



**South  
Derbyshire**  
District Council



# Statement of Accounts 2016/17

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**South  
Derbyshire**  
District Council

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# Narrative Report

## INTRODUCTION

The Council's financial performance for the year ended 31<sup>st</sup> March 2017 is set out in the Comprehensive Income and Expenditure Statement and its financial position is set out in the Balance Sheet and Cash Flow Statement.

These financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The purpose of this foreword is to highlight and summarise the key facts and figures which make up the Council's financial standing, which is detailed in the various statements and disclosure notes. The narrative report also explains reasons for the major changes in the Council's financial position from that reported in the previous year, 2015/16.

The Statement follows approved accounting standards and is necessarily technical in parts. A glossary is provided at the end of this document to explain the main terms and technicalities associated with the Council's Accounts.

In accordance with accounting practice, the Council has reported its financial position in a series of accounting statements as detailed below.

## THE FINANCIAL STATEMENTS

### The Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Council, analysed into “**usable reserves**” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other “**unusable**” reserves. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES).

These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and Council House rent setting purposes. The Net Increase/Decrease before transfers to Earmarked Reserves line shows the statutory General Fund Balance and the Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

### Comprehensive Income and Expenditure Statement (CIES)

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

### The Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the Council's assets and liabilities. 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).

# Narrative Report (continued)

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'.

## The 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 (i.e. borrowing) to the Council.

## Changes to the Financial Statements

There have been changes to the structure of the Financial Statements during 2016/17 with the introduction of the Expenditure and Funding Analysis (EFA). This analysis is intended to allow a clear link to be made between in-year monitoring reported to Elected Members and the final out-turn reported in the Financial Statements.

This statement takes the net expenditure that is chargeable to taxation and rents and reconciles it to the CIES. It brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund and HRA.

The Financial Statements for 2015/16 have been restated to incorporate these changes and show a clear comparison between the two financial years.

Some disclosures have also been updated to ensure that the Financial Statements comply with best practice.

## Accounting Policies

The Council's Accounting Policies are set out in Note 1 to the Financial Statements. There have been no significant changes in the Accounting Policies during the year.

## Financial Report

This narrative report now goes on to explain the broad facts and figures regarding the Council's financial performance and position for 2016/17.

# Narrative Report (continued)

## OVERVIEW OF SERVICE SPENDING

The statutory financial statements are intended to fulfil external reporting requirements and provide a comprehensive assessment of the Council's financial position. Management accounts, which show individual service expenditure, were reported to the Council on 22<sup>nd</sup> June 2017.

These reported the financial performance of Council services against the Budget for the year at a more detailed service level, the effect on reserves, together with explanations for budget variances and where income and expenditure changed during the year. The report is available at:

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/2093/Committee/442/Default.aspx>

## INCOME and EXPENDITURE

A summary of the Comprehensive Income and Expenditure of the Council for 2016/17 is shown in the following table:

Income and Expenditure 2016/17	2016/17	2015/16	Change
£000's			
Cost of Services	(11,948)	8,316	(20,263)
Other Operating Income (-) / Expenditure	357	447	(90)
Interest Payable (net of Investment Income)	2,053	1,706	347
Taxation and Grant Income	(12,700)	(12,235)	(465)
<b>Net Surplus on Services</b>	<b>(22,238)</b>	<b>(1,767)</b>	<b>(20,471)</b>
Accounting (Surplus) / Deficit on Revaluation of Assets	(11,995)	436	(12,431)
Accounting change in Pensions Liability	8,029	(7,098)	15,127
<b>Net Surplus on Provision of Services</b>	<b>(26,204)</b>	<b>(8,429)</b>	<b>(17,776)</b>

The income and expenditure shows the accounting cost, or in the Council's case, the accounting surplus of providing services. This is before adjustments are made for capital transactions, for example, the cost of financing major repairs in Council Housing. This expenditure is not directly shown in this Statement as it is capitalised and increases the value of Council Housing assets in the Balance Sheet. The financing of actual cash expenditure is adjusted through the Movement in Reserves Statement.

### Net Surplus on Services – Accounting Basis

The increase in the "Net Surplus on Services" of £20.4m between 2015/16 and 2016/17 was due to some significant income being received in 2016/17 plus changes to the revaluation of Council Dwellings.

The additional income related to "one-off" receipts in 2016/17 of £2.7m of Section 106 Developer Contributions, associated with new residential development. These funds were earmarked and set aside in a ring-fenced reserve pending draw down to meet costs associated with new infrastructure – health and leisure facilities, etc.

# Narrative Report (continued)

A revaluation increase of £17.1m on Council Dwellings has been adjusted in the Comprehensive Income and Expenditure due to an increase in the social housing discount factor from 34% to 42%. This revaluation is reversed out of the usable HRA reserve in Note 9 to the Financial Statements (Adjustments between Accounting and Funding) as the adjustment is not as a result of cash income received from tenants but is an adjustment for accounting purposes.

## Overall Surplus – Accounting Basis

The overall surplus on the provision of services increased in 2016/17 on an accounting basis. This was due to an increase in the revaluation of all Council Assets plus the increased Pension Fund deficit as valued by the Fund's Actuary plus.

In 2016/17, the deficit on the pension fund had increased compared to the previous year due to a significant decrease in the net discount rate on liabilities and the effect of this has been partially offset by much greater than expected asset returns. The bulk transfer of staff after termination of the shared service contract plus the formal actuarial valuation (carried out every 3 years) has also had an effect on the overall deficit. The combination of the aforementioned factors has resulted in an accounting deficit of £8m in the year.

The overall surplus after taking account of the pension deficit was arrived at due to a change in the social discount factor from 34% to 42% on the valuation of Council Dwellings. This resulted in an overall surplus of £12m.

## COUNCIL RESERVES

After accounting adjustments and transfers between reserves, the balance of Council funds as at 31<sup>st</sup> March 2017 is shown in the following table:

Movement in Reserves 2016/17	Usable Revenue Reserves	Usable Capital Reserves	Total Usable Reserves	Unusable Reserves	Total Reserves
£000's					
<b>Balance as at 31st March 2016</b>	<b>13,785</b>	<b>7,645</b>	<b>21,430</b>	<b>24,478</b>	<b>45,908</b>
Add: Net Surplus on Services	22,238	-	22,238	3,966	26,204
Adjustments between accounting and funding basis	(15,676)	(1,773)	(17,449)	17,449	-
Transfers between Reserves	250	(250)	-	-	-
Movement in the Year	6,811	(2,023)	4,789	21,415	26,204
<b>Balance as at 31st March 2017</b>	<b>20,596</b>	<b>5,623</b>	<b>26,219</b>	<b>45,894</b>	<b>72,112</b>

The above table shows that the Council's Usable Reserves have increased in the year from £21.4m to £26.2m due to surpluses in year plus large receipts of Section 106 as mentioned on the previous page. The reduction on capital reserves is due to Council House new build and acquisition, acquisition of a new Council Works Depot plus works on the Melbourne Sports Park.

Unusable reserves increased, mainly due to the adjustment on the Revaluation Reserve and Pension deficit as highlighted previously. An analysis of Usable Reserves is shown in the following table:



# Narrative Report (continued)

Change in Usable Reserves	As at 31st March 2017	As at 31st March 2016	Change
£000's			
<b>Revenue Reserves</b>			
General Fund	8,433	6,988	<b>1,445</b>
Housing Revenue Account	3,703	1,426	<b>2,277</b>
Earmarked Reserves	8,460	5,371	<b>3,088</b>
<b>Total - Revenue Reserves</b>	<b>20,596</b>	<b>13,785</b>	<b>6,810</b>
<b>Capital Reserves</b>			
Capital Receipts Reserve	1,949	3,548	<b>(1,599)</b>
Capital Grants Unapplied	2,408	2,393	<b>14</b>
Major Repairs Reserve	1,266	1,703	<b>(437)</b>
<b>Total - Capital Reserves</b>	<b>5,623</b>	<b>7,645</b>	<b>(2,022)</b>

## Key Indicator

As part of the Council's Financial Strategy, a minimum unallocated contingency balance of £1m is maintained on the General Fund and Housing Revenue Account reserves. This represents approximately 10% of net revenue expenditure. The balance on the General Fund of £8.4m and £3.7m on the Housing Reserve comfortably exceeded this amount as at 31<sup>st</sup> March 2017.

## HOUSING REVENUE ACCOUNT (HRA)

Although included in the overall Income and Expenditure Statement, the Council is required to account separately for the costs of providing Council Housing. This is undertaken in a supplementary financial statement called the Housing Revenue Account, or HRA.

The costs within the HRA must be met by the income it receives from tenants, i.e. housing rents. Any surplus or deficit is adjusted through the Housing Revenue Account Reserve which has to remain "ring-fenced" from other Council reserves. Performance on the HRA account for 2016/17, with a comparison to 2015/16, is shown in the following table.

HRA Income and Expenditure 2016/17	2016/17	2015/16	Change
£000's			
Supervision and Management	(11,219)	5,702	<b>(16,921)</b>
Repairs and Maintenance	2,935	3,372	<b>(437)</b>
<b>Total Expenditure</b>	<b>(8,285)</b>	<b>9,074</b>	<b>(17,359)</b>
Less: Rent and other Income	(13,112)	(13,083)	<b>(29)</b>
<b>Net Cost of HRA Services</b>	<b>(21,397)</b>	<b>(4,009)</b>	<b>(17,388)</b>
HRA share of central costs	138	144	<b>(6)</b>
Interest and capital charges	1,264	1,635	<b>(371)</b>
Accounting change in Pensions Liability	181	216	<b>(35)</b>
<b>Net Surplus on HRA Services (before adjustments)</b>	<b>(19,814)</b>	<b>(2,014)</b>	<b>(17,800)</b>



## Narrative Report (continued)

The above table shows that the HRA achieved a surplus in 2016/17 greater to that for 2015/16. Income increased due to occupation of all new build and acquisitions in year, capital charges reduced due to a lower interest rate on loans outstanding and total expenditure reduced due to the revaluation of Council Dwellings as previously mentioned.

### Effect on the HRA Reserve

After adjustments between an accounting and funding basis, a surplus for the year of £2.2m was contributed to the HRA Reserve. This is shown in the following table.

HRA- Funding Surplus 2016/17	2016/17
£000's	
Net Surplus on Services before Accounting Adjustments	(19,814)
Reverse Depreciation and Accounting Charges	13,742
Contribution to Capital Works	1,508
Contribution to New Build Reserve	1,000
Contribution to Debt Repayment Reserve	1,287
<b>HRA Surplus on a Funding Basis</b>	<b>(2,277)</b>

The contributions to Capital Works and the New Build Reserve are annual contributions to meet major improvements to the existing housing stock and to provide new Council homes. A Debt Repayment Reserve has been set-up in year to enable the HRA to fund repayment of fixed term loans as approved in the Council's Medium-Term Financial Plan for the HRA.

### THE COLLECTION FUND

The Collection Fund is the statutory account that records the collection of Council Tax and Business Rates and shows how that income has been distributed to the Government and other Preceptors on the Fund, including this Council. Similar to the HRA, the financial transactions are recorded in a supplementary accounting statement.

Performance on the Collection Fund for 2016/17, with a comparison to 2015/16, is shown in the following table.

# Narrative Report (continued)

Collection Fund Account 2016/17 £000's	2016/17	2015/16	Change
Council Tax Income	50,265	47,471	<b>2,794</b>
Business Rates Income	23,787	23,351	<b>436</b>
<b>Total Income</b>	<b>74,052</b>	<b>70,822</b>	<b>3,230</b>
Council Tax Precepts	49,228	47,013	<b>2,215</b>
Business Rates Precepts	23,534	21,980	<b>1,554</b>
Transitional Protection Payments	15	26	<b>(11)</b>
Previous Year's Surplus Paid to Preceptors	724	1,221	<b>(497)</b>
Cost of Collection	92	92	<b>(0)</b>
Provision for Write-offs	881	338	<b>543</b>
Provision for Appeals	312	1,489	<b>(1,177)</b>
<b>(Deficit) / Surplus on the Fund</b>	<b>(734)</b>	<b>(1,337)</b>	<b>603</b>
Fund Balance Brought Forward 1st April	7	1,344	<b>(1,337)</b>
Surplus / (Deficit) on the Fund (as above)	(734)	(1,337)	<b>603</b>
<b>Fund Balance as at 31st March 2017</b>	<b>(727)</b>	<b>7</b>	<b>(734)</b>
Council Tax Element	613	407	<b>206</b>
Business Rates Element	(1,339)	(400)	<b>(939)</b>

The increase in income was due to continuing growth in the number of both residential and commercial properties, i.e. the Council's Tax Base together with an average increase on the Council Tax Band D equivalent of 3.42% across all Preceptors. South Derbyshire set its increase at 1.95%.

Approximately 90% of Council Tax income and 60% of Business Rates income is passed over to other Preceptors and this is reflected in the increases in the above table.

The largest costs on the Fund for 2016/17 are the increases in provision for Business Rate appeals and write-offs. This pushed that part of the Fund into a larger deficit as at 31<sup>st</sup> March 2017.

A provision is required under accounting regulations, to recognise that some larger businesses have lodged appeals with the District Valuer against their rating assessment. The provision is made as a contingency should their appeals be successful and a refund of rates becomes due.

## Key Performance Indicators

The Council monitors its performance in collecting Council Tax and Business Rates and benchmarks these against other councils. The collection rates in 2016/17 with a comparison to the previous 2 years are shown in the following table.

Collection Rates	Actual 2014/15	Actual 2015/16	Actual 2016/17
Council Tax in-year Collection	98.10%	98.20%	98.04%
Business Rates Collection	98.40%	98.70%	97.48%

# Narrative Report (continued)

The average collection rate for Shire District Councils across England for 2015/16 was 98.0% for Council Tax and 98.5% for Business Rates.

## CAPITAL EXPENDITURE AND FINANCING

The Council incurs expenditure in acquiring new assets or through undertaking significant improvements to existing assets. This expenditure is financed from external contributions, government grants and from the Council's own reserves.

The Council spent approximately £8.3m overall on capital schemes during 2016/17, compared to £11.8m in 2015/16. A significant part of this reduction was due to the lower cost of major improvements to existing Council homes following a 5 year programme. The main expenditure was on Council Houses (£2.6m), completion of phase 1 of providing new Council homes and Council house acquisitions (£1.9m), investment in upgrading leisure and recreational facilities (£1.9m) plus acquisition of a new Council depot during the year (£1.9m).

## BORROWING AND INVESTMENTS

The Council had debt outstanding of approximately £57.5m as at 31<sup>st</sup> March 2017, unchanged from 2015/16. This is all associated with its Housing Stock and is due to be repaid in instalments over the next 20 to 25 years. There are 6 individual loans outstanding all with the Government's Public Works Loan Board.

Besides £10m, all of this debt is at fixed interest rates, with the average being 3.17%. The interest rate on the variable rate debt in 2016/17 was 0.45% (0.67% in 2015/16). The debt outstanding is below the Council's Capital Financing Requirement (or Debt Cap) of £68m. The Council services the debt outstanding and makes provision to repay this debt within its accounts each year.

As at 31<sup>st</sup> March 2017, the Council had £10m (£11m in 2015/16) on short-term deposit. This money was placed with other local authorities earning an average interest rate of 0.38% (0.47% in 2015/16). The Council has no long term investment portfolio with all fixed term deposits being for less than 364 days.

## Benchmark Indicator

The Council's benchmark, as approved in the Treasury Management Strategy, is to achieve a return on its deposits which is at least the average 7-day market rate over the year.

Over the last 5 years, this has not been achieved. During 2016/17, the average investment rate returned was 0.25%, compared to a market average of 0.36%. The average rate earned from the Government's Debt Management Office (DMO) was 0.18%, whilst that earned from other local authorities was 0.40%.

Due to uncertainty in financial markets, the Council's lending policy is quite strict in safeguarding public money. Deposits are placed predominantly with the Government's Debt Management Office, instant access bank accounts and other local authorities. Although these are the safest form of deposit available and are "guaranteed," interest rates tend to be lower than the market average.

Full details of the Council's borrowing and investments for 2016/17 are detailed in its Annual Treasury Management Report which is available at:

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/2093/Committee/442/Default.aspx>

# Narrative Report (continued)

## THE COUNCIL'S BALANCE SHEET

The Balance Sheet shows the value, as at 31<sup>st</sup> March 2017, of the Council's assets and liabilities. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. A summary of the Balance Sheet is shown in the following table.

Summary Balance Sheet 2016/17	2016/17	2015/16	Change
£000's			
Value of Fixed Assets (Property, Plant, etc.)	148,551	118,045	<b>30,506</b>
Current Assets (Cash on Deposit, etc.)	25,988	14,580	<b>11,408</b>
<b>Total Assets</b>	<b>174,539</b>	<b>132,626</b>	<b>41,913</b>
Less Liabilities (Debt, Provisions and Pensions)	(102,427)	(86,718)	<b>(15,709)</b>
<b>Net Assets</b>	<b>72,112</b>	<b>45,908</b>	<b>26,204</b>

The overall value of the Council's Net Assets increased in 2016/17 by approximately £26m. This arose from a combination of an increase in fixed asset values, together with an increase in both current assets and liabilities.

### Total Assets

The increase was due to an overall increase in the value of the Council's land and property holdings as valued by the District Valuer. Fixed Assets values improved in year due to the number of Council dwellings increasing by 42 through a combination of acquisitions and new build, application of a change to the discount rate on valuation of dwellings from 34% to 42% and the purchase of a new Council depot site all contributed to the large increase.

The movement on current assets is due to an increase in cash held of £4.2m and an amendment to the accounting treatment on the collection fund which is offset by the movement on current liabilities.

### Liabilities

The increase in liabilities was due to the value of the Pension Fund Deficit increasing in 2016/17, compared to 2015/16 and amendments to the accounting treatment on the collection fund. The deficit on the Pension Fund is projected to be approximately £33m highlighting that there is still an underlying liability in the longer-term regarding retirement benefits.

The net increase in the deficit in 2016/17 was approximately £9m, compared to a decrease of £6m in 2015/16. A significant decrease in the net discount rate on liabilities, partially offset by much greater than expected asset returns, the formal actuarial valuation (carried out every 3 years) and the bulk transfer of staff after termination of the shared service contract have all contributed to the overall increased deficit.

Clearly, estimating future asset returns and liabilities depends on the accuracy of longer-term assumptions. The amounts in the Accounts are accounting adjustments which are reversed out in unusable reserves. Their purpose is to show that in the longer-term, perhaps in 20 to 25 years, the Council potentially faces a pension's deficit.

# Narrative Report (continued)

However, in practice, statutory arrangements for funding the deficit mean that the financial position of the Council is not affected in any one year.

The deficit on the Pension Fund is being met over the long-term by increased contributions from employees and reducing benefits for future pensioners. These are part of on-going changes, nationally, to the Local Government Pension Scheme, to ensure that pension deficits are funded with minimal impact on the Council Tax Payer.

The current liabilities increased due to a change in accounting treatment on the collection fund and offsets the increase in current assets.

## MATERIAL FINANCIAL TRANSACTIONS

### Relocation of the Council's Works Depot

The Council purchased two industrial units on Boardman's Industrial Estate for £1.85m to relocate the main depot site currently situated on Darklands Road. Waste collection, street cleansing and grounds maintenance teams are due to transfer to the new depot once refurbishment is complete during 2017/18.

Funding of the new depot is through capital receipts from the sale of land for residential development on the outskirts of the Town Centre. The receipt for sale of the land is in 3 phases, the final phase proceeds of £1m are due to be paid to the Council during 2017/18.

### Council House New Build and Acquisition

The Council committed to increase the number of dwellings through new build and acquisition within the HRA Business Plan. Work began on phase 1 of new build during 2014/15 and was completed during 2016/17 with all properties built being fully occupied by the year-end.

Acquisitions in the year included 11 houses at Rowley Court, Swadlincote costing £884k plus 8 flats and 1 bedsit at Alexandra Road, Swadlincote costing £175k. All acquisitions were occupied during the year with 3 units being used for temporary accommodation.

## COUNCIL SPENDING & FUTURE FINANCIAL POSITION

The Council's detailed budget and spending plans for 2016/17 and the projected medium-term financial position to 2022 is available at:

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1993/Committee/416/Default.aspx>

The Council was able to set a balanced budget for 2017/18 and is estimated to generate a surplus in this year. Following several years of budget reductions, the Council's financial position has steadily improved over the last 3 years and has continued to stabilise.

However, the current Medium Term Financial Plan (MTFP) highlights budget deficits from 2018/19 onwards. Current base costs are forecast to increase year-on-year due to inflation, together with a rapid growth in the local population which will place additional demands upon services.

South Derbyshire District Council does have a good track record of spending within its Budget and in recent years has absorbed inflation and growth. This has enabled it to build up a good level of general reserves as highlighted in these Accounts.

