

AUDIT COMMITTEE

Thursday, 13 June 2019

6.00 pm

Committee Room 1, City Hall

Membership:	Councillors Geoff Ellis (Chair), Laura McWilliams (Vice-Chair), Thomas Dyer, Gary Hewson, Ronald Hills, Jackie Kirk and Rebecca Longbottom
Substitute member(s):	Councillors Pat Vaughan
Independent Member:	Jane Nellist
Officers attending:	Democratic Services, Paul Berry, Jaclyn Gibson, Pat Jukes, John Scott and Colleen Warren

A G E N D A

SECTION A	Page(s)
A TRAINING SESSION WILL BE HELD IMMEDIATELY PRIOR TO THE START OF THIS MEETING AT 5.00PM IN RELATION TO STATEMENT OF ACCOUNTS TEA/COFFEE WILL BE AVAILABLE	
1. Confirmation of Minutes - 26 March 2019	3 - 12
2. Declarations of Interest	
Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary.	
3. External Audit Progress Report 2019/20	13 - 30
4. Annual Governance Statement 2018/19	31 - 44
5. Draft Statement of Accounts 2018/19	45 - 202
6. Annual Internal Audit Report 2018/19	203 - 224
7. Internal Audit Progress Report	225 - 244
8. Audit Committee Work Programme	245 - 250

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- Present:** Councillor Geoff Ellis (*in the Chair*)
- Councillors:** Thomas Dyer, Gary Hewson, Ronald Hills, Laura McWilliams and Pat Vaughan
- Independent Member:** Jane Nellist
- Also Present:** Mark Surridge, Jon Machej, Modika Bah (Mazars LLP)
- Apologies for Absence:** Councillor Sue Burke and Councillor Jim Hanrahan

54. Confirmation of Minutes -7 February 2019

RESOLVED that the minutes of the meeting held on 7 February 2019 be confirmed.

55. Declarations of Interest

Councillor Pat Vaughan declared a Personal Interest with regard to the agenda item titled 'External Audit Inquiries - 2018/19 Statement of Accounts'.

Reason: His Granddaughter worked in the Finance department at the City of Lincoln Council.

Councillor Pat Vaughan declared a Personal Interest with regard to the agenda item titled 'External Audit - Audit Strategy Memorandum 2018/19'.

Reason: His Granddaughter worked in the Finance department at the City of Lincoln Council.

Councillor Pat Vaughan declared a Personal Interest with regard to the agenda item titled 'IAS19 -Assumptions Used to Calculate Pension Entries in the 2018/19 Statement of Accounts'.

Reason: His Granddaughter worked in the Finance department at the City of Lincoln Council.

Councillor Pat Vaughan declared a Personal Interest with regard to the agenda item titled 'External Audit- Certification of Claims and Returns Annual Report'.

Reason: His Granddaughter worked in the Finance department at the City of Lincoln Council.

56. Change to Order of Business

RESOLVED that the order of business be amended to allow the Internal Audit Progress Report to be considered before the remaining agenda items.

57. Internal Audit Progress Report

John Scott, Audit Manager:

- a. presented the Internal Audit Progress Report to Audit Committee, incorporating the overall position reached so far and summaries of the

outcome of audits completed during the period January 2019 - March 2019, as detailed at Appendix A

- b. highlighted that Audit Committee had the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan as a key requirement of public sector internal audit standards
- c. detailed the content of the report covering the following main areas:
 - Progress Against the Plan
 - Summary of Audit Work
 - Implementation of Audit Recommendations
 - Current Areas of Interest Relevant to the Audit Committee
- d. highlighted audits carried out in the following areas given assurances as follows:
 - Bank (Key Controls): High Assurance
 - Council House Sales: Substantial Assurance
- e. reported on other significant work ongoing in relation to:
 - Audit Plan 2019/20
 - Combined Assurance Map
 - De Wint Court
 - Counter Fraud
 - Northamptonshire County Council – Governance and Financial Issues
 - Private Sector Housing HMO Licensing and Hazards-Follow Up
- f. advised on audits currently in progress as detailed at paragraph 6 of the report
- g. provided a summary of all audits where recommendations were overdue/extended/implemented and not yet due as detailed at paragraph 7 of the report
- h. reported on an outstanding recommendation from Boultham Park Refurbishment audit in 2017/18; an update would be given at tonight's meeting by the appropriate officer
- i. detailed the contents of the Audit Plan Schedule at Appendix 2 of the report
- j. highlighted performance against annual planned work targets as detailed at paragraph 8 and Appendix 4 of the report
- k. requested members' consideration on the content of the report.

Members discussed the content of the report in further detail, asking whether the option available to tenants of 'Right to Buy' at three years occupancy in a council house was the same for newly built housing stock.

Jaclyn Gibson, Chief Finance Officer advised that she would seek clarification on this matter and respond to members of Audit Committee before the next meeting.

Caroline Bird, Community Services Manager, updated Audit Committee on progress made in relation to the signing of the Partnership Agreement for Boutham Park Refurbishment, covering the following main points:

- An existing agreement was held with Linkage Community Trust which was serving us well.
- Good progress had been made on agreeing the terms of the revised Partnership Agreement with Linkage.
- There were just a few details to finalise which neither party envisaged would cause any problems.
- The delay had been due to a lack of staff resources the scheme being without a dedicated Project Manager for more than a year.
- It was hoped that the Partnership Agreement would be finalised by 31 August 2019.

Members highlighted that ward councillors had not always been made aware of changes as the project moved forward probably due to the project manager having left before the scheme was finalised. Although verbal agreement may have been made prior to this, the need to keep records in writing was emphasised in order that achievements on the ground could be monitored.

Caroline Bird confirmed that project staff tended to move on as schemes came to an end. She highlighted the need to have good hand over agreements. She advised that the only issues she was aware of was where there had been problems with the path which hadn't been laid properly. This issue was being addressed through negotiations with the contractors.

Members asked whether the issues with the path were due to the way the project was monitored or down to contractor error.

Caroline Bird advised that the path had to be laid subject to certain weather conditions. The contractors had taken the risk of laying it close to the border line when the job shouldn't have been done. The contractor would have to replace it at their own expense.

RESOLVED that:

1. An update on options available to 'Right to Buy' customers moving into new build council housing be provided to members of Audit Committee before the next meeting.
2. The contents of the report and continuation of further monitoring arrangements be noted.

58. External Audit Inquiries - 2018/19 Statement of Accounts

Jaclyn Gibson, Chief Finance Officer:

- a. presented a report to inform members of the External Auditor's requirement for the provision of information regarding the Council's approach to dealing with fraud, litigation, laws and regulations, together with some areas specific to the accounts such as related parties and estimates used in the accounts as part of their audit of the Council's Statement of Accounts for 2018/19

- b. advised that the purpose of the report was to allow members to comment on officers' responses related to 'Those Charged with Governance'
- c. drew members' attention to the proposed responses to the inquiries provided by officers and requested members' views regarding their submission.

RESOLVED that the proposed responses to the inquiries to those charged with governance for the 2018/19 Statement of Accounts be agreed and submitted to Mazars, External Auditor.

59. External Audit - Audit Strategy Memorandum 2018/19

Jaclyn Gibson, Chief Finance Officer, presented a report to receive and comment upon the External Audit-Audit Strategy Memorandum for 2018/19, which described the External Auditor's (Mazars LLP) approach in delivering the financial statements audit work for City of Lincoln Council along with their approach to Value for Money (VFM) work for 2019, highlighting significant audit risks and areas of key judgement as well as providing details of the audit team.

Mark Surridge, representing Mazars, External Auditor:

- a. presented Mazar's Audit Strategy Memorandum for the City of Lincoln Council for the year ending 31 March 2019
- b. highlighted that the Strategy Memorandum set out Mazar's overall adopted approach on risk associated with financial statements and the audit process
- c. reported that the document, which had been prepared following initial planning discussions with management, formed the basis for discussion of its audit approach and invited any questions or input the council may have on its role as external auditor
- d. advised that the external audit was planned and performed to provide reasonable assurance that the financial statements were free from material error to give a true and fair view of the financial performance and position of the Council for the year
- e. added that the external auditor was also required to issue a value for money conclusion as to whether the Council had proper arrangements in place to secure economy and effectiveness in its use of resources
- f. highlighted that the small amount of debt listed by the Council made it a 'Public Interest Entity' which required more detailed reports
- g. invited members' comments and questions.

Jon Machej, representing Mazars, External Auditor, further detailed the content of the Audit Strategy Memorandum covering the following main areas:

- Engagement and responsibilities summary
- Your audit engagement team
- Audit scope, approach and timeline
- Materiality and misstatements
- Significant risks, key audit matters and other key judgement areas
- Value for money conclusion

- Fees for audit and other services
- Our commitment to independence

Members considered the content of the report in further detail, requesting clarification on the meaning of a 'Pooling Report'.

Jon Machej, representing Mazars, External Auditor, responded that a pooling report was a specific report to the Government, for example on Housing Capital Receipts.

RESOLVED that content of the External Audit Memorandum 2018/19 be noted.

60. Risk Management - Annual Update

Jaclyn Gibson, Chief Finance Officer:

- a. reported on the risk management framework adopted by the council and risk management activity during 2018/19
- b. advised that the Council's Risk Management Strategy, presented tonight for members information, had recently been reviewed based on a risk appetite methodology approach to the management of the Council's risks, to reflect the environment in which it operated
- c. advised that a key element of the Council's management of its risks involved the development and monitoring of the key strategic risks which could affect the Council's ability to achieve its priorities during the year; the Council's Strategic Risk Register currently identified ten strategic risks as detailed within the report and associated appendices
- d. outlined the framework of the risk management strategy in further detail, covering the following main topic areas:
 - Risk Management Strategy
 - Formulation of the Strategic Risk Register (Appendix A)
 - Formulation of the Directorate (Operational) Risk Registers
 - Risk Advisory Group
 - Training
 - Risk Management Benchmarking
 - Greater Lincolnshire Risk Management Group
 - Internal Audit
- e. reported that an Internal Audit of the Council's risk management arrangements undertaken during 2018/19 had concluded there was substantial assurance that the Council had effective risk management arrangements in place
- f. requested members' consideration on the content of the report.

Members considered the report in further detail.

Jane Nellist, Independent Member, suggested that the risk management strategy seemed inward looking in terms of council process. For example, there was no mention of external risks such as the University in terms of financial sustainability impact. The University was encountering a reduction in 18 year olds in attendance and potential staff redundancies.

Members referred to other large companies in the City such as Siemens which potentially could have an impact on financial sustainability.

Jaclyn Gibson, Chief Finance Officer highlighted that only high level strategic risks were included on the Strategic Risk Register. The register covered probable risk at the current time which may have an impact on the Council. She would however take the above comments back to Corporate Leadership Team for a potential steer.

RESOLVED that:

1. Comments in relation to financial sustainability risks as detailed above be fed back to Corporate Leadership Team.
2. The risk management framework adopted by the Council and the risk management activity undertaken during the year 2018/19 be noted.

61. Statement of Accounting Policies 2018-19

Jaclyn Gibson, Chief Finance Officer:

- a. presented for consideration the Council's accounting policies used to prepare the 2018 -19 Statement of Accounts, as detailed at Appendix 1 of her report
- b. advised that each year the content of the accounting policies was reviewed to ensure it reflected the requirements of the Code of Practice on Local Authority Accounting (the Code), based on International Financial Reporting Standards (IRFS) and that it remained relevant to the Council
- c. reported on significant changes to the 2018/19 CIPFA Code of Practice on Local Authority Accounting which came into effect on 1 April 2018 due to the adoption of IRFS 15 and IRFS 9, which constituted a change to accounting policy requiring adjustments to be made as detailed at paragraphs 3.3 -3.7 of her report
- d. referred to the accounting policies for 2018/19 Statement of Accounts as detailed in Appendix 1, with all amendments for review highlighted, which were not expected to have a material impact on the 2018/19 accounts
- e. requested that members review and note the Accounting Policies to be used for the 2018/19 accounts.

Members suggested that the amendments were obligatory anyway.

Jaclyn Gibson, Chief Finance Officer, confirmed that the authority must comply with the Code of Practice on Local Authority Accounting and make arrangements to update the council's policies to reflect any changes.

RESOLVED that the Accounting Policies to be used for the 2018/19 accounts be noted.

62. IAS19 -Assumptions Used to Calculate Pension Entries in the 2018/19 Statement of Accounts

Jaclyn Gibson, Chief Finance Officer:

- a. presented a report to allow the committee to consider the assumptions the pension fund actuary proposed to use in preparing IAS19 figures for inclusion in the 2018/19 Statement of Accounts
- b. advised that IAS19 represented the accounting standard for pension costs, based on the simple principle that an organisation should account for retirement benefits when it was committed to give them
- c. informed members that in order to calculate the costs of earned benefits for inclusion in the statement of accounts, the scheme actuaries used assumptions to reflect expected future events which led to best estimates of future cash flows arising under the scheme liabilities
- d. advised that the council planned to use the calculated costs and the underlying assumptions, based upon the specialist advice of the actuary of the Lincolnshire County Council Pension Fund in preparing the Statement of Accounts for 2018/19
- e. detailed further financial and demographic assumptions as detailed at paragraph 3 and 4 and Appendix A of the report and relevant financial implications at paragraph 5 of the report
- f. requested that members approve the IAS19 assumptions the pension fund actuary proposed to use in preparing IAS19 figures for inclusion in the 2017/18 Statement of Accounts.

Members discussed the content of the report in further detail.

RESOLVED that the IAS19 assumptions the pension fund actuary proposed to use in preparing IAS19 figures for inclusion in the 2018/19 Statement of Accounts be approved.

63. Annual Governance Statement Monitoring

John Scott, Audit Manager, on behalf of Pat Jukes, Business Manager, Corporate Policy:

- a. presented a progress update on those areas identified as 'significant governance issues' as set out in the 2017/18 Annual Governance Statement (AGS), which Audit Committee had a role to review
- b. stated that the report provided details of the monitoring arrangements for the significant internal control issues raised in the latest AGS, as detailed at Appendix A of the report
- c. advised that key actions would be reviewed by the Service Manager's Group and overseen by Corporate Leadership Team as well as monitored by the Audit Committee
- d. reported that just one significant issue, Information Management remained, which was now considered by the responsible officer to be amber
- e. highlighted the following five areas not considered as significant issues although designated as 'Areas of Interest' and areas that had been subject to

change or would benefit from having a governance overview, as detailed at Appendix A to the report:

- Partnership Companies
- Compliance to Lincoln Project Management Model
- Western Growth Corridor
- Use of Professional Advice
- Some Housing Responsible Officers

f. requested that members of Audit Committee give consideration to the content of the report.

RESOLVED that the content of the report be noted and monitoring arrangements be continued.

64. Combined Assurance Report

John Scott, Audit Manager:

- a. presented the combined assurance report which grouped the different sources of assurance in a single model to provide the basis for Senior Management and the Audit Committee to gain a better understanding of their organisation's assurance status and needs, as detailed at Appendix A to the report
- b. summarised the assurance levels for different areas of Council business
- c. provided the key messages out of the 187 areas of critical services/systems, projects and strategic risks:
 - 141 had green assurance (75%)
 - 45 had amber assurance (24%)
 - 1 had red assurance (1%)
- d. advised that overall percentage assurance ratings had changed from Green to Amber compared to 2017/18
- e. reported that the audit risk scores for Red and Amber areas had been increased accordingly and considered for inclusion in the Annual Governance Statement and the 2019/20 Audit Plan
- f. highlighted that this was a positive report with plans in place to mitigate amber/red assurance areas
- g. invited members' questions and comments.

Members discussed the content of the report in further detail.

Jane Nellist, Independent Member, referred to mention within the status report on challenging targets for the accountancy closedown due to staff shortages, which raised concerns as this had been a problem the previous year.

Jaclyn Gibson, Chief Finance Officer gave an assurance that procedures were in place to ensure effective and efficient close down of the year end accounts including the following measures in place:

- A new Financial Services Manager now in post
- An accounts timetable
- Interim Audit training courses
- Project Management Plan

RESOLVED that the content of the Combined Assurance report be noted.

65. Audit Committee Work Programme

John Scott, Audit Manager, presented a report to inform members of Audit Committee on the work programme for 2019/20 as detailed at Appendix A.

RESOLVED that that the contents of the Audit Committee work programme 2019/20 be noted, subject to corrections to typographical errors of meeting dates for the following year to read 2020 and not 2019.

66. External Audit- Certification of Claims and Returns Annual Report

Jaclyn Gibson, Chief Finance Officer:

- a. reported that External Audit was required to report annually the results of grant certification work
- b. requested that members receive and comment on the findings of the External Audit Grant Claims and Returns report for 2017/18, which was in a different format to that of previous years due to the appointment of a new External Auditor, Mazars
- c. reported on certification work undertaken by the former External Auditor KMPG LLP under the Public Sector Audit Appointment (PSAA) certification arrangements for 2017/18, resulting in adjustments having been made to the council's housing benefit claim totalling £607, as in previous years subject to a qualification letter, which would be sent to the DWP for review
- d. referred to the annual report letter from KMPG LLP for the certification of claims and returns work undertaken for 2017/18 attached at Appendix A as information exempt from the public domain due to a confidentiality aspect
- e. advised that as the Housing Pooling Return was outside the scope of the PSAA certification arrangements the Council had appointed its new External Auditors, LLP to undertake this work
- f. reported that as there was no requirement to report the outcomes of the Housing Pooling Return certification process there was no separate report to consider, however, Mazars LLP were in attendance and happy to provide verbal feedback if required
- g. confirmed that under the Council's responsibility for appointing its own reporting accountant in accordance with the Housing Benefit Assurance Process (HBAP), it had appointed Mazars LLP to undertake the certification of the housing subsidy claim in 2018/19 but was yet to appoint an auditor for the Housing Pooling Returns for 2018/19
- h. requested members' comments on the content of the report.

Members discussed the content of the report in further detail.

RESOLVED that the content of the report be noted.

67. Exclusion of Press and Public

RESOLVED that the press and public be excluded from the meeting during consideration of the following item(s) of business because it was likely that if members of the public were present there would be a disclosure to them of 'exempt information' as defined by Section 100I and Schedule 12A to the Local Government Act 1972.

68. Appendix A External Audit- Certification of Claims and Returns Annual Report

RESOLVED that the content of Appendix A External Audit-Certification of Claims and Returns Annual Report be noted.

SUBJECT: EXTERNAL AUDIT PROGRESS REPORT 2019/20

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

- 1.1 The attached External Audit progress report provides the Audit Committee with an update on progress in delivering their responsibilities.

2. Background

- 2.1 The External Audit – Audit Strategy Memorandum which describes the External Auditor’s (Mazars LLP) approach in delivering the financial statements audit work for City of Lincoln Council along with their approach to value for money (VFM) work for 2018/19 was presented to the last meeting of this Committee in March 2019.

3. Audit Progress

- 3.1 An update on progress against the Audit Strategy is provided in Appendix A, along with an update on a number of technical issues.
- 3.2 Mazars LLP will be in attendance at the meeting and will present the attached report.

4. Strategic Priorities

4.1 High performing services

There are no direct implications for the Council’s strategic priorities. The external audit of the Council’s financial statements and VFM conclusion is a statutory requirement and as such contributes towards the fitness for purpose of the Council’s governance arrangements.

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

The Audit fee includes work on the VFM conclusion and the audit of the financial statements, the fee for 2019/20 is £36,332 and is in accordance with the scales fees set by the PSAA. Separate agreement will be reached with Mazars regarding the additional fee in relation to the EU PIE classification.

5.2 Legal Implications including Procurement Rules

There are no direct legal implications. The External Auditor is required to satisfy themselves that the Council’s accounts comply with statutory requirements and

that proper practices have been observed in compiling them.

5.3 Equality, Diversity and Human Rights

There are no direct implications arising as a result of this report.

6. Risk Implications

6.1 There are no specific risk implications arising as a result of this report.

7. Recommendation

7.1 Audit Committee should note the contents of this report and of the attached appendix.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain? One

List of Background Papers: None

Lead Officer: Jaclyn Gibson, Chief Finance Officer
Telephone (01522) 873258

Audit Progress Report

City of Lincoln Council

May 2019





CONTENTS

1. **Audit progress**
2. **National publications**

This document is to be regarded as confidential to City of Lincoln Council. It has been prepared for the sole use of the Audit Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

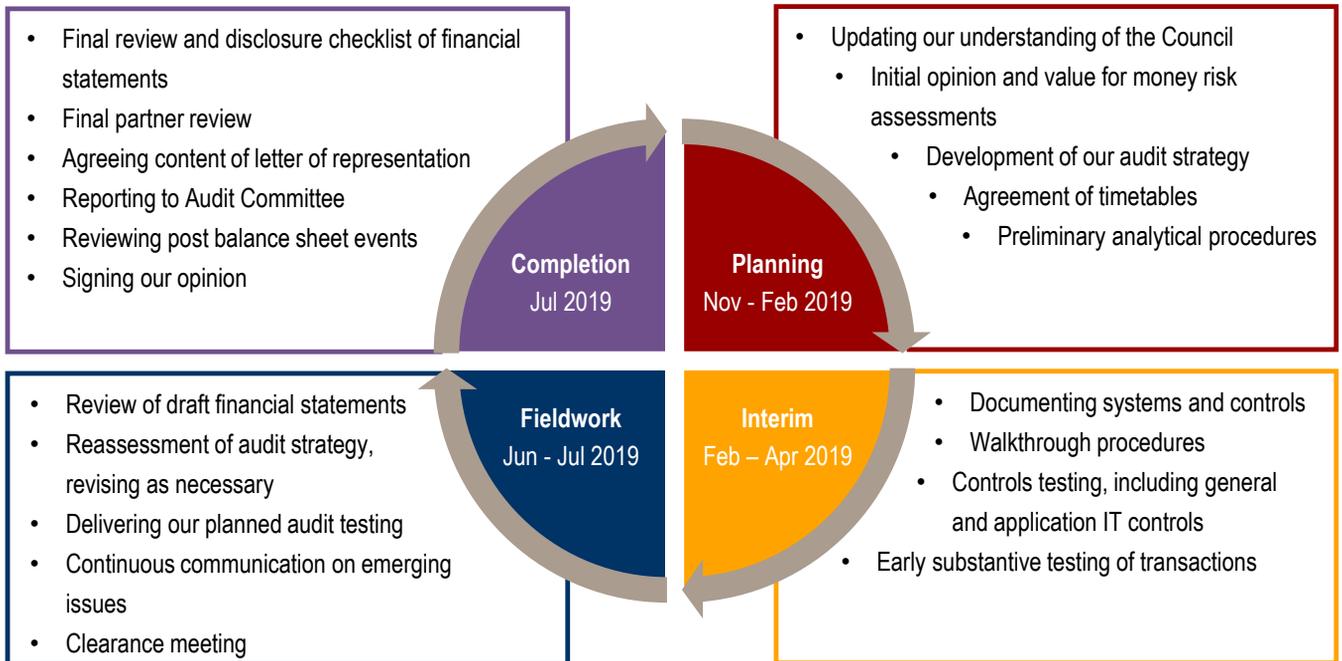
1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor for City of Lincoln Council. We have also included at Section 2 our briefing for the Committee on recent publications which are relevant to your responsibilities.

Audit progress

Our key audit stages are summarised in the diagram shown below, together with the key tasks.



Since the Committee last met we have:

- Met with finance staff to clarify our requirements and expectations in respect of our 2018/19 final audit visit;
- Issued our 'Client Deliverable List' to the finance team, setting out the expected working papers and supporting information required to complete our final audit visit;
- Continued our detailed audit work for our 2018/19 VFM conclusion; and
- Held ongoing liaison discussions with Internal Audit colleagues as part of our approach to maintain an accurate understanding of the Council for our 2018/19 audit.

Our detailed audit work will continue with our final audit visit which commences on 3 June 2019.

Our work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage.

1. AUDIT PROGRESS (CONT.)

Other Issues

At this stage of the audit we recognise that the scale fees set by PSAA, as communicated in our fee letter of 25 April 2018, are based on the Council's previous non-public interest entity classification. We therefore recognise that there will be a need to increase these fees to reflect the additional audit requirements. The scale fee set by PSAA is £33,961.

We will discuss and agree these additional fees with the Chief Finance Officer prior to submitting them to PSAA for approval.

We have also been separately engaged by the Council to carry out additional work outside of that in relation to our appointment by PSAA, in respect of the Housing Benefits Subsidy Assurance. We have agreed a fee of £6,600 with the Council's officers and again at this stage we are not planning any divergence from this.

We are satisfied that we continue to comply with the Financial Reporting Council's Ethical Standard and there are no matters or relationships which we believe may have a bearing on our independence or the objectivity of the audit team. We will further confirm this, or report any relevant matters in our Audit Completion Report.

Technical Update

Section 2 includes, for the Committee's information, summaries of recent technical and other sector publications (from the National Audit Office, Chartered Institute of Public Finance and Accountancy and the Local Government Association) which we believe are relevant to your responsibilities. The reports covered in this section, and the key messages, are summarised overleaf.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
National Audit Office (NAO)			
1	Planning for New Homes	Overall assessment that planning system not working effectively.	7
2	Building Public Trust Awards – good practice in annual reports 2017-18	Examples of good practice in annual reports	7
3	Guidance for audit committees on cloud services	Guidance on use of cloud services	8
4	Framework to review programmes	Questions to ask when reviewing major programmes and projects	8
5	Round-up for Audit Committees	Summary of NAO publications for Audit Committees	8
Chartered Institute of Public Finance and Accountancy (CIPFA)			
6	An introductory guide to Local Government Finance	Updated guide which may be of interest to Members.	9
7	CIPFA Bulletin 03 Closure of the 2018/19 Financial Statements	Clarification of issues relating to the 2018/19 financial statements	9
8	Local Authority Capital Accounting - A Reference Manual for Practitioners	Practitioners guide to capital accounting	9
9	The Guide To Local Government Finance	Introductory guide to local government finances	10
10	Social Care Statistics 2017/18 Actuals	Analysis of adult social care expenditure	10
11	Code Of Practice On Local Authority Accounting In The United Kingdom 2019/20	Accounting requirements for 2019/20	11
12	An Introductory Guide to Housing Finance in England and Wales	Introductory guide to Housing Finance	11
13	Practitioners' Guide To Capital Finance	Practitioners Guide	12
14	Local Government Application Note for the UK Public Sector Internal Audit Standards	Guidance for application of Internal Audit Standards	12

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
Chartered Institute of Public Finance and Accountancy (CIPFA) (continued)			
15	CIPFA's Proposed Financial Management Code for Local Government – Consultation	Consultation on CIPFA's financial management code	13
16	CIPFA Service Reporting Code of Practice (SeRCOP) 2020/21: Service Expenditure Analysis – Consultation	Consultation on CIPFA's Service Reporting Code of Practice	13
Local Government Association			
17	Twenty-first Century Councils	Toolkit to help councils empower women, parents and carers to become local councillors and take on leadership positions.	14

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

1. Planning for New Homes, NAO, February 2019

The NAO has recently published a report on Planning for new homes. This report is part of a series on housing in England, including Housing in England: overview (2017) and Homelessness (2017). The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average. The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

<https://www.nao.org.uk/report/planning-for-new-homes/>

2. Building Public Trust Awards – good practice in annual reports 2017-18, May 2019

The Building Public Trust Awards recognise outstanding corporate reporting that builds trust and transparency. This interactive document illustrates a range of good practice examples across annual reports in both the public and private sector.

In 2018 the public sector award for excellence in public sector reporting was jointly won by the Crown Estate and the Ministry of Justice. This interactive pdf summarises the judging criteria based on the principles of a good annual report. The guide highlights examples of "what good looks like" in reporting on strategy, risk, operations, governance, success measures, financial performance, people factors, external factors and ensuring the report is understandable to its users.

<https://www.nao.org.uk/report/building-public-trust-awards-good-practice-in-annual-reports-2017-18/>

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

3. Guidance for audit committees on cloud services, April 2019

Public and private sector organisations are increasingly adopting cloud services with the aims of reducing costs, increasing efficiency and transforming their operations. Government policy supports this move but recognises that accessing systems through the internet can bring new contracting models and new challenges. Some organisations may lack the capacity or expertise to select the right product for their needs, implement it securely and manage it effectively.

The guidance provides an overview of cloud services and outlines government policy on their use. It then sets out specific questions for audit committees to consider asking when engaging with their management at three stages:

- Assessment of cloud services – looking at cloud services as part of organisational and digital strategies; the business case process; and due diligence.
- Implementation of cloud services – considering system configuration; data migration; and service risk and security.
- Management of cloud services – covering operational considerations; the need for assurance from third parties; and the capability needed to manage live running.

The guidance points to and complements detailed cloud guidance available elsewhere.

<https://www.nao.org.uk/report/guidance-for-audit-committees-on-cloud-services/#>

4. Framework to review programmes, April 2019

Major programmes are expensive, high profile and carry great uncertainties and risks. It is not surprising that many fall short of their objectives, in terms of cost and/or outcomes.

The NAO has completed about 140 reports on major projects and programmes since 2010. Based on this experience, this framework draws together the key questions the NAO ask when we review major programmes. It was developed for NAO value-for-money auditors to use when reviewing programmes, but may be useful for those seeking an overview of the NAO work on projects and programmes.

The questions are structured into four sections:

- Purpose: Is there a strategic need for the programme and is this the right programme to meet the business need?
- Value: Does the programme provide value for money?
- Programme set-up: Is the programme set up in accordance with good practice and are risks being well managed?
- Delivery and variation management: Are mechanisms in place to deliver the intended outcomes and respond to change, and is the programme progressing according to plan?

There are 18 key questions, each illustrated with examples of good practice and lessons learnt from previous NAO reports.

The Framework also outlines the NAO's related resources that provide further support for examining issues in more depth.

<https://www.nao.org.uk/report/framework-to-review-programmes/>

5. Round-up for Audit Committees, March 2019

This interactive round-up of NAO publications is intended to help Audit Committees, Boards and other users by outlining the latest NAO resources for governance and oversight, risk management and strategic management issues. It also sets out how to keep in touch with NAO insight on specific issues and/or sectors.

<https://www.nao.org.uk/report/round-up-for-audit-committees/>

2. NATIONAL PUBLICATIONS - CIPFA

6. An introductory guide to Local Government Finance, February 2019

This introductory guide addresses the basic questions regarding how money flows, how budgets are set and where it is spent in local government. An understanding of these issues is essential to realising the current issues in local government.

This guide is aimed at helping local councillors, those working with and for local councils, and anybody with an interest in the sector to understand the complexity of local government finance.

The guide covers revenue and capital financing, financial reporting, governance and auditing as well as giving an overview of some of the key services provided by local councils.

This guide is available online only.

<https://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2019>

7. CIPFA Bulletin 03 Closure of the 2018/19 Financial Statements, March 2019

This bulletin covers the closure of accounts for the 2018/19 year and provides further guidance and clarification to complement the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners (Code Guidance Notes). It addresses, where relevant, frequently asked questions and other issues that have arisen since the publication of the 2018/19 Code Guidance Notes.

Key areas covered include:

- A lengthy section of clarification on Financial Instruments, in particular the impact of the implementation of IFRS9 and IFRS15 on Local Authority accounts
- Streamlining the Accounts guidance
- Analysis of debtors and creditors
- EU withdrawal
- Guaranteed Minimum Pensions

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-03-closure-201819>

8. Local Authority Capital Accounting - A Reference Manual for Practitioners, April 2019

Intended to be read alongside other CIPFA publications, including the Code of Practice on Local Authority Accounting, the Guidance Notes for Practitioners and the Practitioner's Guide to Capital Finance in Local Government, this book demonstrates the requirements of capital accounting through fully worked and explained examples covering all the major transaction types and asset classes.

A comprehensive reference section, drawing upon frequently asked capital questions received by CIPFA's Finance Advisory Network, Technical Enquiry Service and TISonline discussion forum, provides further discussion of typical areas of concern.

There are top tips on the real-life application of the Code of Practice, including advice on the most effective use of financial systems, working with non-finance colleagues such as valuers, and getting through the external audit as smoothly as possible.

With clear cross-referencing to allow readers to follow a topic as it appeals to them, this publication provides unique insight and practical support in one of the most technical and demanding areas of local authority accounting.

This edition has been updated to reflect new statutory guidance and the suspension of arrangements for the recognition of the highways Network Asset. The opportunity has also been taken to add a few more frequently asked questions (FAQs).

<https://www.cipfa.org/policy-and-guidance/publications//local-authority-capital-accounting--a-reference-manual-for-practitioners>

2. NATIONAL PUBLICATIONS - CIPFA

9. The Guide To Local Government Finance, April 2019

This guide covers the current arrangements and provides insights into possible future changes at a time when political uncertainty makes future developments difficult to foresee.

Covering both revenue and capital financing, this guide provides the reader with an introduction to the technical complexities of funding each type of expenditure.

The publication is presented in dedicated service areas that have their own funding streams and financial complexities. These include:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.

For those requiring more of an introduction to local government finance, CIPFA also produces an Introductory Guide to Local Government Finance that summarises the key information in a way that is aimed at non-finance specialists and those new to the sector..

<https://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2019>

10. Social Care Statistics 2017/18 Actuals, April 2019

This publication provides a detailed analysis of adult social care expenditure analysed by support group, such as: physical support, sensory support, support with memory and cognition, learning disability support and mental health support.

Other information includes a breakdown of the total population by age group and number of resident weeks.

<https://www.cipfa.org/policy-and-guidance/publications/s/social-care-statistics-201718-actuals>

2. NATIONAL PUBLICATIONS - CIPFA

11. Code Of Practice On Local Authority Accounting In The United Kingdom 2019/20, April 2019

Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This 2019/20 edition of the Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2019.

The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority.

This edition of the Code introduces a number of important amendments relating both to context and an understanding of requirements, as well as changes in some of accounting requirements. In particular the following areas should be noted:

- Improved clarity regarding the specification of proper accounting practices, the Code's role in these, the impact of statutory accounting requirements on the annual accounts, and the manner in which they affect the presentation of local authority reserves, including the distinction between usable and unusable reserves
- Significant amendments to Chapter Two to reflect the revisions made by the IASB to the Conceptual Framework for Financial Reporting (Conceptual Framework)
- Changes relating to the previous Carbon Reduction Commitment Scheme and Landfill Allowances Schemes
- An additional section to address the treatment of the Apprenticeship Levy
- For Scottish authorities, recognition of the ability to present transfers to or from other statutory reserves, allowance for voluntary transfers between the Revaluation Reserve and the General Fund, and pension fund legislation amendments
- For Welsh authorities recognition of legislation changes relating to separate publication of pension fund accounts
- Amendments to Section 7.1 (Financial Instruments) arising from amendments made to IFRS 9 Financial Instruments
- Changes to group accounts requirements implementing scope clarifications for disclosure requirements.

