

## AUDIT COMMITTEE

**Tuesday, 14 December 2021**
**6.00 pm**
**Committee Rooms 1-2, City  
Hall**

Membership:	Councillors Rebecca Longbottom (Chair), Helena Mair (Vice-Chair), David Clarkson, Thomas Dyer, Gary Hewson, Rosanne Kirk and Calum Watt
Substitute member(s):	Councillors Pat Vaughan
Independent Member:	Jane Nellist
Officers attending:	Paul Berry, Democratic Services, Jaclyn Gibson, Pat Jukes, Rob Marshall and Colleen Warren

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## A G E N D A

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2. Declarations of Interest	
Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary.	
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You are asked to resolve that the press and public be excluded from the meeting during the consideration of the following item(s) because it is likely that if members of the press or public were present, there would be disclosure of 'exempt information'

## **SECTION B**

14. Partnership Governance	379 - 406
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**Present:** Councillor Rebecca Longbottom (*in the Chair*)

**Councillors:** Helena Mair, David Clarkson, Thomas Dyer,  
Gary Hewson and Calum Watt

**Independent Member:** Jane Nellist

**Apologies for Absence:** Councillor Rosanne Kirk

**29. Confirmation of Minutes**

RESOLVED that the minutes of the meetings held on 15<sup>th</sup> and 22<sup>nd</sup> July 2021 be confirmed and signed by the Chair.

**30. Declarations of Interest**

No declarations of interest were received.

**31. Information Governance Update**

Sally Brooks, Data Protection Officer:

- a. presented a report to update Audit Committee on progress made with Information Management monitoring the councils compliance with data protection legislation including the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA)
- b. highlighted that update reports were submitted to Audit Committee on a bi-annual basis, the last report was provided in March 2021.
- c. advised that Information Management resources continued to be required in the arrangements surrounding the response to the pandemic. This was in addition to the council's 'business as usual' data protection compliance. This had included ongoing updates to the customer privacy notice, business support grants, retention arrangements for new datasets created, promoting vaccine up take in 18-30 year olds and self-isolation payments for parents and carers.
- d. advised on data protection training that was underway by the council at paragraph 4 of the officer's report which was a legal requirement under the GDPR and the ICO
- e. reported on work completed in relation to contracts, Brexit and UK GDPR as detailed at paragraph 5 of the report
- f. updated members of Audit Committee in relation to progress made with the Office 365 roll out as detailed at paragraph 6 of the report.
- g. reported that the Annual Governance Statement (AGS) status for Information Governance had been downgraded from Red to Amber due to progress made in the implementation of the GDPR and had since been removed from the

AGS although remained closely monitored with reports submitted to IG Board, CMT and Audit Committee.

h. invited committees' questions and comments

**Question:** Referred to the e-learning and asked if staff were still able to ask questions and who would be responsible for providing support.

**Response:** The e-learning would have a testing element to ensure that staff understood the information. The Data Protection Officer and Legal would provide support and be available to answer any questions.

**Question:** Referred to section 6 of the report and asked how the roll out of Office 365 had progressed.

**Response:** Approximately two thirds of staff had received the new equipment, however, there was now a global shortage of equipment which was difficult to source. All staff had access to Teams even if they did not have new equipment.

**Question:** Asked if Zoom would still be used for meetings.

**Response:** Teams would be available to everyone and Zoom would be phased out.

**Question:** Asked if the data breaches were of a serious nature?

**Response:** On average there were four to five data breaches each month. There had not been a significant increase in the number data breaches with home working.

**Question:** Referred to risk number 11 on the risk register and asked if it had been reported correctly and should be shown as a declining risk instead of a static risk?

**Response:** The risk was not declining as there had been improvement, it would be updated to reflect this.

**Question:** Asked how the Independent Member would receive the training as she did not have access to the Councils IT systems.

**Response:** The training would take place face to face with Data Protection Officer.

**Question:** Asked if the Council could charge for data requested by the general public.

**Response:** Previously the Council were able to charge the general public for data about themselves, but the Council could not charge for Freedom of Information requests.

**Question:** Asked how information was protected when staff were working from home using laptops.

**Response:** The data was not held on the laptop it was held in a cloud, and this could not be accessed without the log on information. Guidance had been provided to staff to advise them not to share data, or let others use their device and to log out and shut the screen when away from their desk.



**Question:** Asked if there was a remote working policy in place.

**Response:** As the move to home working was urgent during the pandemic, procedure notes were provided. Remote working was included in the ICT Security Measures Policy which would be considered by Policy Scrutiny and Executive shortly.

RESOLVED that the content of the report be noted.

### **32. IT Disaster Recovery Update and ICT Recommendation Progress**

Matt Smith, Business Development and IT Manager:

- a. presented an update on ICT Disaster Recovery (DR) and Audit recommendations for the ICT Service as requested by the Audit Committee.
- b. advised that in terms of Disaster Recovery the Council had a limited amount of resource and where possible sought to optimise benefits from the resources available by adopting solutions that worked towards resolving more than one issue.
- c. summarised the risks associated with the provision of an IT Service as detailed at paragraph 2.4 of the report and gave details of the significant workload that this imposed on the service and further explained the resource implications.
- d. detailed several aspects that had been developed which would assist with delivery of the Disaster Recovery Solution over a number of years:
  - I. Backup arrangements – allowing multiple copies of data to be held within two locations on premises, and a further copy to be maintained offsite, in the ‘cloud’
  - II. Refresh of infrastructure – a duplicate copy of the infrastructure had now been delivered which could be invoked should a disaster occur at the primary site
  - III. Enhanced DR copies of data – some data was not held within ‘real-time’ copies to reduce the likelihood of data loss should an emergency issue arise. This would reduce the amount of data that could be lost since the previous backup cycle.
  - IV. A DR plan had been developed.
- e. highlighted further improvements that could be implemented as detailed at paragraph 3 of the report and explained that the Disaster Recovery work would be continued to be reviewed to seek opportunities for improvement.
- f. advised that since October 2018 there had been 5 Internal Audits, which had resulted in a number of recommendations, many of which had been concluded.
- g. explained that one of the main outstanding actions was to review the ICT Policy, a draft had been completed and it was currently being reviewed by other stakeholders prior to the committee process.

- h. further advised that some recommendations would require finance to be made available in order to complete them, this was under ongoing review and would be considered alongside other pressures on the budget a part of the normal cycle.
- i. advised that an ICT Risk Register has also been developed over the last year. There were currently 90 risks documented. The higher-level risks have actions in defined projects i.e. DR, which also compete for resource, or were also identified on the corporate risk register e.g. for financial and staff resources in general.
- j. invited members questions and comments.

**Question:** Referred to the back up arrangement as detailed at paragraph 3.2 of the report and asked if the multiple copies of data were kept in sync.

**Response:** Some of the data was replicated overnight, some was synchronised, and some was held in the cloud.

**Question:** Asked if the ICT Security Policies would be overruled by stakeholders during the consultation.

**Response:** The consultation was with HR, Audit and external consultants and was to ensure that the policy was fit for purpose.

**Question:** Asked if consideration had been given to using Lincolnshire County Council as a fall back if the systems went down.

**Response:** All options had been considered, we were advised by external consultants to have our own off site back up which was at Hamilton House.

The committee extended their thanks and appreciation to the IT Team for their excellent work during an unprecedented time.

RESOLVED that the report be noted.

(Councillor T Dyer left the meeting)

### **33. Annual Complaints Report**

Jaclyn Gibson, Chief Finance Officer:

- a. presented the annual complaints report which included reference to the Annual Review of Local Authority Complaints issued by the Local Government and Social Care Ombudsman (LGSCO), and details of the decisions of the Housing Ombudsman
- b. reported also on the overall number of complaints received by the Council including response times and percentage of complaints upheld on a directorate basis for the full year 2020-21.
- c. highlighted the background to the council's complaints procedure at paragraph 2 of the report

- d. advised that the Housing Ombudsman had published a Complaint Handling Code, details of which were contained at paragraph 2.3 of the report.
- e. explained that as a result of the guidance, and in consultation with the Resident Involvement Panel, new time targets for handling complaints had been introduced:
  - Initial acknowledgment within 5 days
  - Level 1 complaints to be responded to within 10 working days
  - Level 2 complaints to be resolved within 20 working days.
- f. reported that the number of complaints received over the year had decreased significantly on the previous year. There was some council services who suspended their operations for several months, and this would have reduced the potential for something to go wrong.
- g. stated that there had been a slight increase in the amount of time taken for officers to respond to complaints at 8.1 days over all four directorates
- h. detailed further the breakdown of directorate complaints at paragraph 4 of the report
- i. highlighted that of the 260 complaints responded to in 2020-2021, 39% (102) were upheld, this was consistent with the percentage upheld in the previous year which was 40%
- j. explained that tenancy related complaints i.e. those which were classed as a landlord function, were now referred to the Housing Ombudsman (HOS) rather than being dealt with by the LGSCO
- k. highlighted the trend in complaints as detailed at paragraph 7 of the report
- l. highlighted the number of compliments received from members of the public acknowledging professionalism of staff across all service areas
- m. invited members' questions and comments.

**Question:** Asked for the details of the complaint in relation to the Cornhill Development.

**Response:** The details could be circulated following the meeting.

The Chair commented on the importance of receiving compliments and that they should be recognised as much as complaints were.

RESOLVED that the content of the 2020-2021 complaints report be noted.

### 34. **Assessment of Going Concern Status**

Jaclyn Gibson, Chief Finance Officer

- a. presented a report to inform the Audit Committee of an assessment of the Council as a going concern for the purposes of producing the Statement of Accounts for 2020/21.

- b. explained the background of the report as detailed at paragraph 2 and advised that the concept of 'going concern' assumed that an authority, its functions and services would continue in operational existence for the foreseeable future.
- c. advised that the report set out the position of the City Council and provided justification for the 2019/20 financial statements being prepared on a 'going concern' basis.
- d. highlighted the main factors which underpin the assessment were:
- The Council's current financial position
  - The Council's projected financial position
  - The Council's balance sheet
  - The Council's cash flow
  - The Council's governance arrangements
  - The regulatory and control environment applicable to the Council as a local authority.
- e. detailed the Council's current Financial Position and highlighted the following areas:
- General Fund
  - Housing Revenue Account (HRA)
  - Covid-19
- f. further detailed the following:
- The Council's Projected Financial Position – Revenue Resources
  - The Council's Balance Sheet as at 31<sup>st</sup> March 2021
  - The Council's Cash Flow
  - The Council's Governance Arrangements
  - The External Regulatory and Control Environment
  - Material Uncertainties
- g. advised that it was considered that having regard to the Council's arrangements and such factors as highlighted in the report that the Council remained a 'going concern' and the Council's accounts for 2020/21 had appropriately been prepared on this basis. The report gave that assessment by the Council's Section 151 Officer in support of presenting the Accounts for approval and provides assurance to Mazars, the Council's external auditor.

**Question:** Referred to the BIFFA contract and asked if it was linked to inflation.

**Response:** The majority of contracts were linked to inflation. There was a risk each year that there would be a change to the inflation that had been forecast.

**Question:** Asked if Officers tried to predict the inflation rate.

**Response:** The contract had to be set to RPI or CPI and would be affected by the actual rate as at the contract date. Officers did make predictions, however there was a risk to the budget that the inflation rate could be higher or lower than predicted.

RESOLVED that the outcome of the assessment of the Councils going concern status for the purpose of preparing the Statement of Accounts 2020/21 be accepted

**35. Internal Audit Progress Report**

John Scott, Audit Manager:

- a. presented the Internal Audit Progress Report to Audit Committee, incorporating the overall position reached so far and summaries of the outcome of audits completed during the period June 2021 to August 2021, as detailed at Appendix A
- b. highlighted that Audit Committee held the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan as a key requirement of public sector internal audit standards
- c. detailed the content of the report covering the following main areas:
  - Progress against the plan
  - Summary of Audit work
  - Current areas of interest relevant to the Audit Committee
- d. invited questions and comments

RESOLVED that the report be accepted and the monitoring arrangements be continued.

**36. Audit Committee Work Programme**

John Scott, Audit Manager:

- a. presented a report to inform members of the Audit Committee on the work programme for 2021/22 as detailed at Appendix A of the report.
- b. referred to paragraph 4 of the report and highlighted the changes to the work programme.
- c. advised that the Audit Committee Terms of Reference was attached at Annex A of the report for information.

RESOLVED that the contents of the Audit Committee work programme 2021/22 be noted.

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<b>SUBJECT:</b>	<b>ANNUAL GOVERNANCE STATEMENT MONITORING</b>
<b>REPORT BY:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>LEAD OFFICER:</b>	<b>PAT JUKES, BUSINESS MANAGER, CORPORATE POLICY</b>

**1. Purpose of Report**

- 1.1 To present a progress update on the areas identified as 'significant governance issues' as set out in the 2020/21 Annual Governance Statement (AGS).