# Narrative Report (continued)

The Council continues to benefit from increased income, mainly through planning fees, Council Tax and Business Rates growth. These income streams can be volatile and not guaranteed, being subject to external factors. Some of this income is being reinvested back into services to meet increased demand.

## Future Deficits

The Council is forecasted to slip into a deficit from 2018/19 onwards in the current MTFP to 2022. The MTFP forecasts net service expenditure will grow by approximately £1.2m (10.6%) over the 5 year planning period, 2017 to 2022.

In contrast, core funding is estimated to decrease by up to £1.4m (11.8%) over the same period. This is due to further reductions in overall funding for local councils announced by the Government in its 2015 Spending Review and confirmed in its 2016 Budget.

## CORPORATE GOVERNANCE

Besides the financial facts and figures contained in these Accounts, the Council sets out (in its Annual Governance Statement – “AGS”) how it approaches and aims to continually strengthen its governance arrangements. This shows how the Council ensures that it does the right things, in the right way, for the right people in a timely, inclusive, open and accountable manner. As such, it comprises the systems, processes, culture and values by which it is directed and controlled and through which it accounts to, engages with and leads its local community.

## AND FINALLY

The following sections set out the Council's Accounts and Financial Statements for 2016/17. As highlighted earlier, to meet accounting standards, they are necessarily detailed and technical in nature.

Further information is available from the Council at [www.south-derbys.gov.uk](http://www.south-derbys.gov.uk) or by e-mail to [customer.services@south-derbys.gov.uk](mailto:customer.services@south-derbys.gov.uk) referencing any queries as **Statement of Accounts**

# Certificate of the Council's and CFO Responsibilities

## The Council's Responsibilities

The Council is required to:

- ➔ Make arrangements for the proper administration of its financial affairs; and to secure that one of its officers has the responsibility for the administration of those affairs. In the Council that officer is the Director of Finance & Corporate Services;
- ➔ Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- ➔ Approve the Statement of Accounts.

## The Director of Finance and Corporate Services' Responsibilities

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

In preparing this Statement of Accounts, the Director of Finance and Corporate Services has:

- ➔ Selected suitable accounting policies and then applied them consistently;
- ➔ Made judgements and estimates that were reasonable and prudent;
- ➔ Complied with the Code of Practice.

The Director of Finance and Corporate Services has also:

- ➔ 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 Director of Finance and Corporate Services

I certify that this Statement of Accounts has been prepared in accordance with proper accounting practices and presents a true and fair view of the financial position of the Council at 31<sup>st</sup> March 2017, and its income and expenditure for the year ended on that date.



**Kevin Stackhouse (CPFA)**

**Chief Finance (Section 151) Officer**

**21<sup>st</sup> September 2017**



# Governance Statement

## A SCOPE OF RESPONSIBILITY

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

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Consequently, the Council has formulated a 'Local Code of Corporate Governance', which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. This Framework was updated by CIPFA/SOLACE during the year and it became effective from the financial year 2016/17.

The Council adopted this updated Framework and the Council's Local Code was reviewed against the new Framework and approved by the Audit Sub-Committee in December 2017 as part of its ½ yearly review process. The details are available at:

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1944/Committee/412/Default.aspx>

This Annual Governance Statement explains how South Derbyshire District Council has complied with the Local Code of Corporate Governance and also meets the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, in relation to the publication of a statement on internal control.

## B 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.
- The activities through which it accounts to, engages with and leads the community.

It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate economical, efficient and effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness.

# Governance Statement (continued)

The system of internal control is based on an on-going process, designed to identify and prioritise the risks to the achievement of the Council's policies, aims and strategic objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, in order to manage them efficiently, effectively and economically.

The Governance Framework detailed in this Statement has been in place at South Derbyshire District Council for the year ended 31st March 2017, up to the date that the Annual Report and Statement of Accounts were approved.

## C THE GOVERNANCE FRAMEWORK AT SOUTH DERBYSHIRE

The key elements of the systems and processes that comprise South Derbyshire District Council's Governance Framework are set out in the following sections.

### Decision Making

The Council operates under a Constitution. This sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. It sets out the individual roles and responsibilities of Members and the three statutory officers (i.e. the Head of Paid service, the Chief Finance Officer and the Monitoring Officer).

The Full Council makes decisions on key policies and sets the budget and levels of local taxation for the Council's services. The Constitution includes the delegation from Full Council down to the Policy Committees and provides a Scheme of Delegation to Officers.

### Policy Making

This is facilitated through 3 policy committees which are responsible for the main service areas of the Council and are:

- Environmental and Development Services
- Housing and Community Services
- Finance and Management

Each Committee is governed by its own Terms of Reference, as laid down in the Constitution. Meetings of these committees are open to the public, except where issues of an exempt nature are being disclosed.

An Overview and Scrutiny Committee has 'call-in' powers to consider the appropriateness of Policy Committee decisions. It also shadows the policy committees, supports policy development and review, together with carrying out external reviews on issues that affect South Derbyshire.

Six Area Forums, a Parish Liaison Meeting and a Flood Liaison Meeting are well established and these meet throughout the year. These forums are designed to improve community involvement in decision-making and provide a continuous link with local residents, parish councils, the voluntary sector and other public bodies.

# Governance Statement (continued)

## Governance and Accountability

The Council designated the Legal and Democratic Services Officer as its Monitoring Officer during 2016/17.

It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting with the Head of the Council's Paid Service (the Chief Executive) and Chief Finance Officer, the Monitoring Officer will report to Full Council if they consider that any proposal, decision or omission would give rise to unlawfulness or maladministration.

Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

In addition, the Council operates 2 regulatory committees; a Planning Committee focusing on development control (planning applications and enforcement), and a Licensing and Appeals Committee.

Furthermore, a Standards Committee, which contains independent (of the Council) members, oversees the conduct of elected councillors.

Accountability for the use of public funds and service provision is largely undertaken through the annual publication of a Statement of Accounts and an Annual Report.

## The Local Code of Corporate Governance

The Council has adopted a National Code developed by CIPFA/SOLACE. The Code is subject to regular six monthly reviews by Senior Officers reporting to the Audit Sub-Committee. This helps to inform this Governance Statement.

## Standards of Financial Conduct

Financial management is conducted in accordance with financial regulations and procedural rules, as set out in Part 4 of the Constitution. The Council has designated the Director of Finance and Corporate Services in accordance with Section 151 of the Local Government Act 1972.

This Officer is responsible for making arrangements for the proper administration of financial affairs in accordance with best professional practice.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

In addition, under the Code of Audit Practice, the Council has a responsibility to ensure that its affairs are managed in accordance with proper standards and to prevent and detect fraud and corruption. The Council has adopted a Fraud and Corruption Strategy.

The financial management system includes:

- A Medium Term Financial Plan
- An annual budget cycle incorporating Council approval for revenue and capital budgets, together with a Treasury Management Strategy
- Financial Procedure Rules that are reviewed as required

# Governance Statement (continued)

- Process and procedure guidance manuals
- Annual Accounts supporting stewardship responsibilities, which are subjected to external audit and which follow Proper Accounting Practice and International Financial Reporting Standards
- Regular budget monitoring by budget holders through monthly financial monitoring reports
- Identification of financial risks that are regularly reviewed and updated

## Standards of Overall Conduct

Members and Officers of the Council operate under codes of conduct. These codes provide a set of standards of conduct expected of employees at work and for councillors in performing their public duties. In addition, both Members and Officers are required to declare interests and register gifts and hospitality which are valued at over £100.

The codes take into account the requirements of the law and the provisions of official conduct in the appropriate National Conditions of Service (for employees).

The Council Leader and the Chief Executive are the Corporate Governance Champions for Members and Officers respectively, designed to create a climate of openness, support and respect, promoting a strong ethical culture and upholding the values of good governance.

The Standards Committee hears Member Code of Conduct complaints referred by the Monitoring Officer in line with the procedure for considering such complaints. These are complaints against elected Members of the District Council and elected or co-opted Members of the Parishes of South Derbyshire. The Standards Committee is also informed of complaints not referred to them for consideration and dealt with by Monitoring Officer, with a summary of the outcome in relation to each matter.

## Development of Members and Officers

Members and officers receive a formal induction tailored to their role in the Council, including when they take on new roles. The Council has adopted an e-induction system for Officers and induction training is undertaken by Members at the beginning of each four year term of office. Member role profiles exist under Section 6 of the Constitution.

Members also have access to regional training courses and seminars organised through the forum of East Midlands Regional Councils.

In addition, on an annual basis, existing and new Members of the Planning and Licensing & Appeals Committees must attend training sessions to enable them to continue to sit on these Committees, to ensure that they are fully briefed on all new developments in these areas.

The Council provides a full range of development opportunities for Members with ad-hoc training and briefing sessions.

## Establishing Council Objectives

These are set out in the Council's Corporate Plan. This is effectively the Council's business/forward plan, set for five years and reviewed on an annual basis. This plan sets out the Council's vision for South Derbyshire, its values and the priorities for delivering services for local communities.

# Governance Statement (continued)

The Sustainable Community Strategy for South Derbyshire (2009-2029) is co-ordinated by The South Derbyshire Partnership. This sets out the District wide priorities across a range of public service providers that include the District Council, County Council, Police, Health Authority and the Voluntary Sector. This plan aims to improve the overall economic, social and environmental wellbeing of South Derbyshire by addressing issues that are important to the local community, business and service providers.

## Compliments and Complaints

The Council has a Corporate Compliments and Complaints Policy. This is used to help identify service improvements from compliments, complaints and other comments received. Information is collated centrally and reported half yearly to the Finance and Management Committee, where performance can be challenged and areas for improvement identified.

Arrangements are also in place for dealing with and monitoring Ombudsman's complaints and reporting annually to Full Council.

The Council also has arrangements in place for whistleblowing to which staff and all those contacting the Council have access. The confidential reporting code is reviewed regularly and publicised.

## Organisational Assessment and Performance Review

The Council has in place a range of Key Performance Indicators (KPIs) which it uses to measure performance. Indicators are developed for each of the Council's main priorities in the Corporate Plan, alongside specific indicators in service plans.

Each year, the Council's External Auditors are required to consider whether the Council has put in place "proper arrangements" to secure economy, efficiency and effectiveness on its use of resources. This is known as the "value for money conclusion".

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise the Council's arrangements to:

- Take informed decisions
- Deploy resources in a sustainable manner
- Work with partners and other third parties

In drawing their conclusion, the Auditors consider the financial resilience of the Council and its past record of delivering financial management.

## Data Quality

A key element of reporting performance is the information that underpins it, i.e. data quality. This is to ensure that the Council arrangements for recording and collecting information are robust so that the evidence and management information is reliable. The Council has adopted a Strategy to govern data quality and its arrangements are subject to regular review, including an annual audit.

# Governance Statement (continued)

## Data Management

The Council has a Data Retention Policy which set out its requirements to ensure compliance with Data Protection and Freedom of Information Requirements.

## Business Improvement

To support service delivery, the Council has a Procurement and Business Improvement function. This is intended to co-ordinate greater efficiency and effectiveness in the use of Council resources and works to an improvement programme which is overseen by a Business Improvement Board.

## Procurement

The dedicated central procurement unit also ensure that purchasing is legal, ethical and accountable and is carried out in accordance with regulatory and legislative requirements.

## Continuous Service Review

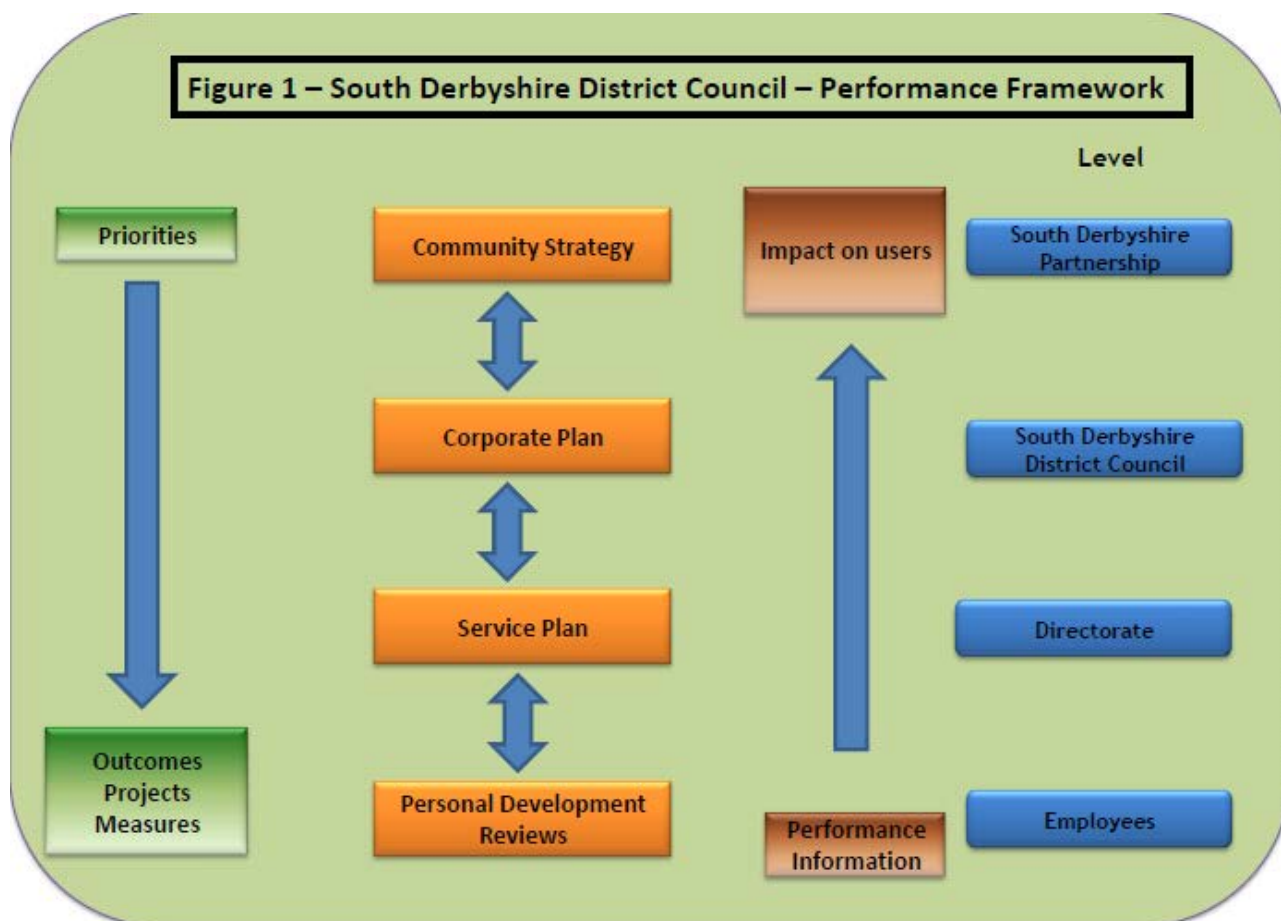
The Council continuously reviews its service areas in the Council. This is designed to identify transformation and efficiency opportunities to ensure that services remain efficient and effective as possible.

A key aim is to identify efficiency savings and in particular cashable/budget savings without adversely affecting service delivery.

## Managing Performance

The Council's performance framework is largely developed from national requirements and regulatory frameworks, together with local issues that are emerging from its own planning framework. An outline of the framework and its components is shown in Figure 1, below.

# Governance Statement (continued)



The **Community Strategy** sets the long-term vision and community goals for all agencies in South Derbyshire. This was reviewed in 2009 and a new Strategy implemented for the period 2009-2029.

The Council's **Corporate Plan** describes how the Council provides services to support the Community Strategy and focuses resources on key priorities, together with actions for improvement. This is an integral part of the Council's Performance Management Framework and the actions set out how key priorities are delivered together with measures of success. The development of the Corporate Plan takes place alongside the development of the Medium Term Financial Plan to ensure that the corporate priorities are fully resourced.

**Service Plans** are the cornerstone of the performance framework and demonstrate how each section of the Council will deliver improvements in line with priorities detailed in the Corporate Plan.

**Performance Development Reviews** provide employees with a clear understanding of how their work is enabling the Council to deliver the priorities detailed in the Corporate Plan, together with identifying their own individual training needs.

## Partnership Working

The Council works in partnership with many other public agencies, including the voluntary sector and private organisations to deliver its services. The extent of these partnerships varies across the Authority.

The Council's most significant partnerships are the South Derbyshire Partnership and the Safer South Derbyshire Partnership for Derbyshire. These partnerships are properly constituted and



# Governance Statement (continued)

Committees are established (comprising representatives of the Council) who monitor and review progress.

The governance arrangements include a constitution and terms of reference. They have annual action plans which are monitored and reported quarterly to the relevant Strategic Boards. The Council receives annual reports on their performance which identifies the outcomes of partnership work and the financial implications of their work undertaken.

## Risk Management

The Council has adopted a Risk Management Policy Statement, which sets out the principles, responsibilities and commitment to dealing with risk. Backed-up by a detailed framework, it is effectively the process for the management of risk throughout the Council.

The Council, through its service planning process, has a system for identifying and evaluating significant risks. Each service plan contains a risk register and this is developed and maintained by Officers involved in planning and delivering services.

In addition, the Council's Corporate and Financial Plans identify and evaluate risk at a more strategic level. Furthermore, evaluation of proposals for new spending and capital investment includes a risk assessment analysis. The Council's risk management process provides a framework to embed risk within services. It also includes guidance for managers in assessing and treating risk.

## Business Continuity

The Council's arrangements are overseen by a Resilience Liaison Forum and this includes training and awareness briefings in the event of an incident. The Council is supported by Derbyshire County Council's Emergency Planning Unit.

## Internal Audit

Under the Account and Audit Regulations 2015, the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. This should take into account public sector internal auditing standards or guidance.

The Council employs the services of the Central Midlands Audit Partnership (CMAP) to provide its Internal Audit function.

This function provides an independent evaluation on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Internal Audit works with an annual plan, agreed with and monitored by Members and Senior Officers. It provides opinions on internal controls in place to manage risks across the Council's activities. Its plans and outputs are monitored and challenged by the Council's Audit Sub-Committee.

Internal audit is the main means by which the Council obtains assurances that systems are operating effectively. Internal Audit is required to issue an Assurance Statement (Annual Report) each year that provides an assessment of the Council's internal control system.

# Governance Statement (continued)

## Health and Safety

The Council has a Health and Safety Policy and an Annual Action Plan that sets out the Council's commitment to health and safety and identifies those positions with responsibility under the policy. There is also a quarterly Employee Health and Safety Committee, where representatives from the trade unions meet with service managers and Members. The Committee monitors policies, work practices and reviews accident statistics.

## The Council's Audit Sub-Committee

Under its terms of reference, the Committee provides independent assurance of the adequacy of the risk management framework and the associated control environment.

It also provides independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment. The Sub-Committee also oversees the Authority's corporate governance arrangements in relation to financial matters

## External Scrutiny

Ernst & Young LLP (EY) is the Council's appointed external auditor. Besides auditing the accounts and financial statements of the Council, they also focus on more strategic performance and financial management arrangements. This includes reviewing arrangements in place for securing value for money.

The Audit Sub-Committee and Officers of the Council meet regularly with the external auditors to discuss planned and on-going external audit activity through the Annual Audit Plan.

From time-to-time, the Auditors may undertake specific reviews and issue reports with action plans to aid improvement in specific areas. The Annual Audit Letter summarises the conclusions and significant issues arising out of their audit and other inspections undertaken. The outcome of all inspections and audits are used to plan and improve Council services.

## ICT (Information Communication Technology)

The Council would not be able to operate without an effective ICT infrastructure in place. The Council's ICT Strategy is designed to ensure that the appropriate infrastructure is in place to enable the Council to deliver its services effectively and implement the Council's Corporate Plan.

Therefore, the ICT Strategy is aligned to the strategic objectives of the Council, with technology being used as an enabler of business change to support the Council's priorities. The ICT infrastructure in place enables the Council's service areas to concentrate on delivering their customer and business requirements.

Appropriate safeguards are in place to ensure the integrity of the Council's ICT infrastructure and this is subject to an annual audit and independent health check. In addition, the Council complies with national best practice for security as contained within the Public Services Network (PSN) Code. Under this Code, the Council's ICT security arrangements are tested and reviewed each year by an independent organisation, approved for such work.

# Governance Statement (continued)

## Transparency in the Publication of Information

The Council is required to publish a wide range of information on its services. The Council accounts for the use of resources and publishes this in an Annual Statement of Accounts.

[http://www.south-derbys.gov.uk/council\\_and\\_democracy/council\\_budgets\\_spending/statement\\_of\\_accounts/default.asp](http://www.south-derbys.gov.uk/council_and_democracy/council_budgets_spending/statement_of_accounts/default.asp)

The Council also publishes an Annual Pay Policy Statement which details the pay and remuneration of senior officers, together with the relationship between the pay of the highest paid officer and other officers.

