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AUDIT COMMITTEE

Tuesday, 17 September 2019	6.00 pm	Committee Room 2 - 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): Councillor Pat Vaughan

Independent Member: Jane Nellist

Officers attending: Paul Berry, Democratic Services, Jaclyn Gibson, John Scott and Colleen Warren

A G E N D A

SECTION A **Page(s)**

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Present:	Councillor Geoff Ellis *(in the Chair)*
Councillors:	Thomas Dyer, Gary Hewson, Jackie Kirk, Rebecca Longbottom and Laura McWilliams
Independent Member:	Jane Nellist
Apologies for Absence:	Councillor Ronald Hills

9. Confirmation of Minutes -13 June 2019

RESOLVED that the minutes of the meeting held on 13 June 2019 be confirmed.

10. Declarations of Interest

No declarations of interest were received.

11. External Audit-Annual Governance Statement (To Follow)

Due to resourcing issues Mazars have been unable to complete the audit of the Statement of Accounts and as such had not yet issued there IAS260 report. The audit was now scheduled for completion during August with an additional Audit Committee to be scheduled for early September.

Members questions and comments:

Question: Members asked whether the External Auditors who came into City Hall were sufficiently trained?

Response: Mazars employed people with a mixture of knowledge and experience, moving forward training requirements would be reviewed.

Question: Members asked why staff were not trained to deal with Local Authorities?

Response: Training that needed to be carried out was complete. Mazars had been hit with unforeseen issues.

Question: Members asked when these unforeseen issues had first been recognised?

Response: The issues had first been recognised in the last four weeks.

Question: Members asked how it impacted on other Local Authorities?

Response: It was speculated to be around 35 authorities across all of the national six suppliers that would not have their audits completed by 31st July.

Comment: The External Audit Annual Governance Statement being delayed was not a reflection on the Financial Services Team. The Financial Services Team had cancelled leave to try and get the audit completed by the 31st July.

Question: Members asked whether Mazars could confirm the wording that needed to be placed on the website?

Response: The wording had been drafted in a letter and would be sent to officers tomorrow morning.

Comment: A verbal update was to be presented to Executive on Monday night and a communications response had been drafted.

RESOLVED that a separate meeting was to be arranged for the first two weeks in September for the External Audit Annual Governance Statement.

12. Statement of Accounts 2018/19

This item had been deferred until the External Audit Annual Governance Statement had been received.

13. Internal Audit Progress Report

John Scott, Audit Manager:

a. presented the Internal Audit Progress Report to the Audit Committee, incorporating the overall position reached so far, and summarised the outcomes of audits completed during the period

b. highlighted that the Internal Audit Progress Report covered the following areas:
   - Progress against the plan
   - Summary of Audit work
   - Implementation of Audit Recommendations
   - Current areas of interest relevant to the Audit Committee

c. invited members questions and comments.

Question: Members asked that given the need to cut budgets and services continually being cut, whether there were going to be more issues with work being completed.

Response: All local Authorities were in the same situation. Contingencies had been used but would need to continue to monitor the audit plan. We are reviewing the plan in September and will assess if any audits need to be deferred to the following year High risk issues would still be looked at.

RESOLVED that the content of the latest Internal Audit Progress Report for 2018/19 be noted.

14. Internal Audit Recommendation Follow Up

John Scott, Audit Manager:

a) presented an update to the Audit Committee, on outstanding recommendations and recommendations over 12 months old.

b) explained that members were concerned with the length of time some agreed actions were taking to implement and so it was agreed that a separate report highlighting recommendations older than 12 months would be provided and managers would attend for the very oldest reports.

c) provided a report to highlight recommendations older than 12 months to Audit Committee

d) invited members questions and comments.

Question: Members asked whether bringing managers such as the IT Manager to Audit Committee made a difference to the implementation of recommendations and whether the committee would be able do anything to help.

Response: Some recommendations were showing as outstanding but had had a lot of work done on them. Some of the issues that came under IT were not always down to the core IT team, IT moved at a faster pace with technology than any other department which meant that other work may have to be prioritised and some actions become superseded

Comment: The IT Team had had a lot of work to carry out including a duplicate system at Hamilton House which took a lot of time. Recommendations that provided more risk to the authority were being worked on first.

RESOLVED that that Audit Recommendations older than 12 months were received and reviewed.

15. Fraud and Error Annual Report (2018/19)

John Scott, Audit Manager:

a) provided a report to Audit Committee to update on Counter Fraud arrangements.

b) highlighted areas of ColC Progress in 2018/19 which included:
- Counter Fraud Strategy updated (Dec 18)
- Updated Money Laundering Policy (Dec 18)
- Achieved a high proportion (70%) of fraud e-learning by employees and also rolled out to members
- Updated fraud risk register
- Obtained tenancy fraud matching data and commenced review (April 19)
- Continued to tackle housing fraud cases (sub-letting and non-occupation)
- Submitted data and started work on NFI (national Fraud Initiative) matches
- Undertaken the successful Council Tax SPD project for ColC/NKDC (566 removals for ColC)
- Continued to work with DWP (SFIS) on HB fraud referrals
- Updated the Benefit/CTS fraud, sanctions and prosecutions policy
- Implemented the new Verification of Earnings and Pensions (VEP) system which replaced the Right Benefit Initiative (RBI)
- Started work with LCFP on the next Council Tax SPD and CTS fraud project
- Started to work on a possible data matching service for Small Business rates relief

- In partnership with the County Council managed the whistleblowing referrals
- Made the City of Lincoln Council a 'friends against scams' organisation

c) Listed other ColC Specific Priorities for 2019/20:
   - Tenancy Fraud – work with Housing to complete matched
   - NFI – work with teams to complete matches
   - Fraud training (residual and new staff members)
   - Identity fraud – work with teams on best practice
   - Scam busters/friends against scams – publicise and roll out to be completed
   - Money laundering – risk assessment
   - Update Counter Fraud risk register
   - Health check – assessment against good practice
   - Fraud policy updates – anti-bribery
   - Whistleblowing/fraud reporting best practice and publicity
   - CIPFA fraud return
   - Possible data matching service for Small Business rates relief
   - Lincolnshire Resilience Forum/MHCLG Cyber Resilience Group and related exercises.

d) invited members questions and comments.

RESOLVED that the report be considered.

16. Audit Committee Work Programme 2019/20

RESOLVED that the work programme be agreed.

AUDIT COMMITTEE **17 SEPTEMBER 2019**

SUBJECT:	**EXTERNAL AUDIT: AUDIT COMPLETION REPORT**
DIRECTORATE:	**CHIEF EXECUTIVE & TOWN CLERK**
REPORT AUTHOR:	**JACLYN GIBSON, CHIEF FINANCE OFFICER**

1. Purpose of Report

1.1 This report summarises the findings from the 2018/19 audit, which is substantially complete. It identifies the key issues that Members should consider before an opinion, conclusion and certificate are issued.

2.1 This report includes only matters of governance interest that have come to the external auditor's attention in performing the audit. It is not designed to identify all matters that might be relevant to the Authority.

2.2 The report will be presented at the meeting by the Council's External Auditors, Mazars.

2. Executive Summary

2.1 The Council's financial statements are an important means by which the Council accounts for its stewardship of public funds. Council Members have final responsibility for the financial statements. It is therefore important that the Audit Committee consider Mazars findings before recommending the adoption of the financial statements to Full Council.

3. Opinion on the Financial Statements

3.1 At the time of preparing this report, Mazars work on the financial statements was substantially complete. Subject to the satisfactory conclusion of any outstanding work, Mazars propose issuing an unqualified audit opinion by the 30th September 2019 (a report to those charged with governance (IAS 260) is attached at Appendix A).

3.2 As part of the audit work undertaken Mazars have considered the internal controls in place relevant to the preparation of the financial statements. The findings of this work has resulted in 3 recommendations being made in respect of:

- Production of draft accounts and working papers
- Incomplete disclosures for pension fund plan assets
- Investment property valuations

Further detail of the findings and recommendations are provided in section 4 of the attached report.

3.3 In relation to misstatements in the accounts there were a number of misstatements identified that were above the threshold level of £53k, all of which were adjusted for as part of the audit process and have been reflected in the version of the Statement of Accounts that is presented elsewhere on this agenda. Further details of these misstatements are provided in section 5 of the attached report. There were no unadjusted misstatements.

3.4 A fully amended copy of the Statement of Accounts is presented elsewhere on this agenda.

4. Value for Money Conclusion.

4.1 The Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are adequate. Mazars therefore proposes issuing an unqualified opinion on the Council's value for money arrangements.

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.

6. Organisational Impacts

6.1 Finance

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

6.2 Legal Implications including Procurement Rules

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. As reported to the Audit Committee on 18th July 2019 the External Auditor was unable to complete their audit work by this date and issue their audit opinion. In accordance with Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015:

> 2) Where an audit of accounts has not been concluded before the date specified in paragraph (1) an authority must—
>
> > (a) publish (which must include publication on the authority's website) as soon as reasonably practicable on or after that date a notice stating that it has not been able to publish the statement of accounts and its reasons for this"

Such a notice was published by the Council on the 23rd July 2019. On receipt of the final audit opinion, the Council's website will be updated with the final audited accounts including the issued audit opinion.

6.3 Equality, Diversity and Human Rights

There are no equality, diversity or human rights issues arising as a result of this report.

7. Risk Implications

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

8. Recommendation

8.1 Audit Committee are asked to:

a) Consider the matters raised in the report before recommending the financial statements for approval by Full Council;

b) Approve the draft letter of representation, attached at Appendix B, on behalf of the Council before Mazars issue an opinion, conclusion and certificate and delegate any further amendments to the letter, should any additional issues be raised by Mazars prior to 30th September, to the Chief Finance Officer and Chair of this Committee, with any changes reported back to this Committee.

c) Delegate to the Chief Finance Officer and Chair of this Committee any further changes that may be required to the Statement of Accounts as identified during the conclusion of the audit, with any changes reported back to this Committee.

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:	Draft Statement of Accounts 2018/19 – Audit Committee 13th June 2019.
Lead Officer:	Jaclyn Gibson, Chief Finance Officer Telephone (01522) 873258

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Audit Completion Report

City of Lincoln Council

Year ending 31 March 2019

CONTENTS

Mazars LLP
45 Church Street
Birmingham
B3 2RT

Members of the Audit Committee
City of Lincoln Council
City Hall
Beaumont Fee
Lincoln
LN1 1DD

09 September 2019

Dear Members

Audit Completion Report – Year ending 31 March 2019

We are pleased to present our Audit Completion Report for the year ending 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, key audit matters and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 26 March 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks, key audit matters and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07875 974 291.

Yours faithfully

Mark Surridge
Mazars LLP

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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of City of Lincoln Council ('the Council') for the year ended 31 March 2019, and forms the basis for discussion at the Audit Committee meeting on 17 September 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 3 and 6 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 3 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Revenue recognition;
- Expenditure recognition;
- Valuation of property, plant and equipment, investment properties and assets held for sale; and
- Valuation of net defined benefit liability.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements	We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.
Value for Money conclusion	We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.
Whole of Government Accounts (WGA)	Our WGA Submission will be completed in line with the group instructions issued by the NAO.
Wider powers	The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. At the time of drafting this report we have not received any questions or objections relating to 2018/19.