**2. Executive Summary**

- 2.1 The Audit Committee has a role to review the Council's governance arrangements including the production of the Annual Governance Statement.
- 2.2 This report provides details of the monitoring arrangements for the significant internal control issues raised in the latest AGS.

**3. Background**

**3.1 Monitoring of 2020/21 AGS issues**

- 3.2 The updates on the significant issues identified within the 2020/21 AGS are summarised within **Appendix A**.
- 3.3 These are monitored by the Service Manager's Group and overseen by Corporate Leadership Team as well as monitored at the Audit Committee.

**4 Summary of findings**

- 4.1 Of the two significant issues, both are considered to have reduced in significance from RED status to AMBER status
- 4.2 **1. The IT Disaster Recovery plan alignment with current Business Continuity plans**

*"The current IT Disaster Recovery plan needs to be reviewed to ensure that there is clarity of how, what and when we can recover all critical systems. This will enable us to create clear and workable links to the critical service business continuity plans"*

This issue falls into two separate actions – the first relating to the completion of the updated ITDR plan and the second being the review of the Business Continuity plans to match what we are able to achieve in terms of recovery.

- 4.3 In relation to the completion of the Hamilton House recovery centre - significant progress has been made on delivering this part of the significant issue

In summary, the Hamilton House secondary data centre is now fully operational, further details of which can be found in the template attached (**Appendix A**). and work has now started on reviewing the IT Disaster Recovery plan.

The level of progress made has led to a downgrade from RED status to AMBER status.

- 4.4 Each year all Business Continuity plans are reviewed to ensure they meet the current environment – this year there is a full-scale review underway to reflect the changes in working practices. It is highly likely that some of the older requirements from the critical services plans will have changed following the actions taken during 2020/21 relating to many officers' ability to work from home rather than need alternative office accommodation.

Business continuity plans will be revised throughout 2021/22 so that they are in a position to be linked to the new ITDR when it is completed in March 2022.

- 4.5 **2. Vision 2025 needs to be re-profiled and communicated to a wider audience in the light of COVID-19**

*"Plans for rolling out Vision 2025 were deferred due to the pandemic onset. Vision 2025 is published on the web, but to date there has been no formal launch. In addition a review of where and how the current Vision offers support in the area of 'Health' to the people of Lincoln has been requested, which may impact the roll out timing"*

- 4.6 Significant progress has been made in drafting a new Annual Delivery plan for 2022/23, and a schedule is currently being developed to ensure that members are widely consulted before the Exec decision in February 2022

The level of progress made has led to a downgrade from RED status to AMBER status.

## 5. Strategic Priorities

This report does not focus specifically on any of the five Vision 2025 priorities but does contribute significantly towards One Council which underpins these aspirations.

## 6. Organisational Impacts

- 6.1 Finance (including whole life costs where applicable)

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

- 6.2 Legal Implications including Procurement Rules

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

- 6.3 Equality, Diversity & Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees. It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity



- Foster good relations between different people when carrying out their activities

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

## **7 Risk Implications**

- 7.1 (i) Options Explored - n/a  
(ii) Key risks associated with the preferred approach n/a

## **8 Recommendation**

- 8.1 The Audit Committee is asked to note the report and consider whether any of the following options are relevant:
- Report and make recommendations to the Executive if appropriate.
  - Refer any matter under review they feel appropriate to the relevant Portfolio Holder, Scrutiny Chair or Committee.
  - Accept the report and continue to monitor arrangements.

**Key Decision** No

**Do the Exempt Information Categories Apply?** No

**Call in and Urgency:** Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply? No

**How many appendices does the report contain?** One

**List of Background Papers:** None

**Lead Officer:** Pat Jukes, Business Manager Corporate Policy  
Pat.jukes@lincoln.gov.uk

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## Summary of progress with AGS risk action to Audit Committee: December 2021

### Significant current issues from 2020/21 to focus on in 2021/22

The risk actions below were identified in the 2020/21 AGS review. Progress will continue to be made in 2021/22, monitored through the Assistant Directors Group and the Service Managers Forum, driven forward by the relevant Service Managers and reported to Audit Committee.

**Significant issues carried forward from 2020/21** – There were two significant governance issues monitored during 2020/21 which still remain as issues for monitoring during 2021/22, although both have been updated to reflect the current environment

- :
- **The IT Disaster Recovery plan alignment with current Business Continuity plans**
  - **Vision 2025 needs to be re-profiled and communicated to a wider audience**

There were no new significant issues identified from 2020/21

	What actions will be taken over the coming months	What progress have we made against each action	RAG Status
<b>The IT Disaster Recovery plan alignment with current Business Continuity plans</b>  <b>Matt Smith –</b> BDIT Manager (IT)  <b>Jaclyn Gibson –</b> CFO (BC)	<p><i><b>The current IT Disaster Recovery (DR) plan needs to be reviewed to ensure that there is clarity of how, what and when we can recover all critical systems. This will enable us to create clear and workable links to the critical service business continuity plans</b></i></p> <p><b>IT actions agreed</b></p> <ol style="list-style-type: none"> <li>1. Finish the final aspects of the Hamilton House recovery centre – <b>by August 2021</b> <ol style="list-style-type: none"> <li>a. all servers to be fully functional</li> </ol> </li> <li>2. Refresh the ITDR plan – <b>March 2022</b> <ol style="list-style-type: none"> <li>a. Review priority of services to be brought back on-line</li> <li>b. Consider ongoing agile working requirements</li> </ol> </li> </ol>	<p><b>IT actions:</b></p> <ol style="list-style-type: none"> <li>1. All servers are now replicated to Hamilton House secondary data centre</li> <li>• Disaster Recovery is now fully operational at Hamilton House</li> <li>• Specific Cyber-attack insurance is being procured</li> <li>• Many systems are now hosted off site in the cloud especially email and Microsoft suite of documents - so customers can now contact us in the event of our legacy systems hosted on site failing. Our IT strategy is to move further to cloud hosting - reducing the DR implications on site</li> </ol>	<b>A</b>

	<p>c. Focus on the legacy services still held at City Hall. Does the full service need to be up and running at speed, or just elements of it?</p> <p>d. Decisions on how we could simplify the invocation process</p> <p>e. Documentation completed and action plan in place</p> <p>3. Working with BC Plans – <b>September 2022</b></p> <p>a. review options for alternative storage (in cloud) and appropriate costings</p> <p><b>Business Continuity actions agreed – September 2022</b></p> <p>1. Review all BC plans in light of the published ITDR plan</p>	<ul style="list-style-type: none"> <li>• The only outstanding action is to review individual business continuity plans for services (see next point), to ensure the scope and scale of recovery matches the capacity of the Disaster Recovery Plan</li> </ul> <p>2. Initial consideration has been made into next stages, and the review of the DR plan. This may involve some investment, and options will be developed in conjunction with existing suppliers</p> <p><b>Business Continuity Actions:</b></p> <p>1. Business Continuity Plans (BCP) - we are currently going through the process of reviewing which services are deemed to be critical services to ensure we have captured any changes to service in terms of the impact and risk. We will then use this to ensure those services that remain critical have their BCP's reviewed as part of the annual process and for those which are identified as now being critical, when previously they were not, have a BCP developed.</p> <p>This will be further supplemented in Sept 2022 when we align with the new ITDR plan.</p>	
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<p><b>Vision 2025</b> needs to be re-profiled and then communicated to a wider audience</p> <p><b>Pat Jukes –</b> Business Manager, Corporate Policy</p>	<p><i>Plans for rolling out Vision 2025 were deferred due to the pandemic onset. Vision 2025 is published on the web, but to date there has been no formal launch. In addition a review of where and how the current Vision offers support in the area of 'Health' to the people of Lincoln has been requested, which may impact the roll out timing.</i></p> <p><b>Actions agreed:</b></p> <ol style="list-style-type: none"> <li>1. Complete the draft Annual Delivery Plan – <b>December 2021</b></li> <li>2. All members seminar to review the ADP proposals – <b>January/February 2022</b></li> <li>3. Formal review and approval of the 2022/23 ADP at Scrutiny and Exec – <b>21<sup>st</sup> February 2022</b></li> <li>4. Consider the most appropriate launch/media communications and action- <b>March 2022</b></li> </ol>	<p><b>ACTIONS:</b></p> <ol style="list-style-type: none"> <li>1. A review of how the Vision 2025 plan could provide positive impacts on the health of residents of Lincoln was completed in Aug 2021.</li> <li>2. The commitments that were in progress or planned have been reviewed at Portfolio level and suggestions for further activity put forward by each and summarised to Leadership.</li> <li>3. The next step is to redraft a new Annual Delivery Plan for the 2022/23 year, develop a consultation schedule which will include communication to all members and formal sign off before the financial year end.</li> </ol>	<p><b>A</b></p>
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**AUDIT COMMITTEE**

**14 DECEMBER 2021**

**SUBJECT: EXTERNAL AUDIT PROGRESS REPORT**

**DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK**

**REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER**

**1. Purpose of Report**

- 1.1 To present the External Audit Progress Report to Audit Committee.

**2. Executive Summary**

- 2.1 This report provides Audit Committee with an update on progress in delivering responsibilities of the External Auditors.

**3. Background**

- 3.1 The External Auditor provides periodic update reports to the Audit Committee. Mazars are currently appointed as the Council's External Auditor.

**4. External Audit Progress Report**

- 4.1 The External Audit progress report attached (Appendix A) covers the following areas:
- an update on progress in delivering the 2020/21 audit assurance work;
  - the 2021/22 audit planning process; and
  - a summary of recent relevant reports and publications
- 4.2 External Audit will be in attendance at the meeting to present the progress report.

**5. Strategic Priorities**

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

**6. Organisational Impacts**

- 6.1 Finance (including whole life costs where applicable)

The Audit fee for 2020/21 is £36,332, set in accordance with the scale fees set by the PSAA. The fee includes work on the VFM conclusion and the audit of the financial statements. Further separate agreement will be reached with Mazars regarding; additional fees in relation to the Council's status as an EU Public Interest Entity; additional work required on property valuations and the net pension liability valuation; and additional testing as a result of new auditing standards.

To support implementation of the Redmond review recommendations, MHCLG is providing local authorities with £15 million in additional funding in 2021/22. This is intended to support affected local bodies to meet the anticipated rise in fees for 2020/21 audits, driven by new requirements on auditors and to enable local authorities to develop standardised statements of service information and costs. The Council's allocation has been announced as £18,729.

## 6.2 Legal Implications including Procurement Rules

There are no direct legal implications. The External Auditor is required to satisfy themselves that the Council's accounts comply with statutory requirements and that proper practices have been observed in compiling them.

## 6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

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

## 7. Risk Implications

- 7.1 There are no specific risk implications arising as a direct result of this report. The annual Audit Strategy Memorandum sets out the key risks, as identified by the External Auditor, relevant to the audit of the financial statements.

## 8. Recommendation

- 8.1 Audit Committee is asked to note the content of the latest External Audit Progress Report.

**Is this a key decision?** No

**Do the exempt information categories apply?** No

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



**How many appendices does the report contain?**

One

**List of Background Papers:**

None

**Lead Officer:**

Jaclyn Gibson, Chief Finance Officer  
Tel: (01522) 873258

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# External Audit Progress Report

City of Lincoln Council

23

Audit Committee 14 December 2021



1. Audit Progress

2. National publications

Appendix 1 – Audit Strategy Memorandum 2020/21

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# 01

## Section 01: **Audit Progress**

# Audit Progress

## Purpose of this report

This report provides the Audit Committee's December 2021 meeting with:

- an update on progress in delivering the 2020/21 audit and assurance work;
- the 2021/22 audit planning process; and
- a summary of recent relevant reports and publications for your information (Section 2).

## 2020/21 Audit

The key planning points were shared with the Audit Committee at its July 2021 meeting through our progress report. The Audit Strategy Memorandum was circulated to the Committee members after that meeting and is included for completeness at Appendix 1 to this report.

The position on the key elements of the audit are as follows:

- Financial Statements Audit – our Audit Completion Report is included separately on the Audit Committee's agenda and sets out the progress to date, findings from the audit and the expected audit opinion.
- Value for Money – as summarised in our Audit Completion Report we have not identified any significant weaknesses in the Council's arrangements and there are no specific findings we need to report at this stage. We will report our Value For Money Commentary through our Auditor's Annual Report in January 2022.
- Other auditor responsibilities – we have not needed to take any action in relation to any of our broader auditor responsibilities.
- Assurance work – The work is either complete or on target for completion by the relevant deadlines. There are no matters arising that we need to report to the Committee at this stage.