The latest Policy Statement which was published on 1<sup>st</sup> April 2017 can be viewed at:

[http://www.south-derbys.gov.uk/our\\_website/open\\_data/pay\\_policy/default.asp](http://www.south-derbys.gov.uk/our_website/open_data/pay_policy/default.asp)

In addition, the Council also publishes on its web site, details of all payments (excluding those to employees) in excess of £250, details of procurement card transactions, together with remuneration and expenses paid to Members. There are also details regarding assets owned, including council housing. This information is available at:

[http://www.south-derbys.gov.uk/our\\_website/open\\_data/default.asp](http://www.south-derbys.gov.uk/our_website/open_data/default.asp)

## D REVIEWING THE EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its Governance Framework, including the system of internal control. The review of effectiveness is informed by the work of the Senior Management Team, who has responsibility for the development and maintenance of the governance environment.

This is backed up by Internal Audit reports on the audits conducted through the year, and also by recommendations made by the External Auditors, together with any other review agencies and inspectorates.

As part of an on-going review, the overall framework was strengthened in 2016/17 following a work programme arising out of the Governance Statement for the previous year 2015/16. These are detailed in **Section E**.

The overall processes and indicators that have been applied in maintaining and reviewing the effectiveness of internal control during the year 2016/17 are set out in the following sections.

### Overall Corporate Governance

The Council continued to apply its Local Code of Corporate Governance based on recommended best practice, as developed by CIPFA/SOLACE. This Code sets out the systems by which the Council directs and controls its functions. It was reviewed twice during the year with a work programme, monitored by the Audit Sub Committee, being progressed to maintain and improve overall Governance.

# Governance Statement (continued)

## ICT Security

During 2016/17, work continued in order to comply with the Government's Public Sector Network (PSN) security standard. Regular liaison continued with the Government's Cabinet Office.

There was one major security incident (June 2016) which arose during 2016/17. This related to a malware virus which penetrated the Council's network. No damage occurred and no data was lost, although there was some temporary business interruption.

After identifying the source of the virus, further training and awareness sessions were provided to Council employees on ICT security. No changes to systems or processes were required.

The Council is aware that it is constantly prone to hacking through external emails. Although the Council's security system filters these away, regular communications are sent out internally to remind staff to be vigilant. The Council was not affected by the International Ransomware Cyber-attack in May 2017 but did apply some additional security patches to its servers as advised by Microsoft.

In 2017/18, the Council will continue to strengthen its disaster recovery arrangements. In particular, the back-up data centre is due to be strengthened in September 2017.

## The System of Internal Audit

Internal Audit is responsible for monitoring the quality and effectiveness of internal control. They review all fundamental financial systems each year and other systems over a five yearly cyclical period. This is based on a risk assessment of each service area.

Internal Audit reports to the Council's Audit Sub-Committee on a quarterly basis. The reporting process requires a report of each audit to be submitted to the relevant service manager.

The report includes recommendations for improvements that are included within an action plan and require agreement or rejection by managers. The process includes reviews of recommendations by the auditors through a tracking system, to ensure that they are acted upon.

Under its terms of reference, the Audit Sub-Committee considers in detail any recommendations that are found to have a potentially "high-risk" impact on the Council's control environment. These are subject to on-going monitoring until all recommended actions have been implemented.

Reports to the Audit Sub-Committee provide an overall assurance rating of each system or service area subject to audit. This includes a statement as to whether there are any possible implications for the Annual Governance Statement.

## Audits 2016/17

All audits completed during 2016/17 found no material weaknesses which could affect the Governance framework, although one report provided a "Limited" Assurance Rating in internal control. This report focused on the operation of certain contracts and procurement procedures in Housing Services.

The report was requested by the Monitoring Officer following receipt of a complaint under the Council's Whistleblowing procedure. A number of recommendations were made in the report. These recommendations were mainly concerned with strengthening monitoring arrangements within

# Governance Statement (continued)

Housing Services and record keeping ensuring that the Council does not contravene its procurement regulations.

As a result of this report, the Council carried out further investigations into the role of certain individuals; this was undertaken and has been completed within the appropriate HR policies and procedures of the Council.

A further report was requested by the Monitoring Officer following receipt of another complaint under the Council's Whistleblowing Procedure. Again, the recommendations following this report were with regard to firming up formal processes within Housing Services with particular regard to contract management and procurement.

## The Effectiveness of Internal Audit

The Council has adopted the Public Sector Internal Auditing Standards as set out by the regulatory body (CIPFA). This requires Internal Audit to operate within an Internal Audit Charter, together with a Quality Improvement and Assessment Programme.

Performance against this programme is reported to the Audit Board which oversees the performance of the Central Midlands Audit Partnership (CMAP) in conjunction with other partners and service clients.

Under Auditing Standards, CMAP are subject to an independent review of their operational effectiveness at least once in every 5 years.

## 2016/17 Review

A review was carried out in 2016/17 by an independent assessor. Their provisional report concluded that CMAP generally conforms to auditing standards in most instances but recommended some changes to strengthen the management/resources of the audit team, together with the governance and forward direction of CMAP itself. This was in recognition of the growth of the Partnership during 2015 and 2016. A development plan has been drawn up.

## Annual Internal Audit Report

Under the Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) the Head of Internal Audit (HIA) provided a written report to those charged with governance.

An interim report for 2016/17 from the Chief Audit Executive was considered by the Council's Audit Committee on 14<sup>th</sup> June 2017. His final opinion on the overall adequacy and effectiveness of the Council's internal control environment for 2016/17 was considered by the Committee on 20<sup>th</sup> September 2017. The opinion is detailed below:

*"Based on the work undertaken during the year, I have reached the overall opinion that there is an **Adequate System of Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.*

*I have arrived at this opinion having regard to the following:*

## Governance Statement (continued)

- *As a result of whistleblowing, a major investigation has been conducted into the procurement and contracting arrangements in the Council's Housing Department. This has attracted a 'Limited' assurance rating. Management has resolved to take appropriate remedial action to improve controls. Whilst significant progress has been made, these remedial actions have yet to be fully completed.*
- *Evidence of officers over-riding of some of the Council's key controls relating to procurement and contracting was identified. This has resulted in Management taking disciplinary action.*
- *A further investigation of additional allegations into the procurement and contracting arrangements in the Council's Housing Department has been concluded which identified further examples of issues identified in the original investigation as well as other similar issues. This work attracted a 'Reasonable' assurance rating. Again, Management has resolved to take appropriate remedial action to improve controls. Whilst significant progress has been made, these remedial actions have yet to be fully completed.*
- *At the request of the Council a wider examination of procurement and contracting arrangements within the Council has been significantly completed. This work is still ongoing, but a number of control weaknesses have already been identified which raises concerns as to whether or not the control weaknesses in the procurement and contracting process were isolated to the Housing Department. These matters are yet to be formally agreed with Management*
- *The level of coverage provided by Internal Audit was considered adequate. Although, a number of planned audit assignments had to be postponed to accommodate the whistleblowing investigation.*
- *There were no adverse implications for the Authority's Annual Governance Statement arising from any of the routine work that Internal Audit has undertaken in 2016-17.*
- *The majority of routine assignments attracted either a 'Comprehensive' or 'Reasonable' assurance rating, with only one attracting a 'Limited' rating.*
- *All of the issues raised within the internal audit reports have been accepted.*
- *Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issue, have been agreed to be implemented in all cases but three.*
- *Sufficient audit coverage of the Council's Main Financial Systems has been provided in 2016-17 and attracted either 'Reasonable' or 'Comprehensive'.*
- *Internal Audit finalised the review of limited part of the Council's Corporate Governance arrangements in the early part of the financial year. Specifically, the process for the compilation of the Council's Annual Governance Statement; the communications protocol for ensuring proper scrutiny of the Council's functions; and the process for ensuring appropriate Member and officer training with regard to governance. The level of assurance was considered 'Comprehensive' and the two low risk recommendations highlighted by the review have since been implemented.*
- *A Data Quality audit was commenced during 2016-17 and we coordinated a self-assessment of all the Council's performance indicators as well as a close examination of four of the Council's higher risk performance measures. The review has recently been completed and it was deemed that the overall control environment was 'Reasonable'.*

*This opinion is provided with the following caveats:*

- *The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council. The opinion is substantially derived from the conduct of risk-based audit work and as such, it is one component that is taken into account when producing the Council's Annual Governance Statement.*

# Governance Statement (continued)

- *No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.*
- *Full implementation of all agreed actions is essential if the benefits of the control improvements detailed in each individual audit report are to be realised.*

## Communication

Corporate communication covers the full range of media management, publications, external and internal communications. This is provided by a central team within the Council.

By targeting communication activities, the Council can enhance its reputation and profile at a local and national level in its role as a community leader. Good corporate communications can encourage people to feel positively about the Council because they are better informed, have higher levels of satisfaction and can make an assessment on whether they are getting value for money.

The Council's Communications Strategy and Action Plan is reviewed and updated on an annual basis. It is reported to and considered by the Council's Finance and Management Committee in June each year.

A series of media campaigns are also undertaken by the Council each year. During 2016/17, these included:

- Supporting the promotion, marketing and creation of a lasting legacy for infrastructure projects including the Midway Community Centre and Melbourne Sports Park
- Focusing on the wide variety of facilities, activities, opportunities and events in South Derbyshire for people of all ages and targeting new audiences across all channels (e.g. social media)
- Working with partner agencies to further push initiatives that help drive down poverty and support the vulnerable, for example the Community Food Hub
- Working closely with Swadlincote TIC and other organisations to promote the area's rich and diverse culture, supporting tourism growth
- Building on the District's positive reputation of being 'open for business,' celebrating the success of both large and small enterprises and promoting events and initiatives that help town centres to thrive
- Supporting efforts to raise aspirations of youngsters and promoting employability and entrepreneurship

The Council continued to make extensive use of social media to communicate and promote community events.

In addition, the Council upgraded its website during 2016/17 to make it more modern and user friendly, together with providing greater opportunities for people to transact on-line. The new website is due to go live in July 2017.

## Consultation

The Corporate Plan is informed by consultation and is based on the views of stakeholders including local people, voluntary and community groups, together with local businesses.



# Governance Statement (continued)

The Council's Consultation Strategy aims to coordinate consultation activities between the services within the Council and with key partners, to ensure that residents' views are used effectively to inform council decision-making. This Strategy is reviewed and updated on an annual basis.

During 2016/17, there was a wide-ranging series of consultation in order to inform service provision. The main areas of consultation focused on:

- A proposal to create a new parish council in Newhall and Stanton
- Local Plan Part 2
- Design development for the Diana Memorial Garden in Swadlincote
- Joint request from Barrow upon Trent Parish Council and Stenson Fields Parish Council to change their parish boundaries
- Introduction of a Public Spaces Protection Order in Swadlincote town centre
- Future of the Hillside Recreation Ground in Findern
- Outdoor gym at Eureka Park, Swadlincote

## The Constitution

The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure that its aims and principles are given full effect. Major changes to the Constitution have to be approved by Full Council and reflect any changes to the Council's structure and responsibilities.

Changes were made to the Constitution in 2016/17. This consisted of amendments to the Financial Regulations and the addition of a Conflicts of Interest Policy. These changes were approved by Annual Council on 18<sup>th</sup> May 2017.

## Work of the Overview and Scrutiny Committee

Under the Constitution, the Overview and Scrutiny Committee has the power to "call in" a decision, which has been made by a policy committee but not yet implemented, to enable them to consider whether the decision is appropriate.

No decisions were called in during 2016/17.

The Overview and Scrutiny Committee also scrutinises key service issues and priorities in the Corporate Plan, recommending and reporting back actions to the main policy committees.

Their annual report to Full Council set out details of the Committee's work and outcomes during the year. The Annual Report for 2016/17 is available at:

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/2056/Committee/439/Default.aspx>

In particular, the Committee scrutinised and supported the following areas:

# Governance Statement (continued)

- Section 106 health based NHS contributions
- Use of the Regulation of Investigatory Powers Act 2000
- Festival of Leisure
- Public Health funding
- Provision of care facilities
- Telecare provision
- Street Scene, Recycling and Bulky Waste collections
- Voluntary sector contributions
- Member IT provision
- Member training
- The Council's budget proposals for 2017/18

## Propriety in the Conduct of Council Business

In respect of 2016/17, the following matters are noted.

### Complaints

There were no cases of maladministration found against the Council.

### Code of Conduct

There were no breaches of either the Member or Employee Codes of Conduct, or referral of a matter by the Monitoring Officer to the Standards Committee.

### Register Of interests

There were no issues raised in the year regarding the register of interests and declarations of gifts/hospitality which required formal investigation.

### Whistleblowing

In April 2016, one whistleblowing matter was reported to the Council. This was investigated in accordance with the Council's Whistleblowing Procedure. Following a separate report by Internal Audit, some further issues were investigated regarding Housing Contracts, as highlighted earlier in this Statement.

In November 2016, a further matter was reported to the Council. This was also investigated under the Council's Whistleblowing Procedure. Matters that arose as a result of this report are also highlighted earlier in this Statement.

### Data Protection

The Council were contacted by the Information Commissioner's Officer (ICO) to explain a response relating to a Subject Access Request received in the year. This followed a complaint from a third party that the Council had withheld information that it should have released.

The Council provided responses to clarify its procedures and the reasons for not releasing certain information. This was noted by the ICO and no further action was required.

# Governance Statement (continued)

## Health and Safety

There were 2 reportable accidents under Health & Safety Regulations during 2016/17 involving either council employees or members of the public. This compares with 7 in 2015/16, 5 in both 2014/15 and 2013/14, 3 in 2012/13 and 10 in 2011/12.

Following investigation of each accident, risk assessments were reviewed and updated as appropriate.

One of the reportable incidents (above) was associated with workplace transport. Following a review of the report submitted by the Council, a representative of the Health and Safety Executive (HSE) visited the Council's works depot. After making an assessment, they issued an Improvement Notice on 28<sup>th</sup> June 2017 under the Health and Safety at Work Act 1974, regarding the contravention of certain health and safety practices at the Depot.

The Improvement Notice was accompanied by a Schedule of requirements to ensure compliance. The Notice mainly concerned vehicle movements in and around the depot, together with storage facilities and how these matters are managed and controlled by the appropriate council officers.

The Council complied fully with the Schedule and a response to the HSE, together with evidence of arrangements put in place, was reported on 21<sup>st</sup> July 2017.

## Legal Claims – Planning Appeals

These arose where refusal by the Council's Planning Committee for residential development was subsequently overturned on appeal by the Government's Planning Inspectorate.

In these instances the Council incurs legal costs and makes a provision in its accounts to meet any associated liability.

## Monitoring Performance

The Performance Management framework specifies the performance monitoring regime. A "traffic light" monitoring system is used to highlight areas at risk of not being achieved.

During the year, policy committees received quarterly performance monitoring reports and agreed remedial measures in action plan where these were necessary. In addition, the Finance and Management Committee received quarterly financial monitoring reports. Performance reporting includes a review of both service and corporate risks.

The monitoring framework was reviewed and updated in April 2016 following the adoption of the new Corporate Plan in 2016/17. The framework was introduced for monitoring performance from 2016/17.

## Service Recognition

Several areas of the Council's work is regularly reviewed independently and recognised as being of an excellent standard. The following awards are currently relevant to the Council's activities.

**Health and Safety** - the Council has attained the Gold Award in the Royal Society for the Prevention of Accidents (RoSPA) Occupational Health and Safety Programme for the sixth consecutive year. This is in recognition of an excellent safety record. The Award is only given to those organisations that have demonstrated their commitment to continuous improvement in accident and ill health prevention.

# Governance Statement (continued)

**Environmental Management** – the Council has attained an international standard for its approach to reducing the carbon footprint in its own services and for supporting work across the District.

**Leisure Facilities** – the Council has attained a Green Flag Award for its urban parks acknowledging how well they are maintained and managed and for providing good facilities.

## Business Continuity

There were no major incidents during 2016/17.

## Value for Money (VFM)

The Council's External Auditors issued and reported their conclusion on the Council's arrangements for securing value for money in 2016/17 to the Audit Sub-Committee on 20<sup>th</sup> September 2017; they reported as follows:

*"We have considered your arrangements to take informed decisions, deploy resources in a sustainable manner and work with partners and other third parties. In our Audit Plan we identified two significant risks to our value for money conclusion:*

- *A significant risk in relation to control weaknesses in the procurement of services in the Housing and Environment Services Directorate; and*
- *A significant risk in relation to securing financial resilience.*

*Our review has identified that there are weaknesses in the Council's arrangements to work with partners and other third parties, specifically in relation to contractual arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.*

***Based on the work completed to-date, we are issuing a qualified "except" for VFM conclusion for the year ended 31<sup>st</sup> March 2017.***

# Governance Statement (continued)

## E KEY GOVERNANCE MATTERS FOR SOUTH DERBYSHIRE

The Council operates within a changing environment with constant development in electronic communications and increasing public expectations, together with additional demand on its services due to Growth.

Consequently, Governance needs to be subject to constant review to take account of changing circumstances. Good governance is a key outcome underpinning the Council's Corporate Plan.

Some areas for review were identified in the Governance Statement for 2015/16 to strengthen the Council's arrangements and these were addressed in 2016/17. These related to:

- Adoption of an updated National Code for Corporate Governance as approved by the Committee in December 2016.
- A review of mandatory training for all staff. This followed an internal audit report in April 2016 regarding governance, which made some recommendations to ensure relevance and consistency of approach.
- Updated ICT disaster recovery procedures. This followed an independent report into the Council's procedures in April 2016 which highlighted further process maps and documentation to be drawn up in the event of a disaster.
- A review of access to information regulations and committee work programmes.
- Service guides produced for dealing with service disruption arising from an external incident.

These actions were noted by the Audit Sub-Committee on 14<sup>th</sup> June 2017 following consideration of a detailed report.

### Work Plan 2017/18

The areas identified for development during 2017/18 are:

- Continue to review on a 6-monthly basis the Local Code of Corporate Governance.
- To review information governance arrangements and to prepare for changes in Data Protection regulations in May 2018.
- To undertake a series of training and briefing sessions for staff on the Council's procurement procedures.

These developments are set out and included in the Governance Work Plan for 2017/18 in **Appendix 1**.

# Governance Statement (continued)

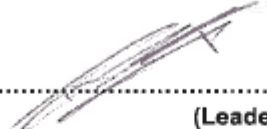
## APPENDIX 1: GOVERNANCE WORK PLAN 2017/18

Work Area	Timescale	Responsible Officer (s)	Governance / Corporate Plan Priority	Action and Outcome
Continue to review the Local Code of Corporate Governance and to monitor the Governance Work Plan for the year	½ yearly review	Legal and Democratic Services Manager	This is the overall framework that monitors the priority outcomes for the Corporate Plan	Reviews to be held in December 2017 and June 2018.
Information Governance	March 2018	Director of Finance and Corporate Services	To ensure that the Council complies with data protection principles and safeguards the data that it manages	Policies and monitoring arrangements to be reviewed during the year to ensure consistency of approach and compliance ahead of changes to Data Protection Regulations in May 2018.
Procurement Regulations	December 2017	Director of Finance and Corporate Services	Proper procurement practice	To ensure all staff involved in procurement at whatever level are updated on the Council's procurement procedures and wider procurement practice.

# Governance Statement (continued)

## Council Sign Off

We propose over the coming year to take steps to address the issues identified in the Work Plan to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review. This Annual Governance Statement is signed by the Leader of the Council and the Chief Executive on behalf of South Derbyshire District Council.

Signed: .....  
  
(Leader of the Council)

Dated: ..... 21st September 2017 .....

Signed: .....  
  
(Chief Executive)


Dated: ..... 21 September 2017 .....



# Certificate of Chief Financial Officer

I certify that:

- (a) The Statement of Accounts for the year ended 31<sup>st</sup> March 2017 on pages 41 to 45 has been prepared in the form directed by the Code and under the accounting policies set out on pages 46 to 58.
- (b) In my opinion the Statement of Accounts presents fairly the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year.

Signed:  .....

Dated: 21st SEPTEMBER 2017 .....

# Independent Auditor's Report

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH DERBYSHIRE DISTRICT COUNCIL

### Opinion on the Authority's financial statements

We have audited the financial statements of South Derbyshire District Council ("the Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Notes to the financial statements 1 to 34 and the Expenditure and Funding Analysis
- Housing Revenue Account Income and Expenditure Statement, the movement on the
- Housing Revenue Account Statement, and the related notes 1 to 10
- Collection Fund and the related notes 1 to 6

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of South Derbyshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of the Director of Finance and Corporate Services Responsibilities set out on page 14, the Director of Finance and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Derbyshire District Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

# Independent Auditor's Report

## Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application 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;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

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

### ***Authority's responsibilities***

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

### ***Auditor's responsibilities***

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether South Derbyshire 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 Derbyshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant

# Independent Auditor's Report

respects, South Derbyshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## ***Basis for Qualified Conclusion***

- Working with partners and other third parties

In April 2016, the Council received a series of complaints under its whistleblowing procedures which related to procurement and contract management arrangements.