<https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-201920-book>

12. An Introductory Guide to Housing Finance in England and Wales, March 2019

The provision of social housing is a big issue for government and the public sector. Local authorities have a key role in responding to the needs of those in the community and understanding how the relevant finance structures work is vital if they are fully going to play their part.

Housing, and social housing in particular, has undergone many changes since the last edition of this title in 2011. The guidance looks at the current landscape for social housing and outlines the statutory duties placed on local authorities to provide housing for those in need. It looks at local housing strategies to address supply and working with the private rented sector. Chapters outline the policy agenda, consider the consequences of welfare reform, tackling homelessness and the consequences of the Grenfell Tower fire in 2017. Arrangements are no longer uniform across the UK and this edition provides a greater level of detail including where policies and practices in Wales differ.

The publication will be useful for local authority officers who have a need to understand the main financial principles that apply to providing housing services, as well as anyone working in housing provision or who is charged with scrutinising policy and practice.

<https://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-housing-finance-in-england-and-wales-2019>

2. NATIONAL PUBLICATIONS - CIPFA

13. Practitioners' Guide To Capital Finance, March 2019

This publication contains the background knowledge you need on capital finance and how to account for it. It summarises the key features of the systems of capital finance that operate under the Prudential Framework in England, Wales, Northern Ireland and Scotland.

It provides explanations and definitions of capital expenditure, credit arrangements and capital financing including minimum revenue provision (MRP) arrangements and local authority borrowing.

Its intention is to assist practitioners in managing the capital programmes of their authorities and in particular addressing the technical issues associated with the financing of the programme. It summarises the key capital finance implications of the Local Government Act 2003, the Local Government Finance Act (Northern Ireland) 2011, the Local Government in Scotland Act 2003 and associated regulations.

The publication uses worked examples throughout to allow practitioners to apply theoretical concepts to practical examples. In carrying extracts from the relevant legislation and the Prudential Code, the aim has been to produce a one-stop guide for both those with previous local authority capital finance knowledge and those new to the subject.

<https://www.cipfa.org/policy-and-guidance/publications/p/practitioners-guide-to-capital-finance-2019-edition>

14. Local Government Application Note for the UK Public Sector Internal Audit Standards, March 2019

This Application Note is aimed at those who play a significant part in shaping or managing the internal audit function within their organisations, including:

- chief executives
- chief financial officers and other senior management
- audit committees
- selected members within local government in the United Kingdom, as well as
- chief audit executives/heads of internal audit.

UK Public Sector Internal Audit Standards (PSIAS) have been developed to apply across the whole of the public sector in all sectors of government. The PSIAS are based on standards issued by the Institute of Internal Auditors (IIA), with additional requirements and interpretations that make them directly applicable to the UK public sector. The PSIAS are developed jointly by the relevant internal audit standard setters (RIASS) for central government, local government, devolved government administration bodies and the National Health Service (NHS). The PSIAS set out requirements which apply generally to all UK public sector engagements, but do not include any sector requirements or guidance for specific parts of government.

CIPFA has been designated as the RIASS for local government. CIPFA recognises the need to supplement the PSIAS with additional information and guidance on the requirements and practice of internal audit in the local government environment, and this Application Note provides that guidance.

Included with the Application Note is an authoritative checklist for measuring the performance of internal audit against the requirements of the PSIAS and the Application Note, in line with PSIAS 1300 Quality Assurance and Improvement Programme. The checklist can be used for both the internal and external assessments required in PSIAS 1300-1322.

<https://www.cipfa.org/policy-and-guidance/publications//local-government-application-note-for-the-uk-psias-2019-edition>

2. NATIONAL PUBLICATIONS - CIPFA

15. Consultation on CIPFA's Proposed Financial Management Code for Local Government, March 2019

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by regulation. The general financial management of a local authority, however, has not been supported by a professional code. CIPFA is now proposing that a Financial Management Code (CIPFA FM Code) should be designed and developed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

The CIPFA FM Code would therefore for the first time set standards of financial management for local authorities in the UK. The draft FM Code is based on a series of principles supported by specific standards and statements of practice. They are considered necessary to provide the strong foundation within local authorities to enable them to:

- financially manage the short-, medium- and long-term finances
- manage financial resilience to meet foreseen demands on services
- financially manage unexpected shocks in their financial circumstances.

The draft FM Code is consistent with other CIPFA codes and statements in that it is based on principles rather than prescription. Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the FM Code are being satisfied. Demonstrating this compliance with the CIPFA FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.

Significantly, the CIPFA FM Code builds on the success of the CIPFA Prudential Code, which requires local authorities to demonstrate the long-term financial sustainability of their capital expenditure and associated borrowing. With this success came new financial freedoms to make local decisions on matters that had hitherto been subject to central government control.

The draft FM Code is not expected to be considered in isolation, and accompanying tools will form part of the collective suite of evidence to demonstrate sound decision making.

To date, the draft FM Code has been developed with a specified governance process which includes practitioners, auditors and representatives of governments across the UK. It was then 'road tested' by a range of local authorities to provide early evidence of both practicality and fitness for purpose. Now, CIPFA is seeking to consult more widely and consequently invites comments on the draft FM Code. Note – the consultation closed on 30 April 2019.

<https://www.cipfa.org/policy-and-guidance/consultations/financial-management-code-consultation>

16. CIPFA Service Reporting Code of Practice (SeRCOP) 2020/21: Service Expenditure Analysis (SEA), March 2019

The SEA sets out a framework for reporting local authority service expenditure. This structure is an important factor in determining and defining the information that are collected in the CIPFA statistics and also government returns such as the RA/RO, Section 251 and ASC-FR. Effectively revising the SeRCOP SEA and keeping it fit for purpose is about finding a consensus across these many considerations and the various stakeholders. It is therefore essential to gather a broad base of opinion to inform this process. Note – consultation close on 10 May 2019.

While ensuring the accuracy of the current structure and the definitions therein is important, CIPFA are keen to challenge the usefulness of the analysis in the following ways:

- Do the expenditure divisions reflect how services are delivered and organised in practice?
- Do the service divisions provide the basis for robust, reliable, consistent and comparable information?
- Is the number of mandatory and discretionary levels about right in your service area?
- Are they well balanced in terms of the proportion of total costs in each division?
- Does the current breakdown help you in your benchmarking, policy or value for money analysis?

<https://www.cipfa.org/policy-and-guidance/consultations/cipfa-service-reporting-code-of-practice-sercop-2020-21-service-expenditure-analysis-sea>

2. NATIONAL PUBLICATIONS – LOCAL GOVERNMENT ASSOCIATION

17. Twenty-first Century Councils, March 2019

This toolkit has been developed to help councils create the underlying policies, procedures, ethos and environment that encourages and empowers women, parents and carers to become local councillors and take on leadership positions.

The Local Government Association is encouraging councils to consider their existing practices, celebrate what is working, share good practice and take action to support councillors who are women, parents and carers.

The equal participation of women and men in local politics, as our elected councillors and as our leaders, is an important condition for effective democracy and good governance. Representative councils are best able to speak to, and for, their communities and to support the effective business of local government. Democracy and decision-making are strengthened when councillors reflect the people they seek to serve and represent.

<https://www.local.gov.uk/twenty-first-century-councils>

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SUBJECT:	ANNUAL GOVERNANCE STATEMENT 2018/19
DIRECTORATE:	CHIEF EXECUTIVE AND TOWN CLERK
REPORT AUTHOR:	PAT JUKES, BUSINESS MANAGER, CORPORATE POLICY

1. Purpose of Report

1.1 To inform Audit Committee that the Annual Governance Statement (AGS) has been signed off by the Leader and CX as of the end of May 2019.

2. Executive Summary

Following thorough investigation, the Senior Officers Group has found evidence of just one significant governance issue to report in the AGS.

As in previous years a small number of areas were identified as less serious, but areas that it would be wise to keep a watchful eye on progress. Suggestions on the way to monitor these have been made in the main body of the report.

3. Summary

3.1 The AGS is completed annually, with a retrospective look back at how our governance plans worked in the previous year – in this case 2018/19, and whether any significant governance issues were identified as a result of the review

3.2 A Senior Officers group consisting of City Solicitor, Chief Finance Officer, Director of Communities and Environment and Audit Manager reviewed the levels of governance assurance provided for all services and projects, looking at a range of considerations

3.3 The review was conducted in three stages:

1. Audit and Policy gathered information from across the council, from a mix of interviews, audits, assurances, key summaries, performance and risk registers
2. The group of Senior Officers then reviewed a summary of these findings and discussed each in detail, forming a recommendation to Corporate Management Team (CMT)
3. CMT then had a final discussion and input into the final draft before sign off by the Chief Executive and the Leader for inclusion in the Annual Statement of Accounts

3.4 For 2018/19, there was just one significant governance identified – this is:

- The Disaster Recovery plan in place for IT arrangements is not sufficiently

aligned with the Business Continuity plans that are currently in place for restoring key services in terms of IT needs

For the last two years we have added a section to the AGS monitoring report after the significant issues section – called “ones to watch”

There is no constitutional requirement to do this and after discussion with CMT a decision has been taken to take the lesser concerns into the High Performing Service Board (HPS) and monitor them closely as part of the performance section. This would increase the visibility on these topics to CMT as they would then be discussed at a very senior level once a quarter as a minimum. They would also be reported to Performance Scrutiny as part of the HPS report.

3.5 In addition, as part of the draft AGS, a range of things that the council has completed /achieved in 2018/19 has been included as well as some key activities that it intends to pursue during 2019/20. This has been completed with the assistance of Assistant Directors and Service Managers.

3.6 The key documents are all attached as appendices with this report – they are:

1. Appendix A - The AGS itself, signed off officially by the CX and the Leader at the end of May

2. Appendix B – A glossary of terms used in the AGS

4. Strategic Priorities

This report supports the effective running and governance relating to ALL strategic priorities, but especially High Performing Services as it ensures our business will be conducted in accordance with the law and proper standards, in an open, honest and accountable manner.

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable) – n/a

5.2 Legal Implications including Procurement Rules – The report is aimed at ensuring our business will be conducted in accordance with the law and proper standards, in an open, honest and accountable manner.

5.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required) There are no implications on E&D or Human Rights from this report.

6. Risk Implications

6.1 (i) Options Explored – n/a

6.2 (ii) Key Risks Associated with the Preferred Approach - n/a

7. Recommendation

7.1 Audit Committee is asked to review the contents of the Final Annual Governance

Statement with a view to monitoring progress on the significant issue identified over the coming year 2019/20

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	Two
List of Background Papers:	None

Lead Officer:	Pat Jukes, Business Manager, Corporate Policy Telephone (01522) 873657
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ANNUAL GOVERNANCE STATEMENT (AGS) 2018/19

1 The council's responsibility for sound governance

1.1 Scope of responsibility

City of Lincoln Council must ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to secure continuous improvement in the way in which its functions are exercised.

Governance is about how we ensure that we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. In discharging this overall responsibility, we must put in place proper governance arrangements to manage our affairs. The council must ensure that there is a sound system of governance (incorporating the system of internal control).

During 2016/17, City of Lincoln Council fundamentally reviewed its governance framework to reflect the new CIPFA/SOLACE Framework. The council updated its own Code of Corporate Governance and following a review of compliance in autumn 2017, updated this further in January 2018 and again in April 2019.

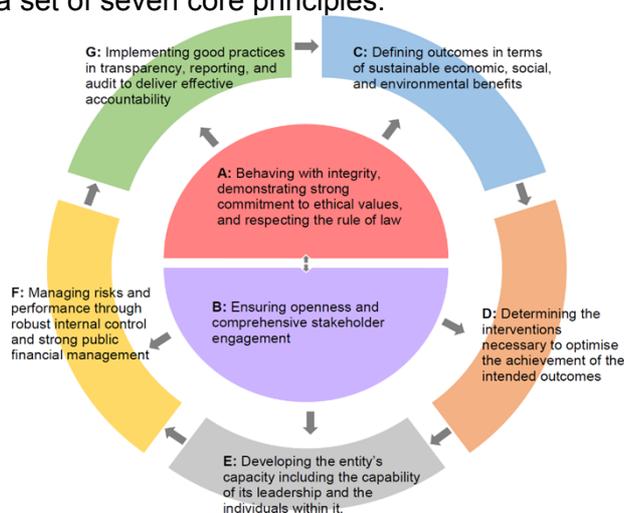
How we are meeting these defined responsibilities is detailed in the Code of Corporate Governance, which is found on our website under your council/information policies & publications/corporate publications. www.lincoln.gov.uk

This Annual Governance Statement details how the city council has complied with its own Code of Corporate Governance over the last year and meets the statutory requirements for all relevant bodies to prepare such a statement.

For a glossary of terms used – see Appendix B

1.2 The new Code of Corporate Governance sets out the documentation, systems and processes by which the authority transparently controls its activities and defines its cultures and values. It enables us to monitor achievement of our strategic objectives and to consider whether these have led to the delivery of appropriate value for money services.

The code is based on a set of seven core principles:



1.3 Responsibility rests within a range of areas – the key ones are detailed in the table below:

KEY ELEMENTS OF COUNCIL'S GOVERNANCE FRAMEWORK

Key elements of the governance framework at City of Lincoln Council are summarised below:

Council, Executive, Leader

- ❖ Provide leadership; set, develop and implement policy
- ❖ Ensure the Vision 2020 strategy is taken forward
- ❖ Develop, adopt and implement the budget framework
- ❖ Support the city's diverse communities and neighbourhoods to thrive

Leadership and decision making

- ❖ All decision meetings held in public (except those identified as 'part B')
- ❖ Decisions recorded on the council's public website
- ❖ Resources directed according to priorities as set out in Vision 2020

Risk management

- ❖ Risk registers identify both operational and strategic risks
- ❖ Strategic risks are considered by CMT and Executive every quarter
- ❖ Internal audit provides independent objective assurance
- ❖ Council's arrangements comply with the requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)

Scrutiny and review

- ❖ Scrutiny committees review council policy and can challenge decisions to hold Executive to account
- ❖ Audit and Performance committees review governance, costs vs budget, risk, internal control and delivery of agreed plans
- ❖ Ethics and Engagement Committee and/or Monitoring Officer deals with complaints about, or suspected breaches of member conduct
- ❖ Any two members can hold the Executive to account outside of scrutiny and review by requesting Call-In and reconsideration of an Executive decision.

Corporate Management Team (CMT)

- ❖ The CX is the Head of Paid Service and is responsible for all council staff and for leading an effective Corporate Management Team (CMT)
- ❖ CMT ensures there is clear accountability for the use of resources in achieving desired outcomes for service users and the community
- ❖ The Chief Finance Officer (CFO) is the council's Section 151 Officer and is responsible for safeguarding the council's financial position and securing value for money. The council's financial management arrangements comply with the governance requirements of the CIPFA Statement on the role of Chief Financial Officer in Local Government (2015)
- ❖ The City Solicitor is the council's Monitoring Officer and is responsible for ensuring legality, good governance and promoting high standards of conduct



Outcomes, Vision, Value for Money

The council's governance arrangements underpin our strategic policies and plans to ensure that the council delivers effective, efficient services for its residents and other stakeholders. Vision 2020 (our new strategic plan) provides a clear vision for what is to happen in the period 2017-20120. It is complemented with the council's Annual Report which provides details on achievements each year towards the vision.

The council has a strong Medium Term Financial Strategy (MTFS) which delivers the best use of current assets, whilst also ensuring that the council maximises the use of available government grants

1.4 In the following sections, the AGS considers whether the Code has been applied effectively providing commentary on how the framework itself has operated over the last 12 months.

1.5 **CORE PRINCIPLE A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

Ethical values, standards and formal codes of conduct are defined in the council's constitution and form the basis for developing our policies, procedures and actions as well as for the behaviour of our members and staff. We have appropriate processes in place to ensure that members and staff are not influenced by prejudice, bias or conflicts of interest when engaging and making decisions with stakeholders, as well as effective systems to protect the staff rights. All council decisions consider legal and equality implications with support from Legal Services.

Our Audit Committee (which includes an independent member) provides assurance on the adequacy of the internal control environment, by ensuring high standards of conduct are embedded within the council's culture, monitoring governance issues raised and overseeing internal and external audit arrangements.

Activity within Principle A in 2018/19:

- Counter Fraud Strategy/action plan and other counter fraud policies have been reviewed, and training rolled out. The council is involved with the National Fraud Initiative and has a close working relationship with Department for Work & Pensions for Housing Benefit fraud.
- We have undertaken counter fraud projects with the Lincolnshire CF team
- Continued progress on outstanding actions to meet GDPR especially in contracts
- We have rolled out the NETconsent – policy management and compliance system
- Member induction for those new Members elected in May 2018
- We have implemented a Corporate Social Responsibility Charter and registered the council as one of the first members
- We have adopted the cooperatives charter against modern slavery
- We have also produced our first modern slavery statement

Proposed activity for the coming year:

- Member induction for those new Members elected in May 2019
- A review of Pro-contract
- Re-enforce the principles of hospitality guidance



1.6 CORE PRINCIPLE B: Ensuring openness and comprehensive stakeholder engagement

The council makes sure our partners, in the private, public and voluntary sector as well individual citizens and service users are engaged in and have full access to information relating to decisions made. We expect reports to decision makers to be open, provide all the necessary material to ensure informed decisions in the best interests of the city and communities, and to have engaged stakeholders and service users in arriving at proposals under consideration.

Activity within Principle B in 2018/19:

- Consultation was conducted in January 2019 on the proposed MTFS for 2019-2024
- Consultation was conducted in December 2018 on the Council Tax Support Scheme
- The council has increased its use of social media to enhance its communications reach
- WGC – Lengthy consultation took place during 2018/19, with multiple focus groups. As a result significant changes are to be made within the transport aspect
- The City of Lincoln is a partner in a group of voluntary sector organisations which has reviewed the Community Cohesion Framework for Lincoln
- Housing undertook the biennial STAR survey in late 2018
- The Citizen’s Panel was extended to 700 members with specific remit of matching the city’s characteristics for age/sex and geographical areas
- Citizens have been involved in consultations on proposals for new residents parking schemes in and around the city centre
- Communication and consultation strategies for all our large scale projects

Proposed activity for the coming year:

- Development and roll of out a new Communications Strategy
- Review of the Consultation and Engagement strategy
- Considering the creation of a Tenants consultation panel

1.7 CORE PRINCIPLE C: Defining outcome in terms of sustainable economic, social, and environmental benefits

Vision 2020 is a three year strategy and delivery plan, developed using an evidence base from the Lincoln City Profile and following wide consultation, with an inclusive vision to deliver Lincoln’s ambitious future. It highlights four priorities for the city, acknowledging that the council cannot deliver everything needed by itself and must work in partnership and collaboration to achieve these ambitious plans. These are:

 Together, let’s deliver
Lincoln’s ambitious future

-  Let’s drive economic growth
-  Let’s reduce inequality
-  Let’s deliver quality housing
-  Let’s enhance our remarkable place

These are underpinned by the need to deliver ‘Professional high performing services’

Progress towards achieving the vision, aligned with the key priorities, will be reported to and monitored by senior management and elected members. Service areas within directorates, and under the guidance of assistant directors, are responsible for delivering individual projects to agreed timescales and budgets, with consideration for economic, social and environmental benefits which collectively will achieve our priorities.



Activity within Principle C in 2018/19:

- Approval of the MTFS which is a financial representation of the council's Vision 2020
- Implementation is well underway on the place strategy for Park Ward/Sincil Bank, highlighted as an area for regeneration. Three key strands of work are underway.
- Plan to be developed for embedding sustainability over the next 3 to 5 years
- Further develop plans for the Western Growth Corridor in partnership – planning application now in situ
- We have started the refresh of the Low Carbon Lincoln Strategy and action plan
- Instigation of a new Lincoln Intervention Team to address ASB issues in the city centre and surrounding areas
- Successful launch of the Lincoln Lottery – raising over £42k for good causes pa

Proposed activity for the coming year:

- To enhance the external appearance of the Lincoln Crematorium to match the professional service delivered to those in need
- Development of the future strategic plan – Vision 2025
- Determination of a direction for the Markets Strategy
- Further progress on Western Growth Corridor

1.8 CORE PRINCIPLE D: Determining the interventions necessary to optimise the achievement of the intended outcomes

The council clearly defines its priorities and plans which are aimed at delivering the outcomes it intends. Service plans are in place for all directorates with key projects listed separately. All projects are subject to the Lincoln Project Management Model (LPMM), through which we continuously assess the risks of not fully delivering plans and ensure that there are mitigating actions in place to support the achievement of intended outcomes.

The council's financial management arrangements ensure that there is adequate resource available to deliver plans. The council reviews progress against delivering those outcomes through its performance management framework.

Activity within Principle D in 2018/19:

- Implementation of the new Capital Programme Group to ensure financial responsibilities in all capital projects is conducted correctly
- A new training programme for all staff either managing or taking part in projects has been rolled out as part of the LPMM changes
- A transformation Manager has been appointed to commence work on the One Council project
- The TFS programme Team has identified a phase 6 programme to meet the increased MTFS savings target
- A new Property Investment Strategy is in place to ensure our commercial purchases are done in an appropriate manner

Proposed activity for the coming year:

- Commencement of the One Council programme
- Conduct a PIR on the effects of the changes from SPIT to CPG – one year on



1.9 CORE PRINCIPLE E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

The council ensures a management structure that provides leadership and creates the opportunity for staff to work effectively and efficiently to achieve the council objectives. A newly developed People Strategy will ensure the workforce has the necessary skills and behaviours to deliver the vision for the city, and is effectively engaged to champion the council's priorities. Partnership working extends the capacity for key projects beyond the council's own resource and is embedded within the Vision 2020 objectives.

Activity within Principle E in 2018/19:

- Continued roll out of People Strategy demonstrating plans to develop capability and capacity. Two defined lead roles now in operation around performance and staff wellbeing.
- More HR policies have been reviewed with training delivered to managers
- A further review of Directorate structures following the retirement of the Housing Director in April 2018 resulting in a new structure
- Commenced HR line management briefings

Proposed activity for the coming year:

- PIR to be conducted on the changed senior management structure
- People Strategy to continue to roll out new activities for example a Staff engagement Strategy
- Needs analysis to be completed on Leadership Development
- New staff charter – consultation and then implementation

1.10 CORE PRINCIPLE F: Managing risks and performance through robust internal control and strong public financial management

The council recognises the need to implement an effective performance management system that will allow us to deliver services effectively and efficiently. We understand that risk management, internal control and strong financial management are essential for us to achieve our objectives and we have put appropriate arrangements in place.

The financial audit identified material errors in the DRAFT financial statements, which were corrected in the published version, for which an unqualified opinion was given. The errors were reported in the September 2017 ISA260 report to the Authority. It was acknowledged that this was due to unprecedented staffing difficulties faced by the finance team during the closedown process and in the first half of the 2017. Management agreed to the report recommendations and ensured that the arrangements and working papers for the 2017/18 accounts would be robust and effective.

Activity within Principle F in 2018/19:

- Continued use of the risk process 'Risk Appetite' methodology and toolkit, with an update in 2018 to include the 5th category of "opportunistic"
- The Annual Audit Letter issued an unqualified conclusion on the authority's Final Statement of accounts

- Reductions in the central government funding have been mitigated by a successful savings and income generation programme – a key aspect of which is the new Property Acquisition arm of the Asset Optimisation plan.
- The introduction of NETconsent to minimise the risk of non-compliance to policy
- The council moved from KPMG (external auditors) to Mazzars during 2018/19

Proposed activity for the coming year:

- Partnership guidance to be updated and re-issued - AD's to develop a list of ALL partnerships/joint working in their areas as a minimum
- Increase the level of purchase order usage across the authority to ensure full control

1.11 CORE PRINCIPLE G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The council recognises that effective accountability is concerned not only with reporting on actions completed but ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in an open, transparent and proportionate manner. Performance is managed under the principles of the Performance Management Framework

Activity within Principle G in 2018/19:

- Improvements made to the website, including more self-serve options – through 2018/19
- Communications team has increased coverage of new developments, changes etc. through social media as well as the more traditional channels
- Development of a new performance management system approved by CMT in December 2017 has progressed well with the aim of producing data from it in Q1 2019/20

Proposed activity for the coming year:

- The next aim is to improve the culture of performance across the organisation and the use of data to manage services
- The Lincoln Performance Management Framework will be reviewed in 2019/20
- Develop a new web option to replace our existing website

2 Review of effectiveness of the governance framework

We undertook an assessment of the council's governance framework during 2018/19 - summary details are outlined above.

We reviewed key governance areas and assurances to identify any significant governance issues.

3 Level of assurance provided

We can provide a high level of assurance that the governance arrangements operating at City of Lincoln Council, in line with our Code of Corporate Governance are appropriate, fit for purpose and working well in practice.



4 Status of significant governance issues monitored from 2017-18

The council has regularly monitored its 2017 -18 significant governance issue through senior management and the Audit Committee during 2018/19:

Issues that have been significantly progressed and now can be removed:

- **Information Management GDPR:** During 2018/19 significant progress was made towards achieving the aim of being fully compliant with General Data Protection Regulation (GDPR). This is now embedded within services, but our DPO continues to ensure that compliance to process is ongoing.

5 Significant governance issues identified from 2018-19

New significant issues identified – One issue was identified for monitoring:

- **The Disaster Recovery plan in place for IT arrangements** is not sufficiently aligned with the Business Continuity plans that are currently in place for restoring key services in terms of IT needs

Those lesser concerns that were raised during the process will be passed to the High Performing Services Board and monitored quarterly and reported to Performance scrutiny through the High Performing Services report

6 Conclusion

The council's governance arrangements are under continual review and refinement. The council will monitor improvement plans for its significant governance issues quarterly and report progress in the next annual review.

Signed



Leader (Cllr Ric Metcalfe) **Date: 23rd May 2019**



Signed

Chief Executive (Mrs Angela Andrews) **Date: 23rd May 2019**

GLOSSARY OF TERMS USED

AGS	Annual Governance Statement
AD	Assistant Director
CPG	Capital Programme Group
CFO	Chief Finance Officer
CLT	Corporate Leadership Team
CMT	Corporate Management Team
CS	City Solicitor
CX	Chief Executive
DCLG	Department for Communities and Local Government
DfT	Department for Transport
DR	Disaster Recovery
GDPR	General Data Protection Regulation
GLLEP	Greater Lincolnshire Local Enterprise Partnership
H&S	Health & Safety
HB	Housing Benefit
HPS	High Performing Services
HR	Human Resources
ICT	Information, Communication Technology
IMPS	Information Management & Performance System
LGA	Local Government Authority
LPMM	Lincoln Project Management Model
MTFS	Medium Term Financial Strategy
PIR	Post Implementation Review
RO	Responsible Officer
RSG	Revenue Support Grant
SPIT	Strategic Plan Implementation Team
TFS	Towards Financial Sustainability
SM	Service Manager
VFM	Value for Money

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AUDIT COMMITTEE**13 JUNE 2019**

SUBJECT: DRAFT STATEMENT OF ACCOUNTS 2018/19

REPORT BY: CHIEF FINANCE OFFICER

LEAD OFFICER: COLLEEN WARREN, FINANCIAL SERVICES MANAGER

1. Purpose of Report

- 1.1 To present the Statement of Accounts for the financial year ended 31st March 2019, together with a short summary of the key issues reflected in the statutory financial statements, for scrutiny.

2. Executive Summary

- 2.1 The Statement of Accounts (SOA) for 2018/19 provides a comprehensive picture of the Council's financial circumstances and are compiled to demonstrate probity and stewardship of public funds.
- 2.2 The Council is statutorily required to publish its Statement of Accounts for 2018/19 with an audit opinion and certificate by no later than 31st July 2019.
- 2.3 The Audit Committee should note that the Statement of Accounts for 2018/19 are still subject to external audit. The audit of the accounts is being undertaken by Mazars, who commenced the audit in early June. Should any material changes be necessary as a result of this external audit work, these will be reported to a meeting of this Committee on 18th July 2019 when the audited Statement of Accounts are presented for approval.
- 2.4 The Council must make the Statement of Accounts available for public inspection for 30 working days. Following notification from Mazars, this runs from 3rd June until 11th July 2019 and the External Auditor is available to answer questions during this period.

3. Background

- 3.1 The Accounts and Audit Regulations 2015 require the Statement of Accounts to be certified by the Council's Chief Finance Officer by the 31st May 2019. The Accounts are then released to be audited by the Council's external auditor, Mazars. After completion of the audit the accounts must be published with the audit opinion and certificate, and before that must have been approved by Full Council, by no later than 31st July. The timescales involved with the approval of the Statement of Accounts for 2018/19 are:

- | | |
|---|----------------------------|
| a) Report draft accounts to Audit Committee | 13 th June 2019 |
| b) Report to Audit Committee | 18 th July 2019 |
| c) Report to the Executive | 22 nd July 2019 |
| d) Approval by Council | 23 rd July 2019 |

- 3.2 In order to ensure that the statutory deadline of 31st July 2019 is met Mazars must complete their audit and issue the relevant opinion. Should any material changes be necessary as a result of their external audit work, these will be reported to a meeting of this Committee on 18th July 2019 when the audited Statement of Accounts will be presented for approval. The Audit Committee will also receive the Audit Opinion from Mazars at this meeting.
- 3.3 There is a great deal of technical detail contained in the statutory rigid format of the Accounts that is not always easily understood by the reader unless they are familiar with accounting and audit standards. Training has been provided prior to this meeting to assist members in their understanding of the accounts and a short summary of the accounts will be produced to accompany the Final Statement of Accounts when it is presented to members in July. The remainder of this report sets out a short summary, which highlights the key figures in the financial statements which it is hoped will prompt questions in order for the Council to promote greater accountability and transparency for the significant sums of public money entrusted to the Council.

4. Summary of Key Issues in the Financial Statements

4.1 The Comprehensive Income and Expenditure Statement

- 4.1.1 **The Comprehensive Income and Expenditure Statement (CIES)** (SOA page 23) – in line with statutory accounting practice the Comprehensive Income and Expenditure Statement (CIES) shows the Council’s actual performance for the year measured in terms of the resources consumed and generated over the last 12 months. It should not be misinterpreted as the financial outturn position of the Council as this statement contains a number of accounting entries required under International Financial Reporting Standards (IFRS). Regulation allows local authorities to reverse these amounts out of the accounts before determining their outturn position. There is a note to the accounts (Expenditure & Funding Analysis (SOA page 20)) that adjusts the expenditure that is chargeable to general fund and the HRA balances (as per the actual outturn position) to the accounting entries in the CIES under IFRS. To further assist members interpretation of the CIES the table below summarises the reconciliation between the net surplus on the Provision of Services of £5.830m in the CIES to the outturn position of an decrease in General Fund Balances of £0.046m as reported in the Financial outturn report (Executive 28th May 2019).

	£m	£m
Net (surplus)/deficit on the Provision of Services		(5.830)
<i>Adjust for:</i>		
Depreciation, revaluation losses and gains & impairment of non-current assets	5.129	
Revenue expenditure funded from capital under Statute	(0.897)	

Direct Revenue financing of capital expenditure	4.744	
Gain/loss on the sale of non-current assets	0.503	
Contribution to/from the pensions reserve	(3.860)	
Debt repayment and premiums & discounts on debt	0.625	
Short-term compensated absences	0.010	
Contribution to Government's Housing Capital Receipts Pool	(0.529)	
Capital grants & contributions unapplied credited to CI&ES	1.183	
Adjustment for Collection Fund	0.746	
Transfer to/from the HRA	(0.002)	
Transfer to/from Earmarked reserves	(1.776)	
Total Adjustments		5.877
(Increase)/decrease in General Fund Balances		0.46

4.1.2 Clearly the most significant issue for Members to be aware of from the Comprehensive Income and Expenditure Statement is how the Council performed financially in 2018/19, in comparison to the revised budget for the year. As previously reported there was a projected overspend against the General Fund budget of £206k at quarter 3, this overspend has decreased and provisional outturn is now an overall budget shortfall of £46k.

4.1.3 The Housing Revenue Account has seen a minor underspend against the revised budget of £2k. Allowing for this adjustment HRA balances were £1.025m and the HRA Repairs Accounts balance was £579k as at 31st March 2019.

4.1.4 Further details on these are provided in the Narrative Report in the Statement of Accounts (SOA page 1) and were subject to a separate report to Executive and Performance Scrutiny Committee 28th May and 5th June 2019 respectively.

4.2 The Balance Sheet (SOA page 24)

4.2.1 **The Balance Sheet** is fundamental to understanding the Council's financial position at the year-end. It shows the Council's balances and reserves, long-term indebtedness, and the non-current and current assets employed in the Council's operations. The key information for members to be aware of in the Balance Sheet as at 31st March 2019 are:

4.2.2 **General Balances** – General balances have increased by £0.241m during the year, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
-------------	-----------------------	-----------------------	-------------------------------

General Fund balances	1.610	1.849	0.239
HRA balances	1.023	1.025	0.002
HRS	0.089	0.089	0
Total	2.722	2.963	0.241

4.2.3 **Earmarked Reserves** - in total monies carried forward to pay for specific future commitments (including the insurance fund) have increased by £1.776m, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
Other Specific Reserves	10.081	11.857	1.776

This is due to a number of contributions to and from earmarked reserves as reported as part of the 2018/19 Provisional outturn to the Executive 28th May 2019 and as detailed in Note 10 (Transfers to/ from Earmarked Reserves) in the Statement of Accounts (SOA page 62).

4.2.4 **Liquidity** – a reliable indication of liquidity is the ratio of current assets (excluding inventories) to current liabilities. The Council's current assets (excluding inventories) of £41.08m exceed current liabilities of £34.4m by a ratio of 1.2:1, which represents a decrease from the previous year's ratio of 1.62:1. This is due to an increase in short term borrowing (as per the Council's borrowing strategy) and disposal of non-current assets held for sale.

4.2.5 **Debtors** – debtors have decreased by £0.462m to £9.779m. This is a minor change in debtors balances.

4.2.6 **Creditors** – have decreased slightly by £2.1m to £13.260m. This is mainly due to a Business Rates adjustment account, which absorbs the timing differences between statutory accounting requirements and full accruals accounting.

4.3 Cross Cutting Key Issues

4.3.1 There are a number of areas that have significant impacts or are of particular interest that sit both within the Comprehensive Income and Expenditure Statement and the Balance Sheet. To aid members understanding of the Accounts these are summarised below:

4.3.2 **Non-Current Assets** are shown in the Balance Sheet and represent the Council's land, building, heritage, community and intangible assets.

- **The value of non-current assets and assets held for sale in the Balance Sheet has increased by £39.3m (11%) to £399.8m between 31st March 2018 and 31st March 2019 (see the Balance Sheet and Notes 14, 15 and 16 for further detail). This net increase is the result of a number of factors:**

- **Revaluations** - The Council's Assets are valued on a rolling programme, which ensures each asset is re-valued every 5 years as at the 1st April. In addition to this, all assets are reviewed for any material change in their value at the end of each financial year. The results for 2018/19 have seen an **overall increase in value of £13m**, which is the net result of valuation gains and losses across a range of assets.