## 2021/22 Audit

At this stage we do not expect any significant changes to the audit risk profile and the overall audit approach, and we have not identified any significant changes to the financial reporting requirements under the 2021/22 CIPFA Code. The operating and financial environment for Councils continues though to be challenging and its important our audit plan is properly tailored to the risks and issues. We will hold planning discussions with management in January 2022, including the normal wash up session on the current year's accounts audit to identify any opportunities for improvement or logistical issues. We will share our formal 2021/22 Audit Strategy Memorandum with the Audit Committee.

# 02

## Section 02: **National publications**

# National publications

	Publication/update	Key points
<b>Chartered Institute of Public Finance and Accountability (CIPFA)</b>		
1.	CIPFA Issues consultations to strengthen Prudential and Treasury Management Codes	The consultations (which closed 16 November 2021) followed previous reviews of the codes' provisions, amid ongoing concerns over local authority commercial investments.
2.	CIPFA launches value for money toolkit with the University of Oxford's GO Lab	Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation and has been developed in response to recent trends towards the use of outcomes-based contracts (OBCs) and impact bonds.
<b>Department for Levelling Up, Housing and Communities</b>		
3.	Consultation on changes to the capital framework: Minimum Revenue Provision	This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.
<b>National Audit Office (NAO)</b>		
4.	The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management	The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.
5.	The Local Government finance system in England: Overview and Challenges	This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.
6.	Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities	This provides a summary of the Department for Levelling Up, Housing and Communities' spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year, based on the insights from NAO's financial audit and value for money work.
7.	Cyber and Information Security: Good practice guide	Audit committees should be scrutinising cyber security arrangements. This guidance complements government advice by setting out high-level questions and issues for audit committees to consider.
8.	Climate change risk: A good practice guide for Audit and Assurance Committees	This guide helps Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.
<b>Financial Reporting Council</b>		
9.	Inspection findings into the quality of major local body audits	The findings show an improvement on the previous year but the timeliness of reporting was a concern.



# NATIONAL PUBLICATIONS

## CIPFA

### 1. CIPFA Issues consultations to strengthen Prudential and Treasury Management Codes, September 2021

The consultations (which closed 16 November 2021) followed previous reviews of the codes' provisions, amid ongoing concerns over local authority commercial investments. The Prudential Code is a professional code that ensures that capital finance decisions are prudent and sustainable. The Treasury Management Code, which sits alongside the Prudential Code, provides a framework for effective, risk-managed treasury management in public sector organisations. Richard Lloyd-Bithell, Senior Technical Manager at CIPFA, said: "The key changes being brought forward in these consultations, especially those in the Prudential Code, clarify and update CIPFA's position on local authority commercial investment. The revised code will emphasise that any borrowing made solely for the purpose of financial return constitutes imprudent activity, while also taking into account the realities that accompany regeneration activities.

### 2. CIPFA launches value for money toolkit with the University of Oxford's GO Lab, August 2021

CIPFA has partnered with the Government Outcomes Lab (GO Lab) from the University of Oxford's Blavatnik School of Government to develop the innovative GO Lab-CIPFA Value for Money (VfM) Toolkit.

Based on the UK National Audit Office's standard definition of value for money, the toolkit offers a consistent approach to programme evaluation and has been developed in response to recent trends towards the use of outcomes-based contracts (OBCs) and impact bonds.

The toolkit provides public managers with a framework to help assess the economic validity of public programmes, while also serving as a self-assessment instrument. The toolkit promotes thinking about the longer-term effects of interventions, such as outcomes and impacts, during the design and planning stage of public sector programmes.

The GO Lab-CIPFA VfM toolkit is available for free download on the CIPFA website.

<https://www.cipfa.org/services/go-lab-cipfa-value-for-money-toolkit>

### 3. Consultation on changes to the capital framework: Minimum Revenue Provision, December 2021

This consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

Local authorities borrow and invest under the Prudential Framework (the Framework), which comprises legislation and 4 statutory codes that authorities must have regard to. Under this system, authorities have wide freedoms to borrow and invest without the need to seek the government's consent, provided that borrowing is affordable. The intent of the Framework is to make sure local decisions are prudent, affordable and sustainable.

The government is aware that some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP. This was reported in the NAO's report Local Authority Investment in Commercial Property (February 2020) and the subsequent report by the Public Accounts Committee in July 2020, which recommended the government take steps to address the issue.

<https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision/consultation-on-changes-to-the-capital-framework-minimum-revenue-provision#excluding-specific-debt-from-mrp-determination>

# NATIONAL PUBLICATIONS

## National Audit Office

### 4. The Government's preparedness for the COVID-19 pandemic: lessons learned for government on risk management, November 2021

In November 2021

This report sets out the facts on:

- the government's approach to risk management and emergency planning (Part One);
- the actions the government took to identify the risk of a pandemic like COVID-19 (Part Two);
- the actions the government took to prepare for a pandemic like COVID-19 (Part Three); and
- recent developments (Part Four).

The report sets out central government's risk analysis, planning, and mitigation strategies prior to the arrival of the COVID-19 pandemic, with the aim of drawing out wider learning for the government's overall risk management approach.

The report concludes that this pandemic has exposed a vulnerability to whole-system emergencies – that is, emergencies that are so broad that they engage the entire system. Although the government had plans for an influenza pandemic, it did not have detailed plans for many non-health consequences and some health consequences of a pandemic like COVID-19. There were lessons from previous simulation exercises that were not fully implemented and would have helped prepare for a pandemic like COVID-19. There was limited oversight and assurance of plans in place, and many pre-pandemic plans were not adequate. In addition, there is variation in capacity, capability and maturity of risk management across government departments.

The pandemic also highlighted the need to strengthen the government's end-to-end risk management process to ensure that it addresses all significant risks, including interdependent and systemic risks. This will require collaboration on risk identification and management not only across government departments and local authorities, but also with the private sector and internationally. For whole-system risks NAO states that the government needs to define its risk appetite to make informed decisions and prepare appropriately so that value for money can be protected. NAO state that the pandemic has also highlighted the need to strengthen national resilience to prepare for any future events of this scale, and the challenges the government faces in balancing the need to prepare for future events while dealing with day-to-day issues and current events.

The full report can be seen at this link: <https://www.nao.org.uk/report/the-governments-preparedness-for-the-covid-19-pandemic/>

# NATIONAL PUBLICATIONS

## National Audit Office

### 5. The Local Government finance system in England: Overview and Challenges, November 2021

This overview looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. It draws on relevant findings from past NAO work.

The overview aims to enhance financial transparency about local government in England. It covers:

- An introduction to local government funding
- Government policy and actions since 2010
- Some results or consequences of these changes.

The report headlines include the following in respect of the impact of the changes implemented by government on councils:

- Rising social care spending has squeezed funds available for non-social care services, yet rising spend has not prevented concerns about social care, and projections suggest continued cost and demand pressures.
- Local authorities have made substantial spending reductions in some services and sought to maximise revenue funding from other sources. Some local authorities have sought to maximise revenue available for services in ways that may reduce financial resilience. Commercial property investment strategies have increased some local authorities' exposure to risk. Local authorities now rely more on sources of income that are dependent on local economic conditions.
- A lack of short-term funding certainty hampers local authorities' ability to plan. Local authorities are also planning and delivering services amid medium-term financial uncertainty. Financial uncertainty does not support value-for-money decision-making.
- The governance mechanisms that support decision-making about financial sustainability are under strain. The financial resilience of the local government sector was being tested, even before the COVID-19 pandemic

The full report can be seen at this link: <https://www.nao.org.uk/report/the-local-government-finance-system-in-england-overview-and-challenges/>

# NATIONAL PUBLICATIONS

## National Audit Office

### 6. Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities, November 2021

This provides a summary of the Department for Levelling Up, Housing and Communities' spending in 2020-21, its major areas of activity and performance, and the challenges it is likely to face in the coming year, based on the insights from NAO's financial audit and value for money work.

The full report can be seen at this link: <https://www.nao.org.uk/report/departmental-overview-2020-21-department-for-levelling-up-housing-and-communities/>

### 7. Cyber and Information Security: Good practice guide, October 2021

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management;
- Capability needed to manage cyber security; and
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The guidance is based on NAO previous work and our detailed systems audits, which have identified a high incidence of access-control weaknesses. It also provides links to other government guidance and NAO resources.

The full report can be seen at this link: <https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>

# NATIONAL PUBLICATIONS

## National Audit Office

### 8. Climate change risk: A good practice guide for Audit and Assurance Committees, August 2021

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The full report can be seen at this link: <https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/>

# NATIONAL PUBLICATIONS

## Financial Reporting Council

### 9. Inspection findings into the quality of major local body audits, October 2021

The Financial Reporting Council (FRC) published in October 2021 its [inspection findings into the quality of major local body audits](#) in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements.

The FRC found that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting was disappointing.

The key areas requiring action by some of the audit firms included:

- 35
- strengthening the audit testing of expenditure;
  - improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
  - improving the evaluation of assumptions used in property, plant and equipment valuations; and
  - providing improved rationale supporting a modified audit opinion.

FRC found that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The full report can be seen at this link: <https://www.frc.org.uk/news/october-2021/frc-publishes-latest-major-local-audit-quality-ins>

Appendix 1

## **Audit Strategy Memorandum 2020/21**



# Audit Strategy Memorandum

City of Lincoln Council

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Year ended 31 March 2021



# Contents

- 01 Engagement and responsibilities summary
- 02 Your audit engagement team
- 03 Audit scope, approach and timeline
- 04 Extended auditor’s report
- 05 Significant risks, key audit matters and other key judgement areas
- 06 Value for Money
- 07 Fees for audit and other services
- 08 Our commitment to independence
- 09 Materiality and misstatements

Appendix – Key communication points

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

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

Mazars LLP  
Two Chamberlain Square  
Birmingham  
B3 3AX

Date: July 2021

Dear Audit Committee Members

## Audit Strategy Memorandum – Year ended 31 March 2021

We are pleased to present our Audit Strategy Memorandum for City of Lincoln Council for the year ended 31 March 2021. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 8 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;

- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing City of Lincoln Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management but subject to completion of our full planning procedures, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me at [mark.surridge@mazars.co.uk](mailto:mark.surridge@mazars.co.uk).

Yours faithfully

**Mark Surridge**

Mazars LLP

Mazars LLP – Two Chamberlain Square, Birmingham, B3 3AX

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD. We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: 839 8356 73

# 01

Section 01:

## **Engagement and responsibilities summary**

# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of City of Lincoln Council (the Council) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.



### Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or Audit Committee, as those charged with governance, of their responsibilities.



### Going concern

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Chief Financial Officer is responsible for the assessment of whether it is appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.



### Value for money

We are also responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.



### Electors' rights

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 consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom



### Fraud

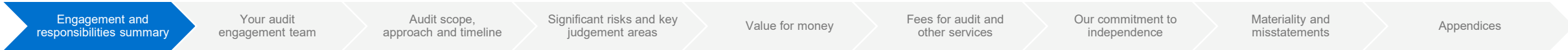
The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management include Internal audit, other key individuals where relevant as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



### Reporting to the National Audit Office

We report to the NAO on the consistency of the Council's financial statements and the matters arising from our audit which are relevant to the Council's Whole of Government Accounts (WGA) submission.



# 02

Section 02:

**Your audit engagement team**



## 2. Your audit engagement team

Who	Role	Email
Mark Surridge Director and Key Audit Partner	Engagement Lead	Mark.Surridge@mazars.co.uk
Michael Norman Senior Manager	Engagement Manager	Michael.Norman@mazars.co.uk
Kizzy Atkins Assistant Manager	Engagement Senior	Kizzy.Atkins@mazars.co.uk

In addition, an engagement quality control reviewer has been appointed for this engagement.



# 03

Section 03:

**Audit scope, approach and timeline**



# 3. Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements. Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

## Audit approach

Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 9.

The diagram on the next page outlines the procedures we perform at the different stages of the audit and the indicative timeline at this stage based on the current national timetable. The specific dates are subject though to

- the timely provision of information by third parties; and
- us being able to fully complete the audit procedures to the required quality standards.

We are continuing to discuss the detailed year-end audit arrangements with management, together with the timing of the main audit visit and completion stages. It is clear that the impact of the 2019/20 changes to the year-end timetable and delays nationally in completing audits is taking some time to unwind, with MHCLG confirming in March 2021 their expectation that the 2020/21 and 2021/22 draft and audited accounts publication dates will be 31 July and 30 September respectively. These dates are challenging the entire sector and we will keep the Committee informed on the audit progress, any early matters arising and the expected completion date.