1. EXECUTIVE SUMMARY (CONTINUED)

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Review of work	● (amber)	Our senior management review of the audit work is still in progress. This may identify the need for additional testing to be undertaken or further evidence to be sought in support of balances, which may result in further misstatements being identified.
Events after the Balance Sheet date	● (green)	Our review is ongoing up until the date of signing the auditor's report (the Opinion).
Signed financial statements and signed Management Representation Letter	● (green)	Following the Audit Committee on 17 September 2019 the Council will provide signed copies of the financial statements, annual governance statement and Management Representation letter.

Status

- ● Likely to result in material adjustment or significant change to disclosures within the financial statements
- ● Potential to result in material adjustment or significant change to disclosures within the financial statements
- ● Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Misstatements and internal control recommendations

Section 4 sets out the internal control recommendations that we have made.

Section 5 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.

2. AUDIT APPROACH

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £1,523k using a benchmark of 1.3% of gross expenditure at the Surplus/Deficit on Provision of Services level. Our final assessment of materiality, based on the final financial statements and qualitative factors was uplifted to 1.5% of gross expenditure and is £1,757k. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee), at £53k based on 3% of overall materiality.

We confirm that there were no qualitative factors which we considered when setting the level of materiality for the Council.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that adjustments of a lessor amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We set specific materiality for the following items of account/disclosures:

Item of account/disclosure	Specific materiality
Officer's emoluments (Note 35)	£110,000
Officer's remuneration bandings (Note 35)	£5,000 *
Members allowances (Note 34)	£58,000
Audit fee (Note 36)	£14,000

* Reflecting movement from one salary band to another

2. AUDIT APPROACH (CONTINUED)

Key summary of audit approach and findings

We have summarised the key information regarding our approach, risks and significant findings for the Comprehensive Income and Expenditure Statement and Balance Sheet in the tables below. Further information on the findings are provided in Sections 3 and 5.

Comprehensive Income and Expenditure Statement

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Significant audit findings
Net cost of services	Significant	Revenue Recognition Risk Expenditure recognition risk	No	None	Non-material adjusted misstatement
Other operating expenditure	Standard	-	No	None	Non-material adjusted misstatement
Financing and investment I&E	Significant	Accuracy of pensions interest costs	Yes	None	Non-material adjusted misstatement
Taxation and non-specific grant I&E	Standard	-	No	None	None
Other comprehensive I&E	Significant	Accuracy of movements in pensions liability	Yes	None	Non-material adjusted misstatement

2. AUDIT APPROACH (CONTINUED)

Balance Sheet

Account area	Material misstatement risk	Risk description	Key Audit Matter	Changes to audit approach	Significant audit findings
Property, plant and equipment	Significant	Valuation of property, plant and equipment, investment properties and assets held for sale risk	Yes	None	Non-material adjusted misstatement
Heritage assets	Standard	-	No	None	None
Investment properties	Significant	Valuation of property, plant and equipment, investment properties and assets held for sale risk	Yes	None	Non-material unadjusted misstatement
Assets held for sale	Significant	Valuation of property, plant and equipment, investment properties and assets held for sale risk	Yes	None	Non-material adjusted misstatement
Investments	Standard	-	No	None	None
Short term debtors	Significant	Revenue recognition risk	No	None	None
Cash and cash equivalents	Standard	-	No	None	Non-material adjusted misstatement
Short term creditors	Significant	Expenditure recognition risk	No	Yes	None
Borrowings	Standard	-	No	None	None
Provisions	Standard	-	No	Yes	None
Other long term liabilities	Significant	Valuation of pensions liability	Yes	None	Non-material adjusted misstatement
Reserves	Minimal	-	No	None	None

3. SIGNIFICANT FINDINGS

Set out on the following pages are the significant findings from our audit. These findings include:

- our findings on key audit matters, including:
  - why the matter was considered to be one of the most significance in the audit and therefore determined to be a key audit matter;
  - how the matter was addressed in the audit including a summary of our response;
  - where relevant, key observations arising with respect to each matter; and
  - a clear reference to the relevant disclosures in the financial statements
- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 13 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified key audit matters and significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new key audit matters and significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

The table below reaffirms the significant risks and Key Audit Matters identified in our Audit Strategy Memorandum with our findings set out on the following pages.

Description of risk	Key Audit Matter	Audit Adjustments Arising?
Valuation of property, plant and equipment, investment properties and assets held for sale	Y	Y
Valuation of net defined benefit liability	Y	Y
Management override of controls	N	N
Revenue recognition	N	N
Expenditure recognition	N	N

3. SIGNIFICANT FINDINGS (CONTINUED)

Key audit matters

Valuation of property, plant and equipment, investment properties and assets held for sale	**Description of the key audit matter** The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (PPE), investment properties and assets held for sale. The Council employs valuation experts to provide information on valuations, because there is a high degree of estimation uncertainty associated with the (re)valuations of PPE, investment properties and assets held for sale due to the significant judgements and number of variables involved.
	How we addressed the key audit matter We have: • critically assessed the Council's arrangements for ensuring that PPE, investment property and assets held for sale valuations are reasonable; • critically assessed the data provided by Gerald Eve (an expert commissioned by the NAO), as part of our challenge of the reasonableness of the valuations provided by the Council's valuers; • consider the competence, skills and experience of the valuers and the instructions issued to the valuers; and • where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.
	Observations and conclusions Aside from a non-material classification error as described in Section 5, there are no significant matters arising from our testing, and we have concluded that the Council's property, plant and equipment, investment properties and assets held for sale are materially fairly stated.

3. SIGNIFICANT FINDINGS (CONTINUED)

Valuation of net defined benefit liability

Description of the key audit matter

The financial statements contain material accounting entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we addressed the key audit matter

We have:

- critically evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and
- challenged the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office.

Observations and conclusions

There are no significant matters arising from our testing, although we do wish to bring the following to Members' attention.

All local authorities have been affected by an accounting issue that impacts the value of pension liabilities. Two on-going legal cases (Guaranteed Minimum Pensions and McCloud/Sergeant) have created uncertainty over whether pension liabilities are fairly stated. The Council's actuary (via the Pension Fund) did not make an allowance in its actuarial valuation for either of these cases and early guidance given to councils was that the impact would not be material. The Council, as with nearly all local authorities in England, prepared the financial statements on this basis. In our view, these cases give rise to at least a constructive obligation, which is required to be recognised under IAS 19. As a result the Council obtained a revised valuation from the Pension Fund via its actuarial expert incorporating these two issues.

This resulted in a non-material understatement of liabilities, as described in Section 5, for which the Council has updated the financial statements to reflect the changes identified in these revised valuations.

3. SIGNIFICANT FINDINGS (CONTINUED)

Significant risks

Management override of controls	**Description of the risk** In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion There are no significant matters arising from our work on the management override of controls.

3. SIGNIFICANT FINDINGS (CONTINUED)

Revenue recognition

Description of the risk

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition although, based on the circumstances of each audit, this is rebuttable.

Having considered the factors for revenue recognition and the Council's revenue streams, we have concluded that the risk lies in the year-end balance sheet and in particular the existence and accuracy of debtors, specifically those that relate to useable reserves, are material, subject to manual intervention and/or significant estimation.

This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.

How we addressed this risk

We addressed this risk through performing audit work over:

- evaluating the design and implementation of controls to mitigate the risk of material manual debtors being recognised in the wrong period;
- testing material manual debtors to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly;
- testing from receipts pre and post year-end to ensure revenue has been posted to the correct period; and
- testing material year end journals.

Audit conclusion

There are no significant matters arising from our work on revenue recognition.

Expenditure recognition	**Description of the risk** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council (FRC), which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Again, based on the circumstances of each audit, this is rebuttable. Having considered the factors for expenditure recognition, we have concluded that the risk lies in the year end balance sheet and in particular the completeness and valuation of creditors, specifically those that are material, manually accrued and impact the Council's useable reserves. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.
	How we addressed this risk We addressed this risk through performing audit work over: • evaluating the design and implementation of controls to mitigate the risk of material manual accruals being recognised in the wrong period; • testing material manual accruals to ensure that they are supported by sufficient and appropriate evidence and have been accounted for correctly; • testing of payments around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2018/19 accounts; and • testing material year end journals.
	Audit conclusion There are no significant matters arising from our work on expenditure recognition.

3. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the Code). We have considered the appropriateness of the use of the going concern assumption and have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code, appropriately tailored to the Council's circumstances.

Production of draft accounts and working papers

The Council's finance team experienced turnover in several key posts during 2018/19. This resulted in a loss of detailed knowledge over particular aspects of the accounts production and ledger processes leading to increased pressure on staff time during the busy year-end period. Although the team managed to prepare a complete set of draft financial statements by the statutory deadline, which were received on 31 May 2019, these were of a standard that fell below our expectations, demonstrated by:

- numerous casting errors;
- an overall imbalance between the Comprehensive Income and Expenditure Statement and the movement in the Balance Sheets between the years; and
- a failure to action previously agreed presentational amendments.

Given the pressures on staff the working papers provided in support of the financial statements were also found to be variable in quality and in some instances fell below the standard we would expect to see.

It is important that the Council takes the steps necessary to re-establish robust arrangements and staffing to support the 2019/20 year-end and we have raised a recommendation relating to this area of improvement in Section 4.

Incomplete Disclosures for Pension Fund Plan Assets

A requirement of CIPFA's Code of Practice is to include within the defined benefit pension disclosures a table disaggregating the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into:

- those that have a quoted market price in an active market (as defined in IFRS 13 Fair Value Measurement); and
- those that do not.

The Council has sought this information from its appointed actuary however, the information provided is clearly incorrect with some asset classes that cannot have a quoted market price being classified as having a quoted market price. As a consequence the Council is unable to accurately make the disclosure required by the Code.

Despite this omission management are satisfied that this does not prevent the reader of the accounts from obtaining a true and fair understanding of the Council's financial position and performance, and we agree with this assessment. The Council should however make all attempts to secure this information in the future and we have raised a recommendation relating to this area of improvement in Section 4.

Investment Property Valuations

Our audit procedures have noted that the Council has not revalued all of its Investment Properties during the year, contrary to the requirements of CIPFA's Code of Practice, which requires these assets to be measured at their fair value at the end of the reporting period. Whilst we are aware of the Council undertaking a material change review as at the 31 March each year, we do not feel that this would fully satisfy these requirements as this will not consider all of those aspects considered as part of a full revaluation.

Management have confirmed that they do not believe that the accounts would be materially misstated as a result of this error and our further work on the Council's valuations, including a comparison with regional and national valuation trends and benchmarking against the valuation movements in the Council's other Investment Properties, have provided sufficient assurance for us to concur with this view. We have raised a recommendation relating to this area of improvement in Section 4.

