earmarked Reserves**

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

**Events after the Balance Sheet Date**

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

**Exceptional Items**

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

**External Audit**

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

**Expenditure**

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

**Fair Value**

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

**Finance Lease**

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

**Financial Instruments**

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

**General Fund**

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

**Heritage Assets**

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

**Housing Revenue Account**

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

**Impairment**

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

**Income**

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

**Infrastructure Assets**

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

**Intangible Assets**

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

**Internal Borrowing**

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

**International Financial Reporting Standards**

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

**Joint Operation**

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

**Liabilities**

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

**Materiality**

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

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

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

**Net Book Value (NBV)**

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

**Net Debt**

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

**Net Realisable Value (NRV)**

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

**Non-Current Assets Fixed Assets)**

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

**Non-Operational Assets**

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

**Operational Assets**

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

**Operational Boundary**

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

**Operating Lease**

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

**Precept**

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

**Prior Year Adjustment**

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

**Provision**

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

**Public Works Loan Board (PWLB)**

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

**Related Parties**

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

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

**Remuneration**

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

**Reserves**

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

**Revaluation Reserve**

The Reserve records the accumulated gains on the fixed assets held by the Council arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

**Revenue Expenditure**

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

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

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

**Revenue Support Grant**

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

**Service Potential**

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

**Treasury Management**

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

### **Treasury Management Strategy**

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



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH HOLLAND DISTRICT COUNCIL**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**Opinion**

We have audited the financial statements of South Holland District Council ('the Authority') for the year ended 31 March 2018 which comprise the Group Comprehensive Income and Expenditure Statement(s), the Group Balance Sheet(s), the Group Movement in Reserves Statement(s), the Group Cash Flow Statement(s), the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

**Other information published with the financial statements**

The Executive Director Commercialisation is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

**Executive Director Commercialisation' responsibilities**

As explained more fully in the statement set out on page 22, the Executive Director Commercialisation is responsible for: the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority and the Group will continue in operational existence for the foreseeable future.

**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements



can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

## **REPORT ON OTHER LEGAL AND REGULATORY MATTERS**

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

#### **Conclusion**

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, South Holland District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### **Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

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.

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether South Holland District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether South Holland District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### **Statutory reporting matters**

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

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



#### THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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

#### CERTIFICATE OF COMPLETION OF THE AUDIT

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

A handwritten signature in blue ink, appearing to read 'J.R. Cornett', with a horizontal line underneath it.

John Cornett  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
St Nicholas House  
31 Park Row  
Nottingham

31 July 2018