## COVID-19 Working Arrangements and impact on our auditor’s report

The accounts preparation and audit will once again be significantly impacted by the COVID-19 remote working arrangements and it is important that we continue to keep in close contact with the finance team and are able to respond to emerging issues. The outline timetable on the following page is based on our current understanding of the national deadlines and the current working arrangements.



### 3. Audit scope, approach and timeline

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#### Planning – February/March

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

#### Completion – November \*\*

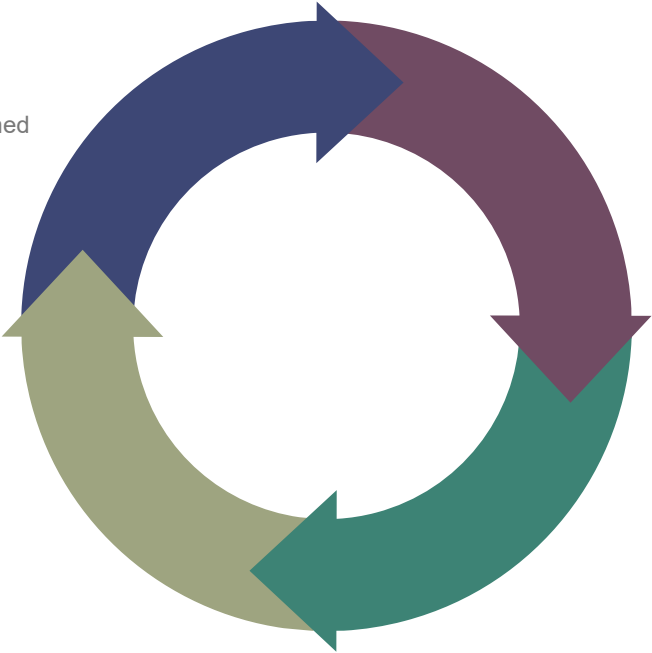
- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor's report

#### Interim – March/April

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

#### Fieldwork – July to September \*

- Receiving and reviewing draft financial statements
- Technical (ATS) review of financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



\* Specific dates for the audit visits being confirmed with management to accommodate audit and client staff availability during this period.

\*\* Although we would hope to complete the audit work ahead of this date the timetable has been impacted by the delayed 2019/20 audit opinion and audit and client availability. Final completion is also subject to, amongst other things, the timely provision of information by third parties and us being able to fully complete the audit procedures to the required quality standards.

Engagement and responsibilities summary	Your audit engagement team	<b>Audit scope, approach and timeline</b>	Extended auditor's report	Significant risks and key judgement areas	Value for money	Fees for audit and other services	Our commitment to independence	Materiality and misstatements	Appendices
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### 3. Audit scope, approach and timeline

#### Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures, and we will take the Head of Internal Audit's Annual Report findings into account in forming our Value for Money Conclusion.

#### Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability	Barnett Waddingham <i>Actuary for Lincolnshire Pension Fund</i>	PWC <i>Consulting actuary appointed by NAO</i>
Property, plant and equipment, Investment Properties and Assets held for Sale valuation	Paul Clifton, MRICS <i>The Council's internal valuer</i>	Not applicable
Property, plant and equipment valuation	DVS Property Services <i>External valuation specialist</i>	We intend to utilise our internal valuation expert to support our work on valuations.
Business Rate Appeals valuation	Inform CPI Limited <i>Analyse Local Valuation System</i>	Not applicable
Financial instrument disclosures	Link Asset Services <i>Treasury management advisors</i>	Not applicable

#### Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Payroll Expenditure	North Kesteven District Council <i>The payroll entries that form part of the Council's financial statements are material and are derived from the processing of monthly payrolls. The payroll processing is undertaken and administered by North Kesteven District Council on behalf of the Council.</i>	We will review the controls at the Council over these transactions and gain an understanding of the work of the service organisations. We will conclude whether the Council has sufficient controls in place over the services provided by the payroll service and whether we will be able to audit these items of account based on the records held at the entity.



# 04

Section 04:

## **Extended auditor's report**

# 4. Extended auditor's report

## Layout of extended auditor's report and implications for the audit

The extended auditor's report for City of Lincoln Council is expected to follow the format and structure below for the year ended 31 March 2021 assuming that no emphasis of matter or qualification is required.

Paragraph heading in order	Summary of key content
Opinion on the financial statements	What we have audited and our opinion thereon.
Basis for opinion	Confirms that the audit is undertaken under the ISAs (UK). Specific confirmation of our independence including with the FRC's Ethical Standard. Specific confirmation re sufficiency and appropriateness of audit evidence obtained to provide a basis for our opinion.
Conclusions relating to going concern	Reporting by exception on the Council's: <ul style="list-style-type: none"><li>• use of the going concern basis of accounting</li><li>• disclosure of any material uncertainties</li></ul>
Key audit matters	Includes definition of key audit matters. Clarifies that these matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and that we do not provide a separate opinion on these matters. For each key audit matter identified: <ul style="list-style-type: none"><li>• A description of the most significant assessed risk(s) of material misstatement;</li><li>• A summary of our response to those risks including significant judgements applied; and</li><li>• Where relevant, key observations arising with respect to those risks including clear reference to relevant disclosures in the financial statements.</li></ul>



# 4. Extended auditor’s report

Paragraph heading in order	Summary of key content
Our application of materiality and an overview of the scope of our audit	Explanation of how we applied the concept of materiality in planning and performing the audit. The overall materiality threshold for the financial statements as a whole, performance materiality and triviality. Overview of the scope of the audit, including an explanation of how the scope addressed each key audit matter and was influenced by our application of materiality.
Other information	Responsibilities of the S151 Officer and of the auditor for Other information included in the annual report.
Responsibilities of the S151 Officer	Cross reference to the full Statement of the S151 Officer’s Responsibilities.
Auditor’s responsibilities for the audit of the financial statements	Explanation of the ‘reasonable assurance’ objective of the audit. Cross-reference to our responsibilities for the audit on the FRC’s web-site. Explain to what extent the audit was considered capable of detecting irregularities, including fraud.
Matters on which we are required to report by exception	Report in the public interest under section 24 of the Local Audit and Accountability Act 2014. Recommendation under section 24 of the Local Audit and Accountability Act 2014. Exercise of any other special powers of the auditor under the Local Audit and Accountability Act 2014.



# 4. Extended auditor's report

Paragraph heading in order	Summary of key content
Value for Money arrangements	Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
Other matters which we are required to address	Confirms that we have not carried out any prohibited non-audit services and that we remain independent on the Council. Confirms that our audit opinion is consistent with the Audit Completion Report.
Use of the audit report	Who we are reporting to and what the report may be used for.
Audit certificate	Sets out that we have completed the audit of the Council in accordance with the Local Audit and Accountability Act 2014.



# 05

Section 05:

**Significant risks, key audit matters  
and other key judgement areas**



# 5. Significant risks, key audit matters and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Significant risks may also be key audit matters.

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## Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring. Standard risks will not normally be key audit matters as defined below.

## Key audit matters

Key audit matters are defined as those matters that, in our professional judgment, 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.

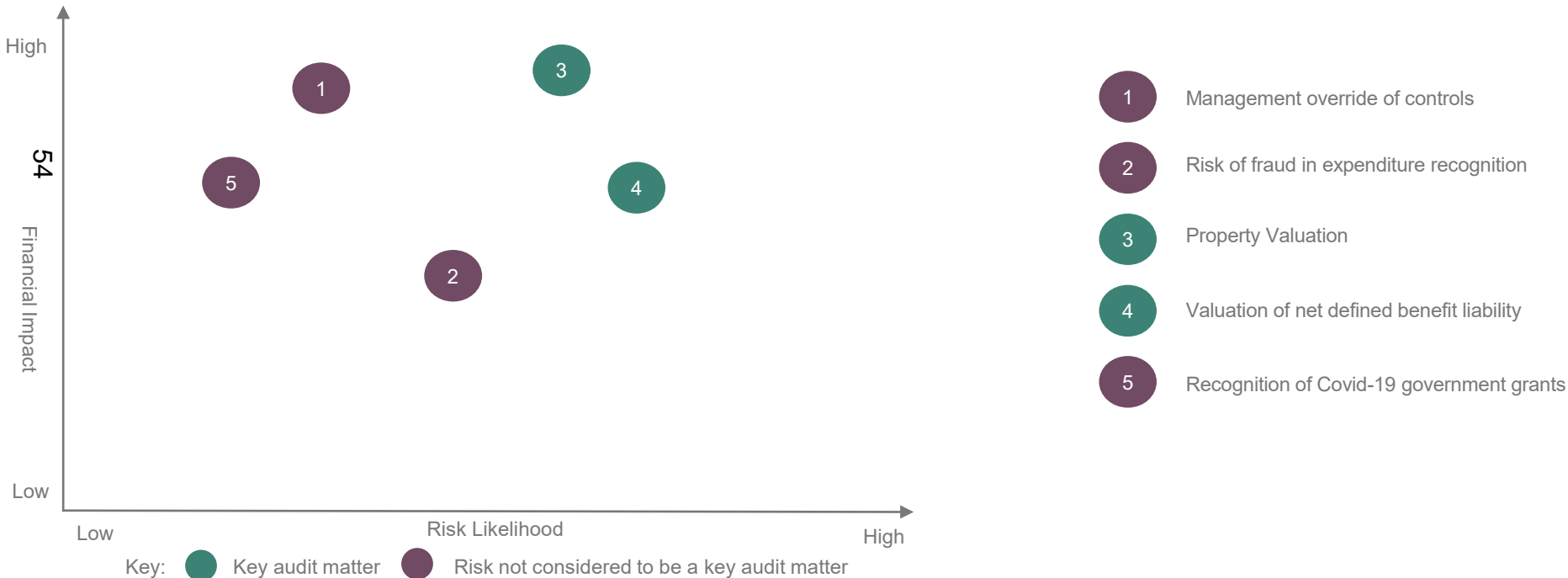
It is important that you understand and have the opportunity to discuss with us why something is being communicated as a key audit matter and the way this is described. This section highlights which of the significant risks and other key judgement areas are considered by us at the planning stage to be key audit matters. It should be noted, however, that other key audit areas may be identified during the course of the audit.



# 5. Significant risks, key audit matters and other key judgement areas

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council, identifying those that are considered key audit matters ('KAMs'). We have summarised our audit response to these risks on the next page.



# 5. Significant risks, key audit matters and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the audit committee.

## Significant audit risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
1	<b>Management override of controls</b>  This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.  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 there is a risk of material misstatement due to fraud on all audits.	●	-	-	-	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.



# 5. Significant risks, key audit matters and other key judgement areas

## Significant audit risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
2	<p><b>Expenditure recognition</b></p> <p>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.</p> <p>Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end and in particular whether cut-off (recognition in the correct financial year) is materially accurate. From our consideration of the Council's expenditure streams, we believe the risk is focused on Other Services Expenses (being £64m per Note 8 of the 2019/20 financial statements).</p>	●	●	●	-	<p>We will address this risk by performing work in the following areas:</p> <ul style="list-style-type: none"><li>ensuring the accounting policies in relation to expenditure recognition and recognition of accruals are appropriate and consistently applied; and</li><li>carrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure has been coded to the correct accounting year.</li></ul>



# 5. Significant risks, key audit matters and other key judgement areas

## Significant audit risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
3	<p><b>Property Valuation</b></p> <p>Property related assets are a significant balance on the council's balance sheet. The valuation of these properties is complex and is subject to a number of management assumptions and judgements.</p> <p>Due to the high degree of estimation uncertainty associated, we have determined there is a significant risk in this area.</p> <p>This risk covers (figures have been taken from the 2019/20 financial statements):</p> <ul style="list-style-type: none"><li>• Council Dwellings (£257.6m – Note 14)</li><li>• Land &amp; Buildings (£86.7m - Note 14)</li><li>• Surplus Assets (£19.7m – Note 14)</li><li>• Investment Properties (£34.6m – Note 14)</li><li>• Assets held for sale (£1.5m)</li></ul>	-	●	●	●	<p>We plan to address this risk by:</p> <ul style="list-style-type: none"><li>• critically assessing the Council's valuers scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;</li><li>• considering whether the overall revaluation methodologies used by the Council's valuers are in line with industry practice, the CIPFA code of practice and the Council's accounting policies;</li><li>• assessing whether valuation movements are in line with market expectations by considering valuation trends;</li><li>• critically assessing the approach that the Council adopts to ensure that assets that are not subject to revaluation in 2020/21 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Councils valuers.</li></ul> <p>In line with 2019/20 and the continuing COVID19 pandemic, we will consider whether there is the need for a material uncertainty disclosure to be made and emphasis of matter paragraph to be included within our opinion. We will monitor this throughout the audit process.</p>