Accounting rules require that where a balance has not built up on the Revaluation Reserve for an individual asset (a reserve which holds accumulated gains following previous revaluations upwards) then any revaluation losses (downwards revaluation in asset values) must be recognised in the Comprehensive Income and Expenditure Statement (CI&ES) and then reversed out in the Movement in Reserves Statement before it impacts on Council Tax payers. Accounting rules also require that where a revaluation loss previously recognised in the CI&ES on an individual asset is subsequently reversed by an upwards revaluation, then the revaluation gain should be recognised in the Comprehensive Income and Expenditure Statement up to the value of the original revaluation loss. Within the £13m net upwards movements due to revaluation gains and losses in 2018/19, there were:

- **£3m of net revaluation gains** required to be charged to Cost of Services in the CIES. This is mainly due to reflecting the social housing value of housing stock (£1.45m).
- **£10m of net upwards revaluations** were reflected in the Revaluation Reserve (shown in Other Comprehensive Income and Expenditure in the CIES). This was mainly due to the upward revaluation (£9m) an increase in the council's land and buildings.
- **Additions - New capital investment in assets belonging to the Council totalled £38.95m.** The main areas of expenditure include £24.985m spent improving Council dwellings including re-roofing, kitchens and landscaping, and the purchase of a number of new council houses. The other main areas of spend were £11.2m on purchasing investment properties. To pay for this investment, the Council has used £1m of capital grants and contributions, £8.2m of capital receipts, £13.1m of the Major Repairs Reserve, £11.6m of unsupported borrowing, and £5m of direct revenue financing.
- **Depreciation** – a charge is made to the Comprehensive Income and Expenditure account for depreciation to reflect the use of assets in the provision of services during the year. The value of non-current assets in the Balance Sheet is reduced by an equivalent amount. For General Fund services this charge is reversed out in the Movement in Reserves Statement (MiRS) and replaced with a statutory charge for the repayment of debt. In the HRA under self financing, depreciation is a real charge to the service however, it is set aside in the Major Repairs Reserve for future investment in the

housing stock. **In 2018/19 total depreciation was £8.06m** (of which £1.86m was charged for non-HRA dwellings and was replaced in the MiRS with £0.625m for the repayment of debt and £6.2m depreciation was charged to the HRA which is available in the Major Repairs Reserve for future investment).

- **Disposals – assets valued at £3.872m in the Balance Sheet were disposed** of in 2018/19. This included the former allotment site on Riseholme Road and general fund land plus 48 Right to Buy sales of council dwellings.

4.3.3 **Pensions** – the payments made by the Council to the Lincolnshire County Council Pension Fund each year as employer contributions to the scheme and any addition costs relating to pension strain etc are reflected in the financial outturn position of the Council. However, accounting practice requires that in the Statement of Accounts pension costs are shown when the Council is committed to give them, even if the actual giving may be years into the future. This means that:

- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities

Full details are provided in Note 44 to the accounts – Defined Benefit Pension Schemes (*SOA page 99*). The impact of these accounting requirements in the core financial statements are:

- **Comprehensive Income & Expenditure Statement (CIES)** - The cost of retirement benefits in the CIES is shown as an actuarial estimate of £7.9m cost reflecting the retirement benefits earned during 2018/19 and to be funded in the future. This includes £5.6m current service costs and a net interest cost on the defined benefit obligations of £2.3m. This net cost is reversed out in the Movement in Reserves Statement (MiRS) and is replaced by the actual amount charged for pension contributions in the year of £4.015m.
- **Balance Sheet** – The Pension Reserve shows the underlying commitments that the Council has in the long term to pay retirement benefits based on an assessment by the pension schemes actuary. The balance on the Pensions Reserve is the net position of the schemes liabilities and assets. During 2018/19 the net liability has increased by £13.905m to £99.763m. The actuarial assumptions are detailed in note 44 to the accounts 'Defined

benefit pension scheme’.

It is important for members to be aware that the statutory arrangements for funding the remaining liability of £99.763m means that this deficit will be made good by the increased level of annual employer contributions payable to the Pension Fund over the remaining estimated average working life of our employees in the Pension Scheme. The financial position of the Council remains healthy.

4.3.4 **Officer remuneration** – note 35 to the accounts (*SOA page 88*) details senior staff salaries and the number of employees receiving more than £50k remuneration during the year (this includes receipt of any redundancy payments). Also detailed within the note is the redundancy/pension/payment in lieu costs paid in year, in line with Executive approvals of service review business cases and the Council’s redundancy policy.

4.3.5 **Borrowing** – the Council takes borrowing to fund capital expenditure. It also occasionally takes short term borrowing for cash flow purposes.

- Between 31st March 2018 and 31st March 2019 the Council’s total borrowing increased to £115.4m (excluding accrued interest which is shown in the Balance Sheet under short-term borrowing as at 31st March 2019).
- The total borrowing can be split between short term borrowing (payable within 12 months) of £20m and long term borrowing of £95.4m.
- The average rate of interest payable on borrowing was 3.24% which is a slight decrease on 2017/18 (4.09%) and due to the new loans taken being at low levels of interest.
- The Comprehensive Income and Expenditure Statement for 2018/19 includes £3.3m interest payable on borrowing (excluding leases) of which £0.9m relates to the General Fund and £2.4m to the HRA.

The maturity profile of the outstanding borrowing as at 31st March 2019 is as follows:

Within	£m	% of Total Debt
1 year	20.200	17.51%
1 – 2 years	9.705	8.41%
2 – 5 years	5.645	4.89%
5 -10 years	7.076	6.13%
10 years and over	72.728	63.05%
Total	115.354	100.00%

4.3.6 **Investments** – in line with its Treasury Management Strategy, the Council invests surplus cash on the money markets, typically for periods less than one year to approved organisations, although core cash balances may be invested for periods over 1 year if interest rates and market conditions are favourable.

- As at 31st March 2019, total investments had increased by £13.6m from £15.6m to £29.2m compared to the previous year end.
- Average investment balances during 2018/19 were £22.3m, compared to £25.3m in 2017/18.
- The average interest rate received on investments in 2018/19 was 0.77% (a small increase of 0.1% on the average rate achieved in 2017/18), which was 0.26% above the target 7 day LIBID rate.

5. Strategic Priorities

- 5.1 The Council's Statement of Accounts are a financial summary of the Council's activities in support of its Vision 2020 and Strategic Priorities during the financial year 2018/19.
- 5.2 Communication - The draft Statement of Accounts is available on the Council's website and the period of public inspection has been advertised. The completion of the audit of the Council's Statement of Accounts will be published on the Council website on 31st July 2019. The Statement of Accounts will also be made available on the website with a summary version of the accounts published in the Council's Annual Report.

6. Organisational Impacts

- 6.1 Finance - The financial implications are contained throughout this report.
- 6.2 Legal - In accordance with the Accounts and Audit Regulations 2015 the Statement of Accounts must be approved and published by the Council, together with the audit opinion and certificate, by the 31st July 2019.

7. Risk Implications

- 7.1 There are no direct risk implications arising as a result of this report.

8. Recommendation

- 8.1 The Audit Committee are invited to scrutinise the Statement of Accounts.

Key Decision	No
Key Decision Reference No.	N/A
Do the Exempt Information Categories Apply	No
Call in and Urgency: Is the decision one to which	No

Rule 15 of the Scrutiny
Procedure Rules apply?
**Does the report contain
Appendices?**

Yes

**List of Background
Papers:**

Medium Term Financial Strategy 2018-2023
Financial Performance - Outturn 2018/19

Lead Officer:

Colleen Warren, Financial Services Manager
Telephone 873361

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STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019



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NARRATIVE REPORT

An introduction to the City of Lincoln's 2018/19 Statement of Accounts by J Gibson, Chief Finance Officer, Section 151 Officer.

The Statement of Accounts

The purpose of the Accounts, which follow, is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The Accounts show the financial performance for 2018/19 and the financial position at 31 March 2019. The Accounts present expenditure and income incurred by the Council in the financial year 2018/19 and highlight changes in the financial position of the Council over the course of the year.

The accounts of the Council are, by their nature, both technical and complex. The information contained within the Accounts for 2018/19 is presented as simply and clearly as possible and the Narrative Report explains some of the statements and provides a summary of the Council's financial performance as at 31st March 2019 and its financial prospects.

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK (the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Statement of Accounts consists of various sections and statements, which are briefly explained below:

A Narrative Report – this provides information on the format of this

Statement of Accounts as well as a review of the financial position of the Council for the financial year.

The Statement of Responsibilities – this details the responsibilities of the Council and the Section 151 Officer concerning the Council's financial affairs and the actual Statement of Accounts.

The Audit Opinion and Certificate – this is provided by Mazars LLP following the completion of the annual audit.

The Accounting Policies – this statement explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

The Core Financial Statements, comprising:

- **The Movements in Reserves Statement** – this statement shows the movement in year on the different reserves held by the Council, analysed into 'usable' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.
- **The Expenditure & Funding Analysis** – this statement shows how annual expenditure is used and funded from resources

(government grants, rents, council tax and business rates) by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates.

Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

- **The Comprehensive Income and Expenditure Statement (CIES)** – this statement shows the accounting cost in the year of providing services in accordance with accounting standards, rather than the amount funded from taxation. The Council raises taxation to cover the cost of 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** – this statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) of the Council are matched by the reserves held by the Council.

- **The Cash Flow Statement** – this statement shows the changes in cash and cash equivalents of the Council during the year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The Notes to the Financial Statements – these provide supporting and explanatory information on the Financial Statements.

The Supplementary Statements, comprising:

- **The Housing Revenue Income and Expenditure Statement** – this statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with 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 Movement on the HRA Statement.
- **The Movement on the HRA Statement** – this 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 Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

- **The Collection Fund Statement** - this statement is an agent's statement that reflects the statutory obligation for billing authorities (such as the City of Lincoln Council) to maintain a separate Collection Fund. The statement shows the transactions of the Council in relation to the collection from Council Tax and Business Rate payers and distribution to Lincolnshire County Council, Police and Crime Commissioner for Lincolnshire (PCCL) and Government of Council Tax and National Non-Domestic Rates (NNDR).

Financial Summary 2018/19

In common with the rest of local government the Council has continued to face a large number of challenges during 2018/19 which have seen:

- the continuation of severe central government funding reductions, the distribution of which has not been uniform across the different types of authority with some being significantly more affected than others, this Council being one of those suffering a greater proportionate loss.
- an increased reliance on retained Business Rates and the levels of financial risk and uncertainty that this creates. During 2018/19 the Council was part of a Government 'pilot' of 100% rates retention scheme.
- the legacy of impacts from the last economic crisis that still

persist, affecting jobs, housing and business growth, low returns on investments, these in turn create pressure on the generation of local income streams and increased demand for council services from customers who rely on the safety net provided by local government.

However in response to this environment the Council continues to deliver a track record of strong financial discipline. This means planning ahead, securing savings in advance, re-investing in more efficient ways of working, adopting a more commercial approach, prioritising resources for economic development measures, whilst making careful use of reserves to meet funding gaps and mitigate risks.

The Council's successful financial management to date has enabled the protection of core services, whilst at the same time ensured that resources are directed towards the priority areas in the Council's Vision 2020.

2018/19 has seen a significant level of delivery against these Vision 2020 priority areas, with £13m of investment in new Council Housing and £13m of investment in property assets.

In summary, services have continued to be provided, whilst achieving £0.293m savings in addition to those achieved in previous years; and has delivered £38.95m of capital investment, a slight reduction on £39.805m in 2017/18. In addition, the Council's net worth has increased from £200.738m in 2017/18 to £207.002m in 2018/19, an increase of 3.1%.

Performance

Whilst maintaining sound financial management and delivering spending within budget the Council has continued to deliver high quality services to its residents and customers. A summary of the key financial and performance indicators for 2018/19 is provided below:

2017/18		2018/19
98.9%	Business Rates collected	99.8%
97.2%	Council Tax collected	96.8%
99.7%	Housing rent collected	99.2%
95.2%	Invoices paid within 30 days	97.8%
4.09%	Interest rate payable on debt	3.24%
0.68%	Interest rate received on investments	0.77%
33.7%	Waste recycled	34.9%
218,181	Users of Health & Recreation services	247,921
97.5%	Housing repairs completed to target	98.7%
80.1%	Occupancy of allotments	84.2%
98%	Premises compliant with food health and safety inspection	96%
1,022	Number of planning applications received	907

Revenue Income and Expenditure

General Fund

The General Fund covers all net spending by the Council on services other than those accounted for in the Housing Revenue Account. General Fund services are partly paid for by government grants and contributions from Retained Business Rates, with the balance being funded from Council Tax and income from fees and charges.

For 2018/19, the approved net expenditure budget for General Fund services was £13.988m. After allowing for planned contributions of £0.288m

to non-earmarked general reserves the total Net General Fund Budget for 2018/19 was £14.276m.

The Net General Fund Budget of £14,276m assumed the achievement of £0.102m further savings which were to be delivered in 2018/19 as part of the Council's Towards Financial Sustainability Programme. The Programme continues to be successful and has now delivered total savings of £3.823m. Work continues in developing and delivering new projects as part of the programme to secure the additional savings required in 2019/20 and future years.

The table that follows provides a summary of the final outturn position for the General Fund, against the net budget.



	ACTUAL 2018/19 £'000	REVISED BUDGET 2018/19 £'000	VARIANCE 2018/19 £'000
Chief Executive and Town Clerk	4,018	3,847	171
Directorate of Housing & Regeneration	715	754	(39)
Directorate of Communities & Environment	5,433	4,380	1,053
Directorate of Major Developments	461	506	(45)
Corporate	1,650	1,645	(5)
Net Operational Expenditure	12,267	11,132	1,135
Specific Grants	(1,032)	(1,006)	(26)
Savings Target	0	(26)	26
Earmarked Reserves	1,406	1,728	(322)
Capital Accounting Adjustment	1,773	1,864	(91)
Contingencies	0	296	(296)
Total Expenditure	14,414	13,988	426
Contribution from General Balances	248	288	40
Total Net Budget	14,662	14,276	386
Business Rates -			
Retained Business Rates Income	(26,032)	(28,041)	2,009
Tariff	20,199	20,620	(421)
Section 31 grant	(1,974)	0	(1,974)
Levy Payment	0	0	0
Revenue Support Grant	0	0	0
Council Tax	(6,393)	(6,393)	0
Council Tax Surplus	(30)	(30)	0
NNDR Deficit	(432)	(432)	0
Total Resources	(14,662)	(14,276)	(386)

While total expenditure was £14.414m (£0.426m more than budget) this is primarily offset by £0.386m additional net business rate income (primarily from additional section 31 grants). As a result the actual contribution to general balances was £0.248m compared to the approved budget of £0.288m, resulting in a variance of £0.040m.

As at 31 March 2019, the Council held £8.527m General Fund revenue reserves, comprising £6.678m earmarked reserves (to cover specific or potential financial risks and liabilities) and £1.849m non-earmarked general reserves. This latter balance represents 13.2% of the 2018/19 annual net service budget and provides an adequate level of reserves to cover unforeseen financial risks. General Balances are in line with the prudently assessed minimum requirements in the Council's Medium Term Financial Strategy.



Housing Revenue Account

The Housing Revenue Account has to be kept as a separate account for all the expenditure and income relating to the landlord functions associated with the provision, management and maintenance of Council owned dwellings.

For 2018/19, the approved net operating budget for the Housing Revenue Account was a deficit/surplus of £0.0m. Actual net expenditure for 2018/19 was £0.005m surplus, resulting in a £5k surplus variance against the budget.

The table that follows provides a summary of the final outturn position for the Housing Revenue Account, against the net budget.

	ACTUAL 2018/19 £'000	REVISED BUDGET 2018/19 £'000	VARIANCE 2018/19 £'000
<u>Operational Expenditure</u>			
Repairs & Maintenance	8,939	8,298	641
Supervision & Management	6,732	6,983	(251)
Provisions (including Bad Debt)	284	290	(6)
Capital Financing	4,717	10,709	(5,992)
Sub Total	20,672	26,281	(5,609)
<u>Add:</u>			
HRS – repatriation of surplus	(272)	0	(272)
Contribution to/(from) HRS (IAS19 & Insurance Fund)	387	0	387
Interest Payable & Similar Charges	2,352	2,352	0
Total Expenditure	23,139	28,633	(5,494)
 <u>Income</u>			
Rents & Service Charges	(28,363)	(28,150)	(213)
Interest	(68)	(31)	(37)
Net Expenditure	(5,292)	451	(5,743)
<u>Less:</u>			
Capital Accounting Adjustment	1,487	0	1,487
Appropriation to/(from) Major Repairs Reserves	4,506	0	4,506
Appropriation to/(from) Pension Fund Liability	(385)	0	(385)
Appropriations to/(from) Earmarked Reserves	(321)	(451)	130
Net HRA (Surplus)/Deficit	(5)	0	(5)

As at 31 March 2019, the Council held £2.348m HRA revenue reserves, comprising £1.321m earmarked reserves (to cover identified specific, potential financial risks and liabilities) and £1.027m non-earmarked general reserves.

Capital Expenditure

(Note 39)

Capital expenditure on the provision of new or enhanced assets is met from capital receipts, government grants, contributions from third parties and revenue contributions, with the balance funded from borrowing.

The Council's capital spending in the year was £38.95m compared to the revised approved programme budget of £54.993m, representing an underspend of £16.040m against the profiled budget. The variance in 2018/19 is mostly due to the re-profiling of schemes within the general fund and housing programmes. The 2018/19 capital spending and funding position is summarised as follows:

	ACTUAL 2018/19 £'000	BUDGET 2018/19 £'000	VARIANCE 2018/19 £'000
Capital Expenditure			
General Fund	13,968	23,535	(9,567)
Housing Revenue	24,985	31,458	(6,473)
Total Expenditure	38,953	54,993	(16,040)
Financed by:			
Borrowing	11,642	20,468	(8,826)
Capital Receipts	8,185	12,207	(4,022)
Capital Grants and Contributions	1,011	1,649	(638)
Major Repairs Reserve	13,160	20,245	(7,085)
Revenue Contributions	4,956	424	4,532
Total Financing	38,954	54,993	(16,039)

Major Capital works carried out during 2018/19 are set out in the following table:

	£'000
Housing	
Decent Homes improvements to Council dwellings	6,378
Health & Safety	300
Council house new build schemes	15,275
Land Acquisition Fund	2,231
Other major works to housing stock	801
General Fund	
Lincoln Transport HUB	547
Purchase of Land and Buildings	11,206
Allotment Improvement Programme	462
Enhancements to corporate properties	772
Disabled Facilities Grants	695
Other Schemes	286
Total	38,953

Capital Financing

The Council's capital programme is funded by a number of sources including the application of capital receipts, capital grants, contributions from the revenue account and long term borrowing. A summary of significant transactions in capital funding in 2018/19 is provided below:

Capital Receipts (Note 9)

The Council received £2.359m of General Fund capital receipts in 2018/19 which will be used to support delivery of the General Fund Investment Programme.

The Council also received £2.072m of HRA receipts. These will be used to support the new build programme within the Housing Investment Programme and investment in the housing stock.

Major Repairs Reserve (Note 9)

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



Long Term Borrowing (Note 18)

The Council undertakes long term borrowing, for periods in excess of one year, in order to finance capital expenditure. An assessment of the use of borrowing to fund capital expenditure is made through the application of the CIPFA Prudential Code in the Council's annual Treasury Management Strategy. This approach provides a framework for decision making highlighting the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure activity remains affordable, prudent and sustainable.

The Council satisfies its long term borrowing requirement by securing external loans.

Although the Council requires long term borrowing in order to finance capital expenditure, it can temporarily defer the need to borrow externally by using cash set aside for longer term purposes (in line with its Treasury Management Strategy); this practice means that there is no immediate link between the need to borrow to pay for capital spend and the level of external borrowing. The effect of using the cash set aside is to reduce the level of cash that the Council has available for investment.

The Council's level of total debt outstanding, (excluding loans of £0.030m which the Council holds for local charities and Bonds worth £0.003m), as at 31 March 2019 was £115.354m.

Total Long Term Borrowing Outstanding

31/03/18 £'000	Source of loan	31/03/19 £'000
58,793	Public Works Loan Board	71,793
18,000	Market and Other Long Term Loans	43,000
561	Other (3% stock)	561
77,354	Total	115,354

Long-term borrowing of £20m and £18m of short term borrowing was taken during 2018/19. Short term borrowing of £3.75m was repaid during 2018/19. This represents a net increase of £34.25m of borrowing since 31 March 2018. The Council remains under borrowed by £4.435m (i.e. the Council's actual borrowing is £4.435m less than its borrowing requirement at 31 March 2019). This means that the borrowing need (CFR) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is considered prudent whilst investment returns are currently low and internal balances allow for this. Additional long-term borrowing will be taken in 2019/20 and future years to bring levels up to the Council's borrowing requirement, subject to liquidity requirements, if preferential interest rates are available.

Pension Costs (Note 44)

The Council accounts for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. This means that:

- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The costs of providing retirement benefits to employees are recognised in

the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.

- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities

The Balance Sheet presents an increase in the estimated Pension Fund Reserve net liability over the 2018/19 year of £13.905m, up from £85.858m at 1 April 2018 to £99.763m at 31 March 2019. This increase in the Pension Fund deficit resulted mainly from changes in financial assumptions. This is recognised as re-measurements on defined benefit obligation, which is shown in Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement.

The statutory arrangements for funding the remaining liability of £99.763m means that this deficit will be made good by the increased level of annual employer contributions payable to the Pension Fund over the remaining estimated average working life of our employees in the Pension Scheme. The latest triennial revaluation of the Council's Pension Fund took place at 31 March 2016, the results at that time identified that there has been a slight

improvement in the funding position since the last actuarial review from a 67% funding level to 70%. The next actuarial revaluation is due as at 31st March 2019.

Although the overall funding position has improved slightly, the employer contribution rates are still required to increase in order to improve the funding position further. Because of the guaranteed nature of Local Government Pension Scheme a stabilisation overlay mechanism is applied, whereby the employer's current contribution rate is capped at an affordable level. Without this in place the Council would be facing significantly higher contribution rates in order to increase the funding position.

This stabilisation approach has allowed the annual increase in the contribution rate to be capped at 1% p.a. over the period 2017/18 to 2019/20.



Future Plans

The Council's Vision 2020 sets out the Council's vision for the future of the city, strategic priorities and core values. Although the Vision looks ahead for up to 30 years it specifically includes a programme of activity up to 2020, which seeks to not only deal with the most pressing issues in the city, but also details how the Council will

work, with others, to further grow Lincoln's economy.

The Council's vision for 2020 is;

"Together, let's deliver Lincoln's ambitious future"

Underpinning this vision are four strategic priorities, each with a number of supporting aspirations. The aspirations are in turn supported by groups of projects that will be delivered throughout the three year programme.

The four strategic priorities are:

- Let's drive economic growth
- Let's reduce inequality
- Let's deliver quality housing
- Let's enhance our remarkable place

Delivery of the Council's Vision 2020 provides the focus for the Council in terms of the projects it seeks to deliver and the high performing services that it provides.



General Fund

Despite the financial challenges the Council has already faced, and successfully managed, local

government is still set to experience significant funding reform from 2020.

The Fair Funding Review will re-establish the baseline need of every local authority, and, at the same time, business rates baselines will be reset for the first time. The government also intends to redesign the business rates retention system, moving to 75% local retention, while restructuring the system of risk and rewards. All this is currently due to come into effect in April 2020.

In addition the impact of Brexit and the consequent impact on the economic and political landscapes poses significant uncertainty for local government and the Council.

Ahead of this the Council's General Fund continues to face a significant financial challenge if it is to continue to deliver its Vision 2020 priorities and to deliver services to the public within a reduced, and more variable funding envelope.

Whilst the three year programme of activity set out in the Vision 2020 is fully resourced within the Council's Medium Term Financial Strategy, the Strategy also includes a savings target still to be achieved along with a number of significant financial risks which could affect the level of savings required.

Over the last 10 year period the Council has delivered savings in excess of £7.8m, a significant reduction in comparison to the overall net expenditure budget. However further savings of £1.2m are still to be delivered in order to achieve the current target by 2020/21.

The Towards Financial Sustainability (TFS) programme is and continues to be the vital element in ensuring that the Council maintains a sustainable financial position and delivers the

required reductions in the net budget. The programme itself has been refocused reflecting the Council's innovative, forward thinking and commercial approach alongside its ambitions to maintain high performing services and a performance culture. As part of this refocus there are now four agreed strands to achieve savings. These are:

- "One Council" – cross organisational lean reviews to deliver a "one organisational" approach more efficiently and effectively
- Commercialisation – generation of new income streams, and commercial trading opportunities
- Investment Opportunities – to invest in commercial properties as well as regeneration and redevelopment schemes that support the local economy
- Service Reduction/Withdrawal – withdraw from some services or reduce the level of service provided for those non priority services

Alongside this programme the Council will continue to seek ways to maximise its tax bases through economic development measures, through its Vision 2020, which enhance the economic prosperity of the City.

Housing Revenue Account (HRA)

HRA Self-financing was implemented from 1 April 2012 following a one-off settlement to the Treasury, in order to 'buy out' of the old subsidy system. The new system incentivised landlords to manage their assets well and yield efficiency savings. With this however

also came the transfer of significant risks from Central Government to local authorities. The Council now bears the responsibility for the long term security and viability of council housing in Lincoln and has to fund all activity related to council housing from the income generated from rents, through long term business planning.

It was anticipated that there would be greater certainty about future income as councils were no longer subject to annual funding decisions by Central Government, enabling them to develop long-term plans, and to retain income for reinvestment.

A key element of the self-financing regime is for the Council to construct a 30 year Business Plan for the HRA. The Council's latest Housing Revenue Account Business Plan 2016-2046, was approved in February 2016 following a fundamental review of resources, investment requirements and priorities. The Business Plan reflects the impact of government policy changes, the results of stock condition surveys and financial assumptions at the time. The Business plan sets out:

- the long term plans for the Council's housing stock
- the finances to deliver plans
- how the Council will manage the income from its stock, demand for housing and stock condition, and:
- the Council's ambitious plans, alongside the resources to deliver, a significant number of new Council dwellings.

A review of the current Business Plan is scheduled to commence during 2019/20.

Capital Expenditure

The Council's capital strategy plans to deliver projects to the value of £67.2m over the next five years, with £19.2m estimated to be spent in 2019/20. This includes significant investment in the Council's key strategic projects which includes a significant land and property acquisition in addition to further investment on Council dwellings and Council buildings, including the construction of new council housing.



Capital resources for the next five years include capital receipts, government grants, contributions from third parties and revenue contributions.

The Housing element of the capital programme represents the largest element of capital expenditure over the next 5 years and is predominantly reliant upon revenue contributions from the Housing Revenue Account (HRA) through both depreciation charges and direct revenue contributions. The HRA Business Plan includes the release of capital resource to fund significant capital investment in new housing stock over the medium term. Given that revenue support is now the primary source of capital funding, it is recognised that it is critical that there is robust budget management of the HRA and that opportunities to achieve efficiencies and maintain/maximise income streams are actively pursued.

Cash flows

The future cash flows will be dependent on the outcome of a number of key assumptions in the Medium Term Financial Strategy and HRA Business Plan, of which the Council has varying degrees of influence over the outcomes. Some of the key determinants will be:

- Actual Business Rates base in year compared to the assumed levels in the budget, and the ongoing risk of funding the backdated costs of any successful valuation office appeals by businesses within the city.
- Collection rates for Council Tax, Business Rates and Rents
- Income received compared to income targets (e.g. car parking, planning and building control)
- Interest rates achieved on investments and secured on new borrowing
- Timescale for payment of invoices and collection of debts.
- Profile of capital spending and funding over the MTFs.

Summary

Whilst addressing the financial challenges it faces in the forthcoming years the Council will also continue to maintain the correct balance between these challenges and ensuring that its limited resources are directed towards its strategic priorities.

Vision 2020 is supported by a programme of activity, resourced through the Medium Term Financial Strategy, that seeks to not only deal with the most pressing issues in the city, but also how the Council will work, with others, to embrace and maximise Lincoln's economy through schemes

such as its property investments and New Council House Building Programme.

This investment in growth and the local economy alongside the Council's savings programme, with a key focus on income generation, forms the foundations of the Council's approach to financial planning over the medium term, seeking to enhance its financial resilience and to continue to focus its resources towards achieving its aspirations in its Vision 2020.



Group Accounts

The increasing scope and scale of local authorities moving away from traditional ways of providing services makes it increasingly difficult for the Council's own financial statements to present fairly all the aspects of control over service provision and accountability for all resources and exposure to risks that the Council has taken on. A consolidated set of group accounts can make a vital contribution towards giving users a full picture of the Council's sphere of control and influence.



The Council has a collaborative arrangement with North Kesteven and West Lindsey District Councils to provide the Central Lincolnshire Joint Planning Unit. This arrangement is hosted by North Kesteven District Council. The Council contributed £99k to the service which is contained within the Communities and Environment line of the CIES. The Council also has a collaborative arrangement with North Kesteven to provide a shared Revenues and Benefits Service. This shared service is hosted by the City of Lincoln Council. The Council contributed £1.267m to the service which is contained within the Chief Executive's Directorate line in the CIES. Both of these arrangements are governed through a Joint Committee representing each of

the partner authorities. Under these arrangements the ventures use their own resources to undertake an activity subject to joint control, and as such do not require consolidation into the Council's accounts. The Council's proportion of activity is accounted for separately within the Core Financial Statements.

Further Information

Further information about the accounts is available on request from the Chief Finance Officer, City Hall, Beaumont Fee Lincoln LN1 1DB. In addition, local electors have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised on the Council's website.

J Gibson

J Gibson ACCA
Chief Finance Officer
(Section 151 Officer)

COUNCIL APPROVAL

The Statement of Accounts for the year 1 April 2018 to 31 March 2019 has been prepared and I confirm that these Accounts were approved by the City of Lincoln Council, at the meeting held on *****th ***** 2019?**

S Burke

Councillor Sue Burke
Vice Chair of Council

Date: *****th ***** 2019?**

THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;
- to manage its affairs to ensure economic, efficient and effective use of resources and safeguard its assets;
- to approve the Statement of Accounts.

The Chief Finance Officer Responsibilities

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the UK ('the Code').

In preparing this Statement of Accounts, the Chief Finance Officer 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 Chief Finance Officer has also:

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

The Accounts present a true and fair view of the financial position of the Authority at 31 March 2019 and its income and expenditure for the year ended on that date.

J Gibson

J Gibson ACCA
Chief Finance Officer
Date: 31st May 2019

EXPENDITURE AND FUNDING ANALYSIS

31 March 2018

31 March 2019

	Net Expenditure Chargeable to General Fund and HRA Balances	Movement of Trading A/C's & Levies etc.	Adjustments Between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to General Fund and HRA Balances	Movement of Trading A/C's & Levies etc.	Adjustments Between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
	3,464	967	1,367	5,798	Chief Executive's Directorate	3,968	1,101	(175)	4,894
	736	0	274	1,010	Housing and Regeneration	296	0	496	792
	(9,953)	0	(3,224)	(13,177)	Housing Revenue Account (HRA)	(3,062)	0	(4,549)	(7,611)
	5,408	2	3,302	8,712	Communities and Environment	5,706	(107)	2,181	7,780
	1,124	0	4,221	5,345	Major Developments	452	0	137	589
	1,430	(803)	(896)	(269)	Corporate Services	1,682	(818)	(1,062)	(198)
74	2,209	166	5,044	7,419	Net Cost Of Services	9,042	176	(2,972)	6,246
	(947)	(166)	(12,520)	(13,633)	Other Income and Expenditure	(11,060)	(176)	(840)	(12,076)
	1,262	0	(7,476)	(6,214)	(Surplus) or Deficit on Provision of Services	(2,018)	0	(3,812)	(5,830)
	<u>GF</u>		<u>HRA</u>	<u>Total</u>		<u>GF</u>		<u>HRA</u>	<u>Total</u>
	(9,330)		(4,730)	(14,060)	Opening Balance	(7,942)		(4,857)	(12,799)
	1,388		(126)	1,262	Less/ Plus Surplus or (Deficit) in Year	(2,016)		(3)	(2,018)
	(7,942)		(4,856)	(12,798)	Closing Balance at 31 March	(9,958)		(4,860)	(14,817)

This analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by Councils in comparison with those resources consumed or earned by Councils in accordance with generally accepted practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's different categories of expenditure and income. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further analysis can be found in Note 8.