3. SIGNIFICANT FINDINGS (CONTINUED)

Opening balances

As a first year audit, we performed appropriate procedures on opening balances including a review of the predecessor auditor's file. Aside from a material prior period adjustment as described below, there were no matters to report.

Prior Period Adjustment

During 2018/19, management identified and discussed with us an underlying accounting error it had identified within unusable reserves from the way in which management had incorrectly posted accounting transactions between the Capital Adjustment Account and the Revaluation Reserve of £1.541million. In our view, the values involved were so large that the prior years figures were materially incorrect and therefore needed to be restated. This adjustment and the required disclosure notes, were not fully completed in the draft financial statements, leading to further audit adjustments being required.

Significant matters discussed with management

A challenging aspect of the audit related to the actuarial valuation of the Pension Liability that, as explained on page 10, impacted all local authorities and participants in a local government pension scheme. The Council prepared its draft financial statements based on guidance that had been issued at the time, however our view was that the actuarial valuations should have taken into account both the McCloud and GMP judgements. We raised our concerns at an early stage, and despite this being a complex area requiring third party input within compressed deadlines, was dealt effectively by all parties.

Significant difficulties during the audit

During the course of the audit we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. At the time of drafting this report we have not received any questions or objections from electors.

4. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

Significant deficiencies in internal control – Level 1

There were no significant deficiencies in internal control arising from our 2018/19 audit.

4. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other deficiencies in internal control – Level 2

Description of deficiency

1. Production of draft accounts and working papers

The Council's finance team experienced turnover in several key posts during 2018/19. This resulted in a loss of detailed knowledge over particular aspects of the accounts production and ledger processes leading to increased pressure on staff time during the busy year-end period. Although the team managed to prepare a complete set of draft financial statements by the statutory deadline, which were received on 31 May 2019, these were of a standard that fell below our expectations.

Given the pressures on staff the working papers provided in support of the financial statements were also found to be variable in quality and in some instances fell below the standard we would expect to see.

Potential effects

The presentation of imbalanced accounts and poor quality working papers can lead to inefficiencies for both the Council and auditors, as staff time is required to investigate, discuss and resolve issues and may, in certain circumstances, lead to delays in the audit timescales.

Recommendation

It is important that the Council takes the steps necessary to re-establish robust arrangements and staffing to support the 2019/20 year-end. Quality control procedures in respect of the accounts preparation process need to be strengthened and the Council, in its closedown procedures for 2019/20, should include sufficient time for a robust quality control process to be implemented.

Management response

Whilst it is acknowledged that improvements can be made for the future, the accounts were prepared using the same format and guidance as in previous years, which were deemed to be of an appropriate standard. All notes to the accounts and working papers will be reviewed for the forthcoming year end and time for quality checking will be built into the closedown timetable. It should be noted that all key positions are now filled.

Description of deficiency

2. Incomplete Disclosures for Pension Fund Plan Assets

The Council relies on its actuary to provide it with the information necessary to meet CIPFA's Code of Practice disclosure requirements, including the accurate split of its pension fund plan assets into various classifications. Our audit has identified that the information provided by the actuary for this note is inaccurate and does not provide a full analysis for the Council to produce its accounts note accurately.

Potential effects

The Council's accounts may be materially misstated in respect of its disclosure requirements.

Recommendation

As part of its commissioning of actuarial services for future years the Council needs to ensure that it receives the information required for it to complete of the disclosure requirements completely and accurately.

Management response

In 2019/20 appropriate instructions will be given to the actuary to ensure that detailed information is provided on the split of fund assets to be included in the report provided.

Other deficiencies in internal control – Level 2 (continued)

Description of deficiency

3. Investment Property Valuations

The Council is required to measure its investment properties at their fair value at the end of each reporting period. This fair value must reflect market conditions at the end of the reporting period and thus annual revaluations will be necessary unless the Council can demonstrate that the carrying value is not materially different from the fair value at that date.

Our testing has identified that the Council employs a rolling 5 year programme of valuations as at 1 April each year for its investment properties, supported by a material change review as at 31 March. This has resulted in 35 investment properties not being subject to a formal revaluation during the course of the year, and represents a departure from the stated accounting policy in respect of these assets.

Potential effects

The Council may not be able to demonstrate that its investment property valuations are in accordance with the requirements of CIPFA's Code of Practice.

Recommendation

The Council should ensure that all of its investment properties are subject to annual revaluation, ideally as at 31 March, to ensure that their fair values can be accurately determined at the end of each reporting period.

Management response

Instructions will be given to the valuer to ensure that all investment properties are valued on an annual basis going forward and a revised valuation date will be agreed with the valuer.

Other recommendations on internal control – Level 3

There were no other recommendations on internal control arising from our 2018/19 audit.

Follow up of previous internal control points

As 2018/19 is the first year of our appointment as the Council's external auditor, there are no previous internal control points to follow up and report.

5. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £53k.

The first section outlines the misstatements that have been adjusted by management during the course of the audit in respect of both numerical and disclosure issues.

The second section outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

Adjusted misstatements 2018/19

Numerical errors

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: HRS Reserve			89	
	Dr: Insurance Reserve			3,862	
	Cr: Earmarked Reserves				3,951
	The HRS Reserve and Insurance Reserve held by the Council forms part of its Earmarked Reserves and is presented as such within the Movement in Reserves Statement. Its presentation on the Balance Sheet should therefore be consistent with this.				
2	Dr: Chief Executive's Directorate – Expenditure	1,620			
	Cr: Financing and Investment Income and Expenditure		1,620		
	The Council incorrectly disclosed the fair value movement on its Investment Properties within Net Cost of Services rather than including these within Financing and Investment Income and Expenditure. *This error also has consequential impacts on the Expenditure and Funding Analysis and Notes 12, 16, 26 and 32.*				
3	Dr: Property, Plant and Equipment – Surplus Assets			1,200	
	Cr: Assets Held For Sale				1,200
	Following a decision to no longer actively seek the disposal of an asset the Council failed to transfer this back from Assets Held For Sale to Property, Plant and Equipment. *This error also has consequential impacts on Notes 14 and 22.*				
4	Dr: Other Operating Expenditure	374			
	Cr: Financing and Investment Income and Expenditure		374		
	The Council incorrectly disclosed the gains on its disposal on its Investment Properties within Other Operating Expenditure rather than including these within Financing and Investment Income and Expenditure. *This error also has consequential impacts on Notes 11, 12, 16 and 32.*				
5	Dr: Corporate Services – Expenditure	927			
	Cr: Other Long Term Liabilities				927
	Dr: Unusable Reserves – Pensions Reserve			927	
	Cr: MiRS General Fund – Adjustments		927		
	The net pensions liability has been increased following the receipt of the updated IAS 19 reports to reflect the impact of the GMP and McCloud emerging legal cases. *This error also has consequential impacts for the cash flow statement, the Expenditure and Funding Analysis and Notes 7, 8, 9, 26, 28 and 44.*				

5. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2018/19 (continued)

		Comprehensive Income and Expenditure Statement		**Balance Sheet**	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
6	Dr: Cash at Bank			613	
	Cr: Cash and Cash Equivalents				613
	The Council failed to disclose its cash and cash equivalent balances correctly on the face of the Balance Sheet.				
7	Dr: Unusable Reserves – Revaluation Reserve			784	
	Cr: Unusable Reserves – Financial Instruments Revaluation Reserve				784
	The Council incorrectly disclosed the cumulative fair value gains on its financial assets held at fair value through other comprehensive income and expenditure within the existing Revaluation Reserve rather than establishing a new Financial Instruments Revaluation Reserve. *This error also has consequential impacts on Notes 26.*				
8	Dr: MiRS HRA – Adjustments	70			
	Cr: Other Operating Expenditure		70		
	Dr: MiRS Capital Receipts Reserve – Other Adjustments	70			
	Cr: MiRS Capital Receipts Reserve – Adjustments		70		
	The Council failed to pass all of its capital receipts through the Comprehensive Income and Expenditure Account. This error also has consequential impacts for the cash flow statement, the Expenditure and Funding Analysis and Notes 7, 9, and 11.				
9	Dr: Other Operating Expenditure	231			
	Cr: MiRS Capital Receipts Reserve – Other Adjustments		231		
	Dr: MiRS Capital Receipts Reserve –Adjustments	231			
	Cr: MiRS General Fund – Adjustments		231		
	The Council identified that it had failed to include its 1-4-1 capital receipts that were due to be repaid to MHCLG within its capital receipts pooling figures. This error also has consequential impacts for the cash flow statement, the Expenditure and Funding Analysis and Notes 7, 9, 11 and 30.				

5. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

In addition to the above numerical errors that relate directly to the primary statements or their related notes, our audit also identified a number of required adjustments in relation to other disclosures. These have been discussed with management who have agreed to the amendments and include:

- corrections to the Expenditure and Funding Analysis;
- correct reporting of prior year errors as a Prior Period Adjustment rather than in year movements;
- corrections to the Cash Flow Statement and related notes;
- adjustments to some of the figures within Note 8 Expenditure and Income Analysed by Nature;
- correction to the figures reported for reserve movements in Note 10 Earmarked Reserves;
- adjustments to some of the figures and narrative disclosures within Note 18 Financial Instruments;
- correction to the figure reported for Note 34 Members' Allowances;
- re-analysis and correction of the figures within Note 35 Officers' Emoluments;
- adjustments to some of the figures within Note 37 Grant Income;
- amendment to the minimum lease payments within Note 40;
- removal of two disclosed contingent liabilities in Note 45;
- adjustments to some of the figures within Note 47 Nature and Extent of Risks Arising from Financial Instruments;
- adjustment of some of the figures disclosing the net book value of HRA assets within HRA Note 2;
- amendment to the depreciation charge within HRA Note 3; and
- adjustments to some of the figures within Collection Fund Note 3 Income From Business Ratepayers.

Unadjusted misstatements 2018/19

We have identified two misstatements during the course of the audit that management have decided not to correct as their assessment is that these are not material, either individually or in aggregate, to the financial statements and the errors do not prevent the reader of the accounts from obtaining a true and fair understanding of the Council's financial position and performance.

<u>Pension fund assets</u>

The Council has not disaggregated the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into:

- those that have a quoted market price in an active market (as defined in IFRS 13 Fair Value Measurement); and
- those that do not.

<u>Investment Properties Valuations</u>

The Council has not revalued all of its investment properties during the year.