# 5. Significant risks, key audit matters and other key judgement areas

## Significant audit risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
58	<p><b>4 Valuation of net defined benefit liability</b></p> <p>The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.</p> <p>This risk covers (figures have been taken from the 2019/20 financial statements):</p> <ul style="list-style-type: none"><li>• Net defined benefit liability (£81.9m - Note 44)</li></ul>	-	●	●	●	<p>In relation to the valuation of the Council's defined benefit pension liability we will:</p> <ul style="list-style-type: none"><li>• Critically assess the competency, objectivity and independence of the Lincolnshire Pension Fund's Actuary;</li><li>• Liaise with the auditors of the Lincolnshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate;</li><li>• Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council;</li><li>• Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and</li><li>• Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.</li></ul>



# 5. Significant risks, key audit matters and other key judgement areas

## Other key areas of management judgement, key audit matters and enhanced risks

	Description	Fraud	Error	Judgement	Expected KAM	Planned response
59	<p><b>5 Recognition of Covid-19 Government grants</b></p> <p>Throughout 2020/21, the Government has made available and provided substantial sums of grant support to local authorities including the general support grant, the Income Compensation and Job Retention schemes and grants that have been passed through to businesses.</p> <p>There is a risk the correct accounting treatment has not been applied, with the focus of our testing for this enhanced risk on the completeness and accuracy of this income in 2020/21.</p>	-	●	●	-	<p>We plan to address this enhanced risk by:</p> <ul style="list-style-type: none"><li>• Reviewing the Council’s approach in determining whether grants are ringfenced for specified areas of expenditure;</li><li>• Testing grant income recorded in the ledger to grant allocations/ notifications; and</li><li>• Reviewing a sample of grants to establish whether conditions to recognise the income in 2020/21 have been met.</li></ul>



# 06

## Section 06: **Value for Money**



# 6. Value for Money

## The framework for Value for Money work

We are required to form a view 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 view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Council has proper arrangements in place, we will now report by exception in our auditor’s report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Council’s arrangements as part of our auditor’s report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor’s Annual Report.

## Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

- 1. **Financial sustainability** – how the Council plans and manages its resources to ensure it can continue to deliver its services
- 2. **Governance** – how the Council ensures that it makes informed decisions and properly manages its risks
- 3. **Improving economy, efficiency and effectiveness** – how the Council uses information about its costs and performance to improve the way it manages and delivers its services

## Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Council’s arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Council and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

## Identified risks of significant weaknesses in arrangements

Due to the late release of the NAO’s Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our planning and risk assessment work. At this stage though there are no significant matters to highlight here. Financial Sustainability continues to be inherently challenging for the local government sector and will clearly be a focus for our assessment. On completion of our risk assessment and any further work we will report our findings and any significant weaknesses in arrangements in our commentary in the Auditor’s Annual Report..

Planning and risk assessment	<p>Obtaining an understanding of the Council’s arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none"><li>• NAO guidance and supporting information</li><li>• Information from internal and external sources including regulators</li><li>• Knowledge from previous audits and other audit work undertaken in the year</li><li>• Interviews and discussions with staff and members</li></ul>
Additional risk based procedures and evaluation	<p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p>
Reporting	<p>We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor’s Annual Report.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none"><li>• Significant weaknesses identified and our recommendations for improvement</li><li>• Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council.</li></ul>



# 6. Value for Money

Under the 2020 Code, we are required to structure our commentary on the Council’s ‘proper arrangements’ under three specified reporting criteria, which are expanded in the supporting guidance notes produced by the National Audit Office:

## Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

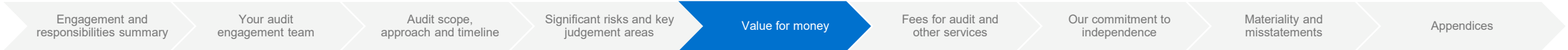
- how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them
- how the body plans to bridge its funding gaps and identifies achievable savings
- how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- how the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system
- how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

## Governance: how the body ensures that it makes informed decisions and properly manages its risks, including

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- how the body approaches and carries out its annual budget setting process
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

## Improving VFM: how the body uses information about its costs and performance to improve the way it manages and delivers its services

- how financial and performance information has been used to assess performance to identify areas for improvement
- how the body evaluates the services it provides to assess performance and identify areas for improvement
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve
- where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.



# 07

Section 07:

**Fees for audit and other services**

# 7. Fees for audit and other services

## Fees for work as the Council’s appointed auditor

Details of the 2019/20 actual and planned 2020/21 fees are set out below:

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Scale Audit fee	£36,332	£36,332
Fee Variations		
Additional work to reflect the Council’s designation as a Public Interest Entity	£5,000	£5,000
Additional work in response to regulatory recommendations to increase level of audit work on defined benefit liability schemes.		
Additional work in response to regulatory recommendations to increase level of audit work on the valuation of property plant and equipment.	£7,067 <sup>1</sup>	£7,067
Other additional costs relating to additional testing and reporting of uncertainties in key estimates as a result of Covid-19	-	£5,032
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern; and ISA 600 (Revised): Specific considerations – audit of group financial statements	£2,000 <sup>2</sup>	-
Additional work arising from changes in the Code of Audit Practice	TBC – Expected to be at least £10,000 or 20% of the revised fee <sup>3</sup>	-
Total	TBC <sup>4</sup>	£53,431

<sup>1</sup> As previously reported to you, the scale fee has been adjusted to take into account the additional work required as a result of increased regulatory expectations in these areas.

<sup>2</sup> For 2020/21, new auditing standards have been introduced which will lead to additional audit work not reflected in the scale fee. The implementation of IFRS 16 Leases is deferred to the financial year 2021/22.

<sup>3</sup> As explained in section 5, the revised Code of Audit Practice will lead to a substantial amount of additional audit work to support the new value for money commentary and the changes in reporting requirements. Our review of the Code and supporting guidance notes shows that the additional fee impact at all public sector entities is expected to be at least £10,000 or 20% of the post fee variation 2020/21 fee. The final fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify.

<sup>4</sup> This is a proposed fee for 2020/21 at the point of the issue of our ASM. This figure is subject to change and variations will be discussed with management.

PSAA has issued a consultation on the 2021/22 audit fee scale. We will revisit our fee proposal in line with the outcome of this consultation to ensure we are consistent with sector wide changes.



# 7. Fees for audit and other services

## Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 8.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Other services – Housing Benefits Grant Certification	£6,600	£6,600
Pooling of Housing Capital Receipts Return Certification	£3,250	£3,250
Homes England – Compliance Return	£3,500	£3,500

In common with all local government external auditors we are required to carry out additional procedures which were not expected when fees were set.

## Public interest Entity

Designation as an EU Public Interest Entity (EU PIE) The new European Union (EU) statutory audit legislation came into effect for all financial years starting on or after June 17, 2016. The new Public Interest Entity (PIE) definition includes organisations with transferable securities listed on EU regulated markets and governed by the law of an EU member. City of Lincoln Council had £560,780 of listed debt as at 31 March 2020. As a result of this listed debt, the Council falls under the definition of an EU PIE. In particular there are additional requirements at both the planning and the reporting stages of the audit, culminating in the longer-form audit report.

## Regulatory recommendations

We continually strive to maintain high standards of audit quality. One mechanism for doing this is to consider the outcome of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers. In particular we are planning increases in the level of work we do on defined benefit pension schemes; and the valuation of land, buildings and investment properties.

We will discuss the driving factors with Council officers and the audit fee for 2020/21 will be revisited to reflect the increased level of work that was not considered when the scale fee was set. Any agreed additional fee is also subject to detailed scrutiny by the PSAA as part of the approval process.



# 08

Section 08:

**Our commitment to independence**

# 8. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC’s Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

The Ethical Standard 2019 is applicable for any non-audit services commencing on or after 15 March 2020.

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars’ member firm. In section 3 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report for the audit committee.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

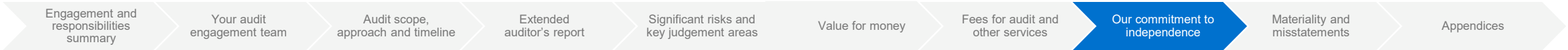
We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Surridge in the first instance.

Prior to the provision of any non-audit services Mark Surridge will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Principal threats to our independence and identified associated safeguards are set out below.

Area of work	Safeguards and commentary
Housing Benefits Grant Certification	We have considered threats and safeguards as follows: <ul style="list-style-type: none"><li>• Self Review: The work does not involve the preparation of information that has a material impact upon the financial statements subject to audit by Mazars and the Homes England Compliance Return is performed by a separate engagement team based on relevant skills and independence;</li><li>• Self Interest: The total fee level is not deemed to be material to the Council or Mazars. The work undertaken is not paid on a contingency basis;</li><li>• Management: The work does not involve Mazars making any decisions on behalf of management;</li><li>• Advocacy: The work does not involve Mazars advocating the Council to third parties;</li><li>• Familiarity: Work is not deemed to give rise to a familiarity threat given this piece of assurance work used to fall under the Audit Commission / PSAA certification regimes and was the responsibility of the Council’s appointed auditor; and</li><li>• Intimidation: The nature of the work does not give rise to any intimidation threat from management to Mazars.</li></ul>
Pooling of Housing Capital Receipts Return Certification	
Homes England – Compliance Return	

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



# 09

Section 09:

## **Materiality and other misstatements**



# 9. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	1,450
Performance materiality	1,090
Specific materiality: <ul style="list-style-type: none"><li>Officers' remuneration (bandings)</li><li>Termination payments</li></ul>	5k banding 13
Trivial threshold for errors to be reported to the audit committee	44

## Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;

- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

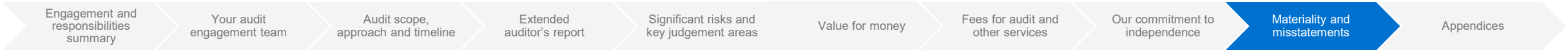
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the Comprehensive Income and Expenditure Statement (CIES) total gross expenditure. This is the sum of the CIES Cost of Services gross expenditure and relevant items within Other Operating Expenditure and Financing Income and Expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the audit committee.

We consider that the total gross expenditure as explained above remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.



# 9. Materiality and misstatements

## Materiality (continued)

We expect to set a materiality threshold at 1.5% of gross revenue expenditure, as explained on the previous page.

In setting materiality, we considered, among other matters:

- The nature of the Council's business, being provision of public services to the local community
- Nature of the Council's ownership, being a public body, led by elected members and paid officers, which includes the statutory roles - Head of Paid Services, Chief Financial Officer (s151), and Monitoring Officer;
- Council's access to financing, with the Council having access to the Public Works Loan Board (PWLB) for borrowing which are non-complex arrangements.

Based on the 2019/20 audited financial statements we anticipate the overall materiality for the year ended 31 March 2021 to be in the region of £1.45m.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our third year of audit, we have cumulative audit knowledge about the Council's financial statements, and there were no significant matters arising last year. We have therefore set our performance materiality again at 75% of our overall materiality being £1.09m.

## Specific Materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser 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 have set specific materiality for the following items of account:

Item of account	Specific performance materiality
	£5,000*
Senior officers' remuneration	* - Reflecting movement from one salary band to another
Termination payments	£13,000

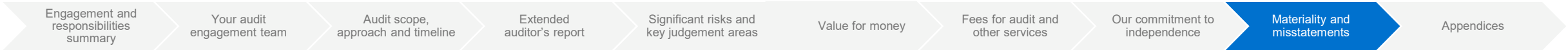
## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the audit committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £44,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Surridge.

## Reporting to the Audit Committee

The following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).