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	HRS £'000	Major Repair Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Balance at 31 March 2017	2,312	10,573	1,087	89	10,680	9,398	400	34,539	155,191	189,731
Movement in reserves during 2017/18										
Surplus or (deficit) on provision of services	(4,889)	0	11,103	0	0	0	0	6,214	0	6,214
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	4,795	4,795
Total Comprehensive Expenditure and Income	(4,889)	0	11,103	0	0	0	0	6,214	4,795	11,009
Adjustments between accounting basis & funding basis under regulations (Note 9)	3,476	0	(10,950)	0	639	(153)	(14)	(7,003)	7,003	0
Other adjustments	0	0	0	0	1,523	0	0	1,523	(1,523)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	(1,413)	0	153	0	2,162	(153)	(14)	736	10,273	11,009
Transfers (to)/from Earmarked Reserves	710	(493)	(217)	0	0	0	0	0	0	0
Increase/Decrease in 2017/18	(703)	(493)	(64)	0	2,162	(153)	(14)	735	10,277	11,009
Balance at 31 March 2018 carried forward*	1,609	10,080	1,023	89	12,842	9,245	386	35,274	165,464	200,739
Balance at 31 March 2018	1,609	10,080	1,023	89	12,842	9,245	386	35,274	165,464	200,739

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MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	HRS £'000	Major Repair Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
carried forward*										
Balance at 31 March 2018 carried forward*	1,609	10,080	1,023	89	12,842	9,245	386	35,274	165,464	200,739
Movement in reserves during 2018/19										
Surplus or (deficit) on provision of services	1,075	0	4,755	0	0	0	0	5,830	0	5,830
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	0	615	615
Total Comprehensive Expenditure and Income	1,075	0	4,755	0	0	0	0	5,830	615	6,445
Adjustments between accounting basis & funding basis under regulations (note 9)	1,261	0	(5,072)	0	(7,166)	(4,498)	179	(15,296)	15,296	0
Other adjustments	0	0	0	0	0	(173)	0	(173)	(9)	(182)
Net Increase/Decrease before Transfers to Earmarked Reserves	2,336	0	(317)	0	(7,166)	(4,671)	179	(9,639)	15,902	6,263
Transfers (to)/from Earmarked Reserves	(2,096)	1,776	320	0	0	0	0	0	0	0
Increase/Decrease in Year	240	1,776	3	0	(7,166)	(4,671)	179	(9,639)	15,902	6,263
Balance at 31 March 2019 carried forward	1,849	11,856	1,026	89	5,676	4,574	565	25,635	181,366	207,002

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2018/19

31 March 2018			Note	31 March 2019		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
43,342	(37,544)	5,798		38,939	(34,045)	4,894
1,938	(928)	1,010		2,957	(2,165)	792
15,463	(28,640)	(13,177)		20,804	(28,415)	(7,611)
0	0	0		0	0	0
18,002	(9,290)	8,712		18,721	(10,941)	7,781
5,523	(178)	5,345		960	(371)	589
150	(419)	(270)		225	(423)	(198)
84,419	(77,001)	7,418	Cost Of Services	82,607	(76,360)	6,247
	348		Other Operating Expenditure	11		854
	3,000		Financing and Investment Income and Expenditure	12		4,693
	(16,980)		Taxation and Non-Specific Grant Income	13,37		(17,624)
	(6,214)		(Surplus) or Deficit on Provision of Services			(5,830)
	(1,057)		(Surplus) or deficit on revaluation of non-current assets	14,16,22		(8,779)
	0		Impairment Losses on Non- Current Assets charged to the Revaluation Reserve			0
	(58)		(Surplus) or deficit on revaluation of available for sale financial assets	26e		(325)
	(3,682)		Total re-measurements on defined benefit obligation	44		10,045
	(4,797)		Other Comprehensive Income and Expenditure			941
	(11,011)		Total Comprehensive Income and Expenditure			(4,889)

BALANCE SHEET AS AT 31 MARCH 2019

31 March 2018 £'000	Notes	31 March 2019 £'000
332,979	Property, Plant & Equipment	4,14,39,41
6,091	Heritage Assets	15
16,224	Investment Property	14,16
568	Intangible Assets	14,39
473	Long Term Investments	18,47
133	Long Term Debtors	798
356,468	Long Term Assets	1,035
		398,944
4,575	Assets Held for Sale	22
15,616	Short Term Investments	18,47
220	Inventories	19
876	Cash at Bank	21
10,241	Short Term Debtors	18,20,47
31,528	Current Assets	9,778
		41,170
0	Cash and Cash Equivalents	21
(5,135)	Short Term Borrowing	18
(15,364)	Short Term Creditors	18,23
(20,499)	Current Liabilities	0
		(34,422)
(342)	Long Term Creditors	18
(3,205)	Provisions	24
(77,354)	Long Term Borrowing	18
(85,858)	Other Long Term Liabilities	4,44
(166,759)	Long Term Liabilities	(146)
		(3,428)
		(95,354)
		(99,763)
200,738	Net Assets	(198,691)
200,738		207,001

BALANCE SHEET AS AT 31 MARCH 2019

31 March 2018 £'000		Notes	31 March 2019 £'000
35,274	Usable reserves		25,633
1,610	General Fund	MIRS	1,849
6,131	Earmarked Reserves	10	7,995
1,023	Housing Revenue Account	MIRS	1,025
89	HRS	MIRS	89
12,841	Major Repairs Reserve	MIRS/HRA4	5,675
9,245	Capital Receipts Reserve	MIRS	4,574
385	Capital Grants Unapplied	MIRS	564
3,950	Insurance Fund	10	3,862
165,464	Unusable Reserves		181,368
22,145	Revaluation Reserves	26a	31,578
(85,858)	Pensions Reserve	26,44	(99,763)
228,813	Capital Adjustment Account	26b	248,888
57	Deferred Capital Receipts	26c	57
(58)	Financial Instruments Adjustment Account	26d	(55)
458	Available-for-Sale Financial Instruments Reserve	26e	0
342	Collection Fund Adjustment Account	26f	1,088
(435)	Accumulated Absences Account	26g	(425)
200,738	Total Reserves		207,001

CASH FLOW STATEMENT

31 March 2018 £'000		Notes	31 March 2019 £'000
6,214	Net surplus or (deficit) on the provision of services		5,830
11,001	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	28	13,084
(7,673)	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	29	(5,084)
9,542	Net cash flows from Operating Activities		13,830
(15,660)	Investing Activities	30	(46,432)
6,753	Financing Activities	31	31,114
635	Net (increase) or decrease in cash and cash equivalents		(1,488)
241	Cash and cash equivalents at the beginning of the reporting period		876
876	Cash and cash equivalents at the end of the reporting period	21	(612)

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NOTES TO THE ACCOUNTS

The values held within the proceeding Notes to the Accounts may vary slightly when compared to the main Statements or other Notes. This is due to amounts being rounded. It is not expected that a difference would be in excess of £2,000 in any single case.

Note 1 – Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Statement of Accounts has been prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the Accounts and Audit Regulations 2015.

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

2. Accruals of Income and Expenditure

The revenue accounts of the Council are maintained on an accruals basis meaning that activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

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

recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature within three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

4. 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 prospectively i.e. in the current and future years affected by the change and do not give rise to 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.

5. Charges to Revenue for Non-Current Assets

Service revenue accounts, central support services and trading accounts are charged with the following amounts to reflect the cost of holding fixed assets during the year:

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual

contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. This is referred to as the Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP). The Council's policy on MRP is approved by Council in March each year as part of the Treasury Management Strategy. Depreciation, revaluation and impairment losses and amortisation are replaced by the MRP and VRP, by way of an adjusting transaction between the Capital Adjustment Account and the General Fund Balance in the Movement in Reserves Statement, for the differences between the two.

6. Council Tax and Non-Domestic Rates

The Council (as the billing authority) acts as an agent, collecting council tax and non-domestic rates (NDR) on behalf of Lincolnshire County Council and Lincolnshire Police (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, all share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

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

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

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payment due under the statutory arrangements will not be made, the asset is written down and a charge made. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

7. Employee Benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday

entitlements or time off in lieu, earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which employees take the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

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

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

Post-Employment Benefits

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

The Local Government Pension Scheme

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

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

Liabilities are discounted to their value at current prices, using a discount rate determined by the pension scheme actuary (based on the yield of UK Government Bonds plus a 'credit spread' allowance to reflect the extra risk involved in using AA corporate bond yields).

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

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value.

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Net interest cost 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 Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (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.
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the 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 Local Government Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension

Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

8. Events After the Balance Sheet Date

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

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

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

9. Financial Instruments

Financial Liabilities

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

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable, with accrued interest due within one year shown under short term borrowings; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the unexpired life of the original loan. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, with interest receivable within one year shown under short term investments and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, occasionally the Council may make loans to other parties (e.g. voluntary organisations) at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in the Reserves Statement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a number of loans to local organisations. It may not have reasonable and verifiable information to support the measurement of lifetime losses on individual loans without undue cost or effort to support the measurement of lifetime expected losses. It has therefore assessed losses for the portfolio on a collective basis.

The Council has grouped the loans into four groups for assessing loss allowances:

- Group 1 – Commercial investments in line with treasury management policy including counterparties that have external credit ratings of A or better. Loss allowances will be assessed on a group basis using the simplified approach of collective assessment.
- Group 2 – Loans to related parties. Loss allowances for these loans are assessed on an individual basis and / or an individual borrower basis.
- Group 3 – Money Market funds. Loss allowance will be assessed on market value of the investment in the fund.

Financial Assets measured at fair Value through Profit and Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices in active markets for identical assets – the market price
- Other instruments with fixed and determinable payments in active markets for identical assets – discounted cash flow analysis

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

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

Any gains and losses that arise on de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

10. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where material amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses, if material, are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

11. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset 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.

Business Improvement Districts

A Business Improvement District (BID) scheme applies across the whole of the Council. The scheme is funded by BID levy paid by non-domestic ratepayers. The Council acts as a principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable development for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure, however a proportion of the charges may be used to fund revenue expenditure

12. Intangible Assets

Intangible assets are assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences). Expenditure on intangible assets is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council for a period of more than one year.

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

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

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost.

Intangible assets are amortised over their useful life and charged to the relevant service lines in the Comprehensive Income and Expenditure. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. Interests in Companies and other Entities

Councils are required to produce Group Accounts to include services offered to Council Tax payers by organisations other than the Council itself but in which the Council has an interest. There are a number of criteria set out by which the Council must determine whether the value of the company and the Council's interest is significant enough for Group Accounts to be produced. The Council has complied with the Code of Practice on Local Authority Accounting, and while it has identified a company over which it has joint control, it has concluded that the company does not meet the criteria that would require consolidation into the Council's accounts.

14. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using either the FIFO or weighted average costing formula.

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

15. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset. Investment properties are not depreciated but are re-valued annually according to market conditions to ensure that they are held at the highest and best use value on the Balance Sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted

by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

16. Joint Operations

Joint Operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

17. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

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

Operating Leases

Rentals 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 asset. Charges are made on a straight-line basis over the term of the lease, even if this doesn't match the pattern of payments.

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipt Reserve in the

Movement in Reserves Statement. Where the amount due in relation to the leased asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

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

18. Overheads and Support Services

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

19. Non-Current Assets – Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant 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.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price

- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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 current 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.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

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

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

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

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. However, in exceptional circumstances, gains may be credited to

the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to services.

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

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

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

Impairment

Assets are reviewed at each year-end for evidence of reductions in value i.e. impairment. Where impairment is identified, 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.

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

- Where there is a balance in the 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.

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable 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
- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life of each class of asset

Where an item of property, plant or equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

In relation to Council Dwellings, depreciation is based on the Existing Use Social Housing Value (EU-SHV) on the components, deemed to be land and buildings.

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

20. Heritage Assets

The Council holds a number of Heritage Assets, which can be grouped into the following categories:

- Civic Insignia
- Art and Sculptures
- Musical Instruments
- Vehicles
- Ancient Monuments and War Memorials
- Miscellaneous

These are not held in a single collection but in a number of appropriate locations, where they are considered to contribute to increasing the knowledge, understanding and appreciation of the Council's history and local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

- **Civic Insignia**

The collection of civic insignia includes the Mayor's and Sheriff's badges and chains of office, mace and ceremonial swords. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are subject to periodic reviews by a specialist valuer. The civic insignia are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

- **Art and Sculptures**

This category includes paintings and a number of public art works such as statues and sculptures. Where a valuation is available e.g. an insurance valuation, the asset is reported in the balance sheet at this valuation. However, for a number of public art sculptures and statues, no cost or valuation information is available and consequently, these assets are not recognised in the balance sheet. Where artworks are recognised, they are deemed to have indeterminate lives and the Council does not consider it appropriate to charge depreciation.

- **Musical Instruments**

The Council holds a Steinway grand piano at the Drill Hall and a Stradivarius violin, which is on loan to the Halle orchestra. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are subject to periodic reviews by a specialist valuer. The instruments are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

- **Vehicles**

The Council holds one diesel locomotive as a heritage asset. This is reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are subject to periodic reviews by a specialist valuer. The vehicle is deemed to have indeterminate lives as it is not in operation but is on display; hence the Council does not consider it appropriate to charge depreciation.

- **Ancient Monuments and War Memorials**

This category includes various roman ruins and ancient structures and four war memorials. The Council does not consider that reliable cost or valuation information can be obtained for the items in this category. This is because of the nature of the assets held and the lack of market values. Consequently, these assets are not recognised in the Balance Sheet.

- **Miscellaneous**

This category includes any other assets which are being held for their contribution to knowledge and culture but do not readily fall into the above categories. One example is the collection of Books of Remembrance held at the City crematorium. These items are reported in the Balance Sheet at either cost or insurance valuation where material. No depreciation is charged on these assets.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's accounting policies on impairment. The Council may occasionally dispose of heritage assets which are unsuitable for public

display or to an appropriate body which will ensure the asset is maintained and displayed within a suitable collection e.g. to a museum or historical trust. The proceeds of such items are accounted for in accordance with the Council's accounting policy on disposal of Property, Plant and Equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

21. 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 re-valued 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 previously recognised losses in the Surplus and Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

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

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

22. 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, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case 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 at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

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.

23. Reserves

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

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

24. Revenue Expenditure Funded from Capital under Statute

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

25. VAT

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

26. Fair Value

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

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

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing an asset or liability (assuming they were acting in their economic best interest).

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

The Council uses appropriate valuation techniques, which takes into account the three levels of inputs to valuations for fair value assets:

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

Note 2 – Accounting Standards Issued But Have Not Yet Been Adopted

The Code of Practice on Local Council Accounting in the United Kingdom 2019/20 (the Code) has introduced new and amended accounting standards as follows:

- Amendments to IAS40 – Investment Properties: Transfers of investment Property.
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- IFRIC 23 Uncertainty over Income tax Treatments.
- Amendments to IFRS 9 - Financial Instruments: Prepayment Features with Negative Compensation

These accounting changes which will be required from 1 April 2019.

The adoption of these new and amended standards is not expected to have a material impact on the Council's Statement of Accounts.

Note 3 – Critical Judgements in Applying Accounting Policies

In applying the accounting policies in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- **Local Government funding** - There is a high degree of uncertainty about the future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities or reduce levels of service provision.

- **Group Boundaries** - The Council has a collaborative arrangement with the Lincolnshire County Council, North Kesteven and West Lindsey District Councils to provide the Central Lincolnshire Joint Planning Unit. This arrangement is hosted by North Kesteven District Council. The Council also has a collaborative arrangement with North Kesteven to provide a shared Revenues and Benefits Service. This shared service is hosted by the City of Lincoln Council. Both of these arrangements are governed through a Joint Committee representing each of the partner authorities. These arrangements are considered as a Jointly Controlled Operation, where ventures use their own resources to undertake an activity subject to joint control, and as such do not require consolidation into the Council's accounts. The Council's proportion of activity is accounted for separately within the Core Financial Statements.
- **Investment properties** - Investment properties have been estimated using the identifiable criteria under IFRS of being held for rental income or for capital appreciation. These properties have been assessed using these criteria, which are subject to interpretation.
- **Leases** - The Council has examined its leases, and classified them as either operational or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. In reassessing the lease the Council has estimated the implied interest rate within the lease to calculate interest and principal payments.
- **Investments** - Investment in banks and other financial institutions are secure and will not suffer impairments.
- **Pensions** – there is no inclusion in the Pension notes for any impact resulting from the recent age discrimination case known as the McCloud judgement. As this is still an ongoing issue and may be appealed by the Government no financial evaluation has yet been assessed for the likely impact on the Local Government Pension Fund or individual authorities within the fund.

Note 4 – Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet as at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Business Rates</p> <p>(Balance Sheet 31 March 2019 – Provision for Business Rate Appeals £3.286m)</p>	<p>Since the introduction of the Business Rates Retention Scheme effective from April 2013, local authorities are liable for successful appeals against business rates charges to businesses in 2018/19 and earlier financial years in their proportionate share. Therefore a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to the 31st March 2019. A third-party independent specialist has been used to estimate the required provision using the latest Valuation Office ratings list of appeals and an analysis of successful appeals to date.</p>	<p>The Council's share (60%) of the balance of business rates appeals at 31 March 2019 amounted to £3.286m, an increase of £0.230m (7.5%) from the previous year. This is mainly due to being in a 'pilot' which increased the Council's share of appeals from 40% to 60%. An increase or reduction of 10% of the estimated provision would increase/decrease the Council's share of NNDR appeals provision by £0.329m.</p>
<p>Property, Plant and Equipment (PPE)</p> <p>(Balance Sheet 31 March 2019 – PPE £360m)</p>	<p>Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets.</p>	<p>If the useful lives of the assets reduce, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.60m and for council dwellings £0.202m for every year that the useful lives had to be reduced.</p>
<p>Assets held for sale and investment properties</p> <p>(Balance Sheet 31 March 2019 - assets held for sale £2.7m - Investment properties £30.5m)</p>	<p>Assets classified as Held for Sale or as Investment Property are carried at fair value based on a recently observed market price. Market prices can fluctuate considerably due to global events. The value of these assets was current at the Balance Sheet date, but it cannot be determined for how long this value will be correct.</p>	<p>A 1% reduction in the value of investment properties would result in a charge to the Comprehensive Income & Expenditure Statement of £0.332m; a 1% increase in value would result in the recognition of a gain of £0.332m in the Comprehensive Income & Expenditure Statement.</p>
<p>Arrears</p> <p>Balance Sheet 31 March 2019 – Debtors total of £9.78m includes £4.798m debtors</p>	<p>As at 31 March 2018, the Council had a balance on current debtors of £4.798m. A review of significant balances suggested that an impairment of doubtful debts of £1.954m was required.</p>	<p>If collection rates were to deteriorate by 5% the amount of the impairment of doubtful debts would require an additional £0.23m to be set aside as an allowance.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
(subject to arrears)		
Pension Liability (Balance Sheet 31 March 2019 - pensions liability £99.8m)	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 the expected return on pension fund assets. A firm of consulting actuaries (Hymans Robertson LLP) is engaged to provide the Council with expert advice about the assumptions to be applied. For more information on the Defined Benefit Pension Scheme please refer to note 44.	The effects on the net pensions' liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £23.741m.
Investments (Balance Sheet 31 March 2019 - Short term investments £29.2m - Long term investments £0.8m)	At 31 March 2018, the Council held £29.216m of short term investments. These comprise £19.206m invested in AAA-rated instant access Money Market Funds and £10.01m invested in A-rated UK banks, all for periods of up to 1 year.	As most of the investments are either in AAA-rated MMF's or short term deposits in A-rated UK banks, the risk of impairment is considered to be minimal.

Note 5 – Prior Period Adjustment

There were no prior period adjustments in 2018/19.

Note 6 – Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 31st May 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 7A – Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS								
2017/18					2018/19			
Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments	Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
£'000s	£'000s	£'000s	£'000s		£'000s	£'000s	£'000s	£'000s
330	1,009	28	1,367	Chief Executive's Directorate	(1,160)	995	(10)	(175)
2	262	10	274	Housing and Regeneration	187	307	2	496
(4,595)	1,381	(10)	(3,224)	Housing Revenue Account (HRA)	(5,813)	1,266	(2)	(4,549)
2,471	843	(12)	3,302	Communities and Environment	1,389	794	(2)	2,181
4,172	55	(6)	4,221	Major Developments	74	61	2	137
0	(896)	0	(896)	Corporate	0	(1,062)	0	(1,062)
2,380	2,654	10	5,044	Net Cost of Services	(5,323)	2,361	(10)	(2,972)
(12,286)	1,365	(1,599)	(12,520)	Other Income & Expenditure from the Funding Analysis	(1,593)	1,499	(746)	(840)
(9,906)	4,019	(1,589)	(7,476)	Difference between General Fund Surplus/ Deficit and CIES Income & Expenditure Statement Surplus/ Deficit	(6,916)	3,860	(756)	(3,812)

Note 7B – Segmental Income Analysis

Income received on a segmental basis is analysed below:

	Income from Services	Income from Services
Services	2017/18	2018/19
	£'000s	£'000s
Chief Executive's Directorate	(4,759)	(4,787)
Housing & Regeneration	(588)	(896)
Housing Revenue Account (HRA)	(28,990)	(28,911)
Communities & Environment	(9,027)	(10,355)
Major Developments	0	(156)
Corporate	(11)	(0)
Total Income analysed on a Segmental Basis	(43,374)	(45,104)

Note 8 – Expenditure and Income Analysed by Nature

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

	2017/18	2018/19
	£'000s	£'000s
Expenditure/ Income		
Expenditure		
Employee Benefit Expenses	23,026	23,601
Other Services Expenses	66,111	65,651
Support Service Recharges	3,054	2,672
Depreciation, Amortisation, and Impairment	4,743	4,860
Interest Payments	9,569	10,051
Precepts and Levies	803	818
Payments to Housing Capital Receipts Pool	529	529
Gain/(loss) on Disposal of Assets	(985)	(493)
Total Expenditure	106,851	107,689
Income		
Fees, Charges and other Service Income	(59,631)	(45,424)
Interest and Investment Income	(3,493)	(20,174)
Income from Council Tax and Non-Domestic Rates	(10,283)	(13,492)
Government Grants and Contributions	(39,658)	(34,429)
Total Income	(113,065)	(113,519)

Surplus or Deficit on the Provision of Services	(6,214)	(5,830)
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Note 9 – Adjustment between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

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

Housing Revenue Account Balance

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

Major Repairs Reserve

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

2018/19	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to (or from) the Pensions Reserve)	2,594	1,266	0	0	0	3,860
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	(2)	0	0	0	0	(2)
Council Tax and NNDR transfers to (or from) the Collection Fund Adjustment Account	(746)	0	0	0	0	(746)
Holiday Pay (transferred to the Accumulated Absences Reserve)	(8)	(2)	0	0	0	(10)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	2,337	172	0	6,206	1,183	9,898
Total Adjustments to Revenue Resources	4,175	1,436	0	6,206	1,183	13,000
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,364)	(2,002)	4,366	0	0	0
Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	529	0	(529)	0	0	0
Posting of HRA resources to the Major Repairs Reserve	0	(4,506)	0	(212)	0	(4,718)
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(842)	0	(150)	0	0	(992)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(238)	0	0	0	0	(238)
Total Adjustments between Revenue and Capital Resources	(2,915)	(6,508)	3,687	(212)	0	(5,948)

2018/19	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(8,192)	0	0	(8,192)
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(13,160)	0	(13,160)
Application of Capital grants to finance capital expenditure	0	0	0	0	(1,004)	(1,004)
Total Adjustments to Capital Resources	0	0	(8,192)	(13,160)	(1,004)	(22,356)
Total Adjustments	1,260	(5,072)	(4,405)	(7,166)	179	(15,304)

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
2017/18						
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to (or from) the Pensions Reserve)	2,638	1,381	0	0	0	4,019
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	(2)	0	0	0	0	(2)
Council Tax and NNDR (transfers to (or from) the Collection Fund Adjustment Account)	(1,599)	0	0	0	0	(1,599)
Holiday Pay (transferred to the Accumulated Absences Reserve)	20	(10)	0	0	0	10
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	4,104	(7,728)	0	0	3,002	(622)
Total Adjustments to Revenue Resources	5,161	(6,357)	0	0	3,002	1,806
Adjustments between Revenue and Capital Resources						0
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,370)	(3,830)	5,200	0	0	0
Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	529	0	(529)	0	0	0
Posting of HRA resources to the Major Repairs Reserve	0	(765)	0	639	0	(126)
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(484)	0	(150)	0	0	(634)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(360)	0	0	0	0	(360)
Total Adjustments between Revenue and Capital Resources	(1,685)	(4,595)	4,521	639	0	(1,120)

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2017/18	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(4,674)	0	0	(4,674)
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	0	0	0
Application of Capital grants to finance capital expenditure	0	0	0	0	(3,016)	(3,016)
Total Adjustments to Capital Resources	0	0	(4,674)	0	(3,016)	(7,690)
Total Adjustments	3,476	(10,952)	(153)	639	(14)	(7,004)

Note 10 – Movements in Earmarked Reserves

These amounts are held to meet expenditure in future financial years. The movements on these Revenue Reserve Accounts during the year have been as follows:

	Balance @ 31.03.17 £'000	Appropriations Transfers In £'000	Transfers Out £'000	Balance @ 31.03.18 £'000	Movements	Appropriations Transfers In £'000	Transfers Out £'000	Balance @31.03.19 £'000
General Fund								
Business Rates Volatility	709	450	(621)	539	0	917	0	1,456
Strategic Projects	1,371	0	(875)	496	0	0	(193)	303
Budget Carry Forwards	340	231	(133)	324	(46)	47	(130)	194
Grants & Contributions	363	483	(59)	787	0	850	(93)	1,545
Invest to Save (GF)	196	171	(53)	307	69	137	(86)	427
Mercury Abatement	346	91	(60)	378	0	94	(58)	414
Strategic Growth (GF)	424	100	(423)	100	0	0	(86)	14
Unused DRF	277	172	(352)	221	109	111	(238)	203
Backdated Rent Review	220	0	0	220	0	0	0	220
Funding for Strategic Priorities	121	0	(153)	28	(60)	1,337	(91)	1,214
IT Reserve	220	100	(39)	217	0	100	(317)	0
Revenues & Benefits Shared Service	134	50	(21)	163	0	45	(45)	163
Asset Improvement	90	0	(18)	72	0	0	(17)	55
Transport Hub Mitigation	124	0	(124)	0	0	0	0	0
Tree Risk Assessment	97	20	(11)	106	0	37	(35)	108
MA Reserve	52	0	0	51	0	0	(51)	0
Organisational Development	47	0	(39)	8	0	76	0	85
Mayoral Car	47	0	0	47	0	0	0	47
Yarborough Leisure Centre	2	0	0	2	0	0	0	2
Private Sector Stock Condition Survey	51	12	0	63	0	12	(30)	45
Property Searches	36	0	0	36	0	0	(32)	4
Managed Workspace	35	0	0	35	0	0	(35)	0
County Wide Broadband Initiative	34	0	(34)	0	0	0	(0)	0
Boston Audit Contract	14	0	0	14	0	0	0	14
Section 106 Interest	14	18	0	32	0	0	0	32

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	Balance @ 31.03.17 £'000	Appropriations Transfers In Transfers Out £'000 £'000		Balance @ 31.03.18 £'000	Movements	Appropriations Transfers In Transfers Out £'000 £'000		Balance @31.03.19 £'000
Christmas Decorations	17	0	0	17	0	0	0	17
Electric Van Replacement	17	4	0	22	(16)	4	0	11
Christmas Market	25	0	(25)	0	0	0	0	0
Air Quality Initiatives	17	6	0	23	0	6	(18)	10
Commons Parking	14	13	0	27	0	6	(8)	25
Tank Memorial	10	0	0	10	0	0	0	10
Income Volatility Reserve	0	178	0	178	0	0	(178)	0
City Hall Sinking Fund	0	36	0	36	0	24	0	60
Total General Fund Earmarked Reserves	5,464	2,135	(3,040)	4,559	56	3,803	(1,741)	6,678
HRA								
HRA Strategic Growth	149	178	(150)	178	0	0	(153)	25
HRA Invest to Save	164	3	(26)	140	0	0	0	140
Capital Fees Equalisation	241	0	(3)	238	0	0	(56)	182
HRA Strategic Priority	240	0	0	240	0	0	0	240
De Wint Court	73	0	0	73	0	0	0	73
HRA Repairs Account	611	8,394	(8,381)	624	0	8,952	(8,997)	579
HRA Survey Works	54	3	0	57	0	3	0	60
Stock Retention	22	0	0	22	0	0	0	22
Total HRA Earmarked Reserves	1,554	8,578	(8,560)	1,572	0	8,955	(9,206)	1,321
Total Earmarked Reserves	7,018	10,713	(11,600)	6,131	56	12,758	(10,947)	7,999
Insurance Fund	3,558	468	(75)	3,950	0	139	(227)	3,862
Total Earmarked Reserves	10,576	11,181	(11,675)	10,081	56	12,897	(11,174)	11,861

Insurance Reserve

The insurance fund has been set up to ensure adequate funding for the insurance risk covered by the City of Lincoln Council. In 2018/19 the risk in respect of Public Liability Insurance had an excess of £100,000 (per claim) with no cap ceiling. The movements on the fund are as follows:

2017/18 £'000		2018/19 £'000
3,557	Opening Balance	3,950
(82)	Funding of claims/losses	(227)
475	Contributions from revenue	139
<u>3,950</u>	Closing Balance	<u>3,862</u>

Note 11 – Other Operating Expenditure

2017/18 £'000		2018/19 £'000
803	Levies	818
529	Payments to the Government Housing Capital Receipts Pool	529
(985)	(Gains)/losses on the disposal of non-current assets	(494)
<u>348</u>	Total	<u>854</u>

Note 12 - Financing and Investment Income and Expenditure

2017/18 £'000		2018/19 £'000
3,195	Interest payable and similar charges	3,302
2,245	Net interest on the net defined liability	(799)
(2,332)	(Surplus)/Deficit on Trading Operations	2,337
(108)	Interest Receivable and similar income	(147)
<u>3,000</u>	Total	<u>4,693</u>

Note 13 – Taxation and Non-Specific Grant Income

2017/18 £'000		2018/19 £'000
(6,176)	Council Tax income	(6,450)
(5,158)	Retained Business Rates income and expenditure	(8,958)
(2,644)	Non ring-fenced government grants	(1,031)
(3,002)	Capital grants and contributions	(1,183)
<u>(16,980)</u>	Total	<u>(17,624)</u>

Note 14 – Non-Current Assets including Property, Plant & Equipment and Intangible Assets

The movement in the Council's Fixed Assets during the year was as follows:

Movements in 2018/19											
	Council Dwellings	Land & Buildings	Vehicles Plant & Equip	Infra-Structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Property Plant & Equip Subtotal	Intangible Assets	Investment Properties	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation											
Restated At 1 April 2018	228,594	92,576	10,346	0	4,273	2,863	4,898	343,550	1,882	16,225	361,657
Additions	13,608	718	433	0	680	1,935	9,413	26,786	50	11,220	38,056
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	58	3,299	0	0	17	5,824	0	9,198	0	0	9,198
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,764)	(1,626)	0	0	(15)	0	0	(4,405)	0	1,620	(2,785)
De-recognition and disposals	(1,704)		(519)	0	0	0	0	(2,223)	0	(322)	(2,545)
Other movements in cost or valuation	11,618	(1,156)	420	0	0	0	(12,632)	(1,750)	0	1735	(15)
At 31 March 2019	249,411	93,811	10,680	0	4,955	10,622	1,678	371,157	1,932	30,478	403,567
Depreciation											
Restated At 1 April 2018	(9)	(2,324)	(8,174)	0	(119)	(2)	0	(10,627)	(1,337)	0	(11,964)
Depreciation for year	(5,852)	(1,531)	(448)	0	0	(3)	0	(7,834)	(234)	0	(8,068)
Depreciation written out to the Revaluation Reserve	5	1,116	0	0	0	0	0	1,121	0	0	1,121

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Movements in 2018/19											
Depreciation written out to the Surplus/Deficit on the Provision of Services	5,800	0	0	0	0	0	0	5,800	0	0	5,800
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0	0	0	0
De-recognition – disposals	43	0	519	0	0	0	0	562	0	0	562
De-recognition – other	0	0	0	0	0	0	0	0	0	0	0
Other movements in cost or valuation	0	0	0	0	0	0	0	0	0	0	0
At 31 March 2019	(13)	(2,739)	(8,102)	0	(119)	(5)	0	(10,979)	(1,571)	0	(12,550)
Net book value of assets at 31.03.19	249,399	91,072	2,578	0	4,836	10,617	1,678	360,178	360	30,478	391,017
Net book value of assets at 31.03.18 (RESTATED)	228,585	90,252	2,173	0	4,154	2,861	4,898	332,923	545	16,225	349,693
Owned	249,398	91,072	2,194	0	4,836	10,617	1,678	359,94	360	30,478	390,633
Finance lease	0	0	384	0	0	0	0	384	0	0	384

Movements in 2017/18											
	Council Dwellings	Land & Buildings	Vehicles Plant & Equip	Infra-Structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Property Plant & Equip Subtotal	Intangible Assets	Investment Properties	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation											
At 1 April 2017	223,233	69,026	9,603	0	3,333	4,289	12,281	321,765	2,416	8,519	332,700
Additions	7,528	1,745	40	0	974	46	16,969	27,301	151	6,965	34,418
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	20	(80)	0	0	2	180	0	123	0	0	123
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	19	(466)	0	0	(3)	0	0	(450)	0	(248)	(698)
De-recognition and disposals	(2,377)		(16)	0	0	(160)	0	(2,553)	(686)	0	(3,239)
Other movements in cost or valuation	173	22,319	720	0	0	(1,491)	(24,352)	(2,631)	0	988	(1,644)
At 31 March 2018	228,597	92,544	10,346	0	4,306	2,864	4,898	343,555	1,882	16,225	361,662
Depreciation											
At 1 April 2017	(23)	(1,454)	(7,709)	0	(119)	(9)	0	(9,314)	(1,787)	0	(11,101)
Depreciation for year	(10,367)	(1,179)	(445)	0	0	(4)	0	(11,995)	(212)	0	(12,207)
Depreciation written out to the Revaluation Reserve	6	301	0	0	0	8	0	315	0	0	315
Movements in 2017/18											
Depreciation written out to the Surplus/Deficit on the Provision of Services	10,258	0	0	0	0	0	0	10,258	0	0	10,258

Movements in 2017/18											
	Council Dwellings	Land & Buildings	Vehicles Plant & Equip	Infra-Structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Property Plant & Equip Subtotal	Intangible Assets	Investment Properties	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	7	0	7	0	0	7
De-recognition – disposals	116	0	0	0	0	0	0	116	0	0	116
De-recognition – other	0	0	16	0	0	0	0	16	686	0	702
Other movements in cost or valuation	0	28	0	0	0	(7)	0	21	0	0	21
At 31 March 2018	(10)	(2,304)	(8,138)	0	(119)	(5)	0	(10,576)	(1,313)	0	(11,889)
Net book value of assets at 31.03.18	228,587	90,240	2,208	0	4,187	2,859	4,898	332,979	569	16,225	349,772
Net book value of assets at 31.03.18 (RESTATED)	228,585	90,252	2,173	0	4,154	2,861	4,898	332,923	545	16,225	349,693
Net book value of assets at 31.03.17	223,210	67,572	1,894	0	3,214	4,280	12,281	312,451	629	8,519	321,599
Owned	228,587	90,240	1,633	0	4,187	2,859	4,898	332,404	569	16,225	349,198
Finance lease	0	0	575	0	0	0	0	575	0	0	575

During 2018/19 the Asset Register and the ledger were aligned with minor restatements as above resulting in movements in the capital adjustment account (see note 26) which have been treated as in year transactions.

Fixed Asset Valuation

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment and Investment Properties required to be measured at fair value are revalued at least every five years. The statement below shows the progress of the Council's rolling programme of fixed asset revaluations.

	Council Dwellings	Operational Land & Buildings	Vehicles Plant & Equip.	Investment Properties
	£'000	£'000	£'000	£'000
Valuation at historical cost		4,478	2,172	
Valued at current value as at:				
01/04/18	238,148	95,234		17,114
01/04/17	225,338	68,102		8,519
01/04/16	222,519	71,210		9,665
01/04/15	176,438	67,587		11,621
01/04/14	174,971	66,679		11,219
01/04/13	170,075	64,752		10,065

The valuations of the Council's freehold and leasehold properties have been carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors. All valuations are either undertaken by the following Council Officers, or by the District Valuer.