During 2016/17 other investigations have revealed that:

- The Council has been operating with a number of key contracts unsigned.
- Documentation to support procurement decisions undertaken in the Housing and Environmental Services department is weak or non-existent.
- The Council's contract register is incomplete and poorly maintained.

The issues above are evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.

## ***Qualified conclusion***

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, South Derbyshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

## **Certificate**

We certify that we have completed the audit of the accounts of South Derbyshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



Stephen Clark  
for and on behalf of Ernst & Young LLP, Appointed Auditor

Birmingham  
21 September 2017

The maintenance and integrity of the South Derbyshire District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Council Approval of Statement of Accounts

These accounts were approved by resolution of the Finance and Management Committee on 21<sup>st</sup> September 2017.

Signed: 

Dated: 21 September, 2017

# Comprehensive Income and Expenditure Statement

For the year ended 31<sup>st</sup> March 2017

This statement, as set out below, shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

£000's	2016/17			Restated		2015/16
	Expenditure	Income	Net	Expenditure	Income	Net
Environmental and Development Services	7,160	(3,294)	3,866	8,747	(3,329)	5,417
Housing and Community Services (incl HRA):						
Ordinary	12,680	(14,610)	(1,930)	14,046	(14,544)	(498)
Exceptional (Note 5)	(17,119)	-	(17,119)	-	-	-
Finance and Management	25,168	(21,933)	3,235	23,255	(19,859)	3,397
<b>Cost of Services</b>	<b>27,888</b>	<b>(39,836)</b>	<b>(11,948)</b>	<b>46,048</b>	<b>(37,732)</b>	<b>8,316</b>
Other Operating Income & Expenditure (Note 11)			357			447
Financing & Investment Income & Expenditure (Note 12)			2,053			1,706
Taxation & Non-Specific Grant Income (Note 13)			(12,700)			(12,235)
<b>(Surplus)/Deficit on Provision of Services</b>			<b>(22,238)</b>			<b>(1,767)</b>
(Surplus)/Deficit on revaluation of Assets			(11,995)			436
Remeasurement of the Net Defined Benefit Liability (Note 32)			8,029			(7,098)
<b>Total Comprehensive Income &amp; Expenditure</b>			<b>(26,204)</b>			<b>(8,429)</b>

# Expenditure and Funding Analysis

For the year ended 31<sup>st</sup> March 2017

This Statement brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund and Housing Revenue Account. The Expenditure and Funding Analysis takes the net expenditure that is chargeable to taxation and rents and reconciles it to the Comprehensive Income and Expenditure Statement.

<i>£000's</i>	2016/17			2015/16		
	Net Expenditure Chargeable to GF & HRA	Adjustments between Accounting & Funding (Notes 7&9)	Net Expenditure in Comprehensive Income & Expenditure Statement	Net Expenditure Chargeable to GF & HRA	Adjustments between Accounting & Funding (Notes 7&9)	Net Expenditure in Comprehensive Income & Expenditure Statement
Environmental and Development Services	3,445	(421)	3,866	5,151	(266)	5,417
Housing and Community Services (incl HRA)	(2,130)	16,919	(19,049)	2,564	3,062	(498)
Finance and Management	2,404	(831)	3,235	3,593	196	3,397
<b>Net Cost of Services</b>	<b>3,719</b>	<b>15,667</b>	<b>(11,948)</b>	<b>11,308</b>	<b>2,992</b>	<b>8,316</b>
Other Operating Income & Expenditure	(10,280)	10	(10,290)	(10,152)	(69)	(10,083)
<b>(Surplus)/Deficit</b>	<b>(6,561)</b>	<b>15,677</b>	<b>(22,238)</b>	<b>1,156</b>	<b>2,923</b>	<b>(1,767)</b>
Opening General Fund and HRA Balances	(13,786)			(14,692)		
(Surplus) / Deficit on General Fund and HRA Balances in year	(6,561)			1,156		
Transfers between reserves	(250)			(250)		
<b>Closing General Fund and HRA Balances at 31st March</b>	<b>(20,596)</b>			<b>(13,786)</b>		

\*For a split of the balance between General Fund and HRA see the Movement in Reserves Statement



# Movement in Reserves Statement

For the year ended 31<sup>st</sup> March 2017

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the provision of services represents the true economic cost of providing services, but is not the same as the statutory amounts that must be charged to the General Fund and the Housing Revenue Account for the purpose of setting Council Tax and dwelling rents. These are shown by the net increase / (decrease) before transfers to Earmarked Reserves and are calculated after entering all the adjustments that are required to move from the economic (accounting) basis to the funding basis.

Reserves 2016/17	General Fund	Earmarked Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied Account	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
£000's									
<b>Balance at 31 March 2015</b>	<b>6,136</b>	<b>6,174</b>	<b>2,382</b>	<b>5,179</b>	<b>2,158</b>	<b>1,703</b>	<b>23,732</b>	<b>13,747</b>	<b>37,479</b>
Movement in reserves during 2015/16:									
Total Comprehensive Income & Expenditure	(247)	-	2,014	-	-	-	1,767	6,662	8,429
Adjustments between accounting basis & funding basis (Note 9)	46	-	(2,969)	(1,381)	236	(0)	(4,069)	4,069	-
<b>Net increase/(decrease) before transfers to Earmarked Reserves'</b>	<b>(201)</b>	<b>-</b>	<b>(955)</b>	<b>(1,381)</b>	<b>236</b>	<b>(0)</b>	<b>(2,302)</b>	<b>10,731</b>	<b>8,429</b>
Transfers to/from Earmarked Reserves	1,053	(803)	-	(250)	-	-	-	-	-
<b>Increase/(decrease) for the year ended 31 March 2016</b>	<b>852</b>	<b>(803)</b>	<b>(955)</b>	<b>(1,631)</b>	<b>236</b>	<b>(0)</b>	<b>(2,302)</b>	<b>10,731</b>	<b>8,429</b>
<b>Balance at 31 March 2016</b>	<b>6,989</b>	<b>5,371</b>	<b>1,426</b>	<b>3,548</b>	<b>2,394</b>	<b>1,703</b>	<b>21,430</b>	<b>24,478</b>	<b>45,908</b>
Movement in reserves during 2016/17:									
Total Comprehensive Income & Expenditure	2,424	-	19,814	-	-	-	22,238	3,966	26,204
Adjustments between accounting basis & funding basis (Note 9)	1,860	-	(17,537)	(1,349)	14	(436)	(17,449)	17,449	-
<b>Net increase/(decrease) before transfers to Earmarked Reserves'</b>	<b>4,283</b>	<b>-</b>	<b>2,277</b>	<b>(1,349)</b>	<b>14</b>	<b>(436)</b>	<b>4,789</b>	<b>21,415</b>	<b>26,204</b>
Transfers to/from Earmarked Reserves	(2,839)	3,089	-	(250)	-	-	-	-	-
<b>Increase/(decrease) for the year ended 31 March 2017</b>	<b>1,444</b>	<b>3,089</b>	<b>2,277</b>	<b>(1,599)</b>	<b>14</b>	<b>(436)</b>	<b>4,789</b>	<b>21,415</b>	<b>26,204</b>
<b>Balance at 31 March 2017</b>	<b>8,433</b>	<b>8,460</b>	<b>3,703</b>	<b>1,949</b>	<b>2,408</b>	<b>1,266</b>	<b>26,219</b>	<b>45,893</b>	<b>72,112</b>

# Balance Sheet

For the year ended 31<sup>st</sup> March 2017

The Balance Sheet shows the value as at 31<sup>st</sup> March 2017 of the Council's assets and liabilities. 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. The second category of reserves is those that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses from asset revaluations, together with reserves that account for timing differences.

These financial statements replace the unaudited financial statements approved at the meeting of Finance & Management Committee on 22<sup>nd</sup> June 2017.

£000's		2017	2016
	<i>Notes</i>		
Property, Plant & Equipment	14	143,287	112,910
Investment Property	15	5,161	5,061
Long Term Investments	16	40	40
Long Term Receivables	16	63	34
<b>Non-Current Assets</b>		<b>148,551</b>	<b>118,045</b>
Inventories		90	101
Short Term Receivables	17	9,351	2,044
Assets Held for Sale	19	1,000	1,123
Cash & Cash Equivalents	18	15,547	11,313
<b>Current Assets</b>		<b>25,988</b>	<b>14,580</b>
<b>TOTAL ASSETS</b>		<b>174,539</b>	<b>132,625</b>
Short Term Payables	20	(10,927)	(4,226)
Short Term Borrowing	16	(28)	(28)
Provisions	21	(1,109)	(1,046)
<b>Current Liabilities</b>		<b>(12,064)</b>	<b>(5,300)</b>
Long Term Payables	16	(45)	(45)
Long Term Borrowing	16	(57,423)	(57,423)
Pension Deficit	32	(32,895)	(23,950)
<b>Non-Current Liabilities</b>		<b>(90,363)</b>	<b>(81,418)</b>
<b>TOTAL LIABILITIES</b>		<b>(102,427)</b>	<b>(86,718)</b>
<b>NET ASSETS</b>		<b>72,112</b>	<b>45,907</b>
Usable Reserves	22	(26,219)	(21,430)
Unusable Reserves	23	(45,893)	(24,477)
<b>TOTAL RESERVES</b>		<b>(72,112)</b>	<b>(45,908)</b>

# Cash Flow Statement

For the year ended 31<sup>st</sup> March 2017

The Cash Flow Statement, as set out below, 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.

£000's		2017	2016
	<i>Notes</i>		
<b>Cash generated from operations</b>			
Net Surplus/(Deficit) on the provision of services		22,238	1,767
Adjustment for non-cash movements:			
Depreciation	14	4,276	3,977
Impairments/Revaluations	14/15	(17,003)	(929)
Pension scheme charge	32	2,480	2,795
(Profit)/Loss from the sale of Property, Plant & Equipment		(388)	51
Changes in working capital:			
(Increase)/Decrease in Inventory		11	3
(Increase)/Decrease in Debtors	17	(7,307)	413
Increase/(Decrease) in Provision for Bad Debts	17	222	75
Increase/(Decrease) in Creditors	20	6,543	(897)
Employer contributions to pension scheme	32	(1,564)	(1,532)
<b>Net cash generated from operations</b>		<b>9,507</b>	<b>5,720</b>
<b>Cash flows from investing activities</b>			
Purchase of Property, Plant & Equipment	14	(6,419)	(9,515)
Purchase of Investment Properties	15	-	-
Proceeds from the sale of Non-Current Assets	11	1,148	824
<b>Net cash flows from investing activities</b>		<b>(5,272)</b>	<b>(8,691)</b>
<b>Cash flows from financing activities</b>			
Proceeds from new Borrowings	16	-	-
Repayment of Borrowings	16	-	-
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>
Net increase/(decrease) in cash & cash equivalents		4,235	(2,971)
Cash & cash equivalents at the beginning of the period	18	11,313	14,285
<b>Cash &amp; cash equivalents at the end of the period</b>	<b>18</b>	<b>15,547</b>	<b>11,313</b>

# Notes to the Financial Statements

For the year ended 31<sup>st</sup> March 2017

## 1. Accounting Policies

### (a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position as at 31<sup>st</sup> March 2017. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by the International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Council's financial statements have been prepared on a going concern basis; that is, the accounts have been prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future.

The Statement of Accounts has been prepared in Sterling rounded to the nearest thousand.

The accounting policies are consistent with those applied in the year ended 31<sup>st</sup> March 2016, as amended to reflect the adoption of any new accounting standards as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### (b) 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 sales of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or services 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 recognised as inventories on the Balance Sheet.
- Revenue from the provisions 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.
- Interest payable on borrowings and receivable on investments is accounted for 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 the income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Expenses relating to the services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.
- The Council Tax and income included in the Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The NDR income included in the Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year from the Statutory Return following the close of the financial year. The difference between this value and the amount required by regulation to

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

be credited to the General Fund is taken to the Collection Fund adjustment account through the Movement in Reserves Statement.

## **Accounting for Council Tax**

While the Council Tax income for the year credited to the Collection fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund or paid from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's precept for the year, plus or minus the Council's actual share of the surplus / deficit on the Collection Fund for the previous year.

The cash collected by the Council from Council Tax payers belongs predominantly to all the major preceptors. The difference between the amounts collected on behalf of the other major preceptors and payments made to them is reflected as a debtor or creditor balance as appropriate.

## **Accounting for Non-Domestic Rates (NDR) – Business Rates**

The NDR income for the year credited to the Collection Fund is the accrued income for the year. Regulations determine when it should be released from the Collection Fund and paid out to major preceptors (excluding the Police and Crime Commissioner for Derbyshire) and the Government. The amount credited to the General Fund under statute is the Council's estimated share of NDR for the year from the statutory return made to the Government at the commencement of the financial year.

The cash collected by the Council from NDR Tax payers belongs predominantly to all the major preceptors (excluding the Police and Crime Commissioner for Derbyshire) and the Government. The difference between the amounts collected on behalf of the other major preceptors and payments made to them is reflected as a debtor or creditor balance as appropriate.

### **(c) 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 investments that mature in a specified period of no more than 3 months, or less from the date of acquisition. They 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.

### **(d) Prior Period Adjustments, Changes in Accounting Policies and 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 in the current and future years, but 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 (unless stated otherwise) 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.

### **(e) Charges to Revenue for Non-Current Assets**

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluations reserve against which the loss can be written off.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from the revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, impairment losses and amortisations are replaced by the contribution in the General Fund of a Minimum Revenue Provision (MRP) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **(f) Employee Benefits**

### **Benefits Payable during Employment**

Short Term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, annual leave, sick pay and car allowances. These are for current employees and are recognised as expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements, including annual leave, 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 or salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Termination Benefits**

Termination Benefits are amounts payable as a result of a decision by the Council to terminate employment of employees before the normal retirement date, or an employee's decision to accept voluntary redundancy. These are charged on an accruals basis to the relevant service line of the Comprehensive Income and Expenditure Statement, when the Council is clearly committed to the termination of employment.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund in the year, not the amount calculated according to 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 any such amounts payable but unpaid at the year-end.

### **Post-Employment Benefits**

Employees of the Council are entitled to be members of the Local Government Pension Scheme, administered by Derbyshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions) earned as Council employees.

The Local Government Pension Scheme is accounted for as a funded defined benefit final salary scheme:

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

- The liabilities of the Derbyshire County Council Pension Scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method. This means there is 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 based on the indicative rate on long-term redemption yields available on AA rated corporate bonds.
- The assets of the Derbyshire County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities - mid market value.
  - Unquoted securities - professional estimate.
  - Unitised securities - average of the bid and offer rates.
  - Property - market value.

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

## **Service cost comprising**

- Current service cost - the increase in liabilities as result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of 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 year, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Net interest on the net defined benefit liability (asset) i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement; this is calculated by applying the discount rate used to measure the defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

## **Re-measurement comprising**

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions reserve as Other Comprehensive Income and Expenditure.
- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions reserve as Other Comprehensive Income and Expenditure.

## **Contributions paid to the Derbyshire County Council Pensions Fund**

The cash paid as employer's contributions to the pensions fund in the settlement of liabilities are not accounted for as an expense as statutory provisions require the General Fund and Housing



# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

Revenue Account Balances to be charged with the amount payable by the Council to the Pension Fund, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the 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 any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flow rather than as benefits earned by the employees.

## Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any additional liabilities that arise as a result of a discretionary award to an employee 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.

## (g) Events after the Balance Sheet Date

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## (h) 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 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 for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principle. Interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year in the loan agreement.

### Financial Assets

Financial Assets relevant to the Council relate to loans and receivables; assets fixed or determinable payments but are not quoted in an active market. Loans and receivables are initially measured at fair value and carried 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 principle receivable for the year in the loan agreement.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## (i) Government Grants and Contributions (Revenue)

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

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

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

Monies advanced as grants 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 (non-ring fenced 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 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.

## (j) Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset would be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposals.

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 Reserve Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## (k) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Service Reporting Code of Practice 2014/15. The total absorption costing principle is used — the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

- ➔ Corporate and Democratic Core — costs relating to the Council's status as a multi-functional, democratic organisation.
- ➔ Non-Distributed Costs — the cost of discretionary benefits awarded to employees retiring early, capital to be funded through reserves and bad debt provisions.

These two categories are defined in the Service Reporting Code and accounted for as separate headings in the Comprehensive Income and Expenditure statement, as part of Net expenditure on continuing Services.

## (I) 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 administration purposes and that are expected to be used in more than one financial year are classified as Property, Plant and Equipment.

### Recognition

Expenditure on the acquisition, creation or enhancement of, Property, Plant or 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 asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Assets are valued into components where a component may be a significant proportion of the overall value of the asset. For example, asset values may be split between land, buildings and services. Where a component is replaced, the carrying amount of the old component is derecognised and the new component reflected in the carrying amount, subject to the recognition principles detailed above being met.

### Measurement

Fair value is defined by IFRS 13 as '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:

1. In the principal market for the asset or liability, or
2. In the absence of a principle market, in the most advantageous market for the asset or liability.

The Council uses external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

IFRS13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. Inputs to the valuation techniques in respect of the councils fair value measurement of its assets and liabilities 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 as 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.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

Level 3 – unobservable input for the asset or liability.

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. The Council is unable to capture the impact of adopting IFRS13 in isolation as many other factors, such as market conditions, will have had an impact upon the valuation in the end.

Assets are initially measured at cost, comprising:

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

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

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

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

- Vehicles, Plant and Equipment – depreciated historical cost.
- Land and Buildings - Fair value (the amount that would be paid for land and buildings in their existing use)
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- Assets under construction – carried at cost until in use and then carried at EUV-SH.
- Surplus assets – best use fair value, based on what would be paid for the asset on the open market.
- All other assets – fair value determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from reversals 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(s) in the Comprehensive Income and Expenditure Statement.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> 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 of the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the 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(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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 finite 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 useful life of the property as estimated by the Valuer (between 4 and 60 years)
- ➔ Vehicles, plant, furniture and equipment – Straight-line allocation over the useful life of the item, as advised by a suitably qualified officer (between 2 and 7 years)
- ➔ Community Assets – Not depreciated as their life is non-determinable,
- ➔ Land, Surplus assets not held for sale (land) and assets under construction - Not depreciated
- ➔ Surplus assets not held for sale (property) - Straight-line depreciation over the useful life of the asset (between 7 and 45 years)
- ➔ Infrastructure Assets - Straight-line depreciation allocation over the useful life of the asset (between 10 and 20 years)

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item (as determined by the VOA), the components 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.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 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 provisions of services. Depreciation is not charged on Asset Held for Sale.

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

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

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on the disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement in addition to 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 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and then only can be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from General Fund balance in the Movement in Reserves Statement.

## (m) Provisions, Contingent Liabilities and Contingent Assets

### 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. For instance the Council may be involved in a dispute that could eventually result in the making of a settlement or the payment of compensation.

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

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

When payments are eventually made, they are charged to the provision set-up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year, where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

## **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.

## **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.

## **(n) Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year 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 in the Movement in Reserve Statement so that there is no net charge against Council Tax for the expenditure incurred.

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

## **(o) Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure 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 so there is no impact on the level of Council Tax.



# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## **(p) Value Added Tax (VAT)**

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

## **(q) Principal and Agent Transactions**

In its capacity as a billing authority the Council acts as an agent when collecting Council Tax & Non Domestic Rate income. Council Tax income is collected and distributed by the Council both on its own behalf and as an agent for Precepting Authorities. Non Domestic Rate (NNDR) income is collected on behalf of the Council, the Government, Derbyshire Fire and Rescue Authority & Derbyshire County Council.

Where the Council is acting as an agent, transactions are not reflected in the financial statements, except where cash is collected or expenditure is incurred on behalf of the other bodies. In this case a debtor or creditor will be raised. Council Tax & NNDR income is included in the Comprehensive Income & Expenditure Statement on an accruals basis

## **(r) Inventories and Long-Term Contracts**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The inventory is used in the delivery of Council services.

Work in progress on long-term contracts, where interim valuations are made, is included in the appropriate revenue accounts at historical cost covering the main cost elements (labour, materials, etc.)

## **(s) Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially the entire 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.

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

Rental paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting 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 at the commencement of the lease).

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

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental Income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on 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 the lease).

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## (t) Exceptional Items

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

## 2. Accounting Standards that have been issued but not yet adopted

Local Authorities are required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The following standards have not yet been adopted:

- IFRS 15 Revenue From Contracts With Customers
- IFRS 16 Leases
- IFRS 9 Financial Instruments

The impact of these standards will be considered for the 2017/18 Statement of Accounts. It is not considered that these standards will have a material impact on the Accounts although the exact impact is not currently known.

## 3. Critical Judgements

In applying the accounting policies as 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 these Accounts are detailed below.