## Appendix: Key communication points

# Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- 72. Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

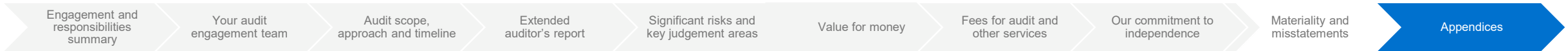
## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;

- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

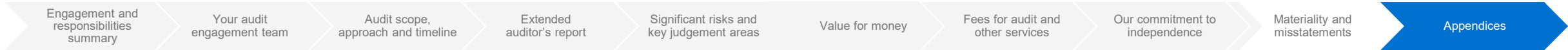
- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



# Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks/ key audit matters.	Audit Strategy Memorandum
37With respect to misstatements: <ul style="list-style-type: none"><li>• Uncorrected misstatements and their effect on our audit opinion;</li><li>• The effect of uncorrected misstatements related to prior periods;</li><li>• A request that any uncorrected misstatement is corrected; and</li><li>• In writing, corrected misstatements that are significant.</li></ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"><li>• Enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li><li>• Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li><li>• A discussion of any other matters related to fraud.</li></ul>	Audit Completion Report and discussion at the Audit Committee, Audit Planning and Clearance meetings



# Appendix: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management;</li> <li>• Inappropriate authorisation and approval of transactions;</li> <li>• Disagreement over disclosures;</li> <li>• Non-compliance with laws and regulations; and</li> <li>• Difficulty in identifying the party that ultimately controls the entity.</li> </ul>	Audit Completion Report
<div>74</div> <p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• Significant difficulties, if any, encountered during the audit;</li> <li>• Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• Written representations that we are seeking;</li> <li>• Expected modifications to the audit report; and</li> <li>• Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities.</li> </ul>	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

# Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
<div>75</div> With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty;</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> </ul> The adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

# Mark Surridge, Director – Public Services

## **Mazars**

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Birmingham, B3 3AX

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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**SUBJECT: EXTERNAL AUDIT: AUDIT COMPLETION REPORT**

**DIRECTORATE: CHIEF EXECUTIVE & TOWN CLERK**

**REPORT AUTHOR: COLLEEN WARREN, FINANCIAL SERVICES MANAGER**

## **1. Purpose of Report**

- 1.1 This report summarises the findings from the 2020/21 audit, which is substantially complete. It identifies the key issues that Members should consider before an opinion, conclusion and certificate are issued.
- 1.1 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.
- 1.2 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 31<sup>st</sup> January 2022 (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 1 low recommendation being made in respect of:

- Property Valuation

Further detail of the findings and recommendation are provided in section 5 of the attached report.

- 3.3 In relation to misstatements in the accounts there were five misstatements identified that were above the threshold level of £49k. Two of these misstatements 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. The remaining three misstatements are not proposed to be adjusted for, the effects of these uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Further details of these misstatements are provided in section 6 of the attached report.

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

#### **4. Value for Money conclusion.**

- 4.1 Mazars are yet to complete their work in respect of the Council's arrangements in securing economy, efficiency and effectiveness in its use of resources. At the time of preparing this report, no significant weaknesses in arrangements, that require a recommendation to be made, have been identified. However, work continues to be undertaken on the Council's arrangements and a commentary on these arrangements will be provided in the External Auditor's Annual Report.

#### **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 2025 and Strategic Priorities during the financial year 2020/21.

The external audit of the Council's financial statements and VFM conclusion is a statutory requirement and as such contributes towards the fitness for purpose of the Council's governance arrangements.

#### **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 (Amendment) Regulations 2021 the Statement of Accounts must be approved and published by the Council, together with the audit opinion and certificate, by the 30<sup>th</sup> September 2021. As 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 30<sup>th</sup> September 2021. 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 31<sup>st</sup> January 2022, 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 2020//21 – Audit Committee 21<sup>st</sup> July 2021.

**Lead Officer:** Colleen Warren, Financial Services Manager  
Telephone (01522) 873361

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# Audit Completion Report

City of Lincoln Council— Year ended 31  
March 2021

8

December 2021



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- 01 Executive summary
- 02 Status of the audit
- 03 Audit approach
- 04 Significant findings
- 05 Internal control recommendations
- 06 Summary of misstatements
- 07 Value for Money

Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.



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City of Lincoln Council  
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LN1 1DD

Mazars LLP  
2 Chamberlain Square  
Birmingham  
B3 3AX

2 December 2021

Dear Committee Members

## Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

On

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. 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 at [mark.surridge@mazars.co.uk](mailto:mark.surridge@mazars.co.uk)

Yours faithfully



Mark Surridge

Mazars LLP

# 01

## Section 01: **Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Section 4 of this report sets out our conclusions and significant findings from the audit. This section includes our conclusions on the audit risks, key audit matters and areas of management judgement. The key audit matters that were of most significance in our audit of the Financial Statements for disclosure in our auditor's report were:

- Valuation of the net defined benefit pension liability
- Valuation of plant, property and equipment, investment properties and assets held for sale

Section 4 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control
- Expenditure recognition

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. Section 7 outlines the status our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021. At the time of writing this report there are a small number of areas where work is still in progress and these are summarised at Section 2. We will provide an update to you in relation to any significant matters identified at Section 2 as outstanding through our normal follow up letter. Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

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

Whilst we are yet to complete our work in respect of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we anticipate having no significant weaknesses in arrangements to report. Further detail on our Value for Money work is provided in section 7 of this report.



### Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



### 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. No objections or questions have been received from local electors.







# 02

## Section 02: **Status of the audit**

## 2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Income and Expenditure		We are clearing the final queries in relation to our income and expenditure cut-off testing.
Covid-19 Government Grants		We are clearing the final queries in relation to our testing of these grants.
Whole of Government Accounts (WGA)		NAO Group Instructions for local authority audits are not yet available and WGA returns and audit certificates cannot be issued at the present time. We provide more information on this matter at page 18.
Audit Quality Control and Completion Procedures		Our audit work is undergoing final stages of review by the Engagement Lead and Engagement Quality Reviewer and is subject to further quality and compliance checks. In addition, there are residual procedures to complete, including updating post balance sheet event considerations to the point of issuing the opinion and obtaining final management representations.



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.

# 03

## Section 03: **Audit approach**

# 3. Audit approach

## Changes to our audit approach

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

## Materiality

Our provisional materiality at the planning stage of the audit was set at £1.45m using a benchmark of 1.5% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements, is £1.63m using the same benchmark.

## Use of experts

In our Audit Strategy Memorandum we identified the following experts planned to be used by management in preparing the financial statements, and by ourselves in carrying out our audit. There are no changes to the planned approach or matters arising to report.

Item of account	Management's expert	Our expert
Defined benefit liability	Barnett Waddingham <i>Actuary for Lincolnshire Pension Fund</i>	PWC <i>Consulting actuary appointed by NAO</i>
Property, plant and equipment, Investment Properties and Assets held for Sale valuation	Paul Clifton, MRICS <i>The Council's internal valuer</i>	We used our internal valuation expert to support our work on Investment Property valuations
Property, plant and equipment valuation	DVS Property Services <i>External valuation specialist for Council Dwellings</i>	Not applicable
Business Rate Appeals valuation	Inform CPI Limited <i>Analyse Local Valuation System</i>	Not applicable
Financial instrument disclosures	Link Asset Services <i>Treasury management advisors</i>	Not applicable

## Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. In our Audit strategy Memorandum we identified the following service organisation as relevant to the Council and have summarised our response. There are no changes to the planned approach or matters arising to report.

Items of account	Service organisation	Audit approach
Payroll Expenditure	North Kesteven District Council <i>The payroll entries that form part of the Council's financial statements are material and are derived from the processing of monthly payrolls. The payroll processing is undertaken and administered by North Kesteven District Council on behalf of the Council.</i>	We reviewed the controls at the Council over these transactions and gained an understanding of the work of the service organisations. We concluded that the Council has sufficient controls in place over the services provided by the payroll service and we were able to audit these items of account based on the records held at the Council.



### 3. Audit approach

	Risk description	Risk of fraud	Risk of error	Management judgement	Key Audit Matter	Audit approach	Control observations	Identified misstatements	Overall conclusion	
26	Significant risks	Management override of controls	●			Substantive testing	-	-	Based on the work performed, we have no significant matters to bring to the Committee's attention at this stage.	
		Expenditure recognition	●		●	Substantive testing	-	-	Based on the work performed, we have no significant matters to bring to the Committee's attention at this stage.	
		Valuation of the net defined benefit pension liability		●		●	Substantive testing	-	Adjusted misstatement 1. See Section 7.	Other than the adjusted material misstatement summarised at Section 7 we have no matters to bring to the Committee's attention.
		Valuation of property assets		●		●	Substantive testing	-	Adjusted misstatement 2. See Section 7.	Other than the adjusted material misstatement summarised at Section 7 we have no matters to bring to the Committee's attention.
Key areas of management judgement and enhanced risks		Recognition of Covid-19 government grants		●	●	Substantive testing	-	-	Based on the work performed, we have no significant matters to bring to the Committee's attention at this stage.	



# 04

## Section 04: **Significant findings**

# 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our findings on key audit matters, including:
  - why the matter was considered;
  - 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 the auditor’s response to those risks;
  - where relevant, key observations arising with respect to those risks; and
  - a clear reference to the relevant disclosures in the financial statements.
- if applicable (only in exceptional cases), depending on the facts and circumstances of the entity and the audit (these facts must be clearly explained), the auditor’s determination that there are no key audit matters to communicate in the auditor’s report. [ISA 701 Para. A60–A63]
- our audit conclusions regarding other significant risks, key audit matters 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 18 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;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.



# 4. Significant findings

## Key audit matters

### Valuation of net defined benefit pension liability

Relevant Account balances as set out in Note 44 of the financial statements presented for audit: Net defined benefit pension liability = £109,240k

### Description of the key audit matter

The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of the Lincolnshire Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2020/21.

### How our audit addressed the key audit matter and our observations

We have:

- Obtained an understanding of the skills, experience and qualifications of the actuary, and considered the appropriateness of the instructions to the actuary from the Council;
- Obtained confirmation from the auditor of the Lincolnshire Pension Fund over the controls in place at the Pension Fund. This included the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate;
- Reviewed a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluated whether the outcome of their work would affect our consideration of the council's share of Pension Fund assets. The Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by the consulting actuary engaged by the National Audit Office; and
- Agreed the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements and considered the implications of the revised IAS 19 valuation report on the Council's disclosures.

We obtained sufficient appropriate evidence to conclude that the valuation of the defined benefit pension liability included in the financial statements is reasonable. We have reported at Section 6 the material adjustments made to the draft financial statements to reflect the updated IAS19 valuation report required from the actuary in response to the notified material increase in the estimated Pension Fund assets.

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# 4. Significant findings

## Key audit matters

### Valuation of council dwellings, land and buildings (within plant, property and equipment), investment properties and assets held for sale

Relevant Account balances as set out in the financial statements presented for audit:

- Note 14, Council Dwellings net book value £274,468k
- Note 14, Land & Buildings, net book value £79,781k
- Note 14, Surplus Assets, net book value £19,457k
- Note 14, Investment Properties £34,203k
- Note 22, Assets Held for Sale, £1,500k

### Description of the key audit matter

The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five-year cycle, with investment properties and assets held for sale being revalued annually.

The valuation of these assets involves the use of two management experts (the valuers) and incorporates assumptions and estimates which impact materially on the reported values. There are risks relating to the valuation process. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not held in the balance sheet at their materially correct fair value.

Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in MHCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuers' assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.

### How our audit addressed the key audit matter and our observations

We have:

- Obtained an understanding of the skills, experience and qualifications of the valuer, and considered the appropriateness of the instructions to the valuers from the Council;
- Obtained an understanding of the basis of valuation applied by the valuers in the year;
- Obtained an understanding of the Council's approach to ensure that assets not subject to revaluation in 2020/21 are materially fairly stated;
- Sample tested the completeness and accuracy of underlying data provided by the Council and used by the valuers as part of their valuations;
- Engaged an auditor's expert to support our testing on the valuation of Investment Properties;
- Used relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021; and
- Tested the accuracy of how valuation movements were presented and disclosed in the financial statements.

We have obtained sufficient appropriate evidence to conclude that the valuation of council dwellings, land and buildings, investment properties and assets held for sale included in the financial statements is reasonable. We have reported at Section 6 the material adjustments made to the draft financial statements to reflect the reclassification of an asset held for sale as a surplus asset within the plant, property and equipment balance as set out in Note 14.



# 4. Significant findings

## Significant risks

Management override of controls	<b>Description of the risk</b> This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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 there is a risk of material misstatement due to fraud on all audits.
	<b>How we addressed this risk</b> We addressed the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
	<b>Audit conclusion</b> There are no matters arising from the areas of our work completed against this risk.

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Risk of fraud in expenditure recognition	<b>Description of the risk</b> 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. Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end and in particular whether cut-off (recognition in the correct financial year) is materially accurate. From our consideration of the Council's expenditure streams, we believe the risk is focused on Other Services Expenses.
	<b>How we addressed this risk</b> We addressed this risk by performing work in the following areas: <ul style="list-style-type: none"><li>• ensuring the accounting policies in relation to expenditure recognition and recognition of accruals are appropriate and consistently applied; and</li><li>• carrying out cut-off testing, and testing for unrecorded liabilities, to confirm expenditure has been coded to the correct accounting year.</li></ul>
	<b>Audit conclusion</b> As mentioned at Section 2 we have some residual audit queries to clear, but our audit procedures have not so far identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members' attention.