Principal Property Surveyor	Mr P Clifton	MRICS
Senior Property Surveyor	Mr A Wiswould	MRICS

Fixed Assets Depreciation

Tangible Fixed Assets

Depreciation, as stated in the Accounting Policies, is calculated on a straight-line basis. Non-operational assets are treated as investment properties and as such are not depreciated. The standard useful lives of assets, used for depreciation purposes (unless overwritten by asset valuations), are as follows:

<u>Category Of Asset</u>	<u>Useful Economic Life</u>
Council Dwellings	60 years for new properties 30 years for properties over 30 years old
Other Land & Buildings	
- Council Buildings	50 years
- Car Parks	60 years
- Cemeteries	50 years
- Crematorium	21 years

<u>Category Of Asset</u>	<u>Useful Economic Life</u>
- Community Centres	50 years
- Offices	50 years
- Depots & Workshops	50 years
- Public Conveniences	50 years
- Recreation Grounds	50 years
- Sports Centres	50 years
Vehicles, Plant & Equipment	
- Computers	5 years
- Equipment	10 years
- Fixtures and Fittings	5 years
- Plant	7/10 years
- Vehicles	5/7 years
Infrastructure Assets	50 years

Intangible Assets

Intangible fixed assets are amortised in the Income and Expenditure Account on a straight-line basis, as stated in the Accounting Policies. The standard useful life, used for amortisation purposes is:

<u>Category Of Asset</u>	<u>Useful Economic Life</u>
Intangible Asset	
- Software	5 years

Note 15 – Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Heritage Vehicles £'000	Musical Instruments £'000	Civic Insignia £'000	Other £'000	Total Assets £'000
Cost or Valuation					
At 1 April 2017	140	2,570	2,359	409	5,478
Additions					0
De-recognitions	(103)	0	0	0	(103)
Revaluations	1	715	0	0	716
At 31 March 2018	38	3,285	2,359	409	6,091
Cost or Valuation					
At 1 April 2018	38	3,285	2,359	409	6,091
Additions					0
De-recognitions					0
Revaluations					
At 31 March 2019	38	3,285	2,359	409	6,091

Heritage Vehicles

The Council's heritage vehicles are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are reviewed

annually and revalued every five years by an appropriately qualified external valuer.

Musical Instruments

This category contains a donated asset, a violin by Antonio Stradivari of Cremona dated 1695, which is on loan to the Halle Orchestra. The violin was last valued at the end of 2017/18 by external valuers, Ingles and Hayday, at £3.2m.

Civic Insignia

The collection of civic insignia includes the Mayor's and Sheriff's badges and chains of office and mace. All items are on display at the Guildhall, Lincoln. It also includes four ceremonial and fighting swords of considerable historical significance, which together are valued at £2.4m. The Council's collection of civic insignia is reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are reviewed annually and revalued every five years by an appropriately qualified external valuer. These were revalued at 31st March 2017 by external valuers Bamfords.

Other Heritage Assets

This category includes artwork and paintings and miscellaneous assets recognised in the Balance Sheet, such as the Books of Remembrance kept on display at the City Crematorium. These are reported at insurance valuation which is based on market values and are subject to periodic revaluation by an appropriately external qualified valuer. These were revalued at 31st March 2017 by external valuers Bamfords.

Heritage Assets not recognised in the Balance Sheet

In addition to the assets recognised in the Balance Sheet and disclosed in the above table, the Council holds a number of assets which are by their nature heritage assets but are not recognised in the Balance Sheet. The Council does not consider that reliable cost or valuation information can be obtained for these assets due to the nature of the assets and the lack of market values. Examples of this type of asset are ancient structures and ruins, War memorials and public art. These are listed below.

Scheduled Ancient Monuments

St Paul in the Bail	Walls & Well
Saltergate Roman Wall and Posterngate	Wall & Gate
Mint Wall, West Bight	Wall
Pottergate	Arch
Lower West Gate & Wall, City Hall	Gate & Wall
St Marys Conduit	Conduit
Temple Gardens, Close Wall	Wall
Roman Wall, Mary Sookias House, Cecil Street	Wall

Memorials

High Street	War memorial
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Memorials

Dixon Street	War memorial
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Birchwood Avenue	War memorial
Newark Road/Maple Street	War memorial

Public Art

The Chimes, Brayford Wharf North	Artwork
Empowerment, Waterside	Artwork
Exotic Cone I and II	Artwork
Lilies, Altham Terrace	Artwork
Lion, Arboretum	Artwork
Love Seat, The Lawn	Artwork
Dr Charlesworth Statue, The Lawn	Artwork
Mother and Child, The Lawn	Artwork
St Marks Obelisk	Artwork
Light Sculpture, Wigford Bridge	Artwork

Note 16 – Investment Properties and Surplus Assets

Movements in the value of Investment Properties are shown in note 14.

The following items of income and expenditure have been accounted for in the Comprehensive Income and Expenditure Statement:

2017/18		2018/19
£'000		£'000
1,012	Rental income from investment property	1,185
(180)	Direct operating expenses arising from investment property	(186)
<u>832</u>	Net gain/(loss)	<u>999</u>

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

The movements in the value of investment properties are analysed below:

2017/18		2018/19
£'000		£'000
8,519	Balance at 1 April	16,225
6,965	Additions	11,220
0	Disposals	(322)
(248)	Net gain/loss from Fair Value Adjustment	1,620
988	Transfers (to)/from Other Land and Buildings	1,735
<u>16,224</u>	Balance at 31 March	<u>30,478</u>

Fair Value Hierarchy

The Council's Investment Properties have been assessed as being Level 2 on the Fair Value Hierarchy (See Note 1 Accounting Policies, point 20 for an explanation of fair value levels).

Valuation Techniques Used to Determine Level 2 Fair Values for Investment Properties

An income-investment approach has been used to determine the fair value of Investment Properties. This technique involves an assessment of potential future net incomes flowing from the property. In the case of the majority of properties that are currently let, this reflects terms of the existing lease including passing rents and any scheduled rent reviews and, if later, ultimate reversion to full market rental value. In the case of properties that are currently vacant, it is assumed that a letting is immediately sought at full market rental value and otherwise on optimum letting terms from the perspective of a market participant. Potential future net income flows are then capitalised using market all-risks term and reversionary yields to derive a present value, thus representing Market Value.

There has been no change in the valuation techniques used during the year for Investment Properties.

Highest and Best Use of Investment Properties

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

Valuers

The Investment Properties that were valued at 31 March 2019 were valued in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

Surplus Assets

Movements in the value of Surplus Assets are shown in note 14.

The current value measurement base for surplus assets is fair value, estimated at highest and best use from a market participant's perspective. There have been no transfers between the levels of the hierarchy during the year. A transfer would occur when more detailed market information becomes available.

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

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

The Council's surplus assets are all valued using level three inputs due to their latent value or specialist nature.

Note 17 – Intangible Assets

Movements in the value of Intangible Assets are shown in note 14. No internally generated intangible assets are recognised in the Balance Sheet. The carrying amount of intangible assets is amortised on a straight-line basis. Amortisation of £234k was charged to service headings in the Cost of Services.

Note 18 – Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term		Current	
	31-Mar-18	31-Mar-19	31-Mar-18	31-Mar-19
	£000	£000	£000	£000
Borrowings				
Financial Liabilities at Amortised Cost *	(77,354)	(95,354)	(5,135)	(21,475)
Total Borrowings	(77,354)	(95,354)	(5,135)	(21,475)
Creditors				
Financial liabilities at amortised cost	(342)	(146)	(8,567)	(8,587)
Total Creditors	(342)	(146)	(8,567)	(8,587)
Investments				
Loans and Receivables	0	0	15,615	29,216
Available-for-Sale Financial Assets***	729	798	0	0
Total Investments	729	798	15,615	29,216
Debtors				
Loans and receivables **	133	1,035	7,304	6,157
Total included in Debtors	133	1,035	7,304	6,157
Cash and Cash equivalents				
Financial liabilities at amortised cost	0	0	0	0
Loans and receivables	0	0	875	(613)
Total Cash and cash equivalents	0	0	875	(613)

* The Financial Liabilities include the loans that the Council holds for some small local charities (£0.030m) and Bonds (£0.003m)

** The amount shown for Short-term Debtors is net of the Bad Debt Provision for Debtors.

*** Prior year adjusted to reflect Fair Value adjustment of £0.257m to Investors in Lincoln investment.

Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

Financial Instrument Gains/Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2018/19	Financial Liabilities	Financial Assets			Total
	Amortised cost	Loans and Receivables	Available-for-Sale Assets	Fair Value through the CIES	
	£'000	£'000	£'000	£'000	£'000
Comprehensive Income & Expenditure Statement					
Interest Expense	3,302	0	0	0	3,302
Interest payable and similar charges	3,302	0	0	0	3,302
Interest Income	0	(159)	(24)	0	(182)
Interest and investment income	0	(159)	(24)	0	(182)
Surplus or deficit arising on revaluation of financial assets in other Comprehensive Income & Expenditure	0	0	(69)	0	(69)
Net (gain)/loss for the year	3,302	(159)	(93)	0	3,051

2017/18 (RESTATED)	Financial Liabilities	Financial Assets			Total
	Amortised Cost	Loans and Receivables	Available-for-Sale Assets	Fair Value through the CIES	
	£'000	£'000	£'000	£'000	£'000
Comprehensive Income & Expenditure Statement					
Interest Expense	3,195	0	0	0	3,195
Interest payable and similar charges	3,195	0	0	0	3,195
Interest Income	0	(110)	(22)	0	(132)
Interest and investment income	0	(110)	(22)	0	(132)
Surplus or deficit arising on revaluation of financial assets in other Comprehensive Income & Expenditure***	0	0	(315)	0	(315)
Net (gain)/loss for the year	3,195	(110)	(337)	0	2,748

*** Prior year adjusted to reflect Fair Value adjustment of £0.257m to Investors in Lincoln investment.

Fair Value of Financial Assets

Some of the authority's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Financial assets measured at fair value				
Recurring fair value measurements	Input level in fair value hierarchy*	Valuation technique used to measure fair value	As at 31/3/19	As at 31/3/18
			£'000	£'000
Available for Sale				
Equity shareholding in Dunholme Bridge Company	Level 2	Average price obtained during the last three share sales	504	458
Equity shareholding in Investors in Lincoln	Level 3	Discounted cash flow *	294	271
Total			798	729

* The Authority's shareholding in Investors in Lincoln - the shares in this company are not traded in an active market and fair value of £293,881 has been based on valuation techniques that are not based on observable current market transactions or available market data. The valuation has been made based on an analysis of the assets and liabilities in the company's latest audited accounts and assuming future profit will remain the same as current year profit.

**See Glossary for a definition of Fair Value Input Levels

Reclassification and Remeasurement of Financial Assets (Investments only) at 1 April 2018

Financial Assets	Carrying amount b/f at 1/4/2018	New Classification at 1 April 2018	
		Amortised Cost	Through Other Comprehensive Income
	£'000	£'000	£'000
Previous Classification			
Loans and Receivables	15,615	15,615	
Available for Sale Financial Assets	473		473
Reclassified amounts at 1/4/18	16,088		473
Remeasurements at 1/4/18			256
Remeasured Carrying amounts at 1/4/18	16,344	15,615	729
Impact of Remeasurements on Financial Instruments Revaluation Reserve			256

The Council has reclassified the following investments at 1 April 2018:
 Investors in Lincoln – on 1 April 2018 the council held shares at cost of £14,000 which have been designated as fair value through Other Comprehensive Income. The fair value of the shares, derived using IFRS13 Fair Value Measurement at 1 April 2018 was £271k. No dividends are received for these instruments.

Dunham Bridge – On 1 April 2018 the council held shares at a fair value, based on market evidence, of £458k with the accumulated gains being held in the Available for Sale Reserve. The fair value of the shares, at 1 April 2018 remained unchanged. Dividends are received for these instruments. Upon reclassification to fair value through Other Comprehensive Income the accumulated gains were transferred from the Available for Sale Reserve to the Financial Instruments Revaluation Reserve (see note 26).

All investments classified as loans and receivables have been classified as Amortised Cost as they are all simple principal and interest investments with no impairment allowance or other cash flows associated with them. The investments are carried at the same value on the balance sheet and any transactional costs are charged directly to the Income and Expenditure Account as they are incurred.

Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the Public Works Loan Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months, or is a trade or other receivable, the fair value is taken to be the carrying amount outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities

31/03/18			31/03/19	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£'000	£'000		£'000	£'000
59,956	71,653	PWLB Debt	72,959	85,814
16,175	26,345	Money Market Debt	16,175	26,771
565	561	Stock	565	561
5,762	5,900	Other	27,130	27,042
<u>82,458</u>	<u>104,459</u>	Total Debt	<u>116,829</u>	<u>140,188</u>

The Council has £561,000 of listed debt. This stock has not been traded in recent years. Due to this debt being immaterial and the lack of market activity its fair value has been assessed to be its 'par' (or face) value.

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This is to be expected given that the current rates of interest are at a historically low level.

Financial Assets

31/03/18			31/03/19	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£'000	£'000		£'000	£'000
15,600	15,615	Money Market Investments <1 year	29,200	29,216
0	0	Money Market Investments >1 year	0	0
15,600	15,615	Total Investments	29,200	29,216

The differences are attributable to fixed interest instruments payable being held by the Council, whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial assets and raises the value of loans and receivables.

The fair value of Public Works Loan Board (PWLB) loans of £85.814m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets, termed the PWLB Certainty Interest rates. A supplementary measure of the fair value as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £72.959m would be valued at £85.814m. But, if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £98.670m.

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

Note 19 – Inventories

In undertaking its work the Council holds reserves of inventories together with amounts of uncompleted work (work in progress). The figure shown in the Balance Sheet may be subdivided as follows:

	Consumable Stores		City Maintenance Services Materials		City Maintenance Services Work in Progress		Total	
	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000	2017/18 £'000	2018/19 £'000
Balance outstanding at the start of the year	91	73	59	5	173	142	324	220
Purchases	14	24	0	0	0	0	14	24
Recognised as an expense in the year	(33)	(11)	(54)	(3)	(30)	(142)	(118)	(156)
Balance outstanding at the year-end	72	85	5	2	142	0	220	88

Note 20 – Debtors

Debtors listed under current assets are monies due which the Council expects to collect within one year of the Balance Sheet date and are analysed as follows:

31/03/18 £'000		31/03/19 £'000
1,518	Central Government Bodies	1,473
1,789	Other Local Authorities	2,044
1	NHS Bodies	1
10,696	Other Entities and Individuals	10,329
14,004	Total	13,847

Debtors balances are shown gross of impairment of doubtful debts £4.068m in 2018/19 (£3.762m in 2017/18).

Debtors for Local Taxation

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

31/03/18 £'000		31/03/19 £'000
124	Less than three months	127
223	Three to six months	268
487	Six months to one year	606
4,909	More than one year	5,268
5,743	Total	6,269

Note 21 – Cash and Cash Equivalents

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

31/03/18 £'000		31/03/19 £'000
1	Cash held by the Council	1
875	Bank Current accounts	(613)
<u>876</u>		<u>(612)</u>

Note 22 – Assets Held for Sale

The Authority had 2 pieces of development land as assets held for sale at the beginning of the year. One was sold during the year. The Authority also purchased and sold the Ermine School site during the year. At the end of the year, the authority held 5 pieces of development land as assets held for sale. The sales have been approved but were not completed as at 31st March 2018. These assets are included as Current Assets as at 31st March 2018.

Current 2017/18 £000	Non- current 2017/18 £000		Current 2018/19 £000	Non- current 2018/19 £000
2,525	0	Balance at start of the year	4,575	0
769	0	Additions	0	0
		Newly classified:		
1,543	0	- Property Plant & Equipment	15	0
1,531	0	Revaluation gain/(loss)	0	0
0	0	Transfers from non-current to current	0	0
(1,794)	0	Disposals	(1,890)	0
<u>4,575</u>	<u>0</u>	Closing Balance	<u>2,700</u>	<u>0</u>

Note 23 – Creditors

Creditors shown as current liabilities are amounts payable by the Council within one year of the Balance Sheet date and are analysed as follows:

31/03/18 £'000		31/03/19 £'000
(6,134)	Central Government Bodies	(4,359)
(246)	Other Local Authorities	(201)
(8,985)	Other Entities and Individuals	(9,597)
<u>(15,365)</u>	Total	<u>(14,157)</u>

Note 24 – Provisions

These amounts are set aside to provide for potential liabilities relating to specific occurrences and comprise the following balances:

	Licensing Legal Case	Business Rates RV Reduction the Think Tank	Compulsory Purchase Order	Local Authority Mortgage Scheme	Business Rates Appeals
	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2018	(10)	(37)	(87)	(14)	(4,585)
Additional Provisions made in 2018/19	0	0	(4)	0	(766)
Amounts used in 2018/19	10	0	0	0	126
Unused Amounts Reversed in 2018/19	0	0	0	0	1,939
Unwinding of Discounting in 2018/19	0	0	0	0	0
Balance at 31 March 2019	0	(37)	(91)	(14)	(3,286)

The provision for business rate appeals represents the Council's share (40% of £7.641m) of the total provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2019. The total provision is accounted for in the Collection Fund. The amount and timing of outflows against the Business Rates Appeals provision is dependent on the processing and determination of business rates appeals by the Valuation Office.

There is a restatement of the opening balance on the business rate appeals of £1.528m to reflect pilot status.

Note 25 – Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 10.

Note 26 – Unusable Reserves

The Council keeps a number of unusable reserves in the Balance Sheet. Some are required to be held for statutory reasons; some are needed to comply with proper accounting practice.

Reserve	Balance 31/03/18	Net Movement in Year	Balance 31/03/19	Purpose of Reserve	Further Details of Movements
	£'000	£'000	£'000		
Revaluation Reserve	22,146	8,649	30,795	Store of gains on revaluation of fixed assets	a) below
Pensions Reserve	(85,858)	(13,905)	(99,763)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 44 to the financial statements
Capital Adjustment Account	228,811	20,077	248,888	Store of capital resources set aside to meet past expenditure	b) below
Deferred Capital Receipts	57	0	57	Expected future repayments from sales of assets received in instalments	c) below
Financial Instruments Adjustment Account	(58)	3	(55)	Balancing mechanism between the rates at which gains and losses are recognised under the Code of Practice	d) below
Available-for-Sale Financial Instruments Account	0	0	0	Store of gains on revaluation of investments not yet realised through sales	e) below
Financial Instruments Revaluation Reserve	(715)	(69)	(784)	Store of gains on revaluation of investments not yet realised through sales	e) below
Collection Fund Adjustment Account – Council Tax	45	27	72	Store of Council's share of accumulated surpluses and deficits in relation to Council Tax on the Collection Fund	f) below

Reserve	Balance 31/03/18	Net Movement in Year	Balance 31/03/19	Purpose of Reserve	Further Details of Movements
	£'000	£'000	£'000		
Collection Fund Adjustment Account - NNDR	297	719	1,016	Store of Council's share of accumulated surpluses and deficits in relation to NNDR on the Collection Fund	f) below
Accumulated Absences Account	(435)	10	(425)	Absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year (i.e. annual leave entitlement carried forward at 31 March)	g) below
	164,290	15,511	179,801		

a) Revaluation Reserve

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

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

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created.

2017/18 £'000		2018/19 £'000
(22,722)	Balance 1 April	(22,146)
(1,603)	Upward Revaluation of assets	(10,335)
545	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	14
<hr/>		<hr/>
(1,058)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(10,321)
410	Difference between fair value depreciation and historical cost depreciation	130
1,117	Accumulated gains on assets sold or scrapped	0
107	Amounts written out to the Capital Adjustment	1,541

2017/18 £'000	Account	2018/19 £'000
<u>(22,146)</u>	Balance 31 March	<u>(30,795)</u>

b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or 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, *gains and losses on Assets held for Sale* and gains recognised on donated assets that have yet to be consumed by the Council.

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

Note 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2017/18 £'000		2018/19 £'000
(219,273)	Balance 1 April	(228,811)
	Rounding Adjustment	(2)
		(228,813)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
12,207	Charges for depreciation and amortisation of non-current assets	8,064
0	Other movements of depreciation	76
(11,012)	Revaluation (gains)/losses and impairments on Property, Plant and Equipment	(3,014)
4,612	Revenue expenditure funded from capital under statute	897
7	Assets under construction written off to revenue	0
3,098	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	3,872
68	Other adjustments	5
8,980		9,900
(518)	Adjusting amounts written out of the Revaluation Reserve	(1,672)
8,462	Net written out amount of the cost of non-current assets consumed in the year	8,228
	Capital Financing applied in year:	

2017/18 £'000		2018/19 £'000
(4,674)	Use of Capital Receipts to finance new capital expenditure	(8,192)
(150)	Use of Capital Receipts to reduce capital financing requirement	(150)
(9,184)	Use of the Major Repairs Reserve to finance new capital expenditure	(13,160)
(492)	Capital expenditure charged against the General Fund and HRA balances	(4,956)
(3,016)	Application of Capital Grants to finance new capital expenditure	(1,004)
(484)	Statutory Provision for the financing of capital investment charged against the General Fund and HRA balances (MRP/VRP)	(842)
(18,000)		(28,303)
(228,811)	Balance 31 March	(248,888)

c) Deferred Capital Receipts

This account contains the expected future repayments of capital from sales of assets which will be received in instalments over an agreed period of time. They arise principally from mortgages on sold council houses. When made, these payments are regarded as being of a capital nature and transactions during the year were as follows:

2017/18 £'000		2018/19 £'000
(57)	Balance 1 April	(57)
0	Council's share of (surplus)/deficit for the year	0
(57)	Balance 31 March	(57)

d) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account provides a balancing mechanism between the rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the Code of Practice and are required by statute to be met from the General Fund and HRA balances.

2017/18 £'000		2018/19 £'000
60	Balance 1 April	58
0	Proportion of discounts incurred in previous financial years to be credited to the General Fund Balance in accordance with statutory requirements	0
(2)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(3)
58	Balance 31 March	55

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e) Available-for-Sale Financial Instruments Account RESTATED

The Available-for-Sale Financial Instruments Account previously contained the gains and losses arising from movements in fair value of Available-for-Sale investments, which are recognised in the Comprehensive Income and Expenditure Statement.

2017/18 £'000		2018/19 £'000
0	Balance 1 April	0
0	(Gain)/Loss on revaluations in year	0
0	Balance 31 March	0

During the year this account was closed and movements in the fair value of financial instruments was taken to the Financial Instruments Revaluation reserve

2017/18 £'000		2018/19 £'000
0	Balance 1 April	(715)
(257)	(Gain)/Loss on FVOCI revaluations in year	(69)
(458)	Accumulated revaluations	0
(715)	Balance 31 March	(784)

f) Collection Fund Adjustment Account – Council Tax

The Council Tax Adjustment Account was introduced on 1 April 2009 to comply with the new accounting requirements for the Collection Fund contained within the Statement of Recommended Practice 2009/10 (SORP 2009). The difference between accrued income for the year as shown in the Income and Expenditure Account and the amount required to be credited to the General Fund is taken to the Collection Fund Adjustment Account. The balance on the account represents the Council's share of the accumulated surpluses and deficits on the Collection Fund at the Balance Sheet date.

2017/18 £'000		2018/19 £'000
(52)	Balance 1 April	(45)
7	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	27
(45)	Balance 31 March	(72)

f) Collection Fund Adjustment Account – NNDR

The NNDR Adjustment Account was introduced on 1 April 2013 to comply with the new regime for the collection of Business Rates and the resulting accounting requirements. The difference between accrued income for the year as shown in the Comprehensive Income and Expenditure Statement and the amount required to be credited to the General Fund is taken to the Collection Fund Adjustment Account.

The balance on the account represents the Council's share of the accumulated surpluses and deficits on the Collection Fund at the Balance Sheet date.

2017/18 £'000		2018/19 £'000
1,309	Balance 1 April	(297)
	Amount by which council non-domestic rates credited to the Comprehensive Income and Expenditure Statement is different from non-domestic rates income calculated for the year in accordance with statutory requirements	(719)
(1,606)		
<u>(297)</u>	Balance 31 March	<u>(1,016)</u>

g) Accumulated Absences Account

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

2017/18 £'000		2018/19 £'000
425	Balance 1 April	435
(425)	Settlement or cancellation of accrual made at the end of the preceding year	(435)
436	Amounts accrued at the end of the current year	425
	Amount by which officer remuneration charged in the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(10)
11		
<u>435</u>	Balance 31 March	<u>425</u>

Note 27 – Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2017/18 £'000		2018/19 £'000
156	Interest received	147
(3,118)	Interest paid	(3,121)

Note 28 – Cash Flow Statement – Adjustment to surplus or deficit on provision of services for non-cash movements

2017/18 £'000		2018/19 £'000
12,112	Depreciation	7,998

(9,895)	Impairment and downward valuations	(3,016)
96	Amortisation	142
0	Increase/(decrease) in impairment for bad debts	0
294	Increase/(decrease) in creditors	(309)
1,499	(Increase)/decrease in debtors	182
104	(Increase)/decrease in inventories	132
4,019	Movement in pension liability	3,086
3,098	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	3,872
(326)	Other non-cash items charged to the net surplus or deficit on the provision of services	223
11,001		12,220

Note 29 – Cash Flow Statement – Adjustment to surplus or deficit on the provision of services for items that are investing & financing activities

2017/18 £'000		2018/19 £'000
(4,671)	Proceeds from sale of PPE, investment property and intangible assets	(3,901)
(3,002)	Any other items for which the cash effects are investing or financing cash flows	(1,183)
(7,673)		(5,084)

Note 30 – Cash Flow Statement - Investing Activities

2017/18 £'000		2018/19 £'000
(34,866)	Purchase of property, plant and equipment, investment property and intangible assets	(37,622)
(15,600)	Purchase of short-term and long-term investments	(29,200)
0	Other payments for investing activities	(902)
4,671	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3,671
20,760	Proceeds from short-term and long-term investments	15,600
9,375	Other receipts from investing activities	2,021
(15,660)	Net cash flows from investing activities	(46,432)

Note 31 – Cash Flow Statement - Financing Activities

2017/18 £'000		2018/19 £'000
(506)	Cash payments for the reduction of outstanding liabilities relating to finance leases	(234)
5,750	Cash receipts of short & long-term borrowing	38,000

0	Other receipts from financing activities	19
0	Repayments of short- and long-term borrowing	(3,750)
1,509	Other payments for financing activities	(2,921)
6,753	Net cash flows from financing activities	31,114

Note 32 – Trading Operations

The Council operates a Housing Repairs Service (HRS), which carries out day to day maintenance on council housing and other public buildings as well as environmental works, street furniture etc. The Council also owns and manages a fruit, vegetable and retail market situated within the City Centre and also operates and manages a bus station and several car parks located throughout the city. It also manages a number of industrial estates and commercial properties.

2017/18			2018/19			
Exp. £'000	Inc. £'000	Net £'000		Exp. £'000	Inc. £'000	Net £'000
171	(251)	(79)	Markets	170	(234)	(64)
1,581	(3,852)	(2,271)	Car Parks	1,937	(5,054)	(3,117)
1,752	(4,103)	(2,350)	(Surplus)/Deficit applicable to a service	2,107	(5,289)	(3,182)
7,218	(6,969)	249	HRS	7,527	(7,412)	116
110	(112)	(2)	City Bus Station	271	(164)	107
96	(402)	(307)	Industrial Estates	53	(371)	(318)
85	(676)	(591)	Lincoln Properties	145	(849)	(704)
7,509	(8,159)	(651)	(Surplus)/Deficit not applicable to a service	7,997	(8,796)	(799)
9,261	(12,262)	(3,001)	Total (Surplus)/Deficit	10,104	(14,084)	(3,981)

Note 33 – Agency Services

In accordance with the Code, the collection and distribution of National Non-Domestic Rates (NNDR) and Council Tax is deemed to be an agency arrangement. The costs of collection of NNDR and the surplus or deficit on the Collection Fund for the year, are shown in the Collection Fund Statement.

Note 34 – Members' Allowances

The Local Authorities (Members' Allowances)(Amendment) Regulations 1995 requires local authorities to publish the amounts paid to members under the members' allowance scheme.

The payments made to the City of Lincoln Council members during 2018/19 totalled £229,702 (£227,047 in 2017/18).

Payments are defined as:

- i. Basic Allowance
- ii. Special Responsibility Allowance.

Note 35 – Officers' Remuneration

The Accounts and Audit Regulations 2012 require the Council to disclose remuneration paid to senior employees.

For the purposes of the regulation senior employees are persons whose salary is in excess of £150,000 per year or whose salary is £50,000 or more and are deemed to have responsibility for the management of the Council to the extent that they have the power to direct or control the major activities. The remuneration paid to the Council's senior employees is as follows:

Officers' Emoluments – Senior Employees

2018/19						
Post Title	Salary	Bonuses	Expense Allowances	Compensation for loss of office	Pension Contributions	Total
	£	£	£	£	£	£
Chief Executive ¹	120,268	0	629	0	19,243	140,140
Strategic Director of Housing & Regeneration	86,666	0	161	0	13,867	100,694
Strategic Director of Communities & Environment	86,279	0	156	0	13,781	100,216
Strategic Director of Major Developments	85,288	0	0	0	13,646	98,934
Total	378,500	0	946	0	60,536	439,984

- 1) The salary costs for the Chief Executive include £2.9k relating to election expenses in 2018/19.
- 2) The salary costs for the Director of Housing & Regeneration include two post holders throughout the course of the year.

2017/18						
Post Title	Salary	Bonuses	Expense Allowances	Compensation for loss of office	Pension Contributions	Total
	£	£	£	£	£	£
Chief Executive ¹	118,487	0	296	0	18,620	137,403
Strategic Director of	91,221	0	235	0	14,595	106,051

Housing & Regeneration						
Strategic Director of Communities & Environment	80,957	0	348	0	12,893	94,198
Strategic Director of Major Developments	79,758	0	0	0	12,761	92,519
Total	370,423	0	878	0	58,870	430,171

1) The salary costs for the Chief Executive included £5.8k relating to election expenses in 2017/18.

The numbers of other Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid as follows:

Remuneration Band £	Number of Employees	
	2018/19	2017/18
50,000 - 54,999	4	5
55,000 - 59,999	0	2
60,000 - 64,999	4	3
65,000 - 69,999	2	1
70,000 - 74,999	2	1
75,000 - 79,999	0	0
80,000 - 84,999	0	0

For employees receiving remuneration of £85,000 or more for the year see previous table 'Officers' Emoluments – Senior Employees'.

The figure above for 2018/19 includes no employees for whom an exit package was agreed.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the following table:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band [b + c]		Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
							£	£
£0 - £20,000	2	1	1	3	3	4	11,392	49,546
£20,001 - £40,000	0	0	0	0	0	0	0	0
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	1	0	0	0	1	0	71,366	0
£80,001 - £100,000	0	0	0	0	0	0	0	0

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band [b + c]		Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
							£	£
£100,000 - £150,000	0	0	0	0	0	0	0	0
Total cost included in bandings							82,758	49,546
Add: Amounts provided for in CIES not included in bandings							0	0
Total cost included in CIES							82,758	49,546

None of the exit packages shown in the table above related to senior employees.

Note 36 – External Audit Costs

In 2018/19 the following fees relating to External Audit and Inspection were incurred and paid to Mazars (KPMG LLP in 2017/18), the Council's external auditors:

2017/18 £'000		2018/19 £'000
	<u>Fees payable for statutory audit services</u>	
47	Fees Payable with regard to external audit services carried out by the appointed auditor	36
11	Fees payable for the certification of grant claims and returns	14
58		50
	<u>Fees payable for other audit services</u>	
3	Fees payable with regard to other audit work	5
61	Total fee payable to external auditors	55

The fees relating to grant claims can vary from year to year depending on the number of claims to be audited. The figure for 2018/19 is an estimate, as the work will be carried out in the period August to December 2019.

Note 37 – Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19:

Credited to Taxation and Non Specific Grant Income

2017/18 £'000		2018/19 £'000
(981)	Revenue Support Grant	0
(1,655)	New Homes Bonus	(1,006)
(670)	Disabled Facilities Grants	(777)
(263)	Section 106 agreement	0
(68)	North Kesteven District Council	0
(226)	Heritage Lottery Fund	(47)
(63)	Decent Homes Contract – Profit Share	0
(1,423)	Lincolnshire County Council	0
(8)	Transparency Code Setup Grant	(8)
(110)	Leaseholder Contributions	(82)
(117)	Waterloo Housing	0
0	National Rail	(225)
0	Brexit	(17)
(61)	Other Capital Grants and Contributions	(52)
<hr/> (5,646) <hr/>		<hr/> (2,215) <hr/>

2017/18 £'000	Credited to Services	2018/19 £'000
(15,720)	Rent Allowances	(13,923)
(15,597)	Rent Rebates	(13,916)
(223)	Discretionary Housing Payments	(172)
(437)	Housing Benefit Administration	(391)
(147)	New Burdens Grant Determination	(213)
(221)	DCLG – Rogue Landlords	(313)
(10)	English Heritage	0
(152)	Local Council Tax Support Admin Subsidy	(143)
(106)	Home Office	(66)
(7)	Arts Council	0
(173)	Homeless Specific	(780)
0	Controlling Migration	(143)
(39)	Other Grants	(229)
<hr/> (32,832) Total <hr/>		<hr/> (30,290) <hr/>

There were no grants received in advance in 2018/19.

Note 38 – Related Parties

It is a requirement for the Council to disclose any transactions with a related party, including non-financial transactions. A 'related party' is defined as being an organisation with which the Council has dealings and where Officers or Members of the Council have a controlling interest or influence in the activities of that organisation. The code requires local authorities to disclose material transactions

with 'related parties'. The disclosure is required in order that the true and fairness of the accounts can be understood by the reader of the accounts having knowledge of any 'related parties' of the Council.

Members/Officers - For 2018/19 the Council sent a letter, dated 1 April 2019, to all Members, Chief Officers and Assistant Directors, requesting disclosure of any 'related party transactions'. All letters were returned, no Members or Officers declared pecuniary interests in accordance with section 117 of the Local Government Act 1972.

In addition, the table below details both Member and Officer representation on the boards of levying bodies, assisted organisations with which the Council makes material financial assistance and Joint Ventures.

Name of Organisation	Member Representative	Officer Representative
Upper Witham – Drainage Board	Cllr Hewson Cllr Vaughan	Chief Executive
Witham First – Drainage Board	Cllr Hewson Cllr Vaughan	Chief Executive
Witham Third – Drainage Board	Cllr Hewson Cllr Vaughan	Chief Executive
Lincoln Arts Trust	Cllr Murray	Director of Communities & Environment
Lincoln Dial-a-Ride/ Shopmobility	Cllr Clayton-Hewson	Chief Executive
Lincoln Citizens Advice Bureau	Cllr Brothwell	Chief Executive
Investors in Lincoln	Cllr Metcalfe Cllr Murray	Chief Executive
Lincoln Business Improvement Group	Cllr Metcalfe Cllr Nannestad	Chief Executive
Central Lincolnshire Joint Strategic Planning Partnership	Cllr Metcalfe Cllr Burke Cllr Hanrahan	Director of Communities & Environment
The Shared Revenues & Benefits Joint Committee	Cllr Metcalfe Cllr Nannestad	Chief Executive

None of the above Members or Officers took part in the decision making of any financial assistance awarded to any of the organisations.

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

Details of transactions with government departments are set out in note 37.