### Assets held for Sale

The Council owns land that is part of two regeneration projects in the District, whereby the Council's land is being used through sale or transfer, to generate a capital receipt and to deliver new facilities.

The Council has classed these assets as "held for sale" in accordance with IFRS 5. This is because in both cases, there is a contractual commitment in place and the land is currently in the process of being sold or transferred having been valued for such purposes. Contracts have been exchanged, are unconditional and binding.

In addition, due to progress being made on both regeneration schemes, it is now unlikely that the plans will be significantly changed or withdrawn.

The land held for sale at William Nadin Way, Swadlincote, is being sold at market value in 3 phases. The first phase was sold in 2014/15 and the proceeds (£1.88m) together with the associated costs (£0.42m) were accounted for in 2014/15.

The second phase of the development and part of the third phase was sold in 2015/16 with a receipt of £276k.

The final phase is due to be completed in 2017/18, with the associated land valued at £1m; this value has been included in the Balance Sheet. The buyer, a housing developer, is the same for all 3 phases. The first phase of housing development has commenced and planning permission has been granted for the entire site covering all three phases.

Land at Chestnut Avenue in Midway, was transferred to a housing developer in return for the improvement to leisure and recreational facilities in an adjacent area. The provision of the new facilities recognises the value of the Council's land transferred for housing.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

The market value of the land was approximately £3/4m. This land has been transferred in phases, with the final stage completed during 2016/17 by the developer. There was a transfer to the Council of the Midway Community Centre from the developer and the facility was open to the public in November 2016.

## 4. Assumptions made about the future and other major sources of uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain.

Estimates are made taking into account historical experience, current trends and other relevant factors.

However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31<sup>st</sup> March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current financial climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.
Provisions	The Council has made provisions in 2016/17 totalling approximately £1.1m, comprising Personal Search refunds (£13k) Planning Appeals (£102k) and Business Rate appeals (£992k). The amounts are based on informed estimates of the final liability.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets, etc. A firm of consulting actuaries is engaged to provide the Pensions Administrator with expert advice about the assumptions to be applied.
Asset Valuation	<p>It is considered that a fair value basis under IFRS 13, applies to the Council's Investment Properties which are let under leases to local businesses in return for a rental income. These assets are not held as part of a wider economic development strategy for the District. Their value, at approximately £5m as shown in Note 15, reflects this position.</p> <p>In addition, long-term financial liabilities in the form of HRA loans outstanding of approximately £57m reflect a fair value measurement as shown in Note 16.</p>

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

Employee Benefits Payable During Employment	<p>The Council has accrued for known holiday entitlement outstanding as at 31<sup>st</sup> March 2017, but not taken. This was based on the Council's on-line Annual Leave System (ALS) which sets and records leave as it is authorised and taken during the year. Accrued leave was calculated as £28k at 31 March 2017, compared to £18k at 31<sup>st</sup> March 2016. The Council has policies in place concerning the taking of accrued leave and other time in lieu. Only in special circumstances can this be converted into cash payments to the employees concerned. Therefore, in practice, much of the accrued sum is unlikely to be a true financial cost and in most circumstances the accrued time is managed within the confines of service delivery. Therefore, the accrued sum is not a charge to the Council's Reserves and with any cash payments being accounted for in the year that they are made.</p>
Bad and Doubtful Debts	<p>The Council has a number of debts outstanding at 31<sup>st</sup> March 2017. It is likely that a proportion of this debt will not be collectable in the future. Therefore, judgements are made to determine the amount that will remain uncollected and this is converted into a sum which is paid into a provision, in order that uncollectable debts can be written off.</p> <p>Debts are categorised into type and profile of the debtor. Judgements are then made, in some instances at an individual level, regarding the size of debt, period outstanding and any payments in place, etc. A percentage is then applied to debts that may not be collected. Generally, the older the debt, the greater the percentage applied. The percentage is also informed by past experience and the current economic climate. Within the overall resources of the Council, a prudent view is taken in calculating a bad debts provision.</p>

## 5. Material items of Income and Expense

### Revaluation of Council Dwellings

In accordance with the Government's resource accounting policy, Council Dwellings are valued at existing use – social housing. The social housing discount factor was amended upward in 2016/17 from 34% to 42%. This resulted in an upward revaluation of £17m.

## 6. Events after the Balance Sheet Date

There have been no events occurring between the Balance Sheet date of 31<sup>st</sup> March 2017 and the date the accounts are audited, approved and signed off (*i.e. 21<sup>st</sup> September 2017 – following audit*) that have a bearing on the financial results.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 7. Note to the Expenditure and Funding Analysis

2016/17	Adjustments for Capital Purposes [1]	Net Change for the Pensions Adjustments [2]	Other Differences [3]	Total Adjustments
£000's				
Environmental and Development Services	(421)	-	-	(421)
Housing and Community Services	17,117	(198)	-	16,919
Finance and Management	(113)	(718)	-	(831)
<b>Net Cost of Services</b>	<b>16,583</b>	<b>(916)</b>	-	<b>15,667</b>
Other Income and Expenditure from Expenditure and Funding Analysis	364	-	(354)	10
<b>Difference between General Fund and HRA (Surplus)/Deficit and the (Surplus)/Deficit on the Provision of Services</b>	<b>16,946</b>	<b>(916)</b>	<b>(354)</b>	<b>15,677</b>

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 7. Note to the Expenditure and Funding Analysis (continued)

2015/16	Adjustments for Capital Purposes [1]	Net Change for the Pensions Adjustments [2]	Other Differences [3]	Total Adjustments
£000's				
Environmental and Development Services	(266)	-	-	(266)
Housing and Community Services	3,347	(285)	-	3,062
Finance and Management	1,174	(978)	-	196
<b>Net Cost of Services</b>	<b>4,255</b>	<b>(1,263)</b>	-	<b>2,992</b>
Other Income and Expenditure from Expenditure and Funding Analysis	364	-	(432)	(69)
<b>Difference between General Fund and HRA (Surplus)/Deficit and the (Surplus)/Deficit on the Provision of Services</b>	<b>4,619</b>	<b>(1,263)</b>	<b>(432)</b>	<b>2,923</b>

1. These amounts relate to adjustments for capital purposes such as depreciation, impairments and revaluations.
2. These amounts relate to the net change for the removal of pension contributions and the addition of IAS19 Employee Benefits.
3. This amount relates to the difference between what is chargeable under statutory regulations for council tax and NNDR and income recognised under generally accepted accounting practices in the Code.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 8. Expenditure and Income Analysed by Nature

	2016/17	2015/16
<i>£000's</i>		
<b>Expenditure</b>		
Employee Expenses	10,719	10,734
Other service expenses	32,535	35,206
Depreciation and Impairment	(12,727)	3,363
Interest payable	1,562	1,575
Parish precepts	733	672
Elected Members allowances	353	351
Payments to Housing Capital Receipts Pool	361	313
<b>Total expenditure</b>	<b>33,536</b>	<b>52,214</b>
<b>Income</b>		
Fees, charges and other service income	(9,863)	(9,014)
Interest and investment income	(82)	(65)
Income from Council Tax and Non-Domestic Rates	(8,618)	(8,035)
Rental income	(13,518)	(13,417)
Income from Sale of Fixed Assets	(1,508)	(1,137)
Government grants and contributions	(22,183)	(22,313)
<b>Total income</b>	<b>(55,773)</b>	<b>(53,980)</b>
<b>(Surplus) / Deficit on the Provision of Services</b>	<b>(22,238)</b>	<b>(1,767)</b>

Income received on a segmental basis is analysed in the table below

	2016/17	2015/16
<i>£000's</i>		
Environmental and Development Services	(3,278)	(3,329)
Housing and Community Services (incl HRA)	(1,677)	(1,691)
Finance and Management	(4,908)	(3,993)
<b>Total income from external customers</b>	<b>(9,863)</b>	<b>(9,014)</b>



# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 9. Adjustments between Accounting Basis and Funding Basis under Regulation

2016/17	Usable Reserves					Total
£000's	General Fund	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	
<u>Adjustments to Revenue Resources</u>						
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:						
Pensions Costs (transferred to/from Pensions Reserve)	718	198	-	-	-	916
Council Tax and NNDR (transferred to/from Collection Fund Adjustment Account)	354	-	-	-	-	354
Holiday Pay (transferred to/from Accumulated Absences Reserve)	11	(1)	-	-	-	10
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	920	(12,875)	-	-	-	(11,956)
<b>Total Adjustments to Revenue Resources</b>	<b>2,003</b>	<b>(12,679)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,676)</b>
<u>Adjustments between Revenue and Capital Resources</u>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(84)	(1,424)	1,508	-	-	0
Payments to the Government Housing Receipts Pool	-	361	(361)	-	-	-
Posting of HRA resources from Revenue to the Major Repairs and Capital Receipts Reserve	-	(3,795)	2,287	-	1,508	-
Posting of General Fund resources from revenue to the Capital Grants Unapplied	(17)	-	-	17	-	-
Voluntary revenue contribution for capital funding	(131)	-	-	-	-	(131)
Statutory provision for the repayment of debt (transferred from the Capital Adjustment Account)	(223)	-	-	-	-	(223)
Capital expenditure financed from revenue (transferred to the Capital Adjustment Account)	452	-	-	-	-	452
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(4)</b>	<b>(4,858)</b>	<b>3,435</b>	<b>17</b>	<b>1,508</b>	<b>98</b>
<u>Adjustments to Capital Resources</u>						
Use of Capital Receipts Reserve to finance capital expenditure	(140)	-	(4,784)	-	-	(4,924)
Use of Major Repairs Reserve to finance capital expenditure	-	-	-	-	(1,944)	(1,944)
Application of capital grants to finance capital expenditure	-	-	-	(3)	-	(3)
<b>Total Adjustments to Capital Resources</b>	<b>(140)</b>	<b>-</b>	<b>(4,784)</b>	<b>(3)</b>	<b>(1,944)</b>	<b>(6,871)</b>
<b>Total Adjustments</b>	<b>1,860</b>	<b>(17,537)</b>	<b>(1,349)</b>	<b>14</b>	<b>(436)</b>	<b>(17,449)</b>

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 9. Adjustments between Accounting Basis and Funding Basis under Regulation (continued)

2015/16						
	Usable Reserves					
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total
£000's						
<u>Adjustments to Revenue Resources</u>						
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:						
Pensions Costs (transferred to/from Pensions Reserve)	978	285	-	-	-	1,263
Council Tax and NNDR (transferred to/from Collection Fund Adjustment Account)	432	-	-	-	-	432
Holiday Pay (transferred to/from Accumulated Absences Reserve)	6	1	-	-	-	7
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (charged to the Capital Adjustment Account)	196	3,727	-	-	-	3,922
<b>Total Adjustments to Revenue Resources</b>	<b>1,612</b>	<b>4,013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,625</b>
<u>Adjustments between Revenue and Capital Resources</u>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(370)	(803)	1,173	-	-	-
Payments to the Government Housing Receipts Pool	-	313	(313)	-	-	-
Posting of HRA resources from Revenue to the Major Repairs and Capital Receipts Reserve	-	(6,492)	2,287	-	4,205	-
Posting of General Fund resources from revenue to the Capital Grants Unapplied	(420)	-	-	420	-	-
Voluntary revenue contribution for capital funding	(131)	-	-	-	-	(131)
Statutory provision for the repayment of debt (transferred from the Capital Adjustment Account)	(232)	-	-	-	-	(232)
Capital expenditure financed from revenue (transferred to the Capital Adjustment Account)	(302)	-	-	-	-	(302)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(1,456)</b>	<b>(6,982)</b>	<b>3,147</b>	<b>420</b>	<b>4,205</b>	<b>(666)</b>
<u>Adjustments to Capital Resources</u>						
Use of Capital Receipts Reserve to finance capital expenditure	(110)	-	(4,528)	-	-	(4,638)
Use of Major Repairs Reserve to finance capital expenditure	-	-	-	-	(4,205)	(4,205)
Application of Capital Grants to finance capital expenditure	-	-	-	(184)	-	(184)
<b>Total Adjustments to Capital Resources</b>	<b>(110)</b>	<b>-</b>	<b>(4,528)</b>	<b>(184)</b>	<b>(4,205)</b>	<b>(9,027)</b>
<b>Total Adjustments</b>	<b>46</b>	<b>(2,969)</b>	<b>(1,381)</b>	<b>236</b>	<b>(0)</b>	<b>(4,069)</b>

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 10. Movements in Earmarked Reserves

This note details the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans, together with amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17.

£000's	Closing balance 2015/16	Transfers in	Transfers out	Closing balance 2016/17
<b>General Fund</b>				
IT Reserve	101	40	-	141
Committed Expenditure Reserve	51	69	-	120
Dilapidation Deposit (Dellner Woodville Site)	103	-	(25)	78
S106 Receipts	2,869	2,771	(578)	5,062
Welfare Reform, Fraud and Compliance	159	95	(7)	247
Homelessness Prevention	150	33	(94)	89
Schools Sport Partnership Project	185	19	-	204
Pensions Reserve	182	-	-	182
Planning Staffing & Support Costs Reserve	131	-	(69)	62
District Growth	-	300	-	300
Garden Village Reserve	-	214	-	214
Other Earmarked Reserves	459	95	(45)	509
<b>Total</b>	<b>4,390</b>	<b>3,636</b>	<b>(818)</b>	<b>7,208</b>
Fixed Asset Replacement Fund	981	270	-	1,251
	<b>5,371</b>	<b>3,906</b>	<b>(818)</b>	<b>8,460</b>

## 11. Other Operating Income and Expenditure

Total	2016/17	2015/16
£000's		
Parish Council Precepts	679	668
Parish Council Tax Support Grant	44	44
Payments to the Government Housing Capital Receipts Pool	361	313
<b>Total - Other Operating Expenditure</b>	<b>1,084</b>	<b>1,025</b>
Profit on disposal of non-current assets		
Normal (see below)	(727)	(262)
Exceptional (Note 3)	-	(316)
<b>Total - profit on disposal of non-current assets</b>	<b>(727)</b>	<b>(578)</b>
<b>Total - Other Operating (Income) / Expenditure</b>	<b>357</b>	<b>447</b>

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 11. Other Operating Income and Expenditure (continued)

(Profits)/losses on the disposal of non-current assets	2016/17	2015/16
£000's		
Net Proceeds from Sale of General Assets	(84)	(19)
Net Proceeds from Sale of HRA Assets	(1,424)	(803)
Disposal Costs	10	-
Book Value of non-current assets sold	771	560
<b>Total</b>	<b>(727)</b>	<b>(262)</b>

## 12. Financing and Investment Income and Expenditure

Total	2016/17	2015/16
£000's		
Interest Payable and Similar Charges	1,571	1,586
Interest Receivable and Similar Income	(82)	(64)
Net Interest on the Net Defined Benefit Liability (note 32)	839	958
Income and Expenditure in Relation to Investment Properties	(276)	(775)
<b>Total</b>	<b>2,053</b>	<b>1,706</b>

## 13. Taxation and Non Specific Income

Total	2016/17	2015/16
£000's		
Council Tax Income	(5,468)	(5,290)
NNDR Income	(3,150)	(2,745)
Non Ring Fenced Government Grants	(4,081)	(4,200)
<b>Total</b>	<b>(12,700)</b>	<b>(12,235)</b>

Council Tax Income	2016/17	2015/16
£000's		
Current Year	(5,468)	(5,290)
<b>Total</b>	<b>(5,468)</b>	<b>(5,290)</b>

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 13. Taxation and Non Specific Income (continued)

National Non Domestic Rates (NNDR)	2016/17	2015/16
<i>£000's</i>		
Current Year	(9,257)	(8,620)
Tariff Payments	6,252	6,200
Business Rate Reliefs	(343)	(402)
Payment to Business Rates Pool	511	290
Receipt from Business Rates Pool	(312)	(214)
<b>Total</b>	<b>(3,150)</b>	<b>(2,745)</b>

Non Ring Fenced Government Grants	2016/17	2015/16
<i>£000's</i>		
Revenue Support Grant	(1,199)	(1,811)
Council Tax Freeze Grant	-	(50)
Transition Grant	(3)	
Transparency Grant	(9)	(9)
New Homes Bonus	(2,855)	(2,330)
New Burdens Grant	(15)	-
<b>Total</b>	<b>(4,081)</b>	<b>(4,200)</b>

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 14. Property, Plant and Equipment

Year ended 31 March 2017	Council Dwellings	Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total
£000's							
<b>Cost or valuation</b>							
At 1 April 2016	90,663	14,562	2,726	1,543	4,112	755	114,361
Additions	4,457	1,933	29	-	-	-	6,419
Disposals	(771)	-	-	-	(17)	-	(788)
Transfers	4,295	138	-	(312)	(4,095)	-	26
Revaluations recognised in the revaluation reserve	22,991	2,077	-	-	-	-	25,068
<b>At 31 March 2017</b>	<b>121,634</b>	<b>18,710</b>	<b>2,755</b>	<b>1,231</b>	<b>-</b>	<b>755</b>	<b>145,085</b>
<b>Depreciation &amp; Impairment</b>							
At 1 April 2016	-	-	(1,450)	-	-	-	(1,450)
Charge for the Year	(3,307)	(620)	(348)	-	-	-	(4,276)
Disposals	-	-	-	-	-	-	-
Impairments recognised in the Provision of Services	16,935	64	-	-	-	-	17,000
Depreciation written out to the revaluation reserve	(13,628)	556	-	-	-	-	(13,072)
<b>At 31 March 2017</b>	<b>-</b>	<b>-</b>	<b>(1,798)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,798)</b>
<b>Net Book Value</b>							
<b>At 31 March 2017</b>	<b>121,634</b>	<b>18,710</b>	<b>957</b>	<b>1,231</b>	<b>-</b>	<b>755</b>	<b>143,287</b>
At 1 April 2016	90,663	14,562	1,277	1,543	4,112	755	112,910

\*The balance of £26k on transfers is due to a Community Asset developed to accommodate a new sports facility in Melbourne which has been reclassified as an Investment Property plus a transfer to Land and Buildings after development of Midway Community Centre from Assets Held for Sale.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 14. Property, Plant and Equipment (continued)

Year ended 31 March 2016	Council Dwellings	Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total
<i>£000's</i>							
<b>Cost or valuation</b>							
At 1 April 2015	89,591	14,922	3,071	1,513	-	-	<b>109,097</b>
Additions	4,175	1,165	63	-	4,112	-	<b>9,515</b>
Disposals	(550)	(9)	(408)	-	-	-	<b>(967)</b>
Transfers	-	(617)	-	-	-	617	<b>-</b>
Revaluations	(2,553)	(899)	-	30	-	138	<b>(3,284)</b>
<b>At 31 March 2016</b>	<b>90,663</b>	<b>14,562</b>	<b>2,726</b>	<b>1,543</b>	<b>4,112</b>	<b>755</b>	<b>114,361</b>
<b>Depreciation &amp; Impairment</b>							
At 1 April 2015	-	-	(1,529)	-	-	-	<b>(1,529)</b>
Charge for the Year	(3,106)	(530)	(328)	(13)	-	-	<b>(3,977)</b>
Disposals	-	-	408	-	-	-	<b>408</b>
Impairments	66	19	-	2	-	-	<b>87</b>
Revaluations	3,040	511	-	11	-	-	<b>3,562</b>
<b>At 31 March 2016</b>	<b>-</b>	<b>-</b>	<b>(1,449)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,449)</b>
<b>Net Book Value</b>							
<b>At 31 March 2016</b>	<b>90,663</b>	<b>14,562</b>	<b>1,277</b>	<b>1,543</b>	<b>4,112</b>	<b>755</b>	<b>112,910</b>
At 1 April 2015	89,591	14,922	1,542	1,513	-	-	107,568

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 14. Property, Plant and Equipment (continued)

### Valuations

In accordance with IAS 16, the Council revalues all Property, Land and Buildings annually on a fair value basis. It is considered that there is no material difference in a fair value basis compared to a valuation based on carrying value. All valuations were carried out externally by Richard Hemsworth MRICS, Senior Surveyor, VOA. Valuations of land and buildings were carried out at 31<sup>st</sup> March 2017 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Except for Vehicles, Plant and Equipment, all assets are valued each year and summary values are shown in the following table.