6. VALUE FOR MONEY CONCLUSION

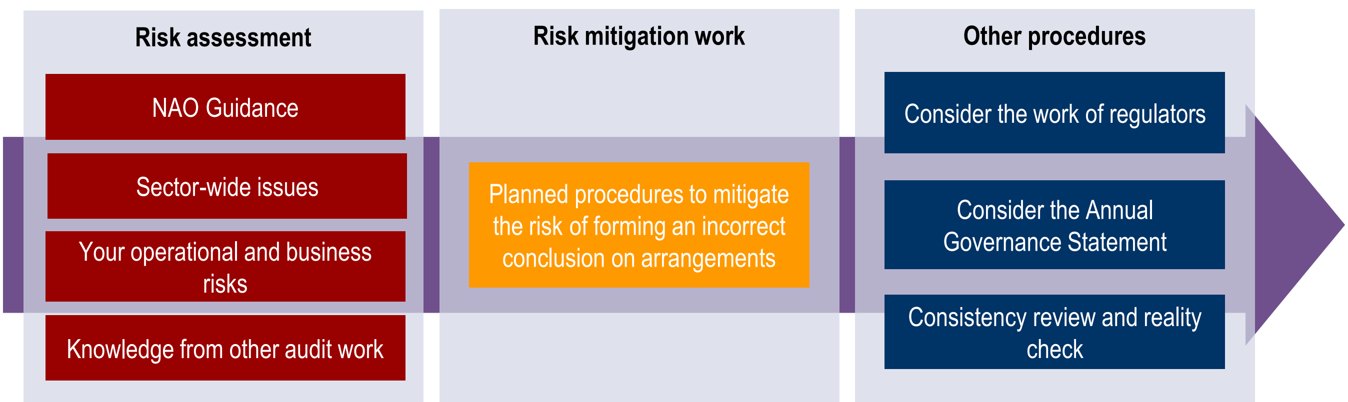
Our approach to Value for Money

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

A summary of the work we have undertaken is provided below:



Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our audit Strategy Memorandum, we reported that we had identified no significant Value for Money risks.

Since undertaking our initial risk assessment and issuing our Audit Strategy Memorandum we have continued to monitor the Council's arrangements, and we have:

- updated our risk assessment for any new or emerging issues through discussions with management and updating our review of committee reports;
- reviewed the Council's Annual Governance Statement for any significant issues; and
- considered the Council's financial outturn position as presented in the financial statements.

From the work performed, no new significant Value for Money risks were identified and we have no matters to report.

Our overall Value for Money conclusion

We have completed our procedures and, as set out in our draft auditor's report included at Appendix B, we intend to issue an unqualified Value for Money conclusion for the 2018/19 financial year.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

To be provided to us on client headed note paper

Mark Surridge
Director
Mazars LLP
45 Church Street
Birmingham
B3 2RT

[Date]

Dear Mark

City of Lincoln Council - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of City of Lincoln Council ('the Council') for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Executive and Audit Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

[continued]

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

I am satisfied that the valuation techniques, in respect of those financial assets carried at fair value through other comprehensive income and expenditure, including the related assumptions and models, used by management in determining accounting estimates under IFRS, are appropriate.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- the information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

[continued]

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole, and the errors do not prevent the reader of the accounts from obtaining a true and fair understanding of the Council's financial position and performance.

Yours faithfully

Jaclyn Gibson
Chief Finance Officer

APPENDIX B
DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of City of Lincoln Council

Report on the financial statements

Opinion

We have audited the financial statements of City of Lincoln Council for the year ended 31 March 2019, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing revenue Account, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of City of Lincoln Council as at 31st March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Our response and key observations
Valuation of property, plant and equipment, investment properties and assets held for sale The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (PPE), investment properties and assets held for sale. The Council employs valuation experts to provide information on valuations, because there is a high degree of estimation uncertainty associated with the (re)valuations of PPE, investment properties and assets held for sale due to the significant judgements and number of variables involved.	We have: • critically assessed the Council's arrangements for ensuring that PPE, investment property and assets held for sale valuations are reasonable; • critically assessed the data provided by Gerald Eve (an expert commissioned by the NAO), as part of our challenge of the reasonableness of the valuations provided by the Council's valuers; • consider the competence, skills and experience of the valuers and the instructions issued to the valuers; and • where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate. Aside from a non-material classification error, there are no significant matters arising from our testing, and we have concluded that the Council's property, plant and equipment, investment properties and assets held for sale are materially fairly stated.
Valuation of net defined benefit liability The financial statements contain material accounting entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We have: • critically evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and • challenged the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office. There are no significant matters arising from our testing, although we do wish to bring the following to Members' attention. All local authorities have been affected by an accounting issue that impacts the value of pension liabilities. Two on-going legal cases (Guaranteed Minimum Pensions and McCloud/Sergeant) have created uncertainty over whether pension liabilities are fairly stated. The Council's actuary (via the Pension Fund) did not make an allowance in its actuarial valuation for either of these cases and early guidance given to councils was that the impact would not be material. The Council, as with nearly all local authorities in England, prepared the financial statements on this basis. In our view, these cases give rise to at least a constructive obligation, which is required to be recognised under IAS 19. As a result the Council obtained a revised valuation from the Pension Fund via its actuarial expert incorporating these two issues. This resulted in a non-material understatement of liabilities, for which the Council has updated the financial statements to reflect the changes identified in these revised valuations.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the financial statements and our audit. Materiality is used so we can plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. The level of materiality we set is based on our assessment of the magnitude of misstatements that individually or in aggregate, could reasonably be expected to have influence on the economic decisions the users of the financial statements may take based on the information included in the financial statements.

Based on our professional judgement, we determined materiality for City of Lincoln Council for the financial statements as a whole as follows:

Overall materiality	£1,757k
Basis for determining materiality	1.5% of gross expenditure at the Surplus/Deficit on Provision of Services Level
Rationale for benchmark applied	Gross expenditure at the Surplus/Deficit on Provision of Services Level was chosen as the appropriate benchmark for overall materiality as this is a key measure of financial performance for users of the financial statements.
Performance materiality	£966k
Reporting threshold	£53k
Specific materiality	Officers' Emoluments £110k An error in the disclosure would materially affect the reader's view Officer's remuneration bandings £5k A sensitive item of account Members allowances £58k A sensitive item of account Audit fee £14k A sensitive item of account

Note 1: performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.
Note 2: the triviality threshold is the level under which individual errors (unless cumulatively material) are not communicated to the Audit and Governance Committee and is based on 3% of overall materiality.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Chief Finance Officer made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Council and the sector in which it operates. We considered the risk of acts by the Council which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements. We focused on laws and regulations that could give rise to a material misstatement in the financial statements.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Council's accounting processes and controls and its environment, and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

APPENDIX B
DRAFT AUDITOR'S REPORT (CONTINUED)

Our tests included, but were not limited to:

- obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error;
- review of minutes of Council meetings in the year; and
- enquiries of management.

As a result of our procedures, we did not identify any key audit matters relating to irregularities, including fraud.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both Those Charged with Governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under 'Key audit matters' within this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

APPENDIX B
DRAFT AUDITOR'S REPORT (CONTINUED)

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Conclusion on City of Lincoln Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, City of Lincoln Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

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

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

APPENDIX B
DRAFT AUDITOR'S REPORT (CONTINUED)

Other matters which we are required to address

We were appointed as the Council's auditor by Public Sector Audit Appointments Ltd, in its role as appointing person under the Local Audit (Appointing Person) Regulations 2015, on 14 December 2017. The period of total uninterrupted engagement, including previous renewals and reappointments of the firm, is one year covering the audit of the financial year ending 31 March 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Council and we remain independent of the Council in conducting our audit.

In addition to the audit, we provided the following services to the Council during the period 1 April 2018 to 31 March 2019, that have not been disclosed separately in the Statement of Accounts:

- Assurance services on the Housing Capital Receipts Pooling return for 2017/18.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of the audit report

This report is made solely to the members of City of Lincoln Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of City of Lincoln Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark Surridge
For and on behalf of Mazars LLP

45 Church Street
Birmingham
B3 2RT

September 2019

APPENDIX C
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

We also confirm that we have received confirmation from our external experts regarding their independence.

CONTACT

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Director

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Appendix B

Mark Surridge
Director
Mazars LLP
45 Church Street
Birmingham
B3 2RT

Jaclyn Gibson
is dealing with this matter
E-mail: jaclyn.gibson@lincoln.gov.uk
Direct Line: 01522 873258

25th September 2019 (or date audit opinion issued)

Dear Mark

City of Lincoln Council -audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of City of Lincoln Council ('the Council') for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Executive and Audit Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

I am satisfied that the valuation techniques, in respect of those financial assets carried at fair value through other comprehensive income and expenditure, including the related assumptions and models, used by management in determining accounting estimates under IFRS, are appropriate.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- the information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assetsand liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole, and the errors do not prevent the reader of the accounts from obtaining a true and fair understanding of the Council's financial position and performance.

Yours sincerely

Jaclyn Gibson
Chief Finance Officer

Item No. 4

AUDIT COMMITTEE **17 SEPTEMBER 2019**

SUBJECT:	**STATEMENT OF ACCOUNTS 2018/19**
DIRECTORATE:	**CHIEF EXECUTIVE & TOWN CLERK**
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 provide 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 has been subject to external audit by the Councils external auditors Mazars, who are due to report on the audit conclusion, elsewhere on this agenda.

2.4 Following updated information on Pension judgements (McLoud/GMP Equalisation) changes have been made to the Statement of Accounts to adjust for the impact of the amended Actuary report. The impact of these judgements to the Council is £621,000 for the McCloud judgement and £294,000 for the GMP equalisation changes.

2.5 The Council must make the Statement of Accounts available for public inspection for 30 working days. Following notification from Mazars, this ran from 3rd June until 11th July 2019 and the External Auditor was available to answer questions during this period, at the time of this report no questions have been received, a further update will be provided at the Committee meeting.

2.6 The Council is also required to provide a documented annual review of the effectiveness of its governance arrangements (Annual Governance Statement), which sits alongside the Statement of Accounts. The overall level of assurance provided in 2018/19 was substantial (green) and is in line with our Code of Corporate Governance. However there is one defined significant issue, in respect of IT Disaster Recovery, this will be a focus for 2019/20 and will be regularly reported by management to the Audit Committee.

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. Due to a delay in the completion of the Audit the final Statement of Accounts will be presented for approval to Council on the 24th September 2019. The timescales involved with the approval of the Statement of Accounts for 2018/19 are:

a) Report draft accounts to Audit Committee	13th June 2019
b) Report to Audit Committee	17th September 2019
c) Report to the Executive	23rd September 2019
d) Approval by Council	24th September 2019

3.2 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. To assist members in their understanding of the accounts:

- Training has been provided to members
- The remainder of this report sets out a short summary highlighting the key figures in the financial statements.

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		**(4.739)**
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	5.144	
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	0.559	
Contribution to/from the pensions reserve	(4.787)	
Debt repayment and premiums & discounts on debt	0.625	
Short-term compensated absences	0.01	
Contribution to Government's Housing Capital Receipts Pool	(0.76)	
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	(1.78)	
Total Adjustments		**4.785**
(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 (see Para 2.5 for additional information) –** 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 £8.8m cost reflecting the retirement benefits earned during 2018/19 and to be funded in the future. This includes £5.5m current service costs, £1m past 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 £4.787m.

- **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 £14.832m to £100.690m. 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 £100.690m 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 30th September 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, however due to a delay in the audit of the accounts the final version of the Statement of Accounts will be published on the website by the 30th September 2019.

7. Risk Implications

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

8. Recommendation

8.1 Audit Committee are invited to scrutinise the Statement of Accounts prior to being reported to full Council on 24 September 2019.