Other Bodies - transactions with other bodies levying demands on the Council Tax - Levying bodies in 2018/19 were as follows:

2017/18		2018/19
£'000		£'000
424	Upper Witham Drainage Board	433
129	Witham 1 st Drainage Board	129
250	Witham 3 rd Drainage Board	256
803	Total	818

Assisted Organisations - the Council made material financial assistance to the following organisations during the year:-

2017/18		2018/19
£'000		£'000
231	Lincoln Arts Trust	217
52	Lincoln Dial-a-Ride	52
55	Citizens Advice Bureau	56
32	Lincoln Shopmobility	32

Collaborative Agreements – The Council holds 6.3% (£14,000) of the ordinary share capital of £224,000 of Investors in Lincoln Ltd (ILL).

The principal activity of the company is the promotion of economic regeneration and the development and expansion of industry, commerce and enterprise of all forms for the benefit of the community in and around the City of Lincoln. Investors in Lincoln Ltd grants the Council the sole and exclusive right to licence and manage its managed workspace development at Greetwell Place.

The company's accounting year-end is 31st March and the latest (audited) accounts are for the year ended 31st March 2018, showing net assets of £3.789m and a profit of £25,251 before taxation, £22,032 profit after tax (£168,204 before tax and £124,599 profit after tax in 2016/17).

The Council is fully responsible for meeting the first £100,000 of any cumulative deficit on operating the managed workspace units. In the event that the cumulative deficiency exceeds £100,000 the Council shall meet 75% of the deficiency. In 2018/19 a surplus on the managed workspace units of £18,116 was attributable to the Council.

Details of amounts received from ILL during 2018/19 are shown below:

2017/18		2018/19
£'000		£'000
133	Property Management costs	129
90	Facility Fee	90
5	Management Fee	5

An amount of £9,308 was owed to ILL at 31st March 2019 in respect of property management costs, facility fees and management fees. This is included in the creditors balance in the Council's Balance Sheet.

The accounts of the company may be obtained from The Company Secretary, c/o The Managed Workspace, Greetwell Place, 2 Lime Kiln Way, Lincoln LN2 4US.

Collaborative Agreements - The Council has a collaborative arrangement with North Kesteven and West Lindsey District Councils to provide the Central Lincolnshire Joint Planning Unit. This arrangement is hosted by North Kesteven District Council. The Council also has a collaborative arrangement with North Kesteven to provide a shared Revenues and Benefits Service. This shared service is hosted by the City of Lincoln Council. Both of these arrangements are governed through a Joint Committee representing each of the partner authorities. These arrangements are considered as Jointly Controlled Operations, where ventures use their own resources to undertake an activity subject to joint control, and as such do not require consolidation into the Council's accounts. The Council's proportion of activity is accounted for separately within the Core Financial Statements.

Note 39 – Capital Expenditure and Capital Financing

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

Total Capital expenditure and financing during the year:

2017/18		2018/19
£'000		£'000
	Capital investment	
35,038	Property, Plant and Equipment	38,007
155	Intangible Assets	50
4,612	Revenue Expenditure Funded from Capital under Statute	897
39,805		38,954
	Sources of finance	
(4,674)	Capital Receipts	(8,192)
(3,016)	Government grants and other contributions	(1,004)
(486)	Revenue Contributions	(4,956)
(9,190)	Major Repairs Reserve	(13,160)

22,439	Capital Financing Requirement	11,642
Capital Financing Requirement - Funded by:		
22,439	Unsupported Borrowing	11,642
22,439		11,642
Analysis of movements in the Capital Financing Requirement in Year:		
88,676	Opening CFR	109,480
22,439	Unsupported borrowing	11,642
0	Adjustments in respect of leases disposed under finance lease	0
(485)	Minimum Revenue Provision/Voluntary Revenue Provision	(842)
(150)	Application of capital receipts to reduce CFR	(150)
(1,000)	Return of LAMS deposit	0
109,480	Closing CFR	120,130

The Council has a five-year Housing Investment programme, of which £6.205m is contractually committed. This relates to a partnership arrangement to ensure all our properties continue to meet Decent Homes Standard and move towards achieving The Lincoln Standard.

In addition to this the Council also has a five-year General Investment Programme, of which £8.872m is contractually committed. £6.898m relates to a land and property acquisition in 2019/20 with the remainder to allow completion of the schemes for Artificial Grass Pitches (£1.629m), Allotment Capital Improvement Programme (£0.102m), Retention on a land and property acquisition (£0.168), Car Park Ticket Machines (£0.075m).

Note 40 – Leases

Council as Lessee

Finance Leases

The Council holds fleet vehicles under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following amounts:

31/03/18		31/03/19
£'000		£'000
575	Vehicles, Plant and Equipment	384
575		384

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

31/03/18		31/03/19
£'000		£'000
	Finance lease liabilities (net present value of minimum lease payments)	
217	Current	237
342	Non-current	105
66	Finance costs payable in future years	24
625	Minimum lease payments	366

	<u>Minimum Lease Payments</u>		<u>Finance Lease Liabilities</u>	
	<u>31/03/18</u>	<u>31/03/19</u>	<u>31/03/18</u>	<u>31/03/19</u>
	£'000	£'000	£'000	£'000
Not later than one year	258	258	217	237
Later than one year and not later than five years	366	108	342	105
Later than five years	0	0	0	0
	624	366	559	342

Operating leases

The Council has acquired the use of a number of assets, such as vehicles and buildings, under operating leases.

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

31/03/18		31/03/19
£'000		£'000
8	Not later than one year	0
0	Later than one year and not later than five years	0
0	Later than five years	0
8		0

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

2017/18		2018/19
£'000		£'000
0	Vehicles Plant & Equipment	0
74	Land and Buildings	8
74	Minimum lease payments	8

Council as Lessor

Finance Leases

The Council has granted a long-term lease to Lincolnshire County Council for the use of The Collection (City and County Museum) accounted for as a finance lease. Rental is at a peppercorn, meaning no rentals are receivable. There was no net investment in this asset in 2018/19.

Operating Leases

The Council leases out property under operating leases for the following purposes:

- for the provision of community services, such as sports facilities and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for income generation purposes (investment properties)

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

2017/18		2018/19
£'000		£'000
893	Not later than one year	2,286
791	Later than one year and not later than five years	5,587
2,581	Later than five years	19,728
4,265		27,600

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as rent reviews. In 2018/19, £0.335m contingent rents were received by the Council (2017/18 £0.593m).

Note 41 – Impairment Losses

There were no impairment losses during 2018/19

Note 42 – Capitalisation of Borrowing Costs

As permitted by the code, the Council has adopted a policy of accounting for borrowing costs in the Comprehensive Income and Expenditure Statement as they arise. No borrowing costs are capitalised.

Note 43 – Termination Benefits

The Council terminated the contracts of a number of employees in 2018/19, incurring liabilities of £0.050m (£0.082m in 2017/18) – see note 35 for the number of exit packages and total cost per band. These costs exclude any ill health retirements

or departures as they are not termination benefits in accordance with the requirements of the code.

Note 44 – Defined Benefit Pension Scheme

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (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 Lincolnshire County Council. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liability with investment assets.

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

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

Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits 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 that is required to go against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income & Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2017/18 £'000		2018/19 £'000
	<u>Comprehensive Income & Expenditure Statement</u>	
	Net Cost of Services:	
5,493	Current Service Cost	5,497
0	Past Service Costs (including curtailments)	41
	Financing and Investment Income and Expenditure:	
2,245	Net Interest Expense	2,337
7,738	Total Post-Employment Benefits charged to the Surplus or Deficit on the Provision of Services	7,875

2017/18 £'000		2018/19 £'000
	Re-measurement of the net defined benefit liability comprising:	
392	Return on plan assets (excluding the amount included in the net interest expense)	(7,155)
0	Actuarial gains and losses arising on changes in demographic assumptions	0
(3,956)	Actuarial gains and losses arising on changes in financial assumptions	17,138
(118)	Other	62
<u>(3,682)</u>	Total re-measurements recognised in Other Comprehensive Income and Expenditure	<u>10,045</u>
<u>4,056</u>	Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	<u>17,920</u>

2017/18 £'000		2018/19 £'000
	<u>Movement in Reserves Statement</u>	
7,738	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	7,875
(3,719)	Actual amount charged against the General Fund Balance for pensions in the year:	(4,015)

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

2017/18 £'000		2018/19 £'000
(216,659)	Present value of the defined obligations	(239,386)
130,801	Fair value of plan assets	139,623
<u>(85,858)</u>	Net liability arising from defined benefit obligation	<u>(99,763)</u>

Reconciliation of Movements in the fair value of the scheme assets:

2017/18		2018/19
£'000		£'000
129,646	Opening fair value of scheme assets	130,801
3,345	Interest Income	3,505
(392)	The return on plan assets, excluding the amount included in the net interest expense	7,155
3,719	Contributions from employer	4,015
876	Contributions from employees into the scheme	902
(6,393)	Benefits Paid	(6,755)
130,801	Closing Fair value of scheme assets	139,623

Reconciliation of Present Value of the scheme liabilities:

2017/18		2018/19
£'000		£'000
215,167	Opening balance at 1 April	216,659
5,493	Current Service Cost	5,497
5,590	Interest Cost	5,842
876	Contributions from scheme participants	902
	Re-measurement (gains) and losses:	
0	Actuarial gains/losses arising from changes in demographic assumptions	0
(3,956)	Actuarial gains/losses arising from changes in financial assumptions	17,138
(118)	Other	62
0	Past Service Cost	41
(6,393)	Benefits Paid	(6,755)
216,659	Closing Balance at 31 March	239,386

Local Government Pension Scheme assets comprised:

2017/18 £'000		2018/19 £'000
1,600	Cash and Cash Equivalents	1,539
	Equity Securities by industry type:	
9,609	Consumer	15,746
7,437	Manufacturing	5,684
3,627	Energy and utilities	3,183
8,995	Financial Institutions	8,283
10,175	Information Technology	6,186
5,565	Health and Care	9,403
0	Other	0
45,407	Sub-total equity	48,485
	Debt Securities by Sector	
0	Corporate	0
0	Government	0
0	Other	0
0	Sub-total bonds	0
	Real Estate	
11,085	UK Property	11,165
976	Overseas Property	878
12,061	Sub-Total property	12,043
	Private Equity:	
2,118	All	1,465
2,118	Sub-Total private equity	1,465
	Investment Funds and Unit Trusts	
36,292	Equities	38,540
1,906	Infrastructure	2,637
15,462	Bonds	16,802
15,956	Other	18,112
69,616	Sub-Total Investment Funds and Unit Trusts	76,091
130,801	Total assets	139,623

Basis for Estimating Assets and Liabilities

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

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

The significant assumptions used by the actuary have been:

2017/18		2018/19
	Mortality assumptions:	
	<u>Longevity (in years) at 65 for current pensioners:</u>	
22.1	Men	22.1
24.4	Women	24.4
	<u>Longevity (in years) at 65 for future pensioners:</u>	
24.1	Men	24.1
26.6	Women	26.6
2.8%	Rate of increase in salaries	2.9%
2.4%	Rate of increase in pensions	2.5%
2.7%	Rate for discounting scheme liabilities	2.4%

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

	Approximate % Increase to Employer Liability	Value £'000
0.5% Decrease in Real Discount Rate	10%	23,741
0.5% Increase in the salary increase rate	1%	3,369
0.5% Increase in the pension increase rate	8%	19,972

Impact on the Council's Cash Flow

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

Employer contributions payable to the scheme in 2019/20 are estimated to be £3.947m. The weighted average duration of the defined benefit obligation for scheme members is 17.2 years, 2018/19 (17.2 years 2017/18).

Note 45 – Contingent Liabilities

A contingent liability is a possible liability 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. Where a material loss can be estimated with reasonable accuracy a provision is accrued within the financial statements. If, however, a loss cannot be accurately estimated or the event is not considered sufficiently certain, a contingent liability will be disclosed in a note to the Balance Sheet. There are five contingent liabilities as at 31 March 2019.

The Council has made a provision for NNDR appeals based upon its best estimate of the actual liability of known appeals as at 31 March 2019. It is not possible to quantify appeals that have yet to be lodged with the Valuation Office Agency, but there is a risk that national and local appeals could have a significant impact on the financial statements.

As at 31st March 2019 there is an outstanding dilapidations dispute with a landlord following termination of the Council's head lease. The Council has not accepted the claim and it has been assessed that any valid claim would not be material.

A Court ruling has been made regarding age discrimination arising from public sector scheme transition arrangements. Court of Appeal judgements were made in the cases affecting judges pensions (e.g. McCloud) and firefighter pension (e.g. Sergeant). The rulings have implications for the LGPS where similar reforms were implemented. The financial impact is not yet clear, since the Government may appeal any remediation process, including cost cap considerations, which may affect the resolution and financial impact. Timescales for resolution may be lengthy and outcomes may be challenging to assess and quantify at Fund and authority level. The Government's Actuary's Department (GAD) is currently undertaking a scheme level review for England and Wales of LGPS.

As with other councils across the country a potential VAT liability exists in relation to an HMRC review of VAT treatment of market fees and the council is liaising with their VAT advisor on this matter.

The council has identified potential remediation liabilities within its property portfolio, the details of which require further clarification.

Note 46 – Contingent Assets

The Council has no Contingent Assets as at 31st March 2019.

Note 47 – Nature and Extent of Risks Arising from Financial Instruments

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

- ✓ Credit risk – the possibility that other parties might fail to pay amounts due to the Council.

- ✓ Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- ✓ Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- ✓ by formally adopting the requirements of the Code of Practice;
- ✓ by the adoption of a Treasury Management Policy Statement and treasury management clauses within its standing orders;
- ✓ by 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 limits on the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- ✓ by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. 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 semi-annually to Members.

The annual Treasury Management Strategy, which incorporates the prudential indicators was approved by Council on 25th February 2019. The strategy is updated at the mid-year point and revised estimates calculated as below. It is available on the Council's website (www.lincoln.gov.uk). The key issues during 2018/19 were:

- The Authorised Limit for 2018/19 was forecast to be £134m. This is the maximum limit of external borrowings or other long term liabilities during the year.
- The original Operational Boundary was expected to be £126.4m. This is the expected level of debt and other long term liabilities during the year. The maximum amounts of fixed and variable interest rate exposure were set at £96.5m and £30m based on the Council's net debt.

- The maximum and minimum exposures to the maturity structure of debt are shown within this note.

These policies are implemented by the Treasury team in Financial Services. 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. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Details of the Investment Strategy are contained within the Treasury Management Strategy and can be found on the Council's website (www.lincoln.gov.uk).

The Investment Strategy is based on the creditworthiness service provided by Link Asset Services (treasury management advisors to the Council). This uses a wide range of market information to produce a list of investment counterparties with recommended maximum investment durations. Capita use credit ratings, support ratings and credit default swap prices to arrive at the recommended counterparty list.

The criteria used as a minimum within the Capita methodology are as follows:

- Short Term credit ratings of F1, Long Term A, Support 3 and viability rating BBB (Fitch or equivalent rating), using the lowest common denominator principle.
- Inclusion of part Government owned UK banks, based on support assumptions.

The full Investment Strategy for 2018/19 was approved by full Council on 1st March 2018.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default assessed by the Fitch credit rating agency and the Council's experience of its customer collection levels over the last five financial years, adjusted to reflect current market conditions:

	Carrying Values at 31/03/19	Historical experience of default**	Adjustment for market conditions at 31/03/19	Estimated maximum exposure to default
	£'000	%	%	£'000
	a	b	c	(a * c)
<u>Deposits with banks and financial institutions</u>				
AAA* rated counterparties (investments up to 1 year)	19,200	0.0001%	0.0001%	0
AA* rated counterparties (investments up to 1 year)	0	0.0006%	0.0006%	0
A* rated counterparties (investments up to 1 year)	5,000	0.0066%	0.0066%	0
A+* rated counterparties (investments up to 1 year)	5,000	0.0137%	0.0137%	1
Other Investments	0	0.014%	0.014%	0
Debtors	6,157	7.17%	7.17%	441

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STATEMENT OF ACCOUNTS
2018/19

Carrying Values at 31/03/19	Historical experience of default**	Adjustment for market conditions at 31/03/19	Estimated maximum exposure to default
£'000	%	%	£'000
a	b	c	(a * c)
35,357			442

*See Glossary for a definition of AAA, AA and A ratings

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties. As a result of these high credit criteria, historical default rates have been used as a good indicator under these current conditions.

Analysis of Investments by country of origin

	Principal invested	Short term		Long term	
		Fixed rate	Variable rate	Fixed rate	Variable rate
		£'000	£'000	£'000	£'000
<u>UK Banks & Building Societies</u>					
Lloyds TSB Bank plc	5,000	5,000	0	0	0
Sumitomo	5,000	5,000	0	0	0
<u>UK Money Market Funds</u>					
Aberdeen Standard MMF	5,000	0	5,000	0	0
BNP Paribas MMF	500	0	500	0	0
Federated MMF	5,000	0	5,000	0	0
Black Rock MMF	5,000	0	5,000	0	0
Morgan Stanley MMF	3,700	0	3,700	0	0
Total Investments	29,200	10,000	19,200	0	0

The Council allows credit for its trade debtors, such that £1,259,485 of the £1,950,737 balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31/03/18		31/03/19
£'000		£'000
491	Less than three months	301
397	Three to six months	192
101	Six months to one year	90
567	More than one year	676
1,556	Total	1,259

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

Liquidity risk

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

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the 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 maturity analysis of financial liabilities is as follows: -

31/03/18		31/03/19
£'000		£'000
13,671	Less than one year	20,201
2,000	Between one and two years	9,705
5,000	Between two and five years	5,645
70,354	More than five years	79,803
<u>91,025</u>	Total	<u>115,354</u>

Market risk

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

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

Borrowings are not carried at fair value in the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance, subject to influences from government grants. Movements in the fair value of fixed rate

investments will be reflected in Other Comprehensive Income and Expenditure, unless the investments have been designated as Fair Value through the Comprehensive Income and Expenditure Statement, in which case gains and losses will be posted to the Surplus/Deficit on Provision of Services.

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. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rate borrowing would be postponed.

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

2017/18		2018/19
£'000		£'000
(142)	Increase in interest receivable on variable rate investments	(137)
<u>(142)</u>	Impact on Income and Expenditure Account	<u>(137)</u>
(60)	Share of overall impact credited to the HRA	(65)
<u>(82)</u>	Share of overall impact credited to the General Fund	<u>(72)</u>
<u>(142)</u>	Total	<u>(137)</u>

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used for Fair Value of Assets and Liabilities carried at Amortised Cost.

Price risk - The Council does not generally invest in equity shares but does have shareholdings to the value of £0.73m in a number of joint ventures and in local industry. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. The majority of the shareholdings are in the Dunham Bridge Company (£0.458m) and Investors in Lincoln (£0.271m). A representative of the Council sits on the Investors in Lincoln Board, enabling the Council to monitor factors that might cause a fall in the value of specific shareholdings.

The shares are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure.

Foreign exchange risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

2017/18 £'000		2018/19 £'000
1,087	Balance on the HRA at the end of the previous year	1,023
11,104	Surplus or (deficit) for year on the HRA Income and Expenditure Statement	4,756
(10,952)	Adjustments between accounting basis and funding basis under statute	(5,072)
152	Net increase or (decrease) before transfers to or from reserves	316
(217)	Transfers (to) or from reserves	(320)
(65)	Increase or (decrease) in year on the HRA	4
1,021	Balance on the HRA at the end of the current year	1,027

NOTES TO THE HOUSING REVENUE ACCOUNT

Note 1 – Fixed Assets

The number of dwellings in the Council's housing stock, as at 31 March 2019, totalled 7,783 properties. The type of properties and the period in which they were built, were as follows:

Property Type	<1945 No.	1945-64 No.	1965-74 No.	>1974 No.	TOTAL No.
Low Rise Flats (Blocks up to 2 Storeys)					
1 Bed	43	897	559	536	2,035
2 Bed	5	117	80	102	304
3 Bed	0	0	12	1	13
Sub-Total	48	1,014	651	639	2,352
Medium Rise Flats (Blocks of 3 up to 5 Storeys)					
1 Bed	0	50	235	214	499
2 Bed	0	225	111	127	463
3 Bed	0	15	3	1	19
Sub-Total	0	290	349	342	981
High Rise Flats (Blocks of 6 Storeys or more)					
1 Bed	0	56	138	0	194
2 Bed	0	29	72	0	101
Sub-Total	0	85	210	0	295
Houses / Bungalows					
1 Bed	158	144	32	23	357
2 Bed	733	772	98	321	1,924
3 Bed	811	549	71	296	1,727
4 or more Beds	98	21	0	28	147
Sub-Total	1,800	1,486	201	668	4,155
Total Dwellings 31 March 2019	1,848	2,875	1,411	1,649	7,783

Note 2 – Housing Revenue Account Assets Valuation

The Council's in-house Valuation Officers, and the District Valuer, have valued the HRA dwellings, land, and other property in accordance with Royal Institute of Chartered Surveyor guidelines.

The Balance Sheet value of council dwellings is calculated by applying a Social Housing discount factor. This represents the market value for the Council's total housing stock adjusted to reflect the fact that the property is socially rented (this adjustment is currently 42%). The discount factor is then applied to the open market or vacant possession value as determined by the District Valuer, as shown below:

	£ 000
Vacant possession value of council dwellings at 31 March 2019	592,766
Balance sheet valuation applying the Social Housing discount factor	248,962

The Balance Sheet value of HRA Assets is as follows:

2017/18 £'000		2018/19 £'000
228,203	Council Dwellings	248,962
4,376	Other Operational Assets	6,719
12,603	Non-Operational Assets	15,463
245,182	Total at 31 March	271,144

Note 3 – Depreciation and Impairment

The Depreciation and Impairment of HRA Assets is as follows:

Depreciation:			2018/19 £'000
2017/18 £'000	Operational Assets:		£'000
10,361	Council Dwellings		5,842
352	Other Operational Assets		291
10,713	Total at 31 March		6,133

Impairment:			2018/19 £'000
2017/18 £'000	Operational Assets:		£'000
141	Revaluation Gains/(Losses)		3,665
141	Total at 31 March		3,665

Note 4 – Major Repairs Reserve

The Major Repairs Reserve is an earmarked reserve to which the Council transfers an amount annually to finance capital expenditure on council dwellings. This amount includes annual depreciation, which is charged to the Housing Revenue Account and then transferred to the Major Repairs Reserve. This may be supplemented by additional revenue contributions from the HRA to support the HRA capital programme. The balance on the Major Repairs Reserve shows the amounts that have yet to be applied to financing.

2017/18 £'000		2018/19 £'000
(10,680)	Balance on 1 April	(12,842)
	Amount transferred from the HRA	
	- Depreciation	
(10,713)	Dwellings	(5,842)
625	Other Assets	(364)
(1,264)	- Other revenue contributions	0
(22,032)		(19,048)
9,190	- HRA Capital Expenditure	13,372
(12,842)		(5,676)

Note 5 – Housing Repairs Account

The Housing Repairs Account was set up on 1 April 2001 in order to assist with the longer term planning of repairs and maintenance expenditure. The following analysis details the movement on the Housing Repairs Account during the year.

2017/18 £'000		2018/19 £'000
(610)	Balance on 1 April	(624)
	Expenditure in year	
3,239	Tenant Notified Repairs	3,244
1,738	Void Repairs	2,042
1,650	Servicing Contracts	1,588
623	Painting Programme	585
10	Asbestos Removal/Surveys	11
442	Aids & adaptations	414
16	Decoration Grants	39
693	Other Expenditure	1,074
8,411		8,997
	Income in year	
(8,465)	Contribution from HRA	(8,997)
	Contribution to HRA	
0	Reduction in Repairs Reserve	58
(3)	Contribution from Leaseholders	(1)
(10)	Interest Received in year	(12)
(8,424)		(8,952)
(624)	Surplus Balance on 31 March	(579)

Note 6 – Capital Expenditure in the year

The Housing Revenue Account capital expenditure and sources of funding during the financial year are detailed in the following table:

2017/18 £'000		2018/19 £'000
	Capital investment	
9,731	Property, Plant and Equipment – HRA	24,960
0	Property, Plant and equipment – GF used as council housing	0
769	Non-Current Assets held for sale	0
151	Intangible Assets	25
55	Revenue Expenditure funded from Capital under Statute	0
10,706		24,985
	Sources of funding	
(456)	Capital Receipts	(7,107)
(126)	Revenue Contributions	(4,718)
(9,189)	Major Repairs Reserve	(13,160)
(935)	Government grants and other contributions	(0)
(10,706)		(24,985)
0	Balance unfunded at 31 March	0

* REFCUS is created when expenditure has been incurred on items that are not capitalised as fixed assets but have been financed from capital resources. It is written down to the Housing Revenue Account over an appropriate period, usually in the same year in which the expenditure has been incurred. The total amount of REFCUS is £0.000m for 2018/19 (£0.055m in 2017/18).

Prior to the implementation of HRA Self-financing on 1 April 2012, supported borrowing levels had been issued annually by Central Government, authorising the Council to borrow monies, which were funded by Central Government to cover capital expenditure. Additionally, the Council was able to take out unsupported or prudential borrowing, which must be financed from its own resources. Post self-financing implementation and the end of the housing subsidy system, all borrowing will be prudential borrowing. In 2018/19, there was no prudential borrowing undertaken to fund the HRA capital investment.

Note 7 - Capital Receipts

The cash receipts from the disposal of land, houses and other property within the HRA in the year are summarised as follows:

2017/18 £'000		2018/19 £'000
	Council dwellings	
(3,227)	- Right to Buy	(2,002)
(30)	- Discounts repaid	0
	Other Receipts	
(714)	- Land Sales reimbursements	
(33)	- Reimbursement of expenditure on General Fund property on sale	(70)
(4,004)	Land receipts	(2,072)
529	Less Pooled (Paid to Central Government)	529
(3,475)	Total	(1,543)

Note 8 - Rent Arrears

During the year 2018/19 total rent arrears increased by £0.227m or 14.9%, to £1.845m. A summary of rent arrears and prepayments is shown in the following table:

2017/18 £'000		2018/19 £'000
725	Current Tenant Arrears @ 31 March	901
893	Former Tenant Arrears @ 31 March	944
1,618	Total Rent Arrears	1,845
(156)	Prepayments @ 31 March	(312)
1,462	Net Rent Arrears	1,533

A bad debt provision of £283,640 has been made in this year's accounts in respect of potentially non-collectable rent arrears, as detailed above, and associated miscellaneous debts. The value of the bad debt provision held in the Balance Sheet at 31 March 2019 is £1.664m (£1.614m at 31 March 2018).

Note 9 - Pension Costs

In line with the full adoption of IAS 19 'Employee Benefits' the Net Cost of Services includes the cost of retirement benefits when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required when determining the movement on the HRA Balance for the year is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the HRA in the Movement on the Housing Revenue Account Statement. The following transactions have been made in the HRA during the year:

2017/18		2018/19
£'000		£'000
	HRA Income & Expenditure Statement	
1,959	Current Service Cost	1,897
0	Past Service Costs	0
879	Net interest expense	879
2,838	Total	2,776
<u>(1,457)</u>	Amount to be met from HRA	<u>(1,510)</u>
<u>1,381</u>	Movement on Pension Reserve	<u>1,266</u>

THE COLLECTION FUND STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

2017/18 £'000 Total		2018/19 £'000 Council Tax	2018/19 £'000 NDR	2018/19 £'000 Total	Note
INCOME					
(39,125)	Council Tax Payers	(41,617)	0	(41,617)	2
(100)	Income from Ministry of Defence	(103)	0	(103)	
(41,813)	Income from Business Ratepayers	0	(43,462)	(43,462)	3
(81,038)		(41,720)	(43,462)	(85,182)	
EXPENDITURE					
Precepts:					
6,145	- City of Lincoln Council	6,393	0	6,393	
27,798	- Lincolnshire County Council	29,485	0	29,485	
4,868	- Police & Crime Comm. Lincolnshire	5,206	0	5,206	
Business Rates:					
20,832	- Payments to Government	0	35	35	3
16,295	- Payments to City of Lincoln Council	0	26,032	26,032	3
4,074	- Payments to Lincs County Council	0	17,355	17,355	3
145	- Cost of Collection	0	145	145	
Bad and Doubtful Debts					
1	- Provisions	145	57	202	5
384	- Write Offs	118	84	202	
(643)	- Provision for appeals	0	(2,165)	(2,165)	5
(2,838)	Transfer of Collection Fund Surplus	188	1,080	1,268	4
77,061		41,535	42,623	84,158	
(3,977)	Deficit / (Surplus) for the year	(185)	(839)	(1,024)	
COLLECTION FUND BALANCE					
2,948	Balance brought forward at 1 st April	(287)	(742)	(1,029)	
(3,977)	Deficit/(Surplus) for the year (as above)	(185)	(839)	(1,024)	
(1,029)	Balance carried forward at 31st March	(472)	(1,581)	(2,053)	
Allocated to:					
(342)	- City of Lincoln Council	(73)	(1,017)	(1,090)	
(281)	- Lincolnshire County Council	(337)	(734)	(1,071)	
(36)	- Police & Crime Comm. Lincolnshire	(62)	0	(62)	
(370)	- Government	0	170	170	
(1,029)		(472)	(1,581)	(2,053)	

NOTES TO THE COLLECTION FUND

Note 1 - General

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and National Non-Domestic Rates (NNDR) and its distribution to local government bodies and the Government.

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and National Non-Domestic Business Rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year. For the City of Lincoln, the Council Tax precepting bodies are Lincolnshire County Council (LCC) and the Police and Crime Commissioner for Lincolnshire (PCCL).

In 2013/14, the local government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give councils a greater incentive to grow businesses in the City. It does, however, also increase the financial risk due to non-collection and the volatility of the NNDR tax base.

The scheme allows the Council to retain a proportion of the total NNDR received. For 2018/19, the City of Lincoln was part of a 'pilot' scheme which meant its retained share changed from that previously received in 2017/18 under a 'pool' arrangement with the remainder paid to precepting bodies as follows:

	2017/18 'Pool'	2018/19 'Pilot'
City of Lincoln	40%	60%
Lincolnshire County Council	10%	40%
Central Government	50%	0%

NNDR surpluses declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year.

The national code of practice followed by local authorities in England stipulates that a Collection Fund Income and Expenditure account is included in the Council's accounts. The Collection Fund Balance Sheet meanwhile is incorporated into the Council's Balance Sheet.

Note 2 - Council Tax

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 9 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council for the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

The Council Tax base for 2018/19 was 23,943 (23,690 in 2017/18). The increase between financial years is as a result of a combination of new builds and a reduction in the level of Council Tax Discounts and Exemptions. The tax base for 2018/19 was approved at the Executive on 8th January 2018 and was calculated as follows:

Band	Ratio	Dwellings	Equivalent Dwellings after discounts, exemptions and reliefs	Equivalent Band D Dwellings
A Reduced	5/9	0	65	36
A	6/9	27,437	22,210	14,806
B	7/9	8,776	7,510	5,841
C	8/9	4,853	4,290	3,814
D	9/9	2,508	2,269	2,269
E	11/9	1,229	931	1,138
F	13/9	395	370	535
G	15/9	136	126	210
H	18/9	45	8	15
Total		45,379	37,779	28,664
Deduction for Non Collection				(358)
Crown Properties Adjustment				61
Adjusted to Band D Equivalent				28,367
Council Tax Relief Scheme				(4,424)
Tax Base for the Calculation of Council Tax				23,943

Dwellings for residents entitled to 'disabled relief reduction' are reduced to the next lowest band for the calculation of Council Tax. As band 'A' is the lowest band, 'A reduced' has been introduced to give effect to this reduction for those who reside in Band 'A' properties.

Income received from Council Tax payers in 2018/19 was £41.616m (£39.125m in 2017/18).

Note 3 - Income from Business Ratepayers

The Council collects National Non-Domestic Rates (NNDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government. Historically the total amount due, less certain allowances, was paid to a central pool (the NNDR pool) administered by Central Government, which, in turn, paid to local authorities their

share of the pool, such shares being based on a standard amount per head of the local adult population.

In 2013/14, the administration of NNDR changed following the introduction of a business rates retention scheme which aims to give councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NNDR to the central pool, local authorities retain a proportion of the total collectable rates due. For 2018/19, the City of Lincoln was part of a 'pilot' scheme which meant its retained share changed from that previously received in 2017/18 under a 'pool' arrangement with the remainder paid to precepting bodies as follows:

	2017/18 'Pool'	2018/19 'Pilot'
City of Lincoln	40%	60%
Lincolnshire County Council	10%	40%
Central Government	50%	0%

The business rates shares payable for 2018/19 were estimated before the start of the financial year as **£0.035m** (£20.832m in 2017/18) to Central Government, **£17,355m** (£4.074m in 2017/18) to LCC and **£26,032m** (£16.295m in 2017/18) to the City of Lincoln Council. These sums have been paid in 2018/19 and charged to the Collection Fund in year. The significant changes to these values between financial years is due to being in a 'pilot' scheme in 2018/19.

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government or to Top-up authorities within an NNDR Pooling arrangement are used to finance the top ups to those authorities who do not achieve their targeted baseline funding. City of Lincoln Council was part of the Lincolnshire NNDR Pilot in 2018/19 alongside Lincolnshire County Council, North Lincolnshire Council and the other 6 Lincolnshire District Councils. In 2018/19 the City of Lincoln made a tariff payment from the General Fund to the County Council to the value of **£12.426m** (£12.228m in 2017/18).

The total income from business rate payers collected in 2018/19 was **£43.462m** (£41.813m in 2017/18).

In addition to the top up/tariff, a 'safety net' figure is calculated at 92.5% of baseline amount which ensures that authorities are protected to this level of Business Rates income (either through support from Central Government if they are not in a NNDR Pool/Pilot or as first call on gains from pooling/pilot if authorities are members of an NNDR Pool/Pilot). For the City of Lincoln the value of the safety net figure (net of tariff) is **£3.394m** (£3.295m in 2017/18). The comparison of business rate income to the safety net uses the total income collected from business rate payers and adjusts for losses in collection, losses on appeal, transitional protection payments, the cost of collection and the revision to Small Business Rate Relief and other reliefs not allowed for when the safety net was set. The Council does not qualify for a safety net payment for 2018/19.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and hence business rates outstanding as at 31st March 2019. As such, authorities are required to make a provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. **The total provision released to the collection fund for 2018/19 has been calculated at £2.165m (£0.643m was added in 2017/18).**

For 2018/19, the total non-domestic rateable value at the year-end is **£112.1m** (£112.7m in 2017/18). The national multipliers for 2018/19 were **47.5p** for qualifying Small Businesses, and the standard multiplier being **48.8p** for all other businesses (46.6p and 47.9p respectively in 2017/18).