	Council Dwellings	Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Assets under Construction	Surplus Assets	Total
£000's							
Carried at historical cost 2016/17	-	-	2,755	-	-	-	<b>2,755</b>
Carried at valuation as at:							
31 March 2017	121,634	18,710	-	1,231	-	755	<b>142,330</b>
31 March 2016	90,663	14,562		1,543	4,112	755	<b>111,635</b>

### Valuation Assumptions

The significant assumptions applied in estimating the fair values by the Valuer are as follows:

- The land and property are not contaminated nor adversely affected by radon.
- Parts of the property which are covered, unexposed or inaccessible have not been inspected, and any inspection of those parts that have not been inspected would neither reveal defects nor cause material alteration at any valuation.
- No potentially deleterious or hazardous materials were used in the construction of the assets and none has subsequently been incorporated.
- No investigation has been carried out to determine the presence of contamination, deleterious or hazardous materials at any of the properties.
- The Valuer has not undertaken building or soil surveys or a survey of possible contamination of the subject properties, although the Valuer shall have regard to the apparent state of repair and condition of the properties.
- There has been no recent flooding affecting the assets and representation of the assets on any map identifying possible flood occurrences will have no effect on the value.
- Reliance has been placed on information provided by the Council, except where stated otherwise, and all information supplied by the Council with regard to details of tenure, tenancies, planning consents, details of floor areas and site areas, and all other relevant information is accurate.
- Original documents of title and lease and documentation have not been read.



# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 14. Property, Plant and Equipment (continued)

- Except where specifically mentioned, it has been assumed that the assets are not subject to any unusual or especially onerous restrictions, encumbrances, mortgages, charges or other outgoing would affect their value and a good title can be shown.
- Mechanical and electrical installations and other specialist installations and services have not been tested.
- The assets and their values are unaffected by any matters which would be revealed by local search and replies to the usual enquiries or by any statutory notice, and that neither the construction of the properties nor their condition, use or intended use, is or will be unlawful or in breach of any covenants.
- No access audit has been undertaken to ascertain compliance with the Equality Act 2010.
- No allowances have been made for any rights obligations or liabilities arising from the Defective Premises Act 1972.
- Where a building is either listed or is in a conservation area, this will be identified in any individual report or on the valuation schedules.

### Impairments

Impairments for the year ended 31<sup>st</sup> March 2017 recognised in the Income and Expenditure Statement were £3,410k, with £20,226k of impairments being reversed relating to previous years when the discount factor was reduced to 34% from 50%.

## 15. Investment Properties

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

£000's	2016/17	2015/16
Balance at the beginning of the year	5,061	4,535
Transfers from Community Assets	97	-
Surplus/(Deficit) on revaluation	3	526
<b>Balance at the end of the year</b>	<b>5,161</b>	<b>5,061</b>

Income and expenditure associated with Investment properties (including asset charges) have been accounted for in the "Financing and Investment Income and Expenditure" line in the Comprehensive Income and Expenditure Statement (Note 12).

The transfer in year is for park land at Melbourne which has had a large sporting facility developed in 2016/17. The nature of the partnership between the Council, Melbourne Rugby Club and the Parish has determined a reclassification by the valuer to an Investment Property.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 16. Financial Instruments

With the exception of borrowings the Council has determined fair value to be carrying value as there is no material difference between these two values.

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

£000's	Non-current		Current	
	2016/17	2015/16	2016/17	2015/16
<b>Investments</b>				
Loans and receivables	40	40	-	-
<b>Total Investments</b>	40	40	-	-
<b>Debtors</b>				
Loans and receivables	63	34	-	-
Financial assets carried at contract amounts	-	-	6,402	1,211
Debtors that are not financial instruments	-	-	2,949	832
<b>Total Debtors</b>	63	34	9,351	2,044
<b>Cash and cash equivalents</b>				
Loans and receivables	-	-	15,547	11,313
<b>Total cash liability</b>	-	-	15,547	11,313
<b>Borrowings</b>				
Financial liabilities at amortised costs	(57,423)	(57,423)	(28)	(28)
<b>Total Borrowings</b>	(57,423)	(57,423)	(28)	(28)
Other Long Term Liabilities	(45)	(45)	-	-
<b>Total Other long term liabilities</b>	(45)	(45)	-	-
<b>Creditors</b>				
Financial liabilities carried at contract amounts	-	-	(715)	(925)
Creditors that are not financial instruments	-	-	(10,212)	(3,301)
<b>Total Creditors</b>	-	-	(10,927)	(4,226)

The investments of £40k included in the above table, relate to money held in trust for a local community group.

Debtors (Loans and receivables) relate to charges placed on properties following work undertaken by the Council under statutory powers plus other small loans.

As at 31<sup>st</sup> March 2017, the debt outstanding comprised the following loans.

- A portfolio of loans from the Public Works Loan Board with a book value of £57,423k (2016: £57,423k). £47,423k of the loan portfolio is fixed with rates between 2.7% and 3.5%. The remaining £10,000k loan is a variable rate loan (with a benchmark of the six month gilt) currently incurring interest at 0.45% (2016: 0.67%) with a maturity of 2022.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 16. Financial Instruments (continued)

- Loans of £28k have been received from various Parish Councils within the South Derbyshire District Council area who have deposited funds with the Council. These loans can be recalled on immediate notice. Interest is calculated at the Bank of England Base Rate, less 1%. In 2016/17 no interest was calculated due to the Bank of England Base Rate being less than 1%.

### Interest Income, Expenses, Gains and Losses

As part of the CIPFA Code of Practice in the financial instruments note, the Council is also required to disclose the interest income and expenses and the gains and losses in respect of this. These are shown in the table below:

£000'S	2016/17			2015/16		
	Financial Liabilities measured at amortised	Financial Assets: Loans and Receivables	Total	Financial Liabilities measured at amortised	Financial Assets: Loans and Receivables	Total
Interest Expense	(1,571)	-	(1,571)	(1,586)	-	(1,586)
<b>Total Expense</b>	<b>(1,571)</b>	<b>-</b>	<b>(1,571)</b>	<b>(1,586)</b>	<b>-</b>	<b>(1,586)</b>
Interest Income	-	82	82	-	64	64
<b>Total Income</b>	<b>-</b>	<b>82</b>	<b>82</b>	<b>-</b>	<b>64</b>	<b>64</b>
<b>Net gains/ loss)</b>	<b>(1,571)</b>	<b>82</b>	<b>(1,490)</b>	<b>(1,586)</b>	<b>64</b>	<b>(1,523)</b>

### Fair Values of Assets and Liabilities

The financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. The fair value is assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- The fair values of long term loans from the Public Works Loan Board have been based on the new lending rates for equivalent loans at that date with an identical remaining term to maturity.
- For loans receivable prevailing benchmark market rates have been used to provide the fair value.
- No early repayment impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair value adjustment relates to the Public Works Loan Board Portfolio. The fair values were obtained from the Treasury Management advisor Arlingclose Ltd, which values all loans for the purpose of year-end financial statements. The fair value is in 2017 approximately £8m higher than the current book value. This reflects that the loans are currently worth more due to the average discount rate on these loans being 1.58%, compared to the average actual interest paid of 2.73%.

With the exception of borrowings, the Council has determined fair value to be carrying value as there is no material difference between these two values. The fair value on borrowings is calculated as follows:

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 16. Financial Instruments (continued)

£000'S	Carrying amount 2016/17	Fair Value 2016/17	Carrying amount 2015/16	Fair Value 2015/16
Financial Liabilities				
Long Term	(57,423)	(65,510)	(57,423)	(60,950)
Short Term	(28)	(28)	(28)	(28)
	<b>(57,451)</b>	<b>(65,537)</b>	<b>(57,451)</b>	<b>(60,977)</b>

### Nature and Extent of Risks arising from Financial Instruments

The CIPFA's Code of Practice on Treasury Management which requires the adoption of the CIPFA Treasury Management Code and the approval of Treasury Management Strategy before the commencement of each financial year has been adopted by the Council. The Strategy sets out the parameters for the management of risks associated with financial instruments.

#### The Council is exposed to the financial risks:

- 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
- Interest Rate risk – the possibility of exposure to adverse interest rate movements on borrowings and investments
- Market Risk - the possibility that financial loss might arise for the Council as a result of changes in financial market conditions.

### Overall Procedures for Managing Risk

The Council's risk management procedures focus on the unpredictability of financial markets, and on implementing restrictions to minimise these. The procedures for risk management are set out in the Local Government Act, 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code for Treasury Management in the Public Sector which governs borrowing and investment activity.

Overall, these procedures require the Council to manage risk in the following ways by:

- Formally adopting the requirements of the Code of Practice.
- Approving annually in advance prudential indicators for the following three years limiting.
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debts;
  - Its maximum annual exposures to investments maturing beyond a year.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 16. Financial Instruments (continued)

- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These matters are required to be reported and approved at or before the Council's Annual Council Tax Budget setting. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

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

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The following narrative summarises the Council's potential maximum exposure to credit risk on financial assets, based on the experience of default assessed by the ratings agencies and the Council's treasury advisors.

The following table summarises the balances held at 31<sup>st</sup> March 2017:

Counterparty	Credit rating criteria met when Investment placed	Balance invested at 31 March 2017
£000's		
Banks	Yes	2,677
Other local authorities	Yes	10,000
		<b>12,677</b>

### Liquidity Risk

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

The Council manages its liquidity position through the risk management procedures detailed previously, the setting and approval of prudential indicators, together with the approval of the

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 16. Financial Instruments (continued)

Treasury and Investment Strategy Reports and through cash flow management procedures required by the Code of Practice.

The maturity analysis of financial liabilities is as follows:

Maturity analysis of financial liabilities	Balance at 31 March 2017	Balance at 31 March 2016
£000'S		
Less than one year	28	28
Between one and two years	-	-
Between two and five years	10,000	-
Between five and ten years	20,000	20,000
More than ten years	27,423	37,423
	<u>57,451</u>	<u>57,451</u>

### Interest Rate Risk

Interest movements on borrowing and investments are a common factor across institutions in the financial market and can have an impact on the Council. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates - the interest expense charge to the Income and Expenditure Account will rise.
- Borrowing at fixed rates – the fair value of the borrowing liability will fall.
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise.
- Investments at fixed rates – the fair value of the assets will fall.

Market and forecast interest rates will continue to be monitored.

### Refinancing and Maturity Risk

The Council maintains debt and short-term investment portfolios. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure of replacing financial instruments as they mature.

The approved prudential indicator limits for the maturity structure of debt, and the limits placed on investments, are the key parameters used to address this risk. The Council's approved Treasury and Investment Strategies address the main risks and the Financial Services Unit addresses the operational risks within the approved parameters. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day-to-day cash flow needs.

### Market 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 investment periods.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 16. Financial Instruments (continued)

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure.

Under the direction of the Council's Chief Finance Officer, the Financial Services Unit monitors market and forecast interest rates within the year to adjust exposures appropriately.

## 17. Debtors

Current £000's	2016/17	2015/16
Central Government Bodies	2,808	538
Other Local Authorities	4,516	568
Other entities and individuals	3,887	2,575
	11,211	3,682
Less: Bad Debt Impairment Provisions	(1,860)	(1,638)
<b>Total</b>	<b>9,351</b>	<b>2,044</b>

### Credit arrangements provided to Debtors

The Council does not generally allow credit for its Trade Debtors, such that £246k (2016: £233k) is past its due date for payment but not provided. The past due amount can be analysed by age as follows:

Past Due £000's	2016/17	2015/16
Less than 3 Months	160	98
3 - 6 Months	13	10
6 Months - 1 Year	16	56
More than 1 Year	57	69
<b>Total</b>	<b>246</b>	<b>233</b>

## 18. Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents include cash on hand and in bank, together with short term deposits and investments (considered to be cash equivalents) net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the Balance Sheet as follows:

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 18. Cash and Cash Equivalents (continued)

£000's	2016/17	2015/16
Cash and Bank Balances	5,547	312
Short Term Deposits (considered to be cash equivalents)	10,000	11,000
Bank Overdraft	-	-
<b>Total</b>	<b>15,547</b>	<b>11,313</b>

The short term deposits (£10m) were all invested with other local authorities as at 31<sup>st</sup> March 2017.

## 19. Assets Held for Sale

£000's	2017	2016
Balance at beginning of the year	1,123	1,835
Disposals	-	(276)
Revaluations	-	(436)
Transfers	(123)	-
<b>Balance at end of the year</b>	<b>1,000</b>	<b>1,123</b>

As detailed in Note 3 the asset held for sale is land at William Nadin Way, Swadlincote.

The Council has classed this asset as “held for sale” in accordance with IFRS5. This is because there is a contractual commitment in place and the land is currently in the process of being sold or transferred having been valued for such purposes. Contracts have been exchanged, are unconditional and binding.

The land held for sale at William Nadin Way is valued at £1m and the final capital receipt is due to the Council in April 2017. The transfer value noted is for land at Chestnut Avenue, Midway, previously held for sale but is now a fully functioning community centre so the classification has been amended in the Financial Statements.

## 20. Creditors

Current	2016/17	2015/16
£000's		
Central Government Departments	(2,471)	(1,334)
Other Authorities	(6,024)	(515)
All Other Bodies	(2,404)	(2,359)
Accumulated Absences	(28)	(18)
<b>Total</b>	<b>(10,927)</b>	<b>(4,226)</b>



# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 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. The Council has made 3 provisions in the accounts for 2016/17 as shown in the following table.

Current £000's	At 1 April	Increase in provision during year	Utilised during the year	Unused amounts released	At 31 March
<b>2016/17</b>					
Personal Searches	(42)	-	29	-	(13)
Planning Appeal	(127)	(102)	100	27	(102)
NNDR Appeals	(868)	(213)	50	37	(993)
Termination Benefits	(9)	-	9	-	-
	<b>(1,046)</b>	<b>(315)</b>	<b>188</b>	<b>64</b>	<b>(1,109)</b>
<b>2015/16</b>					
Personal Searches	(156)	-	114	-	(42)
Planning Appeal	(172)	(27)	38	34	(127)
NNDR Appeals	(272)	(596)	-	-	(868)
Termination Benefits	-	(9)	-	-	(9)
	<b>(600)</b>	<b>(631)</b>	<b>151</b>	<b>34</b>	<b>(1,046)</b>

### Personal Searches

The provision relates to a legal case affecting all councils which determined that charges for personal searches should not have been made as they were outside Environmental Information Regulations. Consequently, all personal search fees dating back to 2005 are being refunded. Over the last four years, legal firms have acted on behalf of councils to determine actual liabilities. Payments of £29k have been made in the year and additional charges are expected in 2017/18.

### Planning Appeals

This provision is for the costs associated when planning permission is originally rejected by the Council but is then overturned by the Planning Inspectorate on appeal.

### National Non-Domestic Rate (NNDR) Appeals

This was increased in 2016/17 to recognise that some larger businesses have lodged appeals within the District Valuer against their rating assessment.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 22. Usable Reserves

£000's	2016/17	2015/16
General Fund <sup>1</sup>	8,433	6,988
Earmarked Reserves <sup>1,2</sup>	8,460	5,371
HRA <sup>1</sup>	3,703	1,426
Capital Receipts Reserve <sup>2</sup>	1,949	3,548
Capital Grants Unapplied Account <sup>2</sup>	2,408	2,393
Major Repairs Reserve <sup>2</sup>	1,267	1,703
<b>Total</b>	<b>26,219</b>	<b>21,430</b>

1. Reserve for Revenue purposes

2. Reserve for Capital purposes

### Revenue Reserves

The General Fund is the main revenue fund of the Council. Day-to-day spending on services is met from this Fund. Income and expenditure associated with the provision of Council Housing is charged separately under statute within the Housing Revenue Account (HRA). The HRA has its own reserve.

### Earmarked Reserves

The Council maintains various earmarked reserves for specific purposes. These reserves are used to meet one-off commitments or to spread the cost of more significant expenditure over a number of years, for example, replacement of vehicles and ICT developments. Reserves are also created where income, for example, external contributions, is received in advance of expenditure which may occur beyond one year.

£000's	2016/17	2015/16
IT Reserve	141	101
Welfare Reform, Fraud and Compliance	247	159
Committed Expenditure Reserve	120	51
S106 Capital Receipts	5,062	2,869
Dilapidation Deposit (Dellner Woodville Site)	78	103
Fixed Asset Replacement Fund	1,251	981
Homelessness Prevention	89	150
Schools Sport Partnership Project	204	185
Pensions Reserve	182	182
Planning Staffing & Support Costs Reserve	62	131
Other Earmarked Reserves	509	459
District Growth	300	-
Garden Village Reserve	214	-
<b>Total</b>	<b>8,460</b>	<b>5,371</b>

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 22. Usable Reserves (continued)

### Capital Reserves

These are held to provide new assets or to upgrade existing ones.

### Capital Receipts Reserve

These are cash receipts from the sale of Council assets, which have not yet been used to finance new capital expenditure. This includes a sum contributed from the HRA for repayment of loans due within the next 5 years.

### Capital Grants Unapplied

This generally comprises Government, or other grants and external contributions received to fund expenditure, which is generally incurred beyond one year. A list of unapplied grants is listed below.

£000's	2016/17	2015/16
Public Open Space (Commutated Sums)	1,270	1,270
Crime and Disorder Partnership	332	342
Youth Engagement Partnership	580	555
Get Active in the Forest Partnership	44	43
Other Capital Grants Unapplied	182	183
<b>Total</b>	<b>2,408</b>	<b>2,393</b>

### Major Repairs Reserve

This reserve is used to finance investment in the housing stock and the reserve is funded by transfers from the HRA (through the Capital Expenditure Requirement).

A full analysis of the movements is provided in the Housing Revenue Account Statements.

## 23. Unusable Reserves

£000's	2016/17	2015/16
Capital Adjustment Account <sup>2</sup>	58,446	39,271
Revaluation Reserve <sup>2</sup>	20,891	9,341
Pensions Reserve <sup>1</sup>	(32,947)	(24,002)
Collection Fund Adjustment Account <sup>1</sup>	(468)	(114)
Accumulating Compensated Absences Adjustment Account <sup>1</sup>	(28)	(18)
<b>Total</b>	<b>45,893</b>	<b>24,478</b>

1. Reserve for Revenue purposes

2. Reserve for Capital purposes

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 23. Unusable Reserves (continued)

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9 “Adjustments between Accounting Basis and Funding Basis under Regulations” provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

£000's	2016/17
<b>Balance at 1st April 2016</b>	39,271
Charges for depreciation and impairment of non-current assets	12,724
Revaluation gains on Property, Plant and Equipment	445
Revenue expenditure funded from capital under statute	1,960
Amounts of non-current assets written off on disposal	(771)
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>53,630</b>
Capital financing applied in the year:	
Use of Capital Receipts to finance new capital expenditure	4,395
Use of Major Repairs Reserves to fund new capital expenditure	1,989
Application of grants to capital financing from the Capital Grants Unapplied Account	-
Minimum Revenue Provision	223
Voluntary Revenue Provision	131
Capital expenditure credited to the General Fund and HRA balance	(1,925)
Movements in the market value of Investment Properties	3
<b>Balance as at 31st March 2017</b>	<b>58,446</b>

### Revaluation Reserve

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

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 23. Unusable Reserves (continued)

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<sup>st</sup> 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.

£000's	2016/17
<b>Balance at 1st April 2016</b>	9,341
Upward revaluation of assets	12,093
Downward revaluation of assets	(97)
Amounts of non-current assets written off on disposal	-
<b>Surplus on revaluation of non-current assets not posted to the Provision of Services</b>	<b>21,336</b>
Accumulated gains on assets sold	(445)
<b>Balance as at 31st March 2017</b>	<b>20,891</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 a benefit 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.

## Collection Fund Adjustment Account

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

## Accumulating Compensated Absences Adjustment Account

The Accumulating Compensated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but

## Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

### 23. Unusable Reserves (continued)

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 is neutralised by transfers to or from the Account.

### 24. Agency Services

The Council carries out, under an agency agreement with Derbyshire County Council, certain highways and gulley cleaning work. The value of this work is shown in the following table.

£000's	2016/17	2015/16
Income	275	275
Expenditure	(60)	(53)
<b>Net surplus arising on the agency agreement</b>	<b>215</b>	<b>222</b>

### 25. Members' Allowances

During the year Members allowances totalled £353k (2015/16: £351k) as shown in the following table.

£000's	2016/17	2015/16
Basic Allowance	224	221
Telephone Allowance	6	8
Travel and Subsistence	8	10
Special Responsibility Allowances	115	112
	<b>353</b>	<b>351</b>

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 26. Officers' Remuneration

### Senior Management Salaries

The cost to the Council of its Corporate Management Team is shown in the following table.

£'s		Salary, Fees And Allowances	Expenses Allowances	Pension Contributions	Total
Chief Executive	2016/17	122,210	1,497	15,643	139,350
	2015/16	121,000	1,494	15,488	137,982
Director of Finance & Corporate Services	2016/17	83,961	1,497	10,747	96,205
	2015/16	80,580	1,494	10,314	92,388
Director of Housing & Environmental	2016/17	79,190	1,364	9,208	89,762
	2015/16	77,077	1,494	9,866	88,437
Director of Community & Planning	2016/17	81,386	1,497	10,417	93,301
	2015/16	78,030	1,494	9,988	89,512

In addition, the Council has 2 other officers whose remuneration exceeds more than £50,000 per year in total as shown below.