8.2 Audit Committee are asked to delegate any further changes to the Statement of Accounts, arising from the conclusion of the external audit, to the Chief Finance Officer who will report any such changes to the Chair of Audit Committee.

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 Rule 15 of the Scrutiny Procedure Rules apply?	No
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 01522 873361

STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019

CONTENTS

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 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 ensuring 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 the Council 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 £206.074m in 2018/19, an increase of 2.7%.

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	1650	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
Operational Expenditure			
Repairs & Maintenance	8,939	8,298	641
Supervision & Management	6,781	6,983	(202)
Provisions (including Bad Debt)	284	290	(6)
Capital Financing	4,799	10,709	(5,910)
Sub Total	**20,803**	**26,281**	**(5,477)**
Add:			
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	**23,270**	**28,633**	**(5,361)**
Income			
Rents & Service Charges	(28,415)	(28,150)	(265)
Interest	(68)	(31)	(37)
Net Expenditure	**(5,212)**	**451**	**(5,663)**
Less:			
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 £14.832m, up from £85.858m at 1 April 2018 to £100.690m 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 £100.690m 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.

J Gibson

J Gibson ACCA
Chief Finance Officer
(Section 151 Officer)

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.

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 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

MOVEMENT IN RESERVES

	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'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	**2,313**	**10,663**	**1,085**	**10,679**	**9,398**	**399**	**34,537**	**155,190**	**189,727**
Movement in reserves during 2017/18									
Surplus or (deficit) on provision of services	(4,889)	0	11,103	0	0	0	**6,214**	**0**	**6,214**
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	**0**	**4,795**	**4,795**
Total Comprehensive Expenditure and Income	**(4,889)**	**0**	**11,103**	**0**	**0**	**0**	**6,214**	**4,795**	**11,009**
Adjustments between accounting basis & funding basis under regulations (Note 9)	3,476	0	(10,950)	639	(153)	(14)	**(7,002)**	**7,002**	**0**
Other adjustments	0	0	0	1,523	0	0	**1,523**	**(1,523)**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**(1,413)**	**0**	**153**	**2,162**	**(153)**	**(14)**	**736**	**10,274**	**11,009**
Transfers (to)/from Earmarked Reserves	710	(493)	(217)	0	0	0	**0**	**0**	**0**
Increase/Decrease in 2017/18	**(703)**	**(493)**	**(64)**	**2,162**	**(153)**	**(14)**	**735**	**10,274**	**11,009**
Balance at 31 March 2018 carried forward	**1,610**	**10,170**	**1,021**	**12,841**	**9,245**	**385**	**35,272**	**165,464**	**200,736**

MOVEMENT IN RESERVES

	General Fund Balance £'000	Earmarked Reserves £'000	Housing Revenue Account £'000	Major Repair Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Movement in reserves during 2018/19									
Surplus or (deficit) on provision of services	(83)	0	4,821	0	0	0	**4,738**	**0**	**4,738**
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	**0**	**600**	**600**
Total Comprehensive Expenditure and Income	**(83)**	**0**	**4,821**	**0**	**0**	**0**	**4,738**	**600**	**5,338**
Adjustments between accounting basis & funding basis under regulations (note 9)	2,418	0	(5,137)	(7,166)	(4,671)	179	**(14,377)**	**14,377**	**0**
Other adjustments	0	0	0	0	0	0	**0**	**0**	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves	**2,335**	**0**	**(316)**	**(7,166)**	**(4,671)**	**179**	**(9,639)**	**14,977**	**5,338**
Transfers (to)/from Earmarked Reserves	(2,096)	1,776	320	0	0	0	**0**	**0**	**0**
Increase/Decrease in Year	**239**	**1,776**	**4**	**(7,166)**	**(4,671)**	**179**	**(9,639)**	**14,977**	**5,338**
Balance at 31 March 2019 carried forward	**1,849**	**11,946**	**1,025**	**5,675**	**4,574**	**564**	**25,633**	**180,441**	**206,074**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2018/19

2017/18				Note	2018/19		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
43,342	(37,544)	5,798	Chief Executive's Directorate		40,559	(34,045)	6,514
1,938	(928)	1,010	Housing and Regeneration		2,957	(2,165)	792
15,463	(28,640)	(13,177)	Housing Revenue Account (HRA)		20,804	(28,415)	(7,611)
18,002	(9,290)	8,712	Communities and Environment		18,721	(10,941)	7,780
5,523	(178)	5,345	Major Developments		960	(371)	589
150	(419)	(270)	Corporate Services		1,152	(423)	729
84,419	**(77,001)**	**7,418**	**Cost Of Services**		**85,153**	**(76,360)**	**8,793**
		348	Other Operating Expenditure	11			1,393
		3,000	Financing and Investment Income and Expenditure	12			2,699
		(16,980)	Taxation and Non-Specific Grant Income	13,37			(17,624)
		(6,214)	**(Surplus) or Deficit on Provision of Services**				**(4,739)**
		(1,057)	(Surplus) or deficit on revaluation of non-current assets	14,16,22			(10,321)
		0	Impairment Losses on Non-Current Assets charged to the Revaluation Reserve				0
		(58)	(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income	26e			(325)
		(3,682)	Total re-measurements on defined benefit obligation	44			10,045
		(4,797)	**Other Comprehensive Income and Expenditure**				**(601)**
		(11,011)	**Total Comprehensive Income and Expenditure**				**(5,339)**

BALANCE SHEET AS AT 31 MARCH 2019

RESTATED 31 March 2018 £'000		Notes	31 March 2019 £'000
332,979	Property, Plant & Equipment	4,14,39,41	361,380
6,091	Heritage Assets	15	6,092
16,224	Investment Property	14,16	30,478
568	Intangible Assets	14,39	361
473	Long Term Investments	18,47	798
133	Long Term Debtors		1,035
356,468	**Long Term Assets**		**400,144**
4,575	Assets Held for Sale	22	1,500
15,616	Short Term Investments	18,47	29,216
220	Inventories	19	88
876	Cash at Bank	21	1
10,241	Short Term Debtors	18,20,47	9,778
31,528	**Current Assets**		**40,583**
0	Cash and Cash Equivalents	21	(613)
(5,135)	Short Term Borrowing	18	(21,476)
(15,364)	Short Term Creditors	18,23	(12,946)
(20,499)	**Current Liabilities**		**(35,035)**
(342)	Long Term Creditors	18	(146)
(3,205)	Provisions	24	(3,428)
(77,354)	Long Term Borrowing	18	(95,354)
(85,858)	Other Long Term Liabilities	4,44	(100,690)
(166,759)	**Long Term Liabilities**		**(199,618)**
200,738	**Net Assets**		**206,074**
35,274	Usable reserves	10	25,633
165,464	Unusable Reserves	26	180,441
200,738	**Total Reserves**		**206,074**

CASH FLOW STATEMENT

2017/18 £'000		Notes	2018/19 £'000
6,214	Net surplus or (deficit) on the provision of services		4,739
11,001	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	28	14,010
(7,673)	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	29	(5,613)
9,542	**Net cash flows from Operating Activities**		**13,136**
(15,660)	Investing Activities	30	(45,724)
6,753	Financing Activities	31	31,100
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)**

INDEX OF NOTES

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

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 non-current 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 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 segment or, where applicable, to a corporate service segment for non-distributed costs 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 pension 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 Corporate Services

- 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.

- Re-measurements 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 cash flow 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 (i.e. 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. 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.

14. 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.

15. Joint Operations

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

16. Leases

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

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

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

<u>The Council as Lessee</u>

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.

<u>The Council as Lessor</u>

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 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.

17. 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.

18. 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)
- Surplus Assets – the current value measurement base is fair value, estimated at the highest and best use from a market participants 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.

19. 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 life 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.

<u>Heritage Assets – General</u>

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.

20. 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 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.

21. 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.

22. 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.

23. 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.

24. 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.

25. 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 Authority 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 Lincolnshire County Council, North Kesteven and West Lindsey District Council 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 Joint 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.

- **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 inclusion in the Pension notes for impacts resulting from the recent age discrimination case known as the McCloud judgement. Following financial evaluation by Hymans Robertson the likely impact on the Local Government Pension Fund or individual authorities within the fund has been adjusted for within the accounts.

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
Business Rates (Balance Sheet 31 March 2019 – Provision for Business Rate Appeals £3.286m)	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.	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.
Property, Plant and Equipment (PPE) (Balance Sheet 31 March 2019 – PPE £362m)	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.	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.
Assets held for sale and investment properties (Balance Sheet 31 March 2019 - assets held for sale £1.5m - Investment properties £30.5m)	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.	A 1% reduction in the value of investment properties would result in a charge to the Comprehensive Income & Expenditure Statement of £0.32m; a 1% increase in value would result in the recognition of a gain of £0.32m in the Comprehensive Income & Expenditure Statement.

Arrears Balance Sheet 31 March 2019 - Debtors total of £9.78m includes £4.798m debtors (subject to arrears)	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.	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.
Pension Liability (Balance Sheet 31 March 2019 - pensions liability £100.69m)	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 £23.785m.
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

During 2018/19 a review of the Asset Register was undertaken which identified that an adjustment was needed to align the entries on the register with the financial system. There is no material impact on the net assets or total reserves of the council and restatement affects note 26 to the Accounts.

A transfer of balances between the Revaluation Reserve and the Capital Adjustment account of £1.541m was required. This has been reflected in a restated 2017/18 balance sheet and within notes 26a and 26b of the accounts.

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom requires that an authority must present a balance sheet at the beginning of the preceding period when it makes a material retrospective restatement. As the identified errors affect only the 2017/18 comparative year, opening balances for unusable reserves have been restated for the earliest prior period presented, with the inclusion of a restated 2017/18 balance sheet. The table below shows the effect of the entries restated in the 2017/18 balance sheet:

	2017/18		
	Original	Restated	Restatement amount
	£'000	£'000	£'000
Revaluation Reserve	22,145	20,604	(1,541)
Capital Adjustment Account	228,813	230,354	1,541
Effect on Unusable Reserves			**Nil**

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 7 – Expenditure and Funding Analysis

31 March 2018					31 March 2019			
Net Expenditure Chargeable to General Fund and HRA Balances £'000	Movement of Trading A/C's & Levies etc. £'000	Adjustments Between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000		Net Expenditure Chargeable to General Fund and HRA Balances £'000	Movement of Trading A/C's & Levies etc. £'000	Adjustments Between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
3,464	967	1,367	5,798	Chief Executive's Directorate	6,166	519	(171)	6,514
736	0	274	1,010	Housing and Regeneration	296	0	496	792
(9,953)	0	(3,224)	(13,177)	Housing Revenue Account (HRA)	(2,997)	0	(4,614)	(7,611)
5,408	2	3,302	8,712	Communities and Environment	5,492	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	43	818	(132)	729
2,209	**166**	**5,044**	**7,419**	**Net Cost Of Services**	**9,452**	**1,444**	**(2,103)**	**8,793**
(947)	(166)	(12,520)	(13,633)	Other Income and Expenditure	(11,471)	(1,444)	(616)	(13,531)
1,262	**0**	**(7,476)**	**(6,214)**	**(Surplus) or Deficit on Provision of Services**	**(2,019)**	**0**	**(2,719)**	**(4,738)**
GF		**HRA**	**Total**		**GF**		**HRA**	**Total**
(9,332)		(4,729)	(14,061)	**Opening Balance**	**(7,947)**		**(4,854)**	**(12,801)**
1,386		125	1,260	**Less/ Plus Surplus or (Deficit) in Year**	(2,337)		318	(2,019)
(7,947)		**(4,854)**	**(12,801)**	**Closing Balance at 31 March**	**(10,284)**		**(4,536)**	**(14,820)**

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.