Note 4 - Contributions to Collection Fund Surpluses and Deficits

The Council has a statutory requirement to prepare an estimate each January of the surplus or deficit expected to arise at the end of the financial year. In January 2018 it was estimated that the Collection Fund would have a Council Tax surplus of **£0.188m** (£0.236m in January 2017) and a Business Rates surplus of **£1.081m** (£3.074m deficit in January 2017), a combined Collection Fund surplus of **£1.269m** (£2.837m deficit in January 2017) and so the following amounts were due to or from the preceptors in 2018/19:

2017/18 £'000		2018/19 £'000
1,191	City of Lincoln Council	(462)
139	Lincolnshire County Council	(243)
(30)	Police & Crime Comm. Lincolnshire	(24)
1,537	Central Government	(540)
2,837	Total	(1,269)

Note 5 - Council Tax/NNDR Bad Debt Provision and NNDR provision for valuation appeals – Accounting Policy

The Collection Fund account provides for bad debts on arrears on the basis of prior years' experience and current year's collection rates:

2017/18 £'000		2018/19 £'000
690	Balance at 1 st April	670
(236)	Write-offs during year for previous years	(118)
217	Contributions to provisions during year	263
(20)	Net Increase / (Decrease) in Provision	145
670	Balance at 31st March	815

The Council's proportion of these write offs and increase in provision are shown below:

2017/18 £'000		2018/19 £'000
109	Balance at 1 st April	104
(5)	Net Increase / (Decrease) in Provision	20
104	Balance at 31st March	124

The Collection Fund account also provides for bad debts on NNDR arrears:

2017/18 £'000		2018/19 £'000
	465 Balance at 1 st April	486
(148)	Write-offs during year for previous years	(84)
<u>169</u>	Contributions to provisions during year	<u>142</u>
	21 Net Increase in Provision	58
	<u>486</u> Balance at 31st March	<u>544</u>

The Council's proportion of these write offs and increase in provision are shown below:

2017/18 £'000		2018/19 £'000
	186 Balance at 1 st April	195
0	Adjustment to % shares due to Pilot status	97
(59)	Write-offs during year for previous years	(51)
<u>68</u>	Contributions to provisions during year	<u>85</u>
	9 Net Increase in Provision	131
	195 Balance at 31st March	<u>326</u>

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31st March 2019:

2017/18 £'000		2018/19 £'000
	8,285 Balance at 1 st April	7,642
2,471	Additional Provisions made in year	733
(1,053)	Amounts used in year	(210)
<u>(2,061)</u>	Unused Amounts reversed in year	<u>(2,688)</u>
(643)	Net Increase/(Decrease) in Provision	(2,165)
	<u>7,642</u> Balance at 31st March	<u>5,477</u>

The Council's proportion of this provision is shown below:

2017/18 £'000		2018/19 £'000
	3,314 Balance at 1 st April	3,057
0	Adjustment to % shares due to Pilot status	1,528
968	Additional Provisions made in year	440
(421)	Amounts used in year	(126)
<u>(804)</u>	Unused Amounts reversed in year	<u>(1,613)</u>
(257)	Net Increase/(Decrease) in Provision	229
	<u>3,057</u> Balance at 31st March	<u>3,286</u>

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1 The council's responsibility for sound governance

1.1 Scope of responsibility

City of Lincoln Council must ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to secure continuous improvement in the way in which its functions are exercised.

Governance is about how we ensure that we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. In discharging this overall responsibility, we must put in place proper governance arrangements to manage our affairs. The council must ensure that there is a sound system of governance (incorporating the system of internal control).

During 2016/17, City of Lincoln Council fundamentally reviewed its governance framework to reflect the new CIPFA/SOLACE Framework. The council updated its own Code of Corporate Governance and following a review of compliance in autumn 2017, updated this further in January 2018 and again in April 2019.

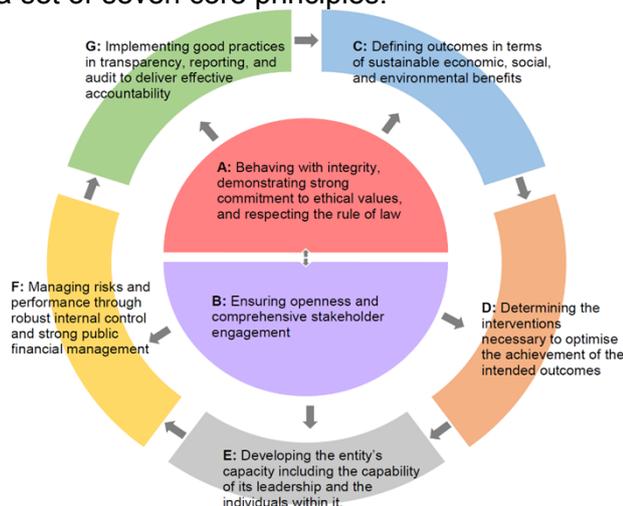
How we are meeting these defined responsibilities is detailed in the Code of Corporate Governance, which is found on our website under your council/information policies & publications/corporate publications. www.lincoln.gov.uk

This Annual Governance Statement details how the city council has complied with its own Code of Corporate Governance over the last year and meets the statutory requirements for all relevant bodies to prepare such a statement.

For a glossary of terms used – see Appendix B

1.2 The new Code of Corporate Governance sets out the documentation, systems and processes by which the authority transparently controls its activities and defines its cultures and values. It enables us to monitor achievement of our strategic objectives and to consider whether these have led to the delivery of appropriate value for money services.

The code is based on a set of seven core principles:



1.3 Responsibility rests within a range of areas – the key ones are detailed in the table below:

KEY ELEMENTS OF COUNCIL'S GOVERNANCE FRAMEWORK	
Key elements of the governance framework at City of Lincoln Council are summarised below:	
<p>Council, Executive, Leader</p> <ul style="list-style-type: none"> ❖ Provide leadership; set, develop and implement policy ❖ Ensure the Vision 2020 strategy is taken forward ❖ Develop, adopt and implement the budget framework ❖ Support the city's diverse communities and neighbourhoods to thrive 	<p>Leadership and decision making</p> <ul style="list-style-type: none"> ❖ All decision meetings held in public (except those identified as 'part B') ❖ Decisions recorded on the council's public website ❖ Resources directed according to priorities as set out in Vision 2020
<p>Scrutiny and review</p> <ul style="list-style-type: none"> ❖ Scrutiny committees review council policy and can challenge decisions to hold Executive to account ❖ Audit and Performance committees review governance, costs vs budget , risk, internal control and delivery of agreed plans ❖ Ethics and Engagement Committee and/or Monitoring Officer deals with complaints about, or suspected breaches of member conduct ❖ Any two members can hold the Executive to account outside of scrutiny and review by requesting Call-In and reconsideration of an Executive decision. 	<p>Risk management</p> <ul style="list-style-type: none"> ❖ Risk registers identify both operational and strategic risks ❖ Strategic risks are considered by CMT and Executive every quarter ❖ Internal audit provides independent objective assurance ❖ Council's arrangements comply with the requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)
<p>Corporate Management Team (CMT)</p> <ul style="list-style-type: none"> ❖ The CX is the Head of Paid Service and is responsible for all council staff and for leading an effective Corporate Management Team (CMT) ❖ CMT ensures there is clear accountability for the use of resources in achieving desired outcomes for service users and the community ❖ The Chief Finance Officer (CFO) is the council's Section 151 Officer and is responsible for safeguarding the council's financial position and securing value for money. The council's financial management arrangements comply with the governance requirements of the CIPFA Statement on the role of Chief Financial Officer in Local Government (2015) ❖ The City Solicitor is the councils Monitoring Officer and is responsible for ensuring legality, good governance and promoting high standards of conduct 	

Outcomes, Vision, Value for Money

The council's governance arrangements underpin our strategic policies and plans to ensure

that the council delivers effective, efficient services for its residents and other stakeholders. Vision 2020 (our new strategic plan) provides a clear vision for what is to happen in the period 2017-2020. It is complemented with the council's Annual Report which provides details on achievements each year towards the vision.

The council has a strong Medium Term Financial Strategy (MTFS) which delivers the best use of current assets, whilst also ensuring that the council maximises the use of available government grants

- 1.4 In the following sections, the AGS considers whether the Code has been applied effectively providing commentary on how the framework itself has operated over the last 12 months.

1.5 **CORE PRINCIPLE A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

Ethical values, standards and formal codes of conduct are defined in the council's constitution and form the basis for developing our policies, procedures and actions as well as for the behaviour of our members and staff. We have appropriate processes in place to ensure that members and staff are not influenced by prejudice, bias or conflicts of interest when engaging and making decisions with stakeholders, as well as effective systems to protect the staff rights.

All council decisions consider legal and equality implications with support from Legal Services.

Our Audit Committee (which includes an independent member) provides assurance on the adequacy of the internal control environment, by ensuring high standards of conduct are embedded within the council's culture, monitoring governance issues raised and overseeing internal and external audit arrangements.

Activity within Principle A in 2018/19:

- Counter Fraud Strategy/action plan and other counter fraud policies have been reviewed, and training rolled out. The council is involved with the National Fraud Initiative and has a close working relationship with Department for Work & Pensions for Housing Benefit fraud.
- We have undertaken counter fraud projects with the Lincolnshire CF team
- Continued progress on outstanding actions to meet GDPR especially in contracts
- We have rolled out the NETconsent – policy management and compliance system
- Member induction for those new Members elected in May 2018
- We have implemented a Corporate Social Responsibility Charter and registered the council as one of the first members
- We have adopted the cooperatives charter against modern slavery
- We have also produced our first modern slavery statement

Proposed activity for the coming year:

- Member induction for those new Members elected in May 2019
- A review of Pro-contract
- Re-enforce the principles of hospitality guidance

1.6 **CORE PRINCIPLE B: Ensuring openness and comprehensive stakeholder engagement**

The council makes sure our partners, in the private, public and voluntary sector as well individual citizens and service users are engaged in and have full access to information relating to decisions made. We expect reports to decision makers to be open, provide all the

necessary material to ensure informed decisions in the best interests of the city and communities, and to have engaged stakeholders and service users in arriving at proposals under consideration.

Activity within Principle B in 2018/19:

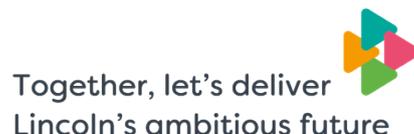
- Consultation was conducted in January 2019 on the proposed MTFs for 2019-2024
- Consultation was conducted in December 2018 on the Council Tax Support Scheme
- The council has increased its use of social media to enhance its communications reach
- WGC – Lengthy consultation took place during 2018/19, with multiple focus groups. As a result significant changes are to be made within the transport aspect
- The City of Lincoln is a partner in a group of voluntary sector organisations which has reviewed the Community Cohesion Framework for Lincoln
- Housing undertook the biennial STAR survey in late 2018
- The Citizen’s Panel was extended to 700 members with specific remit of matching the city’s characteristics for age/sex and geographical areas
- Citizens have been involved in consultations on proposals for new residents parking schemes in and around the city centre
- Communication and consultation strategies for all our large scale projects

Proposed activity for the coming year:

- Development and roll out of a new Communications Strategy
- Review of the Consultation and Engagement strategy
- Considering the creation of a Tenants consultation panel

1.7 CORE PRINCIPLE C: Defining outcome in terms of sustainable economic, social, and environmental benefits

Vision 2020 is a three year strategy and delivery plan, developed using an evidence base from the Lincoln City Profile and following wide consultation, with an inclusive vision to deliver Lincoln’s ambitious future. It highlights four priorities for the city, acknowledging that the council cannot deliver everything needed by itself and must work in partnership and collaboration to achieve these ambitious plans. These are:



- ▶ Let’s drive economic growth
- ▶ Let’s reduce inequality
- ▶ Let’s deliver quality housing
- ▶ Let’s enhance our remarkable place

These are underpinned by the need to deliver ‘Professional high performing services’

Progress towards achieving the vision, aligned with the key priorities, will be reported to and monitored by senior management and elected members. Service areas within directorates, and under the guidance of assistant directors, are responsible for delivering individual projects to agreed timescales and budgets, with consideration for economic, social and environmental benefits which collectively will achieve our priorities.

Activity within Principle C in 2018/19:

- Approval of the MTFs which is a financial representation of the council’s Vision 2020
- Implementation is well underway on the place strategy for Park Ward/Sincil Bank, highlighted as an area for regeneration. Three key strands of work are underway.
- Plan to be developed for embedding sustainability over the next 3 to 5 years
- Further develop plans for the Western Growth Corridor in partnership – planning application now in situ
- We have started the refresh of the Low Carbon Lincoln Strategy and action plan
- Instigation of a new Lincoln Intervention Team to address ASB issues in the city centre

and surrounding areas

- Successful launch of the Lincoln Lottery – raising over £42k for good causes pa

Proposed activity for the coming year:

- To enhance the external appearance of the Lincoln Crematorium to match the professional service delivered to those in need
- Development of the future strategic plan – Vision 2025
- Determination of a direction for the Markets Strategy
- Further progress on Western Growth Corridor

1.8 CORE PRINCIPLE D: Determining the interventions necessary to optimise the achievement of the intended outcomes

The council clearly defines its priorities and plans which are aimed at delivering the outcomes it intends. Service plans are in place for all directorates with key projects listed separately. All projects are subject to the Lincoln Project Management Model (LPMM), through which we continuously assess the risks of not fully delivering plans and ensure that there are mitigating actions in place to support the achievement of intended outcomes.

The council's financial management arrangements ensure that there is adequate resource available to deliver plans. The council reviews progress against delivering those outcomes through its performance management framework.

Activity within Principle D in 2018/19:

- Implementation of the new Capital Programme Group to ensure financial responsibilities in all capital projects is conducted correctly
- A new training programme for all staff either managing or taking part in projects has been rolled out as part of the LPMM changes
- A transformation Manager has been appointed to commence work on the One Council project
- The TFS programme Team has identified a phase 6 programme to meet the increased MTFS savings target
- A new Property Investment Strategy is in place to ensure our commercial purchases are done in an appropriate manner

Proposed activity for the coming year:

- Commencement of the One Council programme
- Conduct a PIR on the effects of the changes from SPIT to CPG – one year on

1.9 CORE PRINCIPLE E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

The council ensures a management structure that provides leadership and creates the opportunity for staff to work effectively and efficiently to achieve the council objectives. A newly developed People Strategy will ensure the workforce has the necessary skills and behaviours to deliver the vision for the city, and is effectively engaged to champion the council's priorities. Partnership working extends the capacity for key projects beyond the councils own resource and is embedded within the Vision 2020 objectives.

Activity within Principle E in 2018/19:

- Continued roll out of People Strategy demonstrating plans to develop capability and capacity. Two defined lead roles now in operation around performance and staff

wellbeing.

- More HR policies have been reviewed with training delivered to managers
- A further review of Directorate structures following the retirement of the Housing Director in April 2018 resulting in a new structure
- Commenced HR line management briefings

Proposed activity for the coming year:

- PIR to be conducted on the changed senior management structure
- People Strategy to continue to roll out new activities for example a Staff engagement Strategy
- Needs analysis to be completed on Leadership Development
- New staff charter – consultation and then implementation

1.10 CORE PRINCIPLE F: Managing risks and performance through robust internal control and strong public financial management

The council recognises the need to implement an effective performance management system that will allow us to deliver services effectively and efficiently. We understand that risk management, internal control and strong financial management are essential for us to achieve our objectives and we have put appropriate arrangements in place.

The financial audit identified material errors in the DRAFT financial statements, which were corrected in the published version, for which an unqualified opinion was given. The errors were reported in the September 2017 ISA260 report to the Authority. It was acknowledged that this was due to unprecedented staffing difficulties faced by the finance team during the closedown process and in the first half of the 2017. Management agreed to the report recommendations and ensured that the arrangements and working papers for the 2017/18 accounts would be robust and effective.

Activity within Principle F in 2018/19:

- Continued use of the risk process 'Risk Appetite' methodology and toolkit, with an update in 2018 to include the 5th category of "opportunist"
- The Annual Audit Letter issued an unqualified conclusion on the authority's Final Statement of accounts
- Reductions in the central government funding have been mitigated by a successful savings and income generation programme – a key aspect of which is the new Property Acquisition arm of the Asset Optimisation plan.
- The introduction of NETconsent to minimise the risk of non-compliance to policy
- The council moved from KPMG (external auditors) to Mazzars during 2018/19

Proposed activity for the coming year:

- Partnership guidance to be updated and re-issued - AD's to develop a list of ALL partnerships/joint working in their areas as a minimum
- Increase the level of purchase order usage across the authority to ensure full control

1.11 CORE PRINCIPLE G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The council recognises that effective accountability is concerned not only with reporting on actions completed but ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in an open, transparent and proportionate manner. Performance is managed under the principles of the Performance Management Framework

Activity within Principle G in 2018/19:

- Improvements made to the website, including more self-serve options – through 2018/19
- Communications team has increased coverage of new developments, changes etc. through social media as well as the more traditional channels
- Development of a new performance management system approved by CMT in December 2017 has progressed well with the aim of producing data from it in Q1 2019/20

Proposed activity for the coming year:

- The next aim is to improve the culture of performance across the organisation and the use of data to manage services
- The Lincoln Performance Management Framework will be reviewed in 2019/20
- Develop a new web option to replace our existing website

2 Review of effectiveness of the governance framework

We undertook an assessment of the council's governance framework during 2018/19 - summary details are outlined above.

We reviewed key governance areas and assurances to identify any significant governance issues.

3 Level of assurance provided

We can provide a high level of assurance that the governance arrangements operating at City of Lincoln Council, in line with our Code of Corporate Governance are appropriate, fit for purpose and working well in practice.

4 Status of significant governance issues monitored from 2017-18

The council has regularly monitored its 2017 -18 significant governance issue through senior management and the Audit Committee during 2018/19:

Issues that have been significantly progressed and now can be removed:

- **Information Management GDPR:** During 2018/19 significant progress was made towards achieving the aim of being fully compliant with General Data Protection Regulation (GDPR). This is now embedded within services, but our DPO continues to ensure that compliance to process is ongoing.

5 Significant governance issues identified from 2018-19

New significant issues identified – One issue was identified for monitoring:

- **The Disaster Recovery plan in place for IT arrangements** is not sufficiently aligned with the Business Continuity plans that are currently in place for restoring key services

in terms of IT needs

Those lesser concerns that were raised during the process will be passed to the High Performing Services Board and monitored quarterly and reported to Performance scrutiny through the High Performing Services report

6 Conclusion

The council's governance arrangements are under continual review and refinement. The council will monitor improvement plans for its significant governance issues quarterly and report progress in the next annual review.

Signed



Leader (Cllr Ric Metcalfe) **Date: 23rd May 2019**



Signed

Chief Executive (Mrs Angela Andrews) **Date: 23rd May 2019**

AAA FITCH RATING

Highest credit quality - 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA FITCH RATING

Very high credit quality - 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. The modifier "+" or "-", may be appended to the rating to denote relative status within the category.

A FITCH RATING

High credit quality - 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. The modifier "+" or "-", may be appended to the rating to denote relative status within the category.

ACCOUNTING PERIOD

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

ACCRUALS

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

ACTUARIAL GAINS AND LOSSES

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

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

ASSET

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

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A fixed asset provides benefits to the 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.

BORROWING

Government support for capital investment is described as either Supported Capital Expenditure (Revenue) known as SCE(R) or Supported Capital Expenditure (Capital Grant) known as SCE(C). SCE can be further classified as either Single Capital Pot (SCP) or ring-fenced.

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.

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.

CLAW-BACK

Where average council house rents are set higher than the Government's prescribed average limit rent, used in the calculation of rent rebates, the percentage difference reduces the amount of rent rebate subsidy due to the Council, i.e. it is "clawed-back" by the Government.

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.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

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 control.

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 costs of these activities are thus over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

CREDITOR

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

CURRENT SERVICE COST (PENSIONS)

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

DEBTOR

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

DEFERRED CHARGES

Expenditure which can be properly deferred (i.e. treated as capital in nature), but which does not result in, or remain matched with, a tangible asset. Examples of deferred charges are grants of a capital nature to voluntary organisations.

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.

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.

FAIR VALUE INPUT LEVELS

Basis for recurring fair value measurements:

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

FINANCE LEASE

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

GOING CONCERN

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

GOVERNMENT GRANTS

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

HOUSING BENEFITS

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

HOUSING REVENUE ACCOUNT (HRA)

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

IMPAIRMENT

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

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

LONG-TERM CONTRACT

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

MATERIALITY

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

MINIMUM REVENUE PROVISION (MRP)

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

NET BOOK VALUE

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

NET DEBT

The Council's borrowings less cash and liquid resources.

NON-DISTRIBUTED COSTS

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

NATIONAL NON-DOMESTIC RATES (NNDR)

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

NON-OPERATIONAL ASSETS

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

OPERATING LEASE

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

OPERATIONAL ASSETS

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

PAST SERVICE COST (PENSIONS)

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

PENSION SCHEME LIABILITIES

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

PRECEPT

The levy made by precepting authorities on 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 (PWL B)

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.

RATEABLE VALUE

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

RELATED PARTIES

There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Council's members, the Chief Executive, its Directors and their close family and household members.

RELATED PARTY TRANSACTIONS

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

REMUNERATION

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

RESERVES

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

RESIDUAL VALUE

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

RETIREMENT BENEFITS

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

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE SUPPORT GRANT

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

STOCKS

Items of raw materials and stores a Council has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

TEMPORARY BORROWING

Money borrowed for a period of less than one year.

TRUST FUNDS

Funds administered by the Council for such purposes as prizes, charities, specific projects and on behalf of minors.

USEFUL ECONOMIC LIFE (UEL)

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

WORK IN PROGRESS (WIP)

The cost of work performed on an uncompleted project at the Balance Sheet date, which should be accounted for.

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SUBJECT:	ANNUAL INTERNAL AUDIT REPORT
DIRECTORATE:	CHIEF EXECUTIVE AND TOWN CLERK
REPORT AUTHOR:	JOHN SCOTT, AUDIT MANAGER

1. Purpose of Report

1.1 To receive and comment upon the Annual Internal Audit Report

2. Executive Summary

2.1 The purpose of the annual internal audit report (Annex A) is to provide a summary of Internal Audit work undertaken during 2018/2019 timed to support the Annual Governance Statement by providing an opinion on the organisation's governance, risk management and internal control environment.

Overall our opinion in the four areas was substantial (green) which indicates performing well: no concerns that significantly affect the governance framework and successful delivery of the Council priorities.

3. Annual Audit report

3.1 The Annual Internal Audit Report of City of Lincoln Council aims to present a summary of the audit work undertaken over the past year. In particular:

- Include an opinion on the overall adequacy of and effectiveness of the governance framework and internal control system and the extent to which the Council can rely on it;
- Informs how the plan was discharged and of overall outcomes of the work undertaken;
- Draws attention to any issues particularly relevant to the Annual Governance Statement.

4. Organisational Impacts

4.1 Finance (including whole life costs where applicable)
There are no financial implications

4.2 Legal Implications including Procurement Rules

To ensure compliance with the Accounts and Audit regulations 2015 and Internal Audit standards an annual report should be produced

5. Recommendation

5.1 The Audit Committee should note the contents of the report and appendices

Is this a key decision?

No

All key decisions require 28 days' public notice. If in doubt, please check with Democratic Services.

Do the exempt information categories apply?

No

28 days' public notice must be given to Democratic Services before any Executive meeting held in private. If in doubt, please check with Democratic Services. Please also see the exempt paragraph provisions detailed at the end of this template

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?

No

Rule 15 will only apply in exceptional circumstances and requires the Monitoring Officer's permission.

How many appendices does the report contain?

Two

List of Background Papers:

None

Please note that any background papers must be provided to Democratic Services with your report for publication. If in doubt as to the definition of a background paper, please contact Democratic Services.

Lead Officer:

John Scott, Audit Manager
Telephone (01522) 873321



City of Lincoln Council

Internal Audit Annual Report – 2018/19



This report has been prepared solely for the use of Members and Management of City of Lincoln Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely on the work undertaken as part of the agreed internal audit plan.

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Purpose of Annual Report	03
Our opinion on governance, risk and the control environment	03
How we came to our opinion	04
Scope of work	06
Delivery of internal audit plan 2018/19	08
Restrictions on scope	08
Effectiveness of Internal Audit	08
Quality Assurance	09

Appendix 1- Internal Audit Assurances Given 2018/19

Appendix 2 - Quality Assurance Framework

Appendix 3 – Glossary of terms

Appendix 4 - Continuous Improvement Plan

Distribution List

Chief Executive & Town Clerk; Directors, Chief Finance Officer, City Solicitor, Leader of the Council, Chair, Audit Committee.

Management Summary

Purpose of Annual Report

The Annual Internal Audit Report of City of Lincoln Council aims to present a summary of the audit work undertaken over the past year. In particular:-

- Include an opinion on the overall adequacy of and effectiveness of the governance framework and internal control system and the extent to which the Council relies on it;
- Inform how the plan was discharged and the overall outcomes of the work undertaken;
- Draw attention to any issues particularly relevant to the Annual Governance Statement.

Opinion on the Governance Framework and Internal Control Environment

For the twelve months ended 31 March 2019, based on the work we have undertaken and information from other sources of governance, my opinion on the adequacy and effectiveness of City of Lincoln Council's arrangements for governance, risk management and control is shown in Figure 1 below;

There were two limited assurance audit reports (see Appendix 1)

Governance	Green
Risk	Green
Internal Control	Green
Financial Control	Green
Direction of travel – static	

Figure 1

Key

- Red** **Inadequate Performance** – Critical action required by management throughout the Council.
- Amber** **Performing Adequately** – Some improvement required to manage a high risk in a specific business area and medium risks across the Council.
- Green** **Performing Well** – No concerns that significantly affect the governance framework and successful delivery of the Council priorities

Direction of Travel

- No change -stable 
- Improving 
- Reducing 

How we came to our opinion

Governance – *“If management is about running the business
– Governance is about seeing that it is run properly”*

Local Government has been and will continue to undergo significant change. The way it operates and delivers services – either directly, with or through other organisations will provide challenges for managing risk, ensuring transparency and demonstrating accountability. The importance to aim for the standards of the best and ensuring governance arrangements should not only be sound but also seen to be sound has never been greater.

Good governance underpins everything the Council does and how it delivers services often comes under close scrutiny. It is therefore vital that resources focus on agreed policy and priorities; that there is sound and inclusive decision making with clear accountability for the use of those resources. This ensures that the Council achieves the desired outcomes for the people of the City of Lincoln Council.

The Audit Committee helps to ensure that these arrangements are working effectively. They regularly review the governance framework and consider the draft and final versions of the Annual Governance Statement (AGS).

New CIPFA guidance on Delivering Good Governance in Local Government was produced in 2016. An assessment against the requirements was completed and formed the basis of the Council's Code.

High-level governance audit work in 2018 and 2017 did not identify any significant issues and recommendations have been implemented.

We had no internal audits that were low or limited assurance in areas of Corporate Governance.

The External Audit 'Report to those charged with governance (ISA260) 2017/18 reported that the Council's Annual Governance Statement complies with guidance issued by CIPFA / SOLACE.

Officers and members have maintained a focus on the AGS significant issue (DP/GDPR) during the year, and following a recent substantial assurance audit it is being reconsidered as an issue for the 2019 AGS.

Our work on values and behaviours, which is part of the Council's corporate governance arrangements, is ongoing.

There were some Governance areas within our Combined Assurance assessment which were Amber assurance; however these all have mitigation in place. Some are being considered for the 2019 AGS.

Changes to the project management framework in 18/19 have not worked as expected in all areas and management are considering improvement actions.

Whilst there is partnership management guidance and a register the operation of the monitoring framework requires further improvement.

There are still some timescale issues for obtaining financial and legal advice to meet committee report deadlines.

Taking the above information into account we have assessed the governance framework as **green** – performing well.

Internal Control

We took account of the outcome of our internal audit work during the year. Our work identified only one area where a 'Limited' assurance opinion was given.

At the end of March there were a small number of high priority audit recommendations which are in progress but remain to be fully implemented, including updating and re-issuing Sys Admin guidance for IT applications, IT Security training, reviewing IT Security policies and introducing Housing pre-tenancy processes.

Our Combined Assurance report for 2018/19 showed that the Council continues to have high levels of assurance (75% Green, 24% Amber and 1% Red).

We took account of external audit's 2017/18 annual opinion on statement of accounts, VFM opinion and grants report.

We took account of our counter fraud work during the year. There were no significant internal control issues.

See also comments in the risk and governance sections which also apply to internal control.

Taking all of the above information into account we have assessed the internal control environment as **green** – performing well.

Risk Management

There is an established risk management framework in place for the Council to manage the key risks facing it at strategic and operational levels, with regular reporting to management and members.

Risk management audits in 2018 and 2017 both provided substantial assurance. Risk management was given a GREEN assurance as part of the Combined Assurance work.

“Risk” overall is well managed both formally and informally; Strategic and Directorate risks are being well managed with regular reviews.

The Council receives professional risk management support from Assurance Lincolnshire - comprehensive guidance has been given to officers and members during 2018/19.

Our internal audits have not identified any significant issues in this area and any risk management recommendations have been implemented.

There is an annual Risk Management report to Audit Committee – the 2018/19 report did not identify any issues.

On this basis we have assessed risk management as **green** – performing well.

Financial Control

Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts.

During the year we reviewed:

- Commercialisation – Substantial
- City Lottery – Advice given & accepted
- Transport Hub Final Account – Substantial
- Corporate Property Income – High
- Council House Sales – Substantial
- Bank Key Controls – High
- Fees & Charges – Substantial
- CIL & S106 – High
- Business Rates Growth Policy – Advice given & accepted
- Procurement – Substantial (not yet finalised)

The Council has good financial management processes in place that work well. Our work identified no areas where a 'Limited' or 'Low' assurance opinion was required.

We took account of external audit's 2017/18 annual opinion on statement of accounts, VFM opinion and grants report

We note the current positive position on the savings / transformation programme (TOFS), future savings required and the current 2019/24 MTFS. Savings were slightly below the target level in 18/19 but this is manageable and there is an active programme in place to deliver the 19/0 target. Reserves remain at a prudent level.

Taking the above information into account we have assessed financial control as **green** – performing well.

Roles and Responsibilities

The Council is responsible for establishing and maintaining risk management processes, control systems and governance arrangements. Internal Audit plays a vital role in providing independent risk based and objective assurance and insight on how these arrangements are working. Internal Audit forms part of the Council's assurance framework.

Where Internal Audit work has identified improvements, we have worked with management to agree appropriate corrective actions and a timescale for improvement. It is the responsibility of management to implement the agreed actions.

The Council is responsible for developing and publishing an Annual Governance Statement – reporting how they have monitored the effectiveness of their governance arrangements during the year – providing information on any significant governance issues.

The Annual Internal Audit Report should inform the Annual Governance Statement. We recommend that the "low or limited" assurance areas identified in Appendix 1 are considered in the development of the Council's Annual Governance Statement together with the information contained in the Council's Combined Assurance Status Report reported earlier this year linked to Amber or Red assurance areas. There was one Red assurance area – Choice Based Lettings / Housing Allocations. We are not aware that any of the Amber assurance areas have worsened.

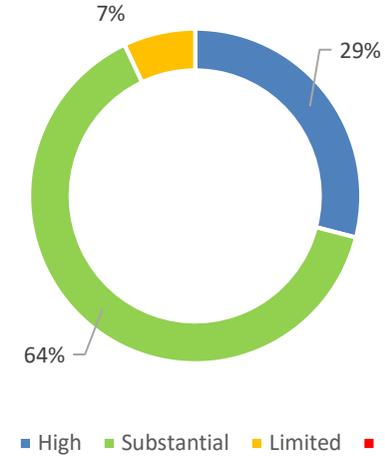
Scope of Work

19. The charts in **Figure 3** shows the assurance opinions given in 2018/19 compared to those in 2017/18. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment.
20. The overall assurance levels have remained broadly similar during 2018/19.

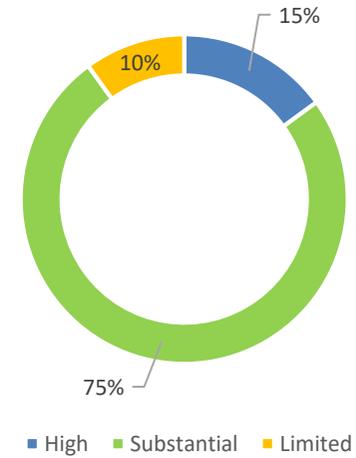
Comparison of Assurances (finalised audits only)

	2018/19		2017/18	
High	4	(29%)	3	(15%)
Substantial	9	(64%)	15	(75%)
Limited	1	(7%)	2	(10%)
Low	0		0	

Assurance levels 2018/19



Assurance levels 2017/18



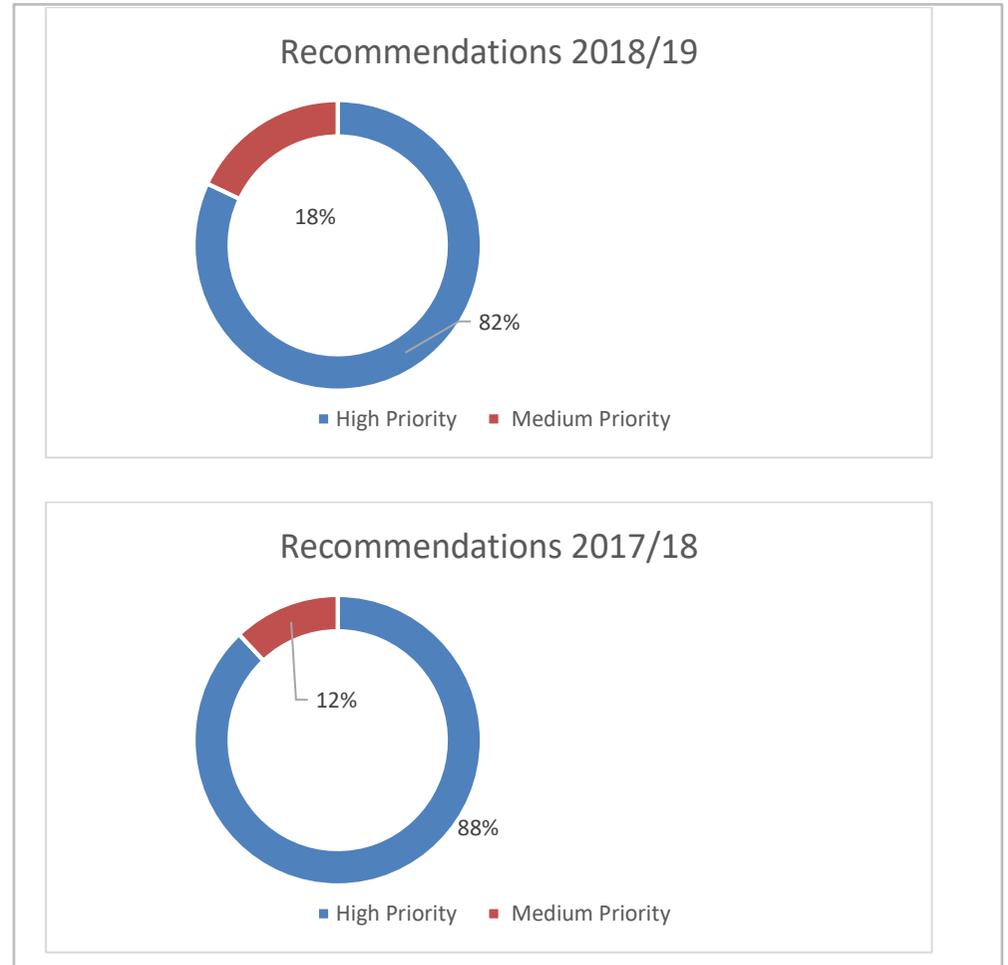
21. The charts in **Figure 4** show the comparison of internal audit recommendations made in 2018/19 compared to 2017/18. Details of systems reviewed can be found in Appendix 1
22. We track the implementation of agreed actions. Over the year management have implemented 79% of the recommendations due by the 31st March 2019, an increase from 2017/18 (65%). Details of outstanding recommendations can be found in Appendix 1.