	2016/17	2015/16
	Number	Number
£50,001 to £60,000	-	1
£60,001 to £70,000	2	-
	<b>2</b>	<b>0</b>

### Exit Packages and Other Departures

	2016/17	2015/16	2016/17	2015/16
£'s	Number	Number	£	£
£0 to £20,000	2	1	26,120	8,643
£20,001 to £40,000	-	-	-	-
	<b>1</b>	<b>-</b>	<b>12,306</b>	<b>8,643</b>

One early termination payment was made as part of voluntary redundancy arrangements under the Council's Policy and was charged in the Comprehensive Income and Expenditure Statement.

In addition, one other exit package was agreed and severance of £13.8k was paid on termination of employment from the Council.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 27. External Audit Fees

The Council has incurred the following costs relating to the annual audit of the Statement of Accounts and certification of grant claims.

£000's	2016/17	2015/16
External Audit Fees	49	49
Grant Claim Certification Fees	14	16
Benchmarking existing service contracts	-	-
Audit Commission Rebate	-	-
<b>Total</b>	<b>63</b>	<b>65</b>

## 28. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17:

£'000	2016/17	2015/16
<b>Credited to Taxation and Non Specific Grant Income (Note 13)</b>		
General Government Grants	4,081	4,200
Business Rate Reliefs (Section 31 Grants)	343	402
	<b>4,424</b>	<b>4,602</b>
<b>Credited to Net Cost of Service</b>		
Department of Works and Pensions (Benefit Subsidy and Welfare Reform)	17,777	17,941
Supported Housing	216	246
Contributions from Developers (section 106 Planning Agreements)	2,773	1,866
Other Grants and Contributions to Service Expenditure	934	828
	<b>21,700</b>	<b>20,881</b>

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them, which if not met would require the monies or property to be returned to the giver. The balances as at 31<sup>st</sup> March 2017 are as follows:

£'000	2016/17	2015/16
Capital Grants Received in Advance	469	174



# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 29. Related Parties

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

### Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from Government Departments are set out in Note 13 – Taxation and Non-Specific Income. Debtor and Creditor values are analysed in Notes 17 and 20 respectively.

### Elected Members

The Council appoints elected members to sit as representatives in an official capacity on committees of local voluntary and community organisations. Some of these organisations are also grant funded by the Council. In addition, there are some members who also sit on these committees as an independent person not representing the Council, or who may have close family employed by these organisations.

In each case, the member is part of a wider decision making body and cannot on their own materially influence operations or funding, etc. In addition, members concerned are required to declare an interest in any funding decisions made by the Council in which they are in attendance and cannot then participate in any discussion or decision. The Council maintains appropriate records of these related parties in accordance with its Constitution. This applies to both Council Officers and Members.

All members are required to specify relationships that they have such as through employment and directorships, etc. During 2016/17, the Council had no significant dealings with any companies or organisations declared by elected members which would have a bearing on the Financial Statements.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 30. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table, together with the resources that have been used to finance it.

The Capital Financing Requirement (CFR) is a measure of the Council's underlying need to borrow for capital purposes. It increases with new borrowing and is reduced as loans are repaid and amounts set-aside to repay future debt. The Council's overall debt outstanding cannot exceed the CFR.

The position for 2016/17 is shown in the following table.

£000's	2016/17	2015/16
Capital Financing Requirement at 1 April	67,938	68,116
<b>Add: Capital Expenditure</b>		
Property, Plant and Equipment	6,419	9,515
Investment Properties	0	0
Revenue Expenditure Funded from Capital under Statute	1,960	2,300
<b>Total Expenditure</b>	<b>8,380</b>	<b>11,814</b>
<b>Less: Source of Finance</b>		
Capital Receipts	(4,784)	(32)
Government Grants and External Financing	(1,035)	(1,114)
Other External Contributions	(186)	(1,135)
General Fund Revenue Contributions	(208)	(1,064)
Housing Revenue Account Contributions	(1,945)	(8,207)
Planning Agreements - S106 Developer Contributions	(221)	(76)
<b>Total Financing</b>	<b>(8,380)</b>	<b>(11,628)</b>
Minimum Revenue Provision	(223)	(232)
Voluntary Revenue Contribution	(131)	(131)
Actual Loan Principal Repaid	0	0
<b>Total Repayments and Revenue Provisions</b>	<b>(354)</b>	<b>(364)</b>
<b>Capital Financing Requirement at 31 March</b>	<b>67,584</b>	<b>67,938</b>
<b>Actual Borrowings Outstanding - Gross (Note 16)</b>	<b>57,451</b>	<b>57,451</b>
<b>Investments - Short-term Investments Outstanding</b>	<b>(10,000)</b>	<b>(11,000)</b>
<b>Net Borrowings Outstanding (Gross less Investments)</b>	<b>47,451</b>	<b>46,451</b>

## 31. Leases

Other land and building leases primarily consist of the lease of an Industrial Estate where the rental payable in 2016/17 was **£50k** (2015/16: £50k) plus some other minor commercial properties. The total future cash payments required under these leases are estimated at £401k (2016: £450k).

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 31. Leases (continued)

The Council was committed at 31<sup>st</sup> March 2017 to making payments of **£401k** (2016: £450k) under operating leases, comprising the following elements:

	2017			2016		
	Other Land and Buildings	Vehicles, Plant and Equipment	Total	Other Land and Buildings	Vehicles, Plant and Equipment	Total
£000's						
Within one year	54	-	<b>54</b>	52	-	<b>52</b>
Between two & five years	204	-	<b>204</b>	204	-	<b>204</b>
After five years	143	-	<b>143</b>	194	-	<b>194</b>
	<b>401</b>	-	<b>401</b>	<b>450</b>	-	<b>450</b>

The Council rents some properties to tenants under lease arrangements. Amounts receivable under these leases in 2016/17 was **£716k** (2015/16: £717k). The asset value of these properties at 31<sup>st</sup> March 2017 was **£5,161k** (2016: £5,000K)

## 32. Defined Benefit Pension Schemes

### Nature of the Scheme

The Local Government Pension Scheme is available for Local Government in England and Wales. All employees are bought into the scheme unless they choose the option to opt out. South Derbyshire District Council is part of the Derbyshire Local Government Pension Scheme which is administered by the Derbyshire County Council Pension Section. Income and expenditure of the Scheme is accounted for in a Pension Fund managed by the County Council's Pensions Committee.

The Fund complies with Local Government Pension Scheme (Administration) Regulations 2008 and the draft statutory guidance issued on 21<sup>st</sup> July 2008 and incorporates changes approved by the Pensions Committee on 26<sup>th</sup> September 2008.

As the administering body Derbyshire County Council has a statutory responsibility for administering the pension scheme under the Local Government Pension Scheme Regulations and associated legislation under Sections 7.12 & 24 of the Superannuation Act 1972; this is delegated to the Pensions Committee.

### Participation in the Local Authority Pension Scheme

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

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

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 32. Defined Benefit Pension Schemes (continued)

### Governance of the Council's Pension Scheme

The 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. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the Fund are appointed by the Pensions Committee.

### Pensions Risk

The principal risks to the Council of the Scheme are the longevity assumptions, statutory changes to the Scheme, structural changes (i.e. large scale withdrawals) 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 the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note to these Accounts, i.e. **Note 1**.

### Discretionary Post Retirement Benefits

These are unfunded defined benefit arrangements for which liabilities are recognised when awards are made. There is no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due.

### Transactions relating to retirement benefits – CIES Charges

The Council recognises the cost of retirement benefits in the Cost of Services on Continuing Operations when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge the Council is required to make against Council Tax and Housing Rents is based on the cash payable in the year, and the real cost of retirement benefits is reversed out in the adjustments between accounting basis and funding basis under regulations in the Movement in Reserves Statement. The following transactions have been made in the CIES and the adjustments between accounting basis and funding basis under regulations line, in the Movement in Reserves Statement during the year.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 32. Defined Benefit Pension Schemes (continued)

£000's	2016/17	2015/16
<b>Included in Net Cost of Services:</b>		
Current Service Cost	1,641	1,837
Past Service Cost/(Gain) including curtailments	-	-
Pension Strain	-	-
	1,641	1,837
<b>Included in Financing and Investment Income and Expenditure</b>		
Interest income on plan assets	(1,955)	(1,770)
Interest cost on defined benefit obligations	2,794	2,728
	839	958
<b>Net charge/(credit) to the Comprehensive Income and Expenditure Account</b>	2,480	2,795
<b>Other Comprehensive Income and Expenditure</b>		
Changes in demographic assumptions	(1,363)	-
Changes in financial assumptions	20,546	(7,572)
Other Experience	10,350	(1,246)
Return on assets excluding amounts included in net interest	(21,504)	1,720
<b>Total</b>	8,029	(7,098)
<b>Adjustments Between Accounting Basis and Funding Basis under Regulations</b>		
Reversal of items relating to retirement benefits debited or credited on the Provision of Services in the CIES	(2,480)	(2,795)
<b>Actual Amount Charged Against the General Fund Balance for Pensions in the Year</b>		
Employers' Contributions Payable to the Scheme	1,564	1,532
<b>Net (credit)/charge to the General Fund</b>	<b>(916)</b>	<b>(1,263)</b>

*The Current Service Cost figures include an allowance for administration expenses of 0.20%.*

The following tables show the changes between the value of the liabilities and assets (investments) of the Council's Pension Scheme in the year and the overall liability in the longer term. These figures are based on an independent actuarial valuation of the Pension Fund as at 31<sup>st</sup> March.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 32. Defined Benefit Pension Schemes (continued)

Reconciliation of the Present Value of the Scheme Liabilities	2016/17	2015/16
£000's		
Balance at 1 April	(78,921)	(85,473)
Current Service Cost	(1,641)	(1,837)
Interest Cost on Defined Benefit Obligation	(2,794)	(2,728)
Contributions by Members	(403)	(385)
Changes in Demographic Assumptions	1,363	-
Changes in Financial Assumptions	(20,546)	7,572
Past Service (Costs) including curtailments	-	-
Effect of business combinations and disposals	(9,624)	-
Other Experience	(10,350)	1,246
Estimated Benefits Paid	3,008	2,530
Unfunded Benefits	156	154
Balance at 31 March	<b>(119,753)</b>	<b>(78,921)</b>

Reconciliation of the Present Value of the Scheme Assets	2016/17	2015/16
£000's		
Balance as at 1 April	54,972	55,689
Interest Income on Plan Assets	1,955	1,770
Contributions by Members	403	385
Contributions by Employer	1,438	1,378
Contributions in respect of unfunded benefits	156	154
Return on Assets excluding amounts included in net interest	21,504	(1,720)
Effect of business combinations and disposals	9,594	-
Estimated Benefits Paid	(3,008)	(2,530)
Unfunded Benefits Paid	(156)	(154)
Balance at 31 March	<b>86,858</b>	<b>54,972</b>

*The expected return on scheme assets is determined by considering the expected returns available on the assets from the current investment policy. Expected yields on fixed interest investments are based on gross redemption.*

### Analysis of scheme assets and liabilities

£000's	2017	2016	2015	2014	2013
Fair Value of Assets in Pension Scheme	86,858	54,972	55,689	50,537	47,850
Present Value of Defined Benefit Obligation	(119,753)	(78,921)	(85,473)	(73,195)	(75,061)
(Deficit) in the Scheme	<b>(32,895)</b>	<b>(23,950)</b>	<b>(29,784)</b>	<b>(22,658)</b>	<b>(27,211)</b>

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 32. Defined Benefit Pension Schemes (continued)

The table shows that there is a continuing deficit on the Pension Scheme. This can fluctuate between years due to changes in assumptions and the value of annual payments into the Fund. The liabilities show the underlying commitments that the Council has in the long-term to pay retirement benefits. The total liability of £119.7m (2016: £78.9m) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a net liability of £32.8m (2016: £23.9m).

However, statutory arrangements for funding the deficit meant that the financial position of the Council is not materially affected in any one year. Plans are in place to reduce the deficit on the Pension Fund over time through various pension reforms affecting the Local Government Pension Scheme at a national level.

The net increase in the deficit in 2016/17 is approximately £8.9m and is due to more pessimistic assumptions regarding future liabilities.

### Major categories of plan assets

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

£000's	2017 Quoted Prices in Active Markets	2017 Quoted Prices not in Active Markets	2017 Total	2017 Percentage of Total Assets	2016 Quoted Prices in Active Markets	2016 Quoted Prices not in Active Markets	2016 Total	2016 Percentage of Total Assets
<b>Equity Securities:</b>								
Consumer	6,622	0	6,622	8%	4,520	0	4,520	8%
Manufacturing	7,778	0	7,778	9%	5,128	0	5,128	9%
Energy & Utilities	5,245	0	5,245	6%	3,133	0	3,133	6%
Financial Institutions	6,224	0	6,224	7%	4,310	0	4,310	8%
Health & Care	3,455	0	3,455	4%	2,385	0	2,385	4%
Information Technology	2,209	0	2,209	3%	1,535	0	1,535	3%
Other	9,557	0	9,557	11%	5,624	0	5,624	10%
<b>Government Bonds:</b>								
Corporate Bonds (investment grade)	0	5,261	5,261	6%	0	3,044	3,044	6%
UK Government	9,133	0	9,133	11%	6,158	0	6,158	11%
Other	1,590	0	1,590	2%	1,097	0	1,097	2%
<b>Private Equity:</b>								
All	1,195	288	1,483	2%	746	225	971	2%
<b>Real Estate</b>								
UK property	0	5,559	5,559	6%	0	3,277	3,277	6%
<b>Investment Funds &amp; Unit Trusts</b>								
Equities	17,210	0	17,210	20%	10,444	149	10,592	19%
Bonds	0	0	0	0%	0	0	0	0%
Infrastructure	996	532	1,528	2%	627	317	944	2%
<b>Cash &amp; Cash Equivalents</b>								
All	0	4,003	4,003	5%	0	2,254	2,254	4%
	71,215	15,644	86,858	100%	45,706	9,266	54,972	100%

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 32. Defined Benefit Pension Schemes (continued)

### Basis for Estimating Liabilities

Liabilities have been assessed by the Actuary using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Estimates have been based on data pertaining to the latest full valuation of the Pension Scheme as at 31<sup>st</sup> March 2016. The assumptions are shown in the following table.

	2016/17	2015/16
<b>Mortality Assumptions (years):</b>		
Men	21.9	22.0
Women	24.4	24.2
<b>Longevity at 65 for Future Pensioners:</b>		
Men	23.9	24.1
Women	26.5	26.6
<b>Principal Assumptions in the Valuation of the Liability</b>		
Inflation / Rate of Increase in Pensions	2.40%	2.20%
Rate of Increase in Salaries	2.90%	3.20%
Discount Rate	2.60%	3.50%
<b>Take-up of option to convert annual pension into retirement lump sum:</b>		
Service to April 2009	50%	50%
Service post April 2009	75%	75%

### Information about the Defined Benefit Obligation

Defined benefit obligation illustrates the profile of the scheme liabilities between types of member, including the weighted average duration of the pension obligation.

Change in assumptions at 31 March 2017:	Liability Split	Weighted Average Duration
	%	
Active Members	34.90	23.10
Deferred Members	25.40	22.90
Pensioner Members	39.70	11.80
	<b>100.00</b>	<b>17.60</b>

### Sensitivity Analysis

The sensitivity analysis shows the effect a change in financial assumptions used would have on the value of the scheme liabilities as at 31<sup>st</sup> March 2017 on varying basis.

To quantify the uncertainty around life expectancy a calculation was completed on a 1 year increase in life expectancy for sensitivity purposes giving an approximate 3% increase in cost of benefits. In practice the actual cost of a one year increase would depend on the structure of the revised assumption, for example, do survival rates predominantly apply at younger or older ages.



# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 32. Defined Benefit Pension Schemes (continued)

Change in assumptions at 31 March 2017:	Approximate % Increase to Employer Liability	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	10.0	11,586
0.5% increase in Salary Increase Rate	1.0	1,429
0.5% increase in Pension Increase Rate	8.0	10,016

Change in assumptions at 31 March 2017:	Approximate % Increase to Employer Liability	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	10.0	10,349
0.5% increase in Salary Increase Rate	1.0	1,210
0.5% increase in Pension Increase Rate	8.0	9,018

### Projected Defined Benefit Cost for the Period 31 March 2018

The Projected Defined Benefit is an analysis of the projected amount to be charged to the operating profit for the period to the 31<sup>st</sup> March 2018 and is shown in the following table.

Period Ended 31 March 2018	Assets	Obligations	Net (Liability)/asset	
	£000	£000	£000	% of pay
Projected Service Cost	0	2,439	(2,439)	(40)
Past Service Cost including curtailments	0	0	0	0
Effects of settlements	0	0	0	0
<b>Total Service Cost</b>	<b>0</b>	<b>2,439</b>	<b>(2,439)</b>	<b>(40)</b>
Interest Income on plan assets	2,249	0	2,249	37
Interest cost on defined benefit obligation	0	3,114	(3,114)	(51)
<b>Total Net Interest Cost</b>	<b>2,249</b>	<b>3,114</b>	<b>(865)</b>	<b>(14)</b>
<b>Total Included in Profit &amp; Loss</b>	<b>2,249</b>	<b>5,553</b>	<b>(3,304)</b>	<b>(55)</b>

## 33. Contingent Liabilities

There are no contingent liabilities to be reported by the Council.

# Notes to the Financial Statements (continued)

For the year ended 31<sup>st</sup> March 2017

## 34. Prior Year Adjustment

There has been a restatement to the accounts for 2015/16 due to an update to the Code of Practice requiring the introduction of an Expenditure and Funding Analysis Statement.

This has not affected the position of the Council's reserves as it is purely a presentational amendment for clarity on comparison between two financial years.

# Housing Revenue Account

For the year ended 31<sup>st</sup> March 2017

## Income and Expenditure Account

The Housing Revenue Account (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. The Council charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the HRA Movement in Reserves Statement.

	2016/17	2015/16
General	1,559	1,631
Special	807	810
Rents, rates & taxes	3	9
Depreciation & Impairment of NCA's	(13,647)	3,167
Provision for Bad Debts	59	105
<b>Supervision &amp; Management</b>	<b>(11,219)</b>	<b>5,723</b>
Repairs & Maintenance	2,935	3,382
<b>Total Expenditure</b>	<b>(8,285)</b>	<b>9,106</b>
Dwelling Rents	(12,524)	(12,499)
Non-Dwelling Rents	(118)	(113)
Charges for Services & Facilities	(200)	(171)
Contributions towards Expenditure	(55)	(86)
Supporting People	(216)	(246)
<b>Total Income</b>	<b>(13,112)</b>	<b>(13,115)</b>
<b>Net Cost of HRA Services as included in the Comprehensive I&amp;E</b>	<b>(21,397)</b>	<b>(4,009)</b>
HRA share of Corporate & Democratic Core	138	144
<b>Net Cost of HRA Services</b>	<b>(21,259)</b>	<b>(3,866)</b>
Losses/(Gains) on sale of HRA non-current assets	(292)	69
Interest payable and similar charges	1,570	1,584
HRA investment income	(14)	(18)
Pensions interest cost & expected return on pension assets	181	216
<b>Surplus for Year on HRA Services</b>	<b>(19,814)</b>	<b>(2,014)</b>

# Housing Revenue Account

For the year ended 31<sup>st</sup> March 2017

## Movement on the Housing Revenue Account

The Movement on the HRA Statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit for the year on the HRA, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

£000's	2016/17	2015/16
Balance at the beginning of the year	1,426	2,382
Surplus/(Deficit) for the year on the HRA Income and Expenditure Statement	19,814	2,014
Adjustments between accounting and funding basis under regulations	(17,537)	(2,970)
Increase for the year on the HRA	2,277	(956)
<b>Balance at the end of the year</b>	<b>3,703</b>	<b>1,426</b>

## Note to the Statement of Movement on the Housing Revenue Account

£000's	2016/17	2015/16
<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>		
Revaluation and impairment of non-current assets <sup>1</sup>	(13,647)	3,167
Retirement benefits charged/(credited) <sup>2</sup>	535	630
Adjustments in relation to Short Term compensated absences	1	1
(Gains)/losses on sale of HRA non-current assets <sup>1,3</sup>	(292)	69
	<b>(13,403)</b>	<b>3,868</b>
<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
Revenue contribution to finance major repairs	(1,508)	(4,205)
Revenue contributions to finance new build	(1,000)	(2,287)
Revenue contributions to finance debt repayment	(1,287)	-
Employer's contributions payable to the Pensions Fund and retirement benefits payable direct to pensioners <sup>2</sup>	(338)	(345)
	<b>(4,134)</b>	<b>(6,837)</b>
<b>Net additional amount required by statute to be debited or (credited) to the HRA for the year</b>	<b>(17,537)</b>	<b>(2,969)</b>

## Notes

1. Transfers to / from Capital Adjustment Account
2. Transfers to / from Pensions Reserve
3. Transfers to / from Capital Receipts Reserve

# Notes to the Housing Revenue Account

For the year ended 31<sup>st</sup> March 2017

## 1. Introduction

The Housing Revenue Account is a record of expenditure on, and income from, the provision of local council housing, and the form and content of the Account is prescribed by statute.