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	(1,153)	992	(10)	**(171)**
2	262	10	**274**	Housing and Regeneration	187	307	2	**496**
(4,595)	1,381	(10)	**(3,224)**	Housing Revenue Account (HRA)	(5,878)	1,266	(2)	**(4,614)**
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	(132)	0	**(132)**
2,380	**2,654**	**10**	**5,044**	**Net Cost of Services**	**(5,381)**	**3,288**	**(10)**	**(2,103)**
(12,286)	1,365	(1,599)	(12,520)	Other Income & Expenditure from the Funding Analysis	(1,369)	1,499	(746)	(616)
(9,906)	**4,019**	**(1,589)**	**(7,476)**	**Difference between General Fund Surplus/ Deficit and CIES Income & Expenditure Statement Surplus/ Deficit**	**(6,750)**	**4,787**	**(756)**	**(2,719)**

Note 7B – Segmental Income Analysis

Income received on a segmental basis is analysed below:

Services	Income from Services 2017/18 £'000s	Income from Services 2018/19 £'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 £'000s	2018/19 £'000s
Expenditure/ Income		
Expenditure		
Employee Benefit Expenses	23,026	24,528
Other Services Expenses	66,111	65,651
Support Service Recharges	3,054	2,672
Depreciation, Amortisation and Impairment	4,743	5,768
Interest Payments	9,569	9,144
Precepts and Levies	803	818
Payments to Housing Capital Receipts Pool	529	760
Gain/(loss) on Disposal of Assets	(985)	(560)
Total Expenditure	**106,851**	**108,781**
Income		
Fees, Charges and other Service Income	(59,631)	(61,920)
Interest and Investment Income	(3,493)	(3,679)
Income from Council Tax and Non-Domestic Rates	(10,283)	(15,409)
Government Grants and Contributions	(39,658)	(32,512)
Total Income	**(113,065)**	**(113,520)**
Surplus or Deficit on the Provision of Services	**(6,214)**	**(4,739)**

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)	3,521	1,266	0	0	0	**4,787**
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	**5,102**	**1,436**	**0**	**6,206**	**1,183**	**13,927**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,364)	(2,067)	4,431	0	0	**0**
Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	760	0	(760)	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	(7)	0	0	**(245)**
Total Adjustments between Revenue and Capital Resources	**(2,684)**	**(6,573)**	**3,514**	**(212)**	**0**	**(5,955)**
Adjustments to Capital Resources						

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
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(8,185)	0	0	**(8,185)**
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**	**(8,185)**	**(13,160)**	**(1,004)**	**(22,349)**
Total Adjustments	**2,418**	**(5,137)**	**(4,671)**	**(7,166)**	**179**	**(14,377)**

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 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)**

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	Appropriations		Balance	Movements	Appropriations		Balance
	@ 31.03.17	Transfers In	Transfers Out	@ 31.03.18		Transfers In	Transfers Out	@31.03.19
	£'000	£'000	£'000	£'000		£'000	£'000	£'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
Christmas Decorations	17	0	0	17	0	0	0	17

	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
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
HRS Reserve	89	0	0	89	0	0	0	89
City Hall Sinking Fund	0	36	0	36	0	24	0	60
Total General Fund Earmarked Reserves	**5,553**	**2,135**	**(3,040)**	**4,648**	**56**	**3,803**	**(1,741)**	**6,767**
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	13	0	624	0	13	(58)	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**	**197**	**(179)**	**1,572**	**0**	**16**	**(267)**	**1,321**
Total Earmarked Reserves	**7,107**	**2,332**	**(3,219)**	**6,220**	**56**	**3,819**	**(2,008)**	**8,088**
Insurance Fund	3,558	468	(75)	3,950	0	139	(227)	3,862
Total Earmarked Reserves	**10,665**	**2,800**	**(3,294)**	**10,170**	**56**	**3,958**	**(2,235)**	**11,950**

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
3,950	**Closing Balance**	**3,862**

Note 11 – Other Operating Expenditure

2017/18 £'000		2018/19 £'000
803	Levies	818
529	Payments to the Government Housing Capital Receipts Pool	760
(985)	(Gains)/losses on the disposal of non-current assets	(185)
348	**Total**	**1,393**

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	2,337
(2,332)	(Surplus)/Deficit on Trading Operations	(2,769)
(108)	Interest Receivable and similar income	(171)
3,000	**Total**	**2,699**

Note 13 – Taxation and Non-Specific Grant Income

2017/18 £'000		2018/19 £'000
(6,176)	Council Tax income	(6,452)
(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)
(16,980)	**Total**	**(17,624)**

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

The movement in the Council's 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 Con-struction**	**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	1,200	(12,632)	**(550)**	0	1735	**1,185**
At 31 March 2019	**249,411**	**93,811**	**10,680**	**0**	**4,955**	**11,822**	**1,678**	**372,357**	**1,932**	**30,478**	**404,767**
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**

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**	**11,817**	**1678**	**361,378**	**360**	**30,478**	**392,217**
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	249,399	91,072	2,194	0	4,836	11,817	1,678	360,994	360	30,478	391,833
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 Con-struction	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 Con-struction**	**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.

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 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

The table below shows the assets valued in each accounting period:

	Council Dwellings	Land & Buildings	Community Assets	Vehicles Plant & Equip.	Investment Properties
	£'000	£'000	£'000	£'000	£'000
Valuation at historical cost			4,836	2,578	
Valued at current value as at:					
31/03/2019	249,399	51,709			26,650
31/03/2018		19,007			2,049
31/03/2017		16,799			70
31/03/2016		2,687			278
31/03/2015		12,687			1,431
Total cost or valuation	**249,399**	**102,889**	**4,836**	**2,578**	**30,478**

Depreciation

Tangible 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:

Category Of Asset	Useful Economic Life
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
- Community Centres	50 years
- Offices	50 years
- Depots & Workshops	50 years
- Public Conveniences	50 years

Category Of Asset	Useful Economic Life
- 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 assets are amortised to service headings within cost of services as part of the Comprehensive Income and Expenditure Statement on a straight-line basis, as stated in the Accounting Policies. The standard useful life, used for amortisation purposes is:

Category Of Asset	Useful Economic Life
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					0
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
Memorials	
Dixon Street	War memorial
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 current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.

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

2017/18 £'000		2018/19 £'000
1,012	Rental income from investment property	1,196
(180)	Direct operating expenses arising from investment property	(198)
(248)	Fair value gains/(losses) on investment properties	1620
0	Gains/(losses) on disposal of investment properties	374
584	**Net gain/(loss)**	**2,993**

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 £'000		2018/19 £'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
16,224	**Balance at 31 March**	**30,478**

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 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.

Previous Classification	Balance c/f	Adj for IFRS9	Balance b/f	IFRS9 Classification		
	31/3/18		1/4/18	Amortised Cost	FVOCI*	Total IFRS9
			£000s	£000s	£000s	£000s
Financial Liabilities at amortised cost						
Long Term Borrowing	77,354		77,354	77,354		77,354
Short Term Borrowing	5,135		5,135	5,135		5,135
Long Term Creditors	(342)		(342)	(342)		(342)
Short Term Creditors	(8,567)		(8,567)	(8,567)		(8,567)
Total Financial Liabilities	**73,580**		**73,580**	**73,580**		**73,580**
Financial Assets at amortised cost						
Short Term Investments	15,615		15,615	15,615		15,615
Long Term Debtors	133		133	133		133
Short Term Debtors	7,304		7,304	7,304		7,304
Cash and Cash Equivalents	875		875	875		875
Available for Sale Financial Assets	472	(472)				
Long Term Investments		472	472		472	472
Total Financial Assets	**24,399**	**0**	**24,399**	**23,927**	**472**	**24,399**

*Fair Value through Other Comprehensive Income

Investments in Equity Instruments Designated at Fair Value through Other Comprehensive Income

Fair Value of Equity Instruments designated at fair value through other comprehensive income include the following:

	31/03/2018	31/03/2019
	£000	**£000**
Non-listed securities	458	504
Total	**458**	**504**

Reconciliation of Fair Value Measurements for Financial Assets Carried at Fair Value Categorised within Level 3 of the Fair Value Hierarchy for Financial Assets

31 March 2019

	Unquoted Shares	Other	Total
	£000	**£000**	**£000**
Opening Balance	271	0	271
Transfers into level 3	0	0	0
Transfers out of Level 3	0	0	0
Total gains or losses for the period			
- Included in Surplus or Deficit on the Provision of Services	0	0	0
- Included in Other Comprehensive Income and Expenditure	23	0	23
Additions	0	0	0
Disposals	0	0	0
Closing Balance	294	0	294

Movements in the value of assets carried at fair value categorised within level 3 of the hierarchy in 2017/18 are not shown as these were previously categorised as available for sale financial assets.

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

Summary of Financial Instruments		**1/4/18**	**31/3/19**
		£000s	**£000s**
Financial Liabilities at amortised cost			
Long Term Borrowing	Level 1	77,354	95,354
Short Term Borrowing	Level 1	5,135	21,475
Long Term Creditors	Level 1	(342)	(105)
Short Term Creditors	Level 1	(8,567)	(6,636)
Cash and Cash Equivalents	Level1	0	(613)
Total Financial Liabilities		**73,580**	**109,475**
Financial Assets at amortised cost			
Short Term Investments	Level 1	15,615	29,216
Long Term Debtors	Level 1	133	1,035
Short Term Debtors	Level 1	7,304	9,770
Cash and Cash Equivalents	Level 1	875	0
Total Financial Assets		**23,927**	**40,021**
Financial Assets at FVOCI*			
Long Term Investments	Level 2/3**	472	798
Total Assets at FVOCI		**472**	**798**

*Fair Value through Other Comprehensive Income

** See table below for detail

There have been no transfer between levels in the hierarchy during 2018/19.

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 short term debtors/creditors 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		FVOCI	
	£000	£000	£000	£000
Interest Expense	3,302			3,302
Interest Income		(147)	(24)	(171)
Surplus or deficit arising on revaluation of financial assets			(326)	(326)
Net (gain)/loss for the year	**3,302**	**(147)**	**(350)**	**2,805**
2017/18				
Interest Expense	3,195			3,195
Interest Income		(110)	(22)	(132)
Surplus or deficit arising on revaluation of financial assets		(58)		(58)
Net (gain)/loss for the year	**3,195**	**(168)**	**(22)**	**3,005**

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** (using same techniques)
			£'000	**£'000**
Fair Value OCI /Available for Sale				
Equity shareholding in Dunham 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

Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are Required)

Except for the financial assets carries at fair value (described in the table above), all other financial liabilities and financial assets held by the authority are carried in the Balance Sheet at amortised cost:

- 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 Carrying Amount £'000	31/03/18 Fair Value £'000		31/03/19 Carrying Amount £'000	31/03/19 Fair Value £'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	565
5,762	5,900	Other	27,130	27,126
342	342	Lease Liabilities	105	105
82,800	104,801	**Total Debt**	116,934	140,381

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 inclusive of accrued interest at the year end.