# 4. Significant findings

## Key areas of management judgement, key audit matters and enhanced risks

We identified the following matter as an enhanced risk in our Audit Strategy Memorandum:

<b>Recognition of Covid-19 government grants</b>	<div><div><b>Description of the management judgement</b></div><p>Throughout 2020/21, the Government has made available and provided substantial sums of grant support to local authorities including the general support grant, the Income Compensation and Job Retention schemes and grants that have been passed through to businesses.</p><p>There is a risk the correct accounting treatment has not been applied, with the focus of our testing for this enhanced risk on the completeness and accuracy of this income in 2020/21.</p><div><div><b>How our audit addressed this area of management judgement</b></div><p>To address this enhanced risk we:</p><ul style="list-style-type: none"><li>• Reviewed the Council’s approach in determining whether grants are ringfenced for specified areas of expenditure;</li><li>• Tested grant income recorded in the ledger to grant allocations/ notifications; and</li><li>• Reviewed a sample of grants to establish whether conditions to recognise the income in 2020/21 have been met.</li></ul></div><div><div><b>Audit conclusion</b></div><p>As mentioned at Section 2 we have some residual audit queries to clear but our audit procedures have not so far identified any material errors or uncertainties in the financial statements, or other matters that we wish to bring to Members’ attention.</p></div></div>
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# 4. Significant findings

## Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

The draft Statement of Accounts was published 12 July 2021, well ahead of the 31 July publication deadline.

## Significant matters discussed with management

Significant matters discussed with management during the year include the on-going impact of Covid-19 on the Council's business, including any potential impact on risks of material misstatement. This included the disclosures required regarding the key sources of estimation uncertainty that management has made in preparing the Statement of Accounts. There are no matters that we need to highlight in this report.

## Significant difficulties during the audit

During the course of the audit we have had the full co-operation of management. The audit was again carried out remotely and we have worked with management to overcome any difficulties in carrying out our normal audit procedures and obtaining the audit evidence required to complete the audit. We continue to work with management to complete any remaining audit work and resolve audit queries and are grateful for the co-operation and support provided.

## Going Concern

The Council's financial statements are prepared on the assumptions that it is a going concern and will continue its operations for the foreseeable future. International Auditing Standard ISA (UK) 570, requires auditors to 'obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern'.

Following the issue of Supplementary Guidance Note 1 (SGN1) by the National Audit Office, we have adopted a sector-specific approach to our work on going concern, which follows the principles of Practice Note 10 (PN10) and the guidance provided in SGN1. The SGN1 and PN10 make it clear that the auditor's focus for non-trading public sector bodies should be on the extent to which there are any indications that the services provided by an entity will cease or transfer outside of the public sector (termed the Continued Provision of Service approach ('CPoS')).

## Accounting estimates

We specifically considered the following areas of accounting estimates:

Estimate	PPE/IP/AHFS Valuation	Net Pensions Liability	Provision for Business Rate appeals	Financial Instruments
Note(s)	14, 16, 22	44	24	18
Value in 2020/21	Net book value of: L&B £387.9m IP £34.2m AHFS £1.5m	£109.2m	£2.4,	A number of long term and short term assets and liabilities.
Audit Risk	Significant	Significant	Standard	Standard
Comments	Property valuation estimates are derived using the professional opinion of the Council's external valuers.  Our testing to date has not identified any significant valuation issues, although an adjusted classification misstatement has been recorded at Section 6 of this report.	We reviewed the actuarial methodology for calculating IAS19 liabilities and confirmed the key assumptions used by the actuary were in the expected ranges as provided by our expert.  An adjusted misstatement has been recorded at Section 6 of this report.	Valuation estimates are derived using the opinion of management's expert. Our testing has not identified any significant issues to report.	Valuation estimates are derived using the opinion of management's expert, and management's own analysis and research. Our testing has not identified any significant issues to report.

# 4. Significant findings

## Audit fees

As set out in our Audit Strategy Memorandum, we identified the need for a variation to the published scale fee to take account of several matters. Our current estimate is set out below:

- Additional work to recognise the Council’s designation as a Public Interest Entity - £5,000
- Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme - £7,067.
- Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern – £2,800
- Additional testing as a result of Covid-19 grant income - £1,500
- Additional work as a result of the new Code of Audit Practice and VFM reporting – ongoing with our current estimate being £10,000 depending on the extent of any risks of significant weaknesses requiring additional work.

We will agree the final fee, and any further variations, with management prior to reporting to the Audit Committee.

## Modifications required to our audit report

Our draft audit report has not needed to be modified and is set out in Appendix B.

## 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 2020/21 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. No such objections have been raised.

## Delay in the audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally ‘closed’. The Audit Certificate would normally be published in our Auditor’s Report on the Statement of Accounts. We expect to issue the audit report but delay the issue of the Audit Certificate until the following procedures are complete:

- Value for Money - We are yet to complete our work in respect of the Council’s arrangements for the year ended 31 March 2021 and expect to report our findings in the 2020/21 Annual Auditors Report within 3 months of giving our audit opinion. At the time of preparing this report, we have not identified any significant weaknesses in the Council’s arrangements that require us to make a recommendation.
- Whole of Government Accounts - The NAO has not yet issued its Group Instructions for local authority audits.

We will update the Audit Committee when more information is known but at this stage the draft Auditor’s Report at Appendix B assumes that we are not able to issue the Audit Certificate at this stage.





# 05

## Section 05: **Internal control recommendations**

101

# 5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or 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.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1

# 5. Internal control recommendations

## Significant deficiencies in internal control – Level 3

103	<b>Description of deficiency</b>
	<u>Property valuation</u>
	We identified a small number of differences in our sample testing of the inputs used to develop the Land and Buildings and Council Dwellings valuations:
	<ul style="list-style-type: none"><li>Land and Buildings – the number of car park spaces used in 3 of asset valuations sampled was different to the latest records held. We estimated impact on the total valuation (£3.7k understatement) to be trivial.</li><li>Council Dwellings – our testing of a sample of beacons identified that one valuation had been processed incorrectly. The difference in valuation was trivial for the specific item and the beacon group total (£9.6k and £38k, being the total for the 4 properties in the group). We have estimated the impact on the total Council Dwellings valuation as an understatement of £114.5k, which is not material.</li></ul>
	<b>Potential effects</b>
	Although these differences have lead to trivial and non-material misstatements it is important that the inputs used to develop and process valuations are correct as inconsistencies can lead to significant errors.
	<b>Recommendation</b>
	Take steps to ensure the specific inputs identified above are correct for the 2021/22 valuation and ensure there are broader arrangements to confirm the accuracy of the information being used.
	<b>Management response</b>
	The original errors were identified by the District Valuer and our internal valuer and so the primary information will be updated as a result of this. In terms of the ongoing accuracy of information this has been raised with the people involved and ongoing checks will be carried out.

# 5. Internal control recommendations

## Follow up on previous internal control points

104	<b>Description of deficiency</b>
	<u>Expected Credit Loss Model - Level 2</u>
	Our review of the Council's debt impairment calculations have confirmed that these are not in accordance with its stated accounting policy which establishes the use of the expected credit loss model as required under IFRS 9 and the CIPFA Code.
	<b>Potential effects</b>
	The Council is not fully complying with the requirements of current accounting standards and the CIPFA Code. This may lead to the incorrect debt impairment figure being calculated and disclosed within the financial statements.
	<b>Recommendation</b>
	The Council should review its approach to the calculation of its debt impairment to ensure that this accords with the requirements of IFRS 9 and the CIPFA Code.
	<b>2020/21 Update</b>
	The Council has reviewed IFRS 9 and the CIPFA Code and updated it working papers in relation to debt impairment. Management's approach takes account of the debtor circumstances and is viewed by them as pragmatic and prudent.

<b>Description of deficiency</b>
<u>Continuing Access to Active Directory Following Termination of Employment - Level 2</u>
Our review and testing of the Council's general IT arrangements identified a number of instances where leavers access rights on the Active Directory had not been removed promptly.
<b>Potential effects</b>
There is a risk of the Council's IT infrastructure assets being accessed inappropriately using the credentials of staff who have ceased employment with the Council.
<b>Recommendation</b>
The Council should review its approach for identifying and actioning the removal of Active Directory access following an employees termination of employment.
<b>2020/21 Update</b>
Our review and testing of the Council's general IT arrangements did not identify a reoccurrence of this finding.

# 5. Internal control recommendations

## Follow up on previous internal control points (continued)

105	<b>Description of deficiency</b>
	Production of draft accounts and working papers - <b>Level 2</b>
	Both staff turnover during the year and the consequential impacts of staff absences and re-deployments as a result of the Covid-19 pandemic, led to increased pressure on finance staff during the accounts production cycle, resulting in higher than expected levels of audit adjustments and impacting the quality of working papers.
	<b>Potential effects</b>
	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.
	<b>Recommendation</b>
	It is important that the Council takes the steps necessary to re-establish robust arrangements and staffing to support the 2020/21 year-end. Quality control procedures in respect of the accounts preparation process need to be strengthened and the Council, in its closedown procedures for 2020/21, should include sufficient time for a robust quality control process to be implemented.
	<b>2020/21 Update</b>
	The quality and completeness of the published draft financial statements has improved, reflecting the improvements made to processes and staffing in the year. The closedown process, alongside the finance team’s normal duties, has again been challenging but the number of audit matters arising has been fewer than in the previous year. There are no material unadjusted items disclosed at Section 6. We are continuing to work with management to clear the few remaining queries on the audit (as summarised at Section 2).

# 06

Section 06:

## **Summary of misstatements**

# 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £49k.

## Adjusted misstatements

The table below summarises the material adjustments made to the draft financial statements during our audit work to date.

	Details	Assets £000s	Liabilities £000s	Reserves £000s	Comprehensive Income and Expenditure Statement £000s	Commentary
107	1 Dr Net Pension Liability		3,101			The Lincolnshire Pension Fund team have advised the employer organisations of a material difference between the total investment asset value used by the Fund's actuary to prepare the IAS19 valuation reports (which has been used to prepare the Council's July 2021 published Financial Statements) and the audited Pension Fund Financial Statements. The Council obtained an updated IAS19 valuation report from the Fund's actuary in September 2021 and these adjustments reflect changes required to bring the Financial Statements in line with the new report.
	Cr Unusable Reserves (Pensions Reserve)			(3,101)		
2	Cr Assets held for sale	(1,500)				The asset classified as an asset for sale does not meet all of the relevant criteria under the accounting standard (IFRS5). The standard requires, amongst other things, that the sale of the asset is highly probable within 12 months of its classification. The asset was classified as 'held for sale' at 31/3/2020 and at the date of this report it is uncertain if the sale will be completed by 31/3/2022.
	Dr Plant, Property and Equipment – Surplus Assets	1,500				

We will update the Audit Committee if any further reportable misstatements are identified as a result of the remaining work summarised at page 7.

# 6. Summary of misstatements

## Unadjusted misstatements

The table below summarises the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £49k, which management do not propose to adjust in the financial statements.

	Details	Assets £000s	Liabilities £000s	Reserves £000s	Comprehensive Income and Expenditure Statement £000s	Commentary
1	Dr Plant, Property and Equipment - Council Dwellings	112				As explained on page 21, following our sample testing of the inputs used, an extrapolated £112k understatement of the year end Council Dwellings valuation.
	Cr Unusable Reserves – Revaluation Reserve			(112)		
2	Dr Current Liabilities – Short Term Creditors		534			As part of our Creditors testing we identified 2 items that did not relate to 2020/21 and had been incorrectly included. Because we apply a sampling approach, where we cannot confirm the error is isolated, we must extrapolate the impact of the error across the remainder of the population being tested, leading to a total reported error of £534k.
	Cr Operating Expenses				(534)	
3	Dr Operating Income				340	As part of our Income testing we identified 1 item that had been double counted, with a credit note issued in 2021/22. Because we apply a sampling approach, where we cannot confirm the error is isolated, we must extrapolate the impact of the error across the remainder of the population being tested, leading to a total error of £306k.
	Cr Current assets – Short Term Debtors	(340)				

We will update the Audit Committee if any further reportable misstatements are identified as a result of the remaining work summarised at page 7.

## Disclosure amendments

A small number of disclosure amendments to the notes to the Statement of Accounts have been agreed with management to correct minor errors. None of these are significant and we are not required to highlight them in this report.



# 07

## Section 07: **Value for Money**

# 7. Value for Money

## Approach to Value for Money

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. In line with NAO guidance we plan to issue the Auditor's Annual Report within three months of the issue of the audit opinion.

## Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report.



# Appendices

A: Draft management representation letter

~~B~~  
B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

Mazars LLP  
2 Chamberlain Square  
Birmingham  
B3 3AX

xx December 2021

Dear Mark

## City of Lincoln Council - audit for year ended 31 March 2021

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 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (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 statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts 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 I am 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 S151 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.



# Appendix A: Draft management representation letter

## 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 and 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 the 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 fair value, are reasonable.

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

## Contingencies

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

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 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.

# Appendix A: Draft management representation letter

## 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 S151 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:  
114 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.

## Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the balance sheet date.