Number of recommendations made (finalised audits only)

	2018/19	2017/18
High	8	12
Medium	36	90
Total	44*	102

- ****NB some audits being finalised and these numbers are not included – they may be included for the June audit committee***

Figure 4 – Recommendations Made



Delivery of internal audit plan 2018/19

23. The Audit Committee approved the 2018/19 audit plan. We delivered 97% of the revised plan by the end of the financial year.
24. Internal Audit's performance is measured against a range of indicators. The table below shows our performance on key indicators at the end of the year. We are pleased to report successful achievement against most of our targets and will be closely monitoring the others to improve performance.

Performance Indicator	Target	Actual @ 31/03/2019
Percentage of plan completed.	100%	95%
Percentage of key financial systems	100%	100%
Percentage of recommendations agreed.	100%	100%
Percentage of recommendations due implemented.	100% or escalated	79%
Timescales:		
Draft report issued within 10 working days of completing audit	100%	82% - 9 out of 11
Final report issued within 5 working days of closure meeting / receipt of management responses.	100%	100% - 11 out of 11
Period taken to complete audit within 3 months from fieldwork commencing to the issue of the draft report.	80%	91% - 10 out of 11
Client Feedback on Audit (average)	Good to excellent	Good to excellent

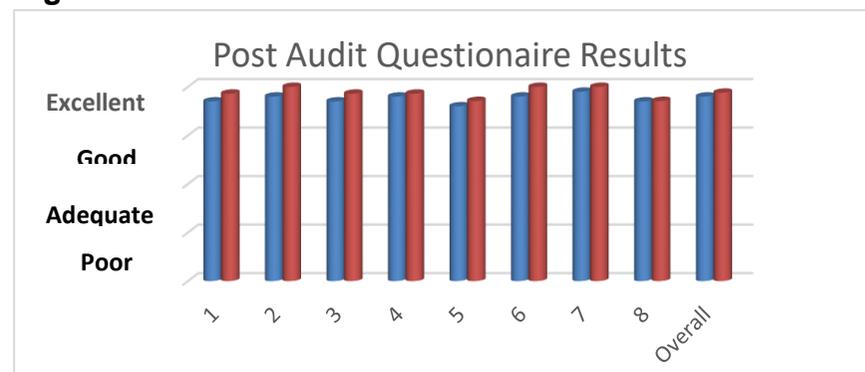
Restrictions on Scope / Disagreements

25. In carrying out our work we identified no unexpected restrictions to the scope of our work and we can confirm that Internal Audit's independence has not been impaired during the year.
26. Audit work is scheduled to fit around the work demands of the client and it is very rare that we have difficulties in gaining access to staff, which results in some delay or inability to deliver planned work within the expected timescales.

Effectiveness of Internal Audit

27. We regularly canvass opinions on audit planning, reporting and communication from management responsible for activities under review. They score the effectiveness of our service as excellent, good, adequate or poor.
28. The table in **Figure 5** outlines the responses by management on our service. For 2018/19 there was a 78% questionnaire return rate, the overall average rating for the service was good to excellent.

Figure 5 – Client Feedback



Key: Blue: 2017/18, Red: 2018/19.

Audit Planning

1. Consultation on audit coverage
2. Fulfilment of scope and objectives

Audit Report

3. Quality of report
4. Accuracy of findings
5. Value of Report

Communication

6. Feedback during the audit
7. Helpfulness of auditor (s)
8. Prompt delivery of report

Quality Assurance

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29. We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.
 30. Our commitment to quality begins with ensuring that we recruit, develop and assign appropriately skilled and experienced people to undertake your audits.
 31. Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.
 32. Our Quality Assurance Framework (**Appendix 2**) includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment and the annual review of the effectiveness of the Internal Audit Function by the Council.
 33. There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings. A training programme has been developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.
 34. Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards including the Code of Ethics and we can confirm that we are complying with the Core Principles. As part of our quality assurance framework we maintain a continuous improvement plan (QAIP)
 35. We have reviewed our internal quality assurance assessments and can confirm that our processes for planning, fieldwork and communicating results adhere to audit standards. Our review work did not identify any significant areas of non-compliance.
 36. An external quality assessment was completed in October 2016, which found general compliance with PSIAS, and was reported separately to Audit Committee.
 37. Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work.
 38. Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. We confirm that the internal audit activity is organisationally independent and resources available are adequate.



Appendix 1 Internal Audit Assurances Given 2018/19

Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	Outstanding			Notes	Direction of Travel
					High	Medium	Not Yet Due		
Governance	May 18	High	0					For 17/18 Annual Report	↔
Risk Management	July 18	Substantial	2	1		1			↔
Sincil Bank	August 18	Substantial	9	9					Not previously audited
Housing Benefit Subsidy testing	August 18	N/A	N/A					Testing on behalf of External Audit	
Commercialisation	October 18	Substantial	2	1		1			↔
City Lottery	October 18	Advice work	N/A					3 suggestions made & accepted	
IT Applications	October 18	Limited	8	1	1		6	High revised target - Aug 19	↓
IT – Malware / Anti-virus	November 18	Substantial	11	6	1	1	1	High revised target – Jul 19 and 2 risks accepted.	↔
Transport Hub	December 18	Substantial	2				2		↔
Corporate Property (Income)	January 19	High	1	1					↔
Council House Sales	February 19	Substantial	3				3		↔
Bank (key controls)	February 19	High	0						↔
Sickness Absence F/Up	March 19	Substantial	3				3		↔
Fees & Charges	April 19	Substantial	3				3		Not previously audited
Community Infrastructure Levy & Section 106	April 19	High	0						↑
Business Rates Growth Policy	April 19	Advice work	N/A					Suggestions made & accepted	
Housing Fire Safety		<i>Substantial</i>	See below					Not yet finalised (report being agreed)	Not previously audited
Values and Behaviours		N/A						Not yet finalised	

Appendix 1 Internal Audit Assurances Given 2018/19

Audit Area	Date	Assurance	Total High / Med Recs	Implem'd	Outstanding			Notes	Direction of Travel
					High	Medium	Not Yet Due		
Boultham Park Restoration		<i>(Substantial)</i>	Pending					Not yet finalised (report being agreed)	
Vision 2020 – Project Management		<i>TBA</i>	Pending					Not yet finalised (report being agreed)	
Partnerships		<i>TBA</i>	Pending					Not yet finalised (report being agreed)	
Information Governance / GDPR		<i>(Substantial)</i>	Pending					Not yet finalised (report being agreed)	↔
Procurement		<i>(Substantial)</i>	<i>Pending</i>					Not yet finalised (report being agreed)	↔
Emerging Legislation	May 19	Full	0						
IT Assurance Map		N/A	N/A					Completed. Extended Combined Assurance.	
Private Sector Housing		Advice						Advice only	
De Wint project group		Risk Man advice						Advice only	
Counter Fraud		N/A						Tenancy, training, FRR, policy updates	
New Build Project		Advice							
Total Outstanding			44	19	2	3	18	NB - Figures are for completed audits only (Risks were accepted for 2 recs made). See below	

Appendix 1 Internal Audit Assurances Given 2018/19

During 2018/19 some changes were made to the Internal Audit Plan; these were due mainly to timescale / operational / delivery issues in the audits affected. I do not consider these changes to have had an adverse effect on the delivery of my overall opinion.

Audits postponed to 2019/20 were;

- HR Work Based Learning – service changes (allocation used mainly on Council House Sales audit which required additional testing)
- HR Recruitment – management request (allocation used on existing audits)
- Growth – strategies are being developed during 18/19 (allocation used for the Culture review)
- ICT Strategy – strategy being developed during 18/19 (allocation used on IT Assurance Mapping work)
- Western Growth Corridor project – attended Board meetings and used remainder for Private Sector Housing advice work

Audits removed and allocation used for other work;

- Housing Allocations / Choice Based Lettings – used for risk management support for the New Build Short Life Working Group
- New Build / Housing company – used for risk management support for the De Wint Court project group
- Private Sector Housing Heating Scheme – used to complete the Fire Safety audit
- Programme & Projects post-SPIT – Policy are to do a PIR on this in early 19/20. Used for Boultham Park restoration audit

Total High / Medium 2018/19 Recs Made = 44

Total not yet due = 20

Net = 24

Implemented in full = 19

% Implemented = 79% (H & M)

Appendix 2 - Quality Assurance Framework

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Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS



Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement



Ongoing monitoring – quality built into the audit process

Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well.



Annual self- assessment

- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment – co-ordinated with Audit Committee (completed 2016)



Periodic quality assurance assessments

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with quarterly highlight reports on outcome of reviews



- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services



- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review

Appendix 3 - Glossary of Terms

<p>High</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p>Substantial</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p>Limited</p>	<p>Our critical review or assessment on the activity gives us a</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p>Low</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

<p>Significance</p>
<p>The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.</p>
<p>Head of Internal Audit Annual Opinion</p>
<p>The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.</p>
<p>Governance</p>
<p>Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.</p>
<p>Risk</p>
<p>The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.</p>
<p>Control</p>
<p>Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management - plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved</p>

Appendix 4 - Continuous Improvement Plan

See attached.

The quality assurance framework is designed to ensure quality outcomes. The audit process is designed to deliver a consistently high quality audit service to our clients – one that is fit for purpose / meets client expectations and conforms to public sector internal audit standards. The quality improvement plan below provides details of planned, completed and ongoing improvements to strengthen our arrangements. Any significant non-conformance would be included in the Internal Audit Annual Report.

Ongoing monitoring for quality is built into the audit process. Checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well. This provides on-going assurance that that engagement planning, fieldwork conduct and reporting / communicating results adheres to audit practice standards

We review and update the QAIP action plan regularly and focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards. We arrange an external quality assessment periodically – co-ordinated with Audit / Audit and Governance Committee (last completed 2016)

We undertake periodic quality assurance assessments covering engagement planning, fieldwork, conduct and reporting / communicating results, ensuring we adhere to audit practice standards.

Quality Assurance Improvement Programme (Action plan)

Opportunities for Improvement	Date	Status	Resp
1.Complete values/behaviours review – ColC	June19	In progress	AM
2.Complete values/behaviours review - BBC	Dec 19	Scheduled	AM
3.Complete governance review BBC/COLC	Mar 18	Complete – (Annual)	AM
4.PSIAS – communicate standards/regular practice discussions with staff (new CIPFA guidance received April 19 – date moved)	Sept 19	Ongoing	AM/AL
5.PSIAS – Update Internal Audit Charter, once CIPFA application note published (Will cover BBC/ColC)	Sept 19	Scheduled	AM/AL
6.Improve in-year reporting to CMT (BBC/ColC)	Mar 18	Complete	AM
7.Review practice notes/processes	Mar 20	Ongoing	AM/AL
8. Dynamic audit planning - practice note	Dec 18	Completed	AM/AL
9. Audit planning – update risk scores using new methodology BBC/COIC	Dec 18	Completed NB not following same as LCC/AL	AM
10.Dynamic audit planning - consider approach 19/20, BBC/COLC	Feb 19	Completed NB not following same as LCC Review every four months.	AM/AL

<p>11.Improve cross partnership working</p> <ul style="list-style-type: none"> • Strategy – feed into the Assurance Lincolnshire strategy • Digital and data analytics <ul style="list-style-type: none"> ○ Carry out an assessment of our teams digital maturity, identify gaps and produce action plan ○ Implement (where possible) data analytics across the service ○ Identify where and how digital can expand the products and services we offer ○ Improved awareness in the team • Resource sharing – LCC/CoIC/NCC • ICT audit – best practice development • Develop a methodology for knowledge sharing across Councils • Audit scheduling / work across the partnership • Embed Lean thinking in our operations. Review and improve our processes • Develop and implement our Quality Assurance Framework (right first time) 	Mar 20	Ongoing	AM/AL
12.Improve monitoring of audit recommendations (CoIC)	Mar 20	Significantly improved Ongoing	AM
13.External Audit (Mazars) –consider IA/EA protocol	Mar 19	Discussed – no plans for a “formal” agreement	AM/AL
14.Review and report on assurances linked to Northamptonshire (governance) report CoIC	Sept 19	In progress	AM/AL
15.Review and report on assurances linked to Northamptonshire report BBC	Feb 19	Completed	AM/AL
16.Review audit software process steps	Sept 18	Completed	AM/AL
17.Review security of data transfer BBC/CoIC	Sept 18	Completed	AM/AL
18.Review IA/AC effectiveness (using new CIPFA guidance) CoIC	Dec 18	Completed	AM/AL
18.Review IA/AC effectiveness (using new CIPFA guidance) BBC	Sep19	Scheduled	AM/AL
19.Review AC terms of reference (new CIPFA guidance) CoIC	Sept 18	Completed	AM/AL
20.Review AC terms of reference (new CIPFA guidance) BBC	Sept 18	Completed	AM/AL
20.Review (specialist) IT audit provision 19/20	Mar 19	Completed	AM/AL
21. CPD/training and development Assurance Lincs/CIPFA/Audit groups/other	Mar 20	Ongoing	AM/AL
22.GDPR – review agreements for contract compliance	Mar 20	Ongoing	AM/ BBC

AM – Audit Manager
AL – Assurance Lincolnshire
BBC – Boston Borough Council

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SUBJECT: INTERNAL AUDIT PROGRESS REPORT

REPORT BY: AUDIT MANAGER

LEAD OFFICER: AUDIT MANAGER

1. Purpose of Report

- 1.1 To present the Internal Audit Progress Report to the Audit Committee, incorporating the overall position reached so far, and summaries of the outcomes of audits completed during the period.

2. Executive Summary

- 2.1 The report highlights progress against the audit plan.

3. Background

- 3.1 A key requirement of public sector internal audit standards is that Internal Audit should report progress periodically to those charged with governance. The Audit Committee has within its terms of reference the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan. The latest progress report for 2019-20 is attached as the appendix to this report.

3.2 Internal Audit Progress Report

- 3.3 The Internal Audit progress report attached (Appendix A) covers the following areas :-
- Progress against the plan
 - Summary of Audit work
 - Implementation of Audit recommendations
 - Current areas of interest relevant to the Audit Committee

4. Organisational Impacts (nb. Finance, Legal and E & D sections below are mandatory, others to be completed only where there is an impact)

- 4.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising as a result of this report.

- 4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required)

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 Audit Committee is asked to note the content of the latest Internal Audit Progress Report for 2018-19 and consider whether any of the following options are relevant:

- Report and make recommendations to the Executive if they feel it appropriate
- Refer any matter under review they feel appropriate to the relevant Portfolio Holder, Scrutiny Chair or Committee
- Seek responses from Officers on matters arising (written or verbal) to be submitted to the next Audit Committee on any of the issues raised within this report or associated Appendices. Members may further wish to request the presence of the relevant Managers at the meeting to explain performance / specific issues.
- Accept the report and continue to monitor arrangements

Key Decision No

Do the Exempt Information Categories Apply? No

Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

How many appendices does the report contain? One

List of Background Papers:

Lead Officer: Audit Manager Telephone 873321



City of Lincoln Council



Progress Report – May 2019

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Contact Details:

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Introduction

1. The purpose of this report is to:
 - Advise of progress made with the Audit Plan
 - Provide details of the audit work undertaken since the last progress report.
 - Provide details of the current position with agreed management actions in respect of previously issued reports
 - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. The 2018/19 Audit Plan is almost complete. The outstanding audits are all at draft report stage and will be finalised as soon as possible - see section 7 for details.
3. The 2019/20 Audit Plan has been started - see section 7 for details.
4. Committee will be given an update on audit reports reaching one year old which have outstanding recommendations – see section 10 for a summary and a separate report for the details.

Internal Audit reports completed March - May

5. The following final reports have been issued since the last progress report;

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance	Consultancy / Advice
Community Infrastructure Levy & S106 Agreements Governance	Sickness Absence Follow Up Fees & Charges	None	None	Business Rates Growth Policy

Note: The Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 4.

Below are summaries of the audit reports issued.

Community Infrastructure Levy & Section 106 Agreements – High Assurance

The Council implemented the Community Infrastructure Levy (CIL) in February 2018. It is applied to qualifying development and is used primarily to support development by the County Council on infrastructure such as schools and transport but there is also provision for the City Council to use a small part of it to support development of the relevant area and, as the charging authority, to recover its administration costs.

The introduction of CIL has not replaced the need for section 106 agreements, which continue to be used for affordable housing quotas, playing fields, road improvements, landscaping, etc.

CIL receipts can be spent without time constraint whereas s106 receipts have to be spent within a set number of years or repaid.

This audit gives High assurance that CIL and s106 receipts are being collected (when due) and correctly administered.

We did not identify any weaknesses that would require a formal recommendation.

Governance – High Assurance

This was a high level review on the Council's corporate governance arrangements. It was done by:

- Mapping the key processes in each of the seven Core Principles in the Council's Code of Corporate Governance to the Combined Assurance Map, and exploring any gaps
- Mapping the key documents in each of the seven Core Principles to the recently produced Policy Register, and exploring any differences
- Examining the processes to produce the AGS and monitor any issues identified

We found that;

- 91% of the key processes map to Green assurance areas in the Combined Assurance Map and a very small number map to Amber assurance areas.
- All "policy" documents in the Code are in the Corporate Policy register
- The AGS process is robust. A wide range of intelligence is gathered and the Council's statutory officers are interviewed. Two different officer groups consider and refine potential significant issues before they are considered by CLT and CMT, and finally Audit Committee.
- During 2018/19 Audit Committee received quarterly AGS monitoring reports on the one significant issue (Information Management) and the five areas to watch plus regular detailed updates on Information Management from the Data Protection Officer

We did not identify any areas for improvement and have not made any recommendations.

Sickness Absence Follow Up – Substantial Assurance

Previously we found sickness absence management, overall, was being managed effectively.

There has been gradual improvement over the last two years in sickness levels but there is still some room for improvement. The Absence Management policy has recently been reviewed and was approved by the Executive in March 2019.

The Council has a new occupational health provider which is seen as a better service.

We found that seven agreed actions had been completed and were operating as expected.

We also made two further recommendations;

- Provide CMT with an update on the Health and Wellbeing action plan alongside the stress clinic results.
- Ensure all Directorate Admin teams report any outstanding return to work interviews to HR

Fees & Charges – Substantial Assurance

The purpose of the review was to;

- Provide assurance on the Council's Strategic approach & processes for managing and implementing fees and charges whilst seeking to ensure they are fair and appropriate.
- Consider how the council is ensuring value for money from fees and charges in line with its Value for Money Statement

The review examined non-statutory fees in the following areas; Leisure (£194,790), Crematorium & Cemeteries (£1,322,620) and the Control Centre (£377,880). Figures are the 2018/19 budget.

Given the current financial constraints and increasing pressures on services, fees and charges represent an important source of income. When setting fees and charges it is important to understand the impact on strategic priorities & objectives, the effect of different charging options, costs & income and customer opinion.

The Council's efficiency plan recognises the importance of income generation and the Medium Term Financial Strategy assumes that the Council will raise over £10.8m from fees and charges in 2018/19.

Given the drive towards financial sustainability it is important that a proactive and effective approach to raising income through fees and charges is in place.

Our review provided substantial assurance on service delivery arrangements, management of risks, and operation of controls.

We found that;

- Charges are reviewed on an annual basis as part of budget setting and approved at CMT, Executive and Full Council
- Commercial charges are regularly reviewed against competitors
- Quarterly financial reports are in place and include fees and charges information
- Consultation takes place with service users by a variety of methods and all fees and charges are part of the annual budget consultations

A Fees and Charges policy has been in place for some time and is not used consistently across the service areas. Some of the requirements in it may no longer be applicable or deliverable in light of current resource pressure and we have recommended that it is reviewed to ensure that it meets the needs of the Council in the current climate.

We have also recommended;

- The corporate template for the development of new fees and review of existing fees should be updated to clearly identify how the fee supports the strategic priorities and any potential impact on the service area. Also that the template is used for the review of fees as required by the current policy
- Reviewing the unit and total costs of providing a discretionary service to clearly identify any deficits and where needed set targets to improve the current operating position.

Business Rates Growth Policy – Advice

A Business Rates Growth Policy was approved in July 2018. The Council adopted a Policy for the discounting of business rates where economic benefit to the District can be evidenced - supporting economic growth and job creation. The cap is £150,000 per annum.

At the time of the audit the procedures were still being finalised which provided an opportunity for Internal Audit to make suggestions on the risk and control environment.

Our review examined the following areas;

- Roles and responsibilities / Board
- Budget
- Policy compliance / application process / meeting objectives
- Communication

All of the suggestions made were agreed and will be put in place.

Other Significant Work

6. Updates on other significant work;

De Wint Court

Internal Audit continue to provide project risk management support for the feasibility group.

Counter Fraud

An Annual Fraud report for 18/19 will be submitted to the Audit Committee in July 2019

The following work is currently underway for 2019/20;

- National Fraud Initiative 2019 – the data matches have been received and work has commenced on their review.
- Housing Tenancy Fraud – data matching results have been received and are being examined
- Counter Fraud training – training has been obtained through the Assurance Lincolnshire partnership and has been rolled out to all staff and members – this will continue

Northamptonshire County Council – governance and financial issues

Due to the delay by the Government in issuing financial resilience guidance the report will be presented to the September meeting.

Annual Internal Audit Report

The Annual IA Report has been approved by CMT and is presented to this Committee in a separate report.

Housing Benefit Subsidy testing

Detailed testing on 59 claims on behalf of the External Auditor has started.

ICT Assurance mapping

This is an extension of our Combined Assurance work concentrating on ICT

Annual Governance Statement support work

Other Advice work

Various

Audits in Progress

7. The following 2018/19 audits are in progress;

- Values & Behaviours – nearing completion; further workshops to be completed
- Health & Safety (Housing Fire risk) – report being agreed
- Information Governance / GDPR – report being agreed
- Procurement – report being agreed
- Vision 2020 project management – report being agreed
- Emerging Legislation – report being agreed
- Partnership governance – report being agreed
- Boutham Park restoration – report being agreed

The following 2019/20 audits are in progress:

- Recruitment – fieldwork in progress

Audit Recommendations

8. There is a formal process for tracking Internal Audit recommendations; they are recorded on a monitoring spreadsheet which management can record progress updates on at any time. Performance DMT's and Portfolio Holders monitor progress quarterly. On a monthly basis Internal Audit monitor recommendations becoming due.
9. A separate report will be provided to the July Audit Committee meeting on outstanding audit recommendations

Performance Information

10. Our performance is measured against a range of indicators and is shown at Appendix 4. There are no concerns in any areas.

Other matters of interest

11. Consultations

CIPFA Financial Management Code

CIPFA is currently consulting on a new code of practice. The Financial Management Code will for the first time set standards of financial management for local government in the UK.

The draft FM Code is based on a series of principles supported by specific standards and statements of practice. They are considered necessary to provide the strong foundation within local authorities to enable them to:

- manage short, medium and long-term finances
- manage financial resilience to meet foreseen demands on services
- manage unexpected shocks in their financial circumstances.

Demonstrating compliance with the CIPFA FM Code will be the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.

The consultation was open until 30 April 2019. The consultation draft and response form is available on the CIPFA website.

A collective response was sent by the Society of District Council Treasurers.

12. Reports, recommendations and guidance

CIPFA Statement on the Role of the Head of Internal Audit

The 2019 edition of the CIPFA Statement was published on 9 April. The statement sets out five principles that define the role and sets out the responsibilities of the organisation and the head of internal audit to ensure the role meets the standard. The support of the audit committee is a critical factor helping to ensure that professional standards can be met and that there are appropriate reporting relationships in place.

13. Local Government Application Note

CIPFA has updated its Application Note that accompanies the Public Sector Internal Audit Standards for internal auditors in local government. Internal audit should follow this as well as the standards. The publication includes a checklist to support evaluation against the standards, which is a key part of the internal audit's quality assurance and improvement programme.

14. Reviewing the Annual Governance Statement (AGS)

Local government bodies are required to publish an AGS alongside their financial statements each year. The audit committee plays an important role in the process, considering how effective the governance arrangements have been in the year and reviewing the AGS itself prior to approval and publication.

How can the audit committee help?

The audit committee can play a very valuable role in the development of the AGS and in the finished look of the statement. The committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the committee.

The committee can provide a valuable reality check for the draft document as well. Is it well written and clearly presented? Is the action plan adequate and realistic? The committee can send an important message about the value and importance of the AGS, which will support those providing assurance to support its conclusions. Once the AGS has been approved, the committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.

The AGS should:

- focus on outcomes and value for money
- evaluate against the local code and principles
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- explain action taken in the year to address the significant governance issues identified in the previous year's statement
- be signed by the chief executive and leading member in a council.

The most important way to make the statement meaningful is to ensure that it is an open and honest reflection of your governance and your current challenges

One of the key aspects of the AGS is the identification of areas for improvement and the associated action plan. Where these are done well the AGS becomes a meaningful tool for improving governance.

The AGS should also provide a clear evaluation against the principles of good governance and an opinion of whether the arrangements are fit for purpose or not.

Appendix 1 – Details of Limited / Low Assurance Reports

There are none.

Appendix 2 – Audit Plan Schedule 2019/20

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Chief Executive - Critical Activities					
Payroll	Risk Based Audit.	Q3			
Apprentice scheme	Financial arrangements	Q3-4			
Recruitment process	Internal promotions and external recruitment	Q1	May		In progress
Scrutiny	Scrutiny committee operation & training of Members	Q3			
Treasury Management	Investments & borrowing	Q2			
Efficiency Savings	Programme and project arrangements	Q2			
Housing and Regeneration - Critical Activities					
Housing Allocations	Accuracy & processing arrangements on the new IT system.	Q4			
Housing Allocations	New Build allocations process	Q2			
Homelessness	Implementation of the Homelessness Reduction Act	Q3			
Housing Repairs	Interaction between reactive repairs and planned maintenance	Q3			
Housing Strategy	Implementation of the Housing Strategy including links with Major Developments	Q4			
Rental income	Risk based audit, to include Universal Credit impacts.	Q2			
Housing ASB	Advice work - budget	Q1			In progress
Communities & Environment - Critical Activities					
Performance Management	Operation of the new PM system.	Q4			
Community Safety	City Centre intervention, safeguarding & licensing	Q2-3			
Private Sector Housing follow up	Follow up of 17/18 HMO work plus Private Sector Housing in general	Q2			
Sport & Leisure pitches	Contract review	Q2			

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Major Developments - Critical Activities					
Growth & Regeneration	Strategies, investment, partnerships, infrastructure.	Q3-4			
Financial & Governance					
Welfare Reform	Universal Credit roll out & the provision of welfare advice	Q2-3			
Counter Fraud	Liaise with the Lincolnshire Counter fraud partnership	Q1-4			
Counter Fraud	Fraud Strategy Actions	Q1-4			In progress
Counter Fraud	Counter Fraud Health Check	TBA			
Counter Fraud	Tenancy Fraud (matches)	Q1-4			In progress
Counter Fraud	Friends Against Scams	Q1/2			In progress
Counter Fraud	Money Laundering risk assessment	TBA			
Counter Fraud	6/12 month reports	TBA			12 month report July 19
Counter Fraud	Policy reviews	TBA			
Counter Fraud	Fraud Training (continuation)	Q1/2			In progress
Counter Fraud	NFI data matching	Q1-4			In progress
Counter Fraud	Fraud risk register update	Q3			
Counter Fraud	Identity fraud	Q2			
Governance and Risk					
Governance	Key controls for annual assurance	Q3			
Risk Management	Key controls for annual assurance	Q1			
Information Management & Technology					
ICT	Assurance mapping	Q1-2			In progress
ICT	Strategy, Leadership & Infrastructure Planning	TBC			
ICT	Project & programme management	TBC			
ICT	Code of Connection for 3 rd party suppliers	TBC			
ICT	Information security (incidents & business continuity/IT DR)	TBC			
Projects					
Western Growth	Programme governance / project management arrangements	Q1/2			
De Wint Court	Project & contract arrangements	Q1-4			Contract Audit Q3/4

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Consultancy / VFM / No-opinion review					
Refuse & Recycling	Work being done to assess the future direction	TBC			
Brexit	Assist with risk & control issues as part of a working group	Q1-2			
Emerging legislation / policy	Preparation for new and emerging legislation / policy	Q1			Merged with work from 2018/19
Other work					
Follow up work	Assurance that actions from previous audits have been implemented	Q1-4			
Combined Assurance	Update the assurance map	Q3/4			
2018/19 audits	Completion of audits brought forward	Q1	April		Majority are at report agreement stage
Contingency	Contingency				
Advice & management, reactive investigations	As area	Q1-Q4			Ongoing
Annual Internal Audit Report	Report for 2018/19	Q1	April	May	Completed. To Audit cttee June 19
Audit Committee	Audit Committee support	Q1-Q4			Ongoing
IA Strategy and Plan	New Plan for 2020/21	Q4			
Housing Benefit Subsidy					
Detailed testing on behalf of External Audit	2018/19 Subsidy claim	Q1-2	May		In progress

Appendix 3- Assurance Definitions¹

<p>High Assurance</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p>Substantial Assurance</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p>Limited Assurance</p>	<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p>Low Assurance</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

¹ These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

Appendix 4 - Performance Details 2019/20 Planned Work

Performance Indicator	Annual Target	Profiled Target	Actual
Percentage of plan completed.	100%	25% end June 50% end Sept 75% end Dec 100% end Mar	Will report at next meeting
Percentage of key financial systems completed.	100%	100% end Mar	Will report at next meeting
Percentage of recommendations agreed.	100%	100%	Will report at next meeting
Percentage of High priority recommendations due implemented.	100% or escalated	100% or escalated	Will report at next meeting
<p>Timescales:</p> <p>Draft report issued within 10 working days of completing audit.</p> <p>Final report issued within 5 working days of closure meeting / receipt of management responses.</p> <p>Period taken to complete audit –within 3 months from fieldwork commencing to the issue of the draft report.</p> <p><i>NB – Not all completed work is included within the timescales, e.g. non assurance work / where no formal report is issued such as benefit subsidy; fraud work etc.</i></p>	100%	100%	Will report at next meeting
<p>Client Feedback on Audit (average)</p> <p><i>NB – feedback is generally only obtained for formal assurance work although sometimes it may be obtained for other types of work.</i></p>	Good to excellent	Good to excellent	Will report at next meeting

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SUBJECT:	AUDIT COMMITTEE WORK PROGRAMME
REPORT BY:	AUDIT MANAGER
LEAD OFFICER:	AUDIT MANAGER

1. Purpose of Report

1.1 To provide details of the Audit Committee work programme for 2019/20

2. Executive Summary.

2.1 The Audit Committee approves a work programme each year and monitors progress.

3. Details

3.1 The proposed work programme is attached at Appendix A. The frequency of meetings has been reviewed and is considered appropriate for 2019/20.

4. Organisational Impacts

4.1 Finance

There are no direct financial implications arising as a result of this report.

4.2 Legal Implications including Procurement Rules

There are no direct legal implications arising as a result of this report.

4.3 Equality, Diversity & Human Rights

There are no direct E and D implications arising as a result of this report.

5. Recommendation

5.1 Audit Committee should comment on and agree the work programme for 2019/20.

Key Decision	No
Do the Exempt Information Categories Apply?	No
Call in and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
How many appendices does the report contain?	One
List of Background Papers:	None
Lead Officer:	Audit Manager Telephone 873321

AUDIT COMMITTEE AUDIT WORK PROGRAMME FOR 2018/19

Meeting dates	Audit Items	Training (Suggested)	Comments
13 th June 19	<ul style="list-style-type: none"> • Internal Audit Progress report • Statement of Accounts (Draft) • Annual Governance Statement (Draft review) • Audit Committee Work Programme • Annual Internal Audit Report • External Audit Progress report 	<ul style="list-style-type: none"> • Local Government Financial Statements explained • Audit Committee effectiveness (approach to be agreed and for new members) • Annual Governance Statement/Corporate Governance (Part of Meeting) 	
18 th July 19	<ul style="list-style-type: none"> • Statement of Accounts / Annual Governance Statement (Final) • Annual Governance Report / Auditors Report (External Audit) • Terms of Reference review - Internal Audit • Annual Audit Letter (External Audit) • 12 month Fraud and Error report • Audit recommendations report 		
26 th Sept 19	<ul style="list-style-type: none"> • Internal Audit progress report • Audit Committee Work Programme • Annual Governance Statement monitoring report 	<ul style="list-style-type: none"> • 	

	<ul style="list-style-type: none"> • Annual Complaints report • Audit recommendations report 		
17 Dec 19	<ul style="list-style-type: none"> • Audit recommendations report • Internal Audit progress report • Six Month Fraud and Error report • Annual Governance Statement - monitoring • Audit Committee Work Programme • Counter fraud policies + fraud risk register • Information Governance Update • Review of the effectiveness of Internal Audit and Audit Committee • Audit Committee terms of reference review 	<ul style="list-style-type: none"> • Counter Fraud (Via e-learning) 	
6 th Feb 20	<ul style="list-style-type: none"> • Internal Audit Progress report • Audit Recommendations report • Treasury management policy and strategy (consultation prior to approval by Council) • Audit Committee Work Programme • External Audit annual report on grants and returns • External Audit plan • Draft Internal Audit plan 19-20 • Information Governance Update 	<ul style="list-style-type: none"> • Treasury Management 	

<p>24 Mar 20</p>	<ul style="list-style-type: none"> • Internal Audit Progress report • Audit recommendations report • Combined Assurance report • Annual Governance Statement –update report • Final Internal Audit Strategy and Plan 19-20 (if required) • Risk Management Strategy / annual report • Statement on Accounting Policies • Audit Committee Work Programme • External Audit Inquiries – 18/19 Statement of Accounts • IAS19 – Assumptions used to calculate pension entries in the Statement of Accounts and Audit Regulations • Information Governance Update report 		

A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.

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