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 Carrying Amount £'000	31/03/18 Fair Value £'000		31/03/19 Carrying Amount £'000	31/03/19 Fair Value £'000
15,600	15,615	Money Market Investments <1 year	29,216	29,216
0	0	Money Market Investments >1 year	0	0
133	133	Long Term Debtors	1,035	1,035
15,733	**15,748**	**Total Investments**	**30,251**	**30,251**

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 investments held at amortised cost.

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	10,328
14,004	**Total Short Term Debtors**	**13,846**
(3,762)	Less Impairment Loss Allowance	**(4,068)**
10,242	**Net Short Term Debtors as per Balance Sheet**	**9,778**

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)
876		**(612)**

The overdrawn balance at 31/3/2019 shows the financial position which includes creditor payments awaiting clearance through the bank account.

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 sale of the remaining asset has been approved but was not completed as at 31st March 2019. The asset is included as Current Assets as at 31st March 2019.

Current 2017/18 £000		Current 2018/19 £000
2,525	Balance at start of the year	4,575
769	Additions	0
	Newly classified:	
1,543	- Property Plant & Equipment	15
1,531	Revaluation gain/(loss)	0
0	Transfers from AHFS	(1,200)
(1,794)	Disposals	(1,890)
4,575	**Closing Balance**	**1,500**

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	(1,137)
(246)	Other Local Authorities	(200)
(8,985)	Other Entities and Individuals	(11,650)
(15,365)	**Total**	**(12,987)**

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 £'000	Business Rates RV Reduction the Think Tank £'000	Compulsory Purchase Order £'000	Local Authority Mortgage Scheme £'000	Business Rates Appeals £'000
Balance at 1 April 2018	**(10)**	**(37)**	**(87)**	**(14)**	**(3,057)**
Restatement of opening balances					(1,528)
Revised 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	Restated balance 31/03/18	Net Movement in Year	Balance 31/03/19	Purpose of Reserve	Further Details of Movements
	£'000	£'000	£'000	£'000		
Revaluation Reserve	22,146	20,604	8,649	30,795	Store of gains on revaluation of assets	a) below
Pensions Reserve	(85,858)		(14,832)	(100,690)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 44 to the financial statements
Capital Adjustment Account	228,811	230,354	18,354	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 Assets	458		(458)	0	No longer required	e) below
Financial Instruments Revaluation Reserve	0		784	784	Store of gains on revaluation of investments not yet realised through sales	e) below

Reserve	Balance 31/03/18	Restated balance 31/03/18	Net Movement in Year	Balance 31/03/19	Purpose of Reserve	Further Details of Movements
	£'000	£'000	£'000	£'000		
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
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
	165,463		**14,979**	**180,442**		

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.

RESTATED 2017/18 £'000		2018/19 £'000
(22,721)	**Balance 1 April**	**(20,604)**
(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
(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 Account	0
1,541	Amounts written out to the Capital Adjustment Account Prior period adjustment	
(20,604)	**Balance 31 March**	**(30,795)**

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.

RESTATED 2017/18 £'000		2018/19 £'000
(219,271)	**Balance 1 April**	**(230,354)**
	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
(11,260)	Revaluation (gains)/losses and impairments on Property, Plant and Equipment	(1,394)
248	Fair value movements on Investment Properties	(1,620)
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	(131)
(1,541)	Adjusting amounts written out of the Revaluation Reserve prior period adjustment	
6,921	Net written out amount of the cost of non-current assets consumed in the year	**9,769**
	Capital Financing applied in year:	
(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)**
(230,354)	**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**

e) Financial Instruments Revaluation Reserve and Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contained the gains and losses arising from movements in fair value of assets which were previously categorised as Available-for-Sale investments. During the year this account was closed and movements in the fair value of financial instruments was taken to the Financial Instruments Revaluation Reserve.

Available for Sale Financial Instruments Reserve

2017/18 £'000		2018/19 £'000
(400)	**Balance 1 April**	**458**
(58)	(Gain)/Loss on revaluations in year	0
0	Transfer to Financial Instruments Revaluation Reserve	(458)
(458)	**Balance 31 March**	**0**

The Financial Instruments Revaluation Reserve contains the gains made by the authority arising from increases on the value of its investments measured at Fair Value through Other Comprehensive Income. The balance is reduced when investments with accumulated gains are either revalued downwards or impaired and the gains lost or disposed of and the gains are realised.

Financial Instruments Revaluation Reserve	2018/19 £'000
Balance 1 April	**0**
Transfer from Available for Sale Financial Instruments Reserve	(458)
(Gain)/Loss on FVOCI revaluations in year	(69)
Revaluations relating to previous years adjusted for in 18/19	(257)
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)**
(1,606)	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)
(297)	**Balance 31 March**	**(1,016)**

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	
	11	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)
	435	**Balance 31 March**		**425**

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	7,906
(9,895)	Impairment and downward valuations	(3,016)
96	Amortisation	234
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	4,786
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		**14,010**

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	(4,430)
(3,002)	Any other items for which the cash effects are investing or financing cash flows	(1,183)
(7,673)		**(5,613)**

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	(37,673)
(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	4,430
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**	**(45,724)**

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	5
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**	**31,100**

Reconciliation of liabilities arising from financing activities

2018/19	01/04/2018	Financing Cash Flows		Non Cash	31/03/2019
		New loans	Repayments	movements	
	£'000	£'000	£'000	£'000	£'000
Long Term Borrowing	77,354	20,000		-2000	95,354
Short Term Borrowing	5,135	18,000	-3,750	2091	21,476
Lease liabilities	558		-234		324
Total Liabilities from financing activities	**83,047**	**38,000**	**-3,984**	**91**	**117,154**

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	(1,535)	(1,482)
85	(2,356)	(2,271)	Lincoln Properties	145	(1,655)	(1,511)
7,509	**(9,839)**	**(2,331)**	**(Surplus)/Deficit not applicable to a service**	**7,997**	**(10,766)**	**(2,769)**
9,261	**(13,492)**	**(4,861)**	**Total (Surplus)/Deficit**	**10,104**	**(16,055)**	**(5,951)**

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 £237,618 (£227,047 in 2017/18).

Payments are defined as:
i. Basic Allowance
ii. Special Responsibility Allowance
iii. Other allowances

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**	**Compen-sation for loss of office**	**Pension Contributions**	**Total**
	£	£	£	£	£	£
Chief Executive[1]	120,268	0	629	0	19,243	140,140
Strategic Director of Housing & Regeneration[2]	11,125	0	80	0	1,780	12,985
Strategic Director of Housing & Regeneration[3]	40,618	0	111	0	6,499	47,228
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	**343,577**	**0**	**976**	**0**	**54,948**	**399,503**

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. Director 1: 01/04/2018 - 14/05/2018
3) The salary costs for the Director of Housing & Regeneration include two post holders throughout the course of the year. Director 2: 15/10/2018 -31/03/2019

2017/18						
Post Title	**Salary**	**Bonuses**	**Expense Allowances**	**Compen-sation for loss of office**	**Pension Contributions**	**Total**
	£	£	£	£	£	£
Chief Executive[1]	118,487	0	296	0	18,620	137,403
Strategic Director of Housing & Regeneration	91,221	0	235	0	14,595	106,051
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
£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		**2018/19**
£'000		**£'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**
	Fees payable for other audit services	
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:

2017/18 £'000	Credited to Taxation and Non Specific Grant Income	2018/19 £'000
(981)	Revenue Support Grant	0
(1,655)	New Homes Bonus	(1,006)
(8)	Transparency Code Setup Grant	(8)
0	Brexit	(17)
(2,644)	**Total Non Ring-fenced Grants shown on CIES**	**(1,031)**
(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
(110)	Leaseholder Contributions	(82)
(117)	Waterloo Housing	0
0	National Rail	(225)
(61)	Other Capital Grants and Contributions	(52)
(3,002)	**Total Capital Grants and Contributions shown on CIES**	**(1,183)**
(1,051)	**S31 Grants included in Non Domestic Rates Income on CIES**	**(1,917)**
(6,697)	**Total Non Ringfenced Grants included in CIES**	**(4,132)**

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)
(32,832)	**Total Grants and Contributions credited to Services**	**(30,290)**
(39,529)	**Total Grants, Contributions and Donated Assets**	**(34,421)**

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

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

2017/18 £'000		2018/19 £'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 (IIL).

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 IIL during 2018/19 are shown below:

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

An amount of £9,308 was owed to IIL 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 £'000		2018/19 £'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**

2017/18 £'000		2018/19 £'000
	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 £'000		31/03/19 £'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 £'000		31/03/19 £'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**

	Minimum Lease Payments		Finance Lease Liabilities	
	31/03/18	31/03/19	31/03/18	31/03/19
	£'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 £'000		31/03/19 £'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 £'000		2018/19 £'000
893	Not later than one year	2,286
791	Later than one year and not later than five years	4,573
2,581	Later than five years	19,728
4,265		**26,587**

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 pension's 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.

Update on the McCloud Judgement

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of these benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. LGPS benefits accrued from 2014 may therefore need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. There will therefore be a retrospective increase to members' benefits, which in turn will give rise to a past service cost for the Fund employers.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

The Fund's actuary has adjusted GAD's estimate to better reflect the Lincolnshire Pension Fund's local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to the City of Lincoln Council is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be 0.26% higher as at 31 March 2019, an increase of approximately £621,000.

These numbers are high level estimates based on scheme level calculations and depend on several key assumptions.

The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place. However, if the judgement is upheld then there will be unavoidable upward pressure on contributions in future years.

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
	Comprehensive Income & Expenditure Statement	
	Net Cost of Services:	
5,493	Current Service Cost	5,497
0	Past Service Costs (including curtailments)	968
	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**	**8,802**

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
(3,682)	**Total re-measurements recognised in Other Comprehensive Income and Expenditure**	10,045
4,056	**Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement**	**18,847**

2017/18 £'000		2018/19 £'000
	Movement in Reserves Statement	
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	8,802
(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	(240,313)
130,801	Fair value of plan assets	139,623
(85,858)	**Net liability arising from defined benefit obligation**	**(100,690)**

Reconciliation of Movements in the fair value of the scheme assets:

2017/18 £'000		2018/19 £'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 £'000		2018/19 £'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	968
(6,393)	Benefits Paid	(6,755)
216,659	Closing Balance at 31 March	**240,313**

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**

Cash, Equity Securities and Investment Funds and Unit Trusts assets have quoted prices in active markets. The remaining assets, Real Estate and Private Equity do not have quoted prices in active markets.