# Appendix A: Draft management representation letter

## Charges on assets

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

## 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.

## COVID-19

We confirm that we have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

## Brexit

We confirm that we have carried out an assessment of the potential impact of the United Kingdom leaving the European Union, including the potential outcomes at the end of the Implementation Period, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

## 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.

I have updated our going concern assessment in light of the COVID-19 pandemic. I continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

## Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS



# Appendix A: Draft management representation letter

**Narrative report**

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements

**Unadjusted misstatements**

I confirm that the effects of any uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully

Jacyln Gibson

FCCA Chief Finance Officer (s151)

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# Appendix B: Draft audit report [Subject to consultation process and completion of remaining audit procedures]

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of City of Lincoln Council (“the Council”) for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31<sup>st</sup> March 2021 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 2020/21.

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

In auditing the financial statements, we have concluded that the Chief Finance Officer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Note 3 of the financial statements explains how the Chief Finance Officer formed their judgement that it is appropriate to adopt the going concern basis of preparation for the Council.

In accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, our review of management’s assessment of going concern was focused on the extent to which there are any indications that the functions of the Council will not continue in operational existence for the foreseeable future.

Our audit procedures to evaluate the Chief Finance Officer’s assessment of the Council’s ability to continue to adopt the going concern basis of accounting included but were not limited to:

- undertaking an initial assessment at the planning stage of our audit to identify events or conditions that may cast significant doubt on the Council’s ability to continue as a going concern in the context of the guidance in Practice Note 10;
- obtaining and reviewing the Chief Financial Officer’s written going concern assessment; and
- considering whether the Chief Finance Officer’s assessment is proportionate to the risks associated with going concern for the local government sector.



# Appendix B: Draft audit report

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

## 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.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

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# Appendix B: Draft audit report

Key audit matter	Our response and key observations
<p><b>Valuation of property, plant and equipment, investment properties and assets held for sale</b></p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five-year cycle, with investment properties and assets held for sale being revalued annually.</p> <p>The valuation of these assets involves the use of two management experts (the valuers) and incorporates assumptions and estimates which impact materially on the reported values. There are risks relating to the valuation process. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.</p> <p>Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing (EUV-SH). The Social Housing adjustment factor is prescribed in MHCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuers' assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"><li>• Obtaining an understanding of the skills, experience and qualifications of the valuer, and considered the appropriateness of the instructions to the valuers from the Council;</li><li>• Obtaining an understanding of the basis of valuation applied by the valuers in the year;</li><li>• Obtaining an understanding of the Council's approach to ensure that assets not subject to revaluation in 2020/21 are materially fairly stated;</li><li>• Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuers as part of their valuations;</li><li>• Engaging an auditor's expert to support our testing on the valuation of Investment Properties;</li><li>• Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021; and</li><li>• Testing the accuracy of how valuation movements were presented and disclosed in the financial statements.</li></ul> <p>We have, as summarised at Section 2, a small number of residual queries to clear, but we expect to obtain sufficient appropriate evidence to conclude that the valuation of council dwellings, land and buildings, investment properties and assets held for sale included in the financial statements is reasonable. We have reported at Section 6 the material adjustments made to the draft financial statements to reflect the reclassification of an asset held for sale as a surplus asset within the plant, property and equipment balance as set out in Note 14.</p> <p><b>Key observation</b></p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of property, plant and equipment, investment properties and assets held for sale included in the financial statements is reasonable.</p>

# Appendix B: Draft audit report

Key audit matter	Our response and key observations
<p><b>Valuation of net defined benefit liability</b></p> <p>The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of the Lincolnshire Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2020/21.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"><li>• Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Council;</li><li>• Obtaining confirmation from the auditor of the Lincolnshire Pension Fund that the controls in place at the Pension Fund are operating effectively. This included the controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation of the gross asset and liability is complete and accurate;</li><li>• Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the council's share of Pension Fund assets. The Pension Fund auditor work included comparing the asset values used for the actuarial valuation to those subjected to audit by the Pension Fund auditor;</li><li>• Reviewing the appropriateness of the Pension Asset and Liability valuation methodology applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PwC LLP, consulting actuary engaged by the National Audit Office; and</li><li>• Agreeing the data in the IAS 19 valuation report provided by the Pension Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements and considering the implications of the revised IAS 19 valuation report on the Council's disclosures.</li></ul> <p><b>Key observations</b></p> <p>We obtained sufficient appropriate evidence to conclude that the valuation of the defined benefit pension liability included in the financial statements is reasonable.</p>

# Appendix B: Draft audit report

## Our application of materiality and an overview of the scope of our audit

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 as a whole as follows:

Overall materiality	£1,633k
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	£1,225k
Reporting threshold	£49k

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 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 a risk assessment, our understanding of the Council, its environment, controls and critical business processes, to consider 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 board meetings in the year; and
- enquiries of management.

Executive summary	Status of audit	Audit approach	Significant findings	Internal control recommendations	Summary of misstatements	Value for Money	Appendices
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# Appendix B: Draft audit report

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

## Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Annual Governance Statement and 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 2020/21, 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 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, the Local Government and Housing Act 1989 and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Chief Finance Officer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.



# Appendix B: Draft audit report

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

As a result of our procedures, we did not identify any key audit matters relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under “Key audit matters” within this report.

We are also required to conclude on whether the Chief Finance Officer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor’s report.

## Report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources

### Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council’s arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council’s arrangements in our commentary on those arrangements within the Auditor’s Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.



# Appendix B: Draft audit report

## 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. 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.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

## 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.

## 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 three years covering the audit of the financial years ending 31 March 2019 to 31 March 2021.

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 2020 to 31 March 2021, that have not been disclosed separately in the Statement of Accounts:

- Assurance services on the Housing Capital Receipts return for 2019/20
- Assurance services on the Housing Benefit Subsidy return for 2019/20
- Assurance services through the Homes England Compliance Audit Programme for 2019/20

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





# Appendix B: Draft audit report


## 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.

## Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

 Mark Surridge, City of Lincoln Key Audit Partner  
For and on behalf of Mazars LLP

2 Chamberlain Square  
Birmingham  
B3 3AX

xx December 2021



# 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.

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# Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
127Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"><li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li><li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li></ul>
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Chief Finance Officer that City of Lincoln Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

# Appendix D: Other communications

Other communication	Response
Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
Matters related to fraud	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit Committee, confirming that</p> <ul style="list-style-type: none"><li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li><li>b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li><li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:<ul style="list-style-type: none"><li>i. Management;</li><li>ii. Employees who have significant roles in internal control; or</li><li>iii. Others where the fraud could have a material effect on the financial statements; and</li></ul></li><li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.</li></ul>

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# Mark Surridge, Director – Public Services

[mark.surridge@mazars.co.uk](mailto:mark.surridge@mazars.co.uk)

## **Mazars**

2 Chamberlain Square  
Birmingham  
B3 3AX

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.

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Mark Surridge  
Director  
Mazars LLP  
2 Chamberlain Square  
Birmingham  
B3 3AX

**Jaclyn Gibson**

is dealing with this matter

E-mail : [jaclyn.gibson@lincoln.gov.uk](mailto:jaclyn.gibson@lincoln.gov.uk)

Direct Line: 01522 873258

xx January 2022

Dear Mark

**City of Lincoln Council - audit for year ended 31 March 2021**

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 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (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 statement of accounts and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts 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 I am 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 s151 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 properly recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and 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 the 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 us in making accounting estimates, including those measured at fair value, are reasonable.

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

## **Contingencies**

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

- 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 contingent gains not already 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 s151 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 of the Council may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the entity 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.

## **Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment and intangible assets below their carrying value at the statement of financial position date.

## **Charges on assets**

All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

## **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 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.

## **COVID-19**

We confirm that we have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

## **Brexit**

We confirm that we have carried out an assessment of the potential impact of the United Kingdom leaving the European Union, including the potential outcomes at the end of the Implementation Period, and that the disclosure in the Statement of Accounts fairly reflects that assessment

## **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.

I have updated our going concern assessment in light of the Covid-19 pandemic. I continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

## **Annual Governance Statement**

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS

## **Narrative report**

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements

## **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.

Yours faithfully



**Jaclyn Gibson, FCCA**  
Chief Finance Officer (s151)

**AUDIT COMMITTEE**

**14 DECEMBER 2021**

<b>SUBJECT:</b>	<b>STATEMENT OF ACCOUNTS 2020/21</b>
<b>REPORT BY:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>LEAD OFFICER:</b>	<b>COLLEEN WARREN, FINANCIAL SERVICES MANAGER</b>

**1. Purpose of Report**

- 1.1 To present, for information, the final Statement of Accounts for the financial year ended 31<sup>st</sup> March 2020, following substantial completion of the audit opinion.

**2. Executive Summary**

- 2.1 The Statement of Accounts (SOA) for 2020/21 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 2020/21 with an audit opinion and certificate by no later than 30<sup>th</sup> November 2021. This date has been extended from the ordinary deadline of 31<sup>st</sup> July as a result of Covid19.
- 2.3 The Audit Committee should note that the Statement of Accounts for 2020/21 are still subject to final verification by external audit. The audit of the accounts is being finalised by Mazars, who have commenced the audit in July. Should any material changes be necessary as a result of this final external audit work, these will be reported back to a meeting of this Committee by the Chief Finance Officer.
- 2.4 The Council must make the Statement of Accounts available for public inspection for 10 working days. Following notification from Mazars, this ran from 2nd August until 13<sup>th</sup> August 2021 and the External Auditor was available to answer questions during this period however no questions were received.
- 2.5 During the completion of the external audit there were five misstatements above the threshold level of £49k, of these two misstatements have been amended in the final version of the Statement of Accounts.
- 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 2020/21 was substantial (green) and is in line with our Code of Corporate Governance.

### 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 31<sup>st</sup> May each year. However, due to the Covid19 pandemic this date has been relaxed to 31<sup>st</sup> July 2021. 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 31<sup>st</sup> July each year, this date has also been relaxed to 30<sup>th</sup> September 2021. The timescales involved with the approval of the Statement of Accounts for 2020/21 are:

a) Report draft accounts to Audit Committee	22 <sup>nd</sup> July 2021
b) Report to Audit Committee	14 <sup>th</sup> December 2021
c) Report to the Executive	4 <sup>th</sup> January 2022
d) Approval by Council	18 <sup>th</sup> January 2022

3.2 Although the work of external audit is substantially complete, Mazars still need to conclude their work and issue the relevant audit opinion. Should any further material changes be necessary as a result of completion of the external audit work, these will be reported to a meeting of this Committee by the Chief Finance Officer. The Audit Committee will also receive the final Audit Opinion from Mazars at that meeting.

3.3 There is a great deal of technical detail contained in the statutory rigid format of the Accounts that is not always easily understood by the reader unless they are familiar with accounting and audit standards. To assist members in their understanding of the accounts:

- Training has been provided to members
- A short summary of the accounts has been produced at Appendix A
- 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 22) – 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 53)) 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 £12.574m in the CIES to the outturn position of an increase in General Fund Balances of £0.432m and an increase on HRA balances of £0.075m as reported in the Financial outturn report (Executive 24<sup>th</sup> June 2021).

	£m	£m
<b>Net (surplus)/deficit on the Provision of Services</b>		<b>-12.574</b>

*Of which:*

<b>General Fund</b>	£m	£m
Net (surplus)/deficit on the Provision of Services		3.574
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	-5.567	
Revenue expenditure funded from capital under Statute	-0.97	
Direct Revenue financing of capital expenditure	0.034	
Contribution to/from the pensions reserve	-2.394	
Debt repayment and premiums & discounts on debt	1.507	
Short-term compensated absences	-0.167	
Contribution to Government's Housing Capital Receipts Pool	-0.529	
Capital grants & contributions unapplied credited to CI&ES	2.902	
Adjustment for Collection Fund	-11.768	
Adjustment for Financial Instruments	0.002	
Transfer to/from Earmarked reserves	13.126	
<b>Total Adjustments</b>		<b>-3.825</b>
<b>(Increase)/decrease in General Fund Balances</b>		<b>-0.432</b>

*Of which:*

<b>HRA</b>	£m	£m
Net (surplus)/deficit on the Provision of Services		-15.967
Adjust for:		
Depreciation, revaluation losses and gains & impairment of non-current assets	12.43	
Direct Revenue financing of capital expenditure	0.048	
Gain/loss on the sale of non-current assets	0.174	
Contribution to/from the pensions reserve	-1.298	
Short-term compensated absences	-0.142	
Capital grants & contributions unapplied credited to CI&ES	0.453	
Transfer to/from the HRA	2.898	
Transfer to/from Earmarked reserves	1.329	
<b>Total Adjustments</b>		<b>15.892</b>
<b>(Increase)/decrease in HRA Balances