The Housing Revenue Account is “ring-fenced” and must be self-supporting. Contributions both to and from the Housing Revenue Account (e.g. from the General Fund) are limited to special circumstances.

## 2. Housing Stock

The number of dwellings in the Council's housing stock, as at 31<sup>st</sup> March 2017, totalled 3,015 (2016: 2,973) properties. This followed the sale of 23 properties under the Government's Right to Buy Scheme, the acquisition of 20 properties and completion of phase 1 of new build increasing stock by an additional 45 homes. The stock is broken down over type of properties as shown in the following table.

	2016/17	2015/16	2014/15
Houses	1,584	1,552	1,568
Flats	793	785	786
Bungalows	638	636	636
	3,015	2,973	2,990

Dwelling houses within the Housing Revenue Account are valued in accordance with the RICS Appraisal and Valuation Manual, as published by the Royal Institution of Chartered Surveyors, and DCLG guidance. Accordingly the Existing Use Value for Social Housing (EUV-SH) has been used as the basis of valuation. The beacon approach to valuation of the housing stock has been adopted as recommended by the DCLG, including the regional adjustment to be adopted within the EUV-SH valuation.

The vacant possession value (open market value) of Council dwellings as at 31<sup>st</sup> March 2017 was £289,598k (2016: £267,267k). This does not compare to the Balance Sheet, which shows the Existing Use Value, the difference being an indication of the economic and social costs of providing Council housing at less than market rent.

## 3. Major Repairs Reserve

The Major Repairs Reserve is used to fund major improvements to Council properties. Expenditure financed from this Reserve is shown in Note 5. The movement on the Reserve during the 2016/17 is summarised below:

£000's	2016/17	2015/16
Balance at the beginning of the year	1,703	1,704
Add Depreciation Provision	3,449	3,226
Use of Capital Receipts Reserve	-	-
Revenue Contribution for Capital	1,553	4,206
<b>Amount available for capital expenditure on HRA Land, Houses and Other Property</b>	<b>6,705</b>	<b>9,136</b>
Less Capital expenditure in the year (including depreciation)	(5,439)	(7,433)
<b>Balance at the end of the year</b>	<b>1,266</b>	<b>1,703</b>

# Notes to the Housing Revenue Account

For the year ended 31<sup>st</sup> March 2017

## 4. Property, Plant and Equipment

Year ended 31 March 2017	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment	Investment Properties	Total
£000's								
<b>Cost or valuation</b>								
At 1 April 2016 (restated)	90,663	2,495	116	4,112	105	97,491	211	97,702
Additions	4,457	53	-	-	-	4,510	-	4,510
Disposals	(771)	-	-	(17)	-	(788)	-	(788)
Transfers	4,295	(200)	-	(4,095)	-	-	-	-
Revaluations	22,991	(60)	-	-	-	22,931	-	22,931
<b>At 31 March 2017</b>	<b>121,634</b>	<b>2,288</b>	<b>116</b>	<b>-</b>	<b>105</b>	<b>124,143</b>	<b>211</b>	<b>124,354</b>
<b>Depreciation and Impairment</b>								
At 1 April 2016	-	-	(88)	-	-	(88)	-	(88)
Charge for the Year	(3,307)	(134)	(6)	-	-	(3,447)	-	(3,447)
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Impairments	20,073	(24)	-	-	-	20,049	-	20,049
Revaluations	(16,766)	158	-	-	-	(16,608)	-	(16,608)
<b>At 31 March 2017</b>	<b>-</b>	<b>-</b>	<b>(94)</b>	<b>-</b>	<b>-</b>	<b>(94)</b>	<b>-</b>	<b>(94)</b>
<b>Net Book Value</b>								
<b>At 31 March 2017</b>	<b>121,634</b>	<b>2,288</b>	<b>22</b>	<b>0</b>	<b>105</b>	<b>124,049</b>	<b>211</b>	<b>124,260</b>
At 1 April 2016	90,663	2,495	28	4,112	105	97,403	211	97,614

# Notes to the Housing Revenue Account

For the year ended 31<sup>st</sup> March 2017

## 4. Property, Plant and Equipment (continued)

Year ended 31 March 2016	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment	Investment Properties	Total
£000's								
<b>Cost or valuation</b>								
At 1 April 2015	89,591	2,366	132	-	-	92,089	211	92,300
Additions	4,175	38	-	4,112	-	8,325	-	8,325
Disposals	(550)	(9)	(16)	-	-	(575)	-	(575)
Transfers (restated)	-	95	-	-	105	200	-	200
Revaluations recognised in the Revaluation Reserve	(2,553)	6	-	-	-	(2,547)	-	(2,547)
<b>At 31 March 2016</b>	<b>90,663</b>	<b>2,495</b>	<b>116</b>	<b>4,112</b>	<b>105</b>	<b>97,491</b>	<b>211</b>	<b>97,702</b>
<b>Depreciation and Impairment</b>								
At 1 April 2015			(98)			(98)	-	(98)
Charge for the Year	(3,106)	(114)	(6)	-	-	(3,226)	-	(3,226)
Disposals	-	-	16	-	-	16	-	16
Transfers	-	-	-	-	-	-	-	-
Impairments recognised in the Provision of Services	66	(6)	-	-	-	60	-	60
Depreciation written out to the revaluation reserve	3,040	120	-	-	-	3,160	-	3,160
<b>At 31 March 2016</b>	<b>-</b>	<b>-</b>	<b>(88)</b>	<b>-</b>	<b>-</b>	<b>(88)</b>	<b>-</b>	<b>(88)</b>
<b>Net Book Value</b>								
<b>At 31 March 2016</b>	<b>90,663</b>	<b>2,495</b>	<b>28</b>	<b>4112</b>	<b>105</b>	<b>97,403</b>	<b>211</b>	<b>97,614</b>
At 1 April 2015	89,591	2,366	34	-	-	91,991	211	92,202

\* The restated transfer in year was due to a transfer of land from the General fund to the HRA not previously shown.

# Notes to the Housing Revenue Account

For the year ended 31<sup>st</sup> March 2017

## 5. Capital Expenditure

£000's	2016/17	2015/16
<b>Capital Investment</b>		
Operational Assets	4,512	8,338
	<b>4,512</b>	<b>8,338</b>
<b>Sources of Funding</b>		
External Grants	106	95
Capital Receipts in year	1,063	505
Revenue contribution	1,000	2,287
Capital Receipts Reserve	398	1,245
Major Repairs Reserve	1,944	4,206
	<b>4,512</b>	<b>8,338</b>

## 6. Capital Receipts from Disposal of Land, Houses and Other Property

£000's	2016/17	2015/16
Land	-	-
Council Homes	(1,424)	(803)
<b>Total Receipts</b>	<b>(1,424)</b>	<b>(803)</b>
Less: Pooled payments to Central Government	361	313
<b>Net Receipts Retained (transferred to Capital Receipts Reserve)</b>	<b>(1,063)</b>	<b>(490)</b>

The retained receipts are earmarked in the Housing Capital Receipts Reserve to fund the Council's New Build Programme, which is to provide new Council Housing for rent.

## 7. Rent Arrears

A summary of rent arrears and prepayments is shown in the following table:

£000's	2016/17	2015/16
Current Tenant Arrears	225	220
Former Tenant Arrears	108	89
<b>Total Tenant Arrears</b>	<b>333</b>	<b>309</b>

## 8. Provision for Bad and Doubtful Debts

The provision for bad and doubtful debts relating to rents and other charges, made against the Rent Arrears in Note 7 above, is £241k (2016: £212k).



# Notes to the Housing Revenue Account

For the year ended 31<sup>st</sup> March 2017

## 9. Depreciation and Impairment of Fixed Assets

The Dwellings in the Housing Revenue Account were valued as at £289,598k. After taking account of houses sold in 2016/17 and the Social Housing Discount Factor, the vacant possession value of the remaining dwellings at 31 March 2017 was £121,634k (2016: £90,663k). The lower figure of £121,634k shown in the accounts represents the cost to the Council of providing housing at less than open market rents. As a result of the valuation the CIES was credited with £20,049k (2015/16: £60k) for the reversal of previous year impairments. This gain has been transferred to the Capital Adjustment Account.

The Housing Revenue Account assets were valued as at 31<sup>st</sup> March 2017; the balance sheet value reflects sales of dwellings and depreciation in the year. The revaluation was in accordance with the Government's resource accounting policy, at Existing Use Value - Social Housing. The Social Housing Discount Factor changed in 2016/17 from 34% to 42%.

As shown in Note 4, Depreciation of £3,447k (2016: £3,226k) has been charged to the HRA. This figure is made up of £3,307k (2016: £3,106k) for Council Dwellings and £140k (2016: £120k) in respect of garages, shops and other assets. These amounts have been credited back to the HRA below the net operating expenditure as a transfer from the Major Repairs Reserve.

## 10. Pension Costs

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

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

The cost of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However the charge required to be made against the Housing Revenue Account is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Housing Revenue Account after Net Operating Expenditure.

# The Collection Fund

For the year ended 31<sup>st</sup> March 2017

This account reflects the statutory requirements for the Council as a “Billing Authority” to maintain a separate Collection Fund Account. This shows the transactions of the Council in relation to Non-Domestic Rates and the Council Tax and illustrates the way in which these have been distributed to preceptors and the Council’s General Fund.

£000's	2016/17	2015/16
<b>Income</b>		
Council Tax Income	(50,265)	(47,471)
Business Rates Income	(23,787)	(23,351)
<b>Total Income</b>	<b>(74,052)</b>	<b>(70,822)</b>
<b>Expenditure</b>		
Council Tax Precepts (Note 4)	49,228	47,013
Business Rates Precepts (Note 6)	23,534	21,980
Transitional Protection Payments	15	26
Previous Year's Surplus Paid to Preceptors (Notes 4 & 6)	724	1,221
Cost of Collection	92	92
Provision for Bad and Doubtful Debts	881	338
Provision for Business Rates Appeals	312	1,489
<b>(Surplus) / Deficit on the Fund</b>	<b>734</b>	<b>1,337</b>
Fund Balance Brought Forward	(7)	(1,344)
(Surplus) / Deficit in Year	734	1,337
<b>Fund Balance as at 31st March</b>	<b>727</b>	<b>(7)</b>
Council Tax Element (Note 1)	(613)	(407)
Business Rate Element	1,339	400

The increase in income for 2016/17 was due to continuing growth in the number of both residential and commercial properties, i.e. the Council’s Tax Base together with an average Band D equivalent of 3.42% across all Preceptors. South Derbyshire set its increase at 1.95%.

Approximately 90% of Council Tax income and 60% of Business Rates income is passed over to other Preceptors and this is reflected in the increases in the above table.

The largest costs on the Fund for 2016/17 are the increases in provision for Business Rates Appeals and write-offs which pushed the Business Rates part of the Fund into a larger deficit.

A provision is required under accounting regulations, to recognise that some larger businesses have lodged appeals with the District Valuer against their rating assessment. The provision is made as a contingency should their appeals be successful and a refund of rates becomes due

# Notes to the Collection Fund

For the year ended 31<sup>st</sup> March 2017

## 1. Council Tax

The introduction of Council Tax on 1<sup>st</sup> April 1993 revised the method of accounting for the Council's Collection Fund. The main features of the arrangements are:

- a) Interest is not payable between the General Fund and the Collection Fund on cash-flow deficits/surpluses. All interest is payable directly to the General Fund, as shown on the Income and Expenditure Account.
- b) The year end surplus or deficit on the Collection Fund is distributed to the Billing and Precepting Authorities on the basis of estimates, made in January of each year-end balance. This also applies to the Business Rates element.

The balance has been disaggregated for the purpose of these Accounts to attribute relevant amounts to the Precepting Authorities and the Council, as the Billing Authority as follows:

£000's	2016/17	2015/16
Derbyshire County Council	(449)	(297)
Derbyshire Police and Crime Commissioner	(68)	(46)
Derbyshire Fire and Rescue Authority	(27)	(18)
	(545)	(361)
South Derbyshire District Council	(68)	(46)
	<b>(613)</b>	<b>(407)</b>

## 2. Council Tax Valuation Bands

Most domestic Dwellings (including flats) whether rented or owned, occupied or not, are subject to Council Tax. Each Dwelling is allocated to one of eight bands according to their open market capital value at 1<sup>st</sup> April 1991.

Band				
A	Between	0	and	40,000
B	Between	40,001	and	52,000
C	Between	52,001	and	68,000
D	Between	68,001	and	88,000
E	Between	88,001	and	120,000
F	Between	120,001	and	160,000
G	Between	160,001	and	320,000
H	Greater than	320,001		

## 3. Council Tax Base

The amount of Council Tax payable is calculated by establishing a 'Council Tax Base'. This is the Council's estimated number of chargeable dwellings subject to Council Tax, expressed in relation to those dwellings in Band D. The Tax Base for 2016/17 was based on 41,731 chargeable dwellings (40,907 in 2015/16).

After allowing for national exemptions and local discounts, such as the Single Persons Discount, the Tax Base for 2016/17, on which the Council Tax rate was set, is shown in the following table.

# Notes to the Collection Fund

For the year ended 31<sup>st</sup> March 2017

## 3. Council Tax Base (continued)

Band	Calculated number of Dwellings	Ratio to Band D	Equivalent number of Dwellings 2016/17	Restated 2015/16
X	23	5/9	13	13
A	7,662	6/9	5,108	5,042
B	7,891	7/9	6,137	5,990
C	6,414	8/9	5,701	5,541
D	6,140	1	6,140	5,976
E	3,572	11/9	4,366	4,247
F	1,822	13/9	2,632	2,582
G	868	15/9	1,447	1,443
H	66	18/9	131	133
			<b>31,676</b>	<b>30,967</b>

The Band D Council Tax rate for South Derbyshire District Council was £153.18 (2015/16: £150.25).

## 4. Council Tax Precepts and Demands

2016/17	Precept	Surplus	Total
<i>£000's</i>			
Derbyshire County Council	36,109	129	36,238
Derbyshire Police and Crime Commissioner	5,487	20	5,507
Derbyshire Fire and Rescue Authority	2,206	8	2,214
South Derbyshire District Council	5,426	19	5,446
	<b>49,228</b>	<b>176</b>	<b>49,404</b>

2015/16	Precept	Surplus	Total
<i>£000's</i>			
Derbyshire County Council	34,295	365	34,660
Derbyshire Police and Crime Commissioner	5,314	56	5,370
Derbyshire Fire and Rescue Authority	2,136	23	2,159
South Derbyshire District Council	5,267	56	5,323
	<b>47,013</b>	<b>500</b>	<b>47,513</b>

# Notes to the Collection Fund

For the year ended 31<sup>st</sup> March 2017

## 5. Non-Domestic Rates

Non-Domestic Rates are managed on a National basis. The Government specifies an amount and subject to the effects of transitional arrangements and any other prevailing reliefs, local businesses pay rates calculated by multiplying their rateable value by that amount. In 2016/17 the amount was 48.4p in the pound (2015/16: 48.0p). The Council is responsible for collecting rates due from the ratepayers in its area.

The total rateable value of business premises in South Derbyshire at 31<sup>st</sup> March 2017 was £57,811,605 (2016: £56,792,321) – an increase of 1.8%, mainly due to growth in new business units and expansions. The total amount of Non Domestic Rates collected is shared on the following basis:

Public Body	%
Central Government	50%
South Derbyshire District Council	40%
Derbyshire County Council	9%
Derbyshire Fire and Rescue Authority	1%

The deficit balance on the Business Rates element of £1,339k on the Collection Fund Account, has been disaggregated for the purpose of these Accounts to attribute relevant amounts to the precepting authorities and the Council as the Billing Authority as follows:

£000's	2016/17	2016/15
Central Government	670	200
Derbyshire County Council	121	36
Derbyshire Fire and Rescue Authority	13	4
	804	240
South Derbyshire District Council	536	160
	<b>1,339</b>	<b>400</b>

## 6. Non-Domestic Rates Demands

These are the amounts (precepts) paid into the General Funds of the preceptors under statute.

2016/17	Precept	Surplus	Total
£000's			
Central Government	11,767	274	12,041
Derbyshire County Council	2,118	49	2,167
Derbyshire Fire and Rescue Authority	235	5	241
South Derbyshire District Council	9,414	219	9,633
	<b>23,534</b>	<b>548</b>	<b>24,083</b>

# Notes to the Collection Fund

For the year ended 31<sup>st</sup> March 2017

## 6. Non-Domestic Rates Demands (continued)

2015/16	Precept	Surplus	Total
<i>£000's</i>			
Central Government	10,990	361	11,351
Derbyshire County Council	1,978	65	2,043
Derbyshire Fire and Rescue Authority	220	7	227
South Derbyshire District Council	8,792	288	9,080
	<b>21,980</b>	<b>721</b>	<b>22,701</b>

# Glossary

## **ACCOUNTING PERIOD**

The period of time covered by the Accounts, normally a period of twelve months commencing on 1<sup>st</sup> April. The end of the accounting period is the Balance Sheet date, 31<sup>st</sup> March each year.

## **ACCRUALS**

Sums included in the Final Accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31<sup>st</sup> March.

## **ACTUARIAL GAINS AND LOSSES**

For a Defined Benefit Pension Scheme, the changes in actuarial surpluses or deficits that arise because:

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

## **ASSET**

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

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

## **AUDIT OF ACCOUNTS**

An independent examination of the Council's financial affairs.

## **BALANCE SHEET**

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

## **BUDGET**

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

## **CAPITAL EXPENDITURE**

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

## **CAPITAL FINANCING**

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

## **CAPITAL PROGRAMME**

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

# Glossary

## **CAPITAL RECEIPT**

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

## **CIPFA**

The Chartered Institute of Public Finance and Accountancy.

## **COLLECTION FUND**

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

## **COMMUNITY ASSETS**

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

## **CONSISTENCY**

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

## **CONTINGENT ASSET**

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

## **CONTINGENT LIABILITY**

A contingent liability is either:

- ➔ A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- ➔ A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

## **CORPORATE AND DEMOCRATIC CORE**

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

## **CREDITOR**

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

## **CURRENT SERVICE COST (PENSIONS)**

The increase in the present value of a Defined Benefits Pension Scheme's liabilities, expected to arise from employee service in the current period.



# Glossary

## **DEBTOR**

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

## **DEFINED BENEFIT PENSION SCHEME**

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

## **DEPRECIATION**

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

## **DISCRETIONARY BENEFITS (PENSIONS)**

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers such as the Local Government (Discretionary Payments) Regulations, 1996 eg benefits would be released if an employee was terminally ill.

## **EQUITY**

The Council's value of total assets less total liabilities.

## **EVENTS AFTER THE BALANCE SHEET DATE**

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

## **EXCEPTIONAL ITEMS**

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

## **EXPECTED RETURN ON PENSION ASSETS**

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

## **EXTRAORDINARY ITEMS**

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

## **FAIR VALUE**

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

# Glossary

## **GENERAL FUND**

The main revenue fund of the Council. Day-to-day spending on services is met from this fund. Spending on the provision of Council housing however must be charged to a separate Housing Revenue Account (HRA).

## **GOING CONCERN**

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

## **GOVERNMENT GRANTS**

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

## **HOUSING BENEFITS**

A system of financial assistance to individuals towards certain housing costs administered by Authorities and subsidised by Central Government.

## **HOUSING REVENUE ACCOUNT (HRA)**

A separate account to the General Fund, which covers the income and expenditure arising from the provision of Council housing accommodation.

## **IMPAIRMENT**

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

## **INCOME AND EXPENDITURE ACCOUNT**

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

## **INFRASTRUCTURE ASSETS**

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

## **INTANGIBLE ASSETS**

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

## **INTEREST COST (PENSIONS)**

For a Defined Benefit Scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

## **INVESTMENTS (PENSION FUND)**

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

# Glossary

## **LIABILITY**

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

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

## **LIQUID RESOURCES**

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

- Readily convertible to known amounts of cash at or close to the carrying amount; or
- Traded in an active market.

## **MATERIALITY**

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

## **MINIMUM REVENUE PROVISION (MRP)**

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

## **NET BOOK VALUE**

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

## **NET DEBT**

The Council's borrowings less cash and liquid resources.

## **NON-DISTRIBUTED COSTS**

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

## **NATIONAL NON-DOMESTIC RATES (NNDR)**

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

## **NON-OPERATIONAL ASSETS**

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

## **OPERATING LEASE**

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

# Glossary

## **OPERATIONAL ASSETS**

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

## **PAST SERVICE COST (PENSIONS)**

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

## **PENSION SCHEME LIABILITIES**

The liabilities of a Defined Benefit Pension Scheme in respect of outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

## **PRECEPT**

The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

## **PRIOR YEAR ADJUSTMENT**

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

## **PROVISION**

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

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

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