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:	
	Longevity (in years) at 65 for current pensioners:	
22.1	Men	22.1
24.4	Women	24.4
	Longevity (in years) at 65 for future pensioners:	
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%	23,785
0.5% Increase in the salary increase rate	1%	3,369
0.5% Increase in the pension increase rate	8%	20,016

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.

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.

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. Link uses credit ratings, support ratings and credit default swap prices to arrive at a 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)
Deposits with banks and financial institutions				
• AAA* rated counterparties (investments up to 1 year)	19,207	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)	5,009	0.0137%	0.0137%	1
Other Investments	0	0.014%	0.014%	0
Debtors	9,770	7.17%	7.17%	701
	38,986			**702**

*See Glossary for a definition of AAA, AAand 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

		Short term		Long term	
	Principal invested	Fixed rate	Variable rate	Fixed rate	Variable rate
	£'000	£'000	£'000	£'000	£'000
UK Banks & Building Societies					
Lloyds TSB Bank plc	5,000	5,000	0	0	0
Sumitomo	5,000	5,000	0	0	0
UK Money Market Funds					
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 £'000		31/03/19 £'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 £'000		31/03/19 £'000
13,671	Less than one year	21,475
2,000	Between one and two years	9,500
5,000	Between two and five years	5,897
70,354	More than five years	79,957
91,025	**Total**	**116,829**

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 £'000		2018/19 £'000
(142)	Increase in interest receivable on variable rate investments	(137)
(142)	**Impact on Income and Expenditure Account**	**(137)**
(60)	Share of overall impact credited to the HRA	(65)
(82)	Share of overall impact credited to the General Fund	(72)
(142)	**Total**	**(137)**

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 held at Fair Value through Other Comprehensive Income, 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.

HRA INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDING 31 MARCH 2019

2017/18		Notes	2018/19	2018/19
£'000			£'000	£'000
	Expenditure			
(8,465)	Repairs and Maintenance	5	(8,939)	
(6,123)	Supervision and Management		(6,583)	
(134)	Rents, rates, taxes and other charges		(198)	
(454)	Depreciation, impairment and other adjustments for non-current assets		(4,799)	
0	Debt management costs		0	
0	Change in Social Housing Discount Factor		0	
(286)	Movement in the allowance for bad debts		(284)	
(15,462)	**Total Expenditure**			**(20,803)**
	Income			
27,503	Dwelling rents	8	27,286	
619	Non-dwelling rents		603	
518	Charges for services and facilities		526	
28,640	**Total Income**			**28,415**
13,178	**Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement**			**7,612**
(249)	Transfer from HRS			(116)
12,929	**Net Cost for HRA Services**			**7,496**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement			
746	Gain or (loss) on the sale of HRA assets			406
(2,352)	Interest payable and similar charges			(2,352)
39	Interest and investment income			68
(879)	Pensions interest income on plan assets and interest cost on defined benefit obligation	9		(879)
621	Capital grants and contributions receivable			82
11,104	**Surplus or (deficit) for the year on HRA services**			**4,821**

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**	1,021
11,104	Surplus or (deficit) for year on the HRA Income and Expenditure Statement	4,821
(10,952)	Adjustments between accounting basis and funding basis under statute	(5,137)
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**	**1,025**

NOTES TO THE HOUSING REVENUE ACCOUNT

Note 1 – 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	5,774
12,603	Non-Operational Assets	16,663
245,182	**Total at 31 March**	**271,399**

Note 3 – Depreciation and Impairment

The Depreciation and Impairment of HRA Assets is as follows:

Depreciation:

2017/18 £'000	Operational Assets:	2018/1 9 £'000
10,361	Council Dwellings	5,842
352	Other Operational Assets	364
10,713	**Total at 31 March**	**6,206**

Impairment:

2017/18 £'000	Operational Assets:	2018/19 £'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 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)
	Land receipts	
(4,004)		(2,072)
529	Less Pooled (Paid to Central Government)	760
(3,475)	**Total**	**(1,312)**

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 @ 31March	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 £'000		2018/19 £'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**
(1,457)	Amount to be met from HRA	(1,510)
1,381	**Movement on Pension Reserve**	**1,266**

THE COLLECTION FUND STATEMENT
FOR THE YEAR ENDED 31 MARCH 2019

2017/18 £'000 Total		2018/19 £'000 Council Tax	2018/19 £'000 NNDR	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 1st 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 Base

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 **£12.471m** (£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 **£4.071m** (£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 **48.0p** for qualifying Small Businesses, and the standard multiplier being **49.3p** 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)**

INDEPENDENT AUDITORS' REPORT TO MEMBERS OF CITY OF LINCOLN COUNCIL

Report on the financial statements

Opinion

We have audited the financial statements of City of Lincoln Council for the year ended 31 March 2019, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing revenue Account, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of City of Lincoln Council as at 31st March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

These key matters were relevant to our audit of the Group financial statements, insofar as the Group consolidates the Council's statements.

Key audit matter	Our response and key observations
Valuation of property, plant and equipment, investment properties and assets held for sale The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (PPE), investment properties and assets held for sale. The Council employs valuation experts to provide information on valuations, because there is a high degree of estimation uncertainty associated with the (re)valuations of PPE, investment properties and assets held for sale due to the significant judgements and number of variables involved.	We have: • critically assessed the Council's arrangements for ensuring that PPE, investment property and assets held for sale valuations are reasonable; • critically assessed the data provided by Gerald Eve (an expert commissioned by the NAO), as part of our challenge of the reasonableness of the valuations provided by the Council's valuers; • consider the competence, skills and experience of the valuers and the instructions issued to the valuers; and • where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate. Aside from a non-material classification error, there are no significant matters arising from our testing, and we have concluded that the Council's property, plant and equipment, investment properties and assets held for sale are materially fairly stated.
Valuation of net defined benefit liability The financial statements contain material accounting entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We have: • critically evaluated the Council's arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and • challenged the reasonableness of the Actuary's assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office. There are no significant matters arising from our testing, although we do wish to bring the following to Members' attention. All local authorities have been affected by an accounting issue that impacts the value of pension liabilities. Two on-going legal cases (Guaranteed Minimum Pensions and McCloud/Sergeant) have created uncertainty over whether pension liabilities are fairly stated. The Council's actuary (via the Pension Fund) did not make an allowance in its actuarial valuation for either of these cases and early guidance given to councils was that the impact would not be material. The Council, as with nearly all local authorities in England, prepared the financial statements on this basis. In our view, these cases give rise to at least a constructive obligation, which is required to be recognised under IAS 19. As a result the Council obtained a revised valuation from the Pension Fund via its actuarial expert incorporating these two issues. This resulted in a non-material understatement of liabilities, for which the Council has updated the financial statements to reflect the changes identified in these revised valuations.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures, and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements of the Council and the Group as a whole as follows:

Overall materiality	£1,757k
Basis for determining materiality	1.5% of gross expenditure at the Surplus/Deficit on Provision of Services Level
Rationale for benchmark applied	Gross expenditure at the Surplus/Deficit on Provision of Services Level was chosen as the appropriate benchmark for overall materiality as this is a key measure of financial performance for users of the financial statements.
Performance materiality	£966k
Reporting threshold	£53k
Specific materiality	Officers' Emoluments £110k An error in the disclosure would materially affect the reader's view Officer's remuneration bandings £5k A sensitive item of account Members allowances £58k A sensitive item of account Audit fee £14k A sensitive item of account

Note 1: performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.

Note 2: the triviality threshold is the level under which individual errors (unless cumulatively material) are not communicated to the Audit and Governance Committee and is based on 3% of overall materiality.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Chief Finance Officer made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Council and the sector in which it operates. We considered the risk of acts by the Council which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements. We focused on laws and regulations that could give rise to a material misstatement in the financial statements.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Council's accounting processes and controls and its environment, and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to:

- obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error;
- review of minutes of Council meetings in the year; and
- enquiries of management.

As a result of our procedures, we did not identify any key audit matters relating to irregularities, including fraud.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both Those Charged with Governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under 'Key audit matters' within this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on City of Lincoln Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, City of Lincoln Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

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

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Other matters which we are required to address

We were appointed as the Council's auditor by Public Sector Audit Appointments Ltd, in its role as appointing person under the Local Audit (Appointing Person) Regulations 2015, on 14 December 2017. The period of total uninterrupted engagement, including previous renewals and reappointments of the firm, is one year covering the audit of the financial year ending 31 March 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Council and we remain independent of the Council in conducting our audit.

In addition to the audit, we provided the following services to the Council during the period 1 April 2018 to 31 March 2019, that have not been disclosed separately in the Statement of Accounts:

- Assurance services on the Housing Capital Receipts Pooling return for 2017/18.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of the audit report

This report is made solely to the members of City of Lincoln Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of City of Lincoln Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark Surridge
For and on behalf of Mazars LLP

45 Church Street
Birmingham
B3 2RT

September 2019

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.

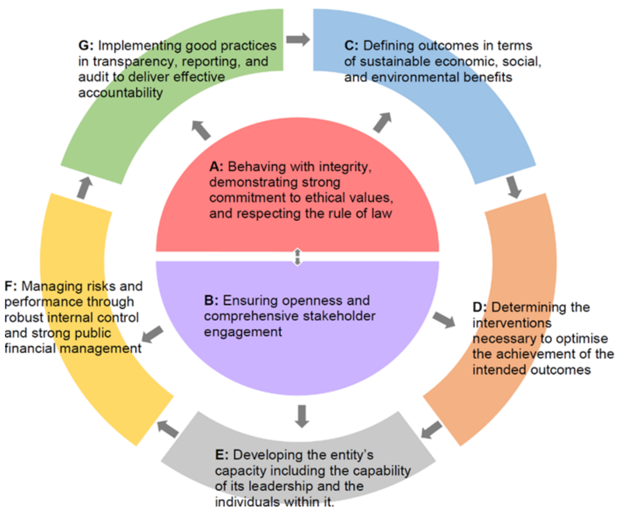
How we are meeting these defined responsibilities is detailed in the Code of Corporate Governance, which is found on our website under your council/information policies & publications/corporate publications. www.lincoln.gov.uk

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 as 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 Tenant's consultation panel

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

Together, let's deliver Lincoln's ambitious future

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 deliver quality housing
- Let's reduce inequality
- 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 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 External auditor issued an unqualified opinion 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 Mazars 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.

The Head of Internal Audit is required annually to give an opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it.

For 2018/19 substantial (green) assurance was provided over governance, risk management and internal control.

Supporting this assessment is the detailed work undertaken by Internal Audit during the course of the year. Whilst this identified a number of minor issues none were considered significant enough to highlight any significant governance issues. There was one limited assurance report on IT applications. Appropriate corrective action has been agreed to address internal audit findings and progress against delivery of the resultant actions plans is reported to and monitored routinely by the Council's Audit Committee.

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

There is an action plan in place for addressing this significant issue and this will be reported regularly to Audit Committee

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 issue quarterly and report progress in the next annual review.

Signed

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

Angela Andrews.

Signed

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

GLOSSARY

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 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 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

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 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

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

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 (PWLB)

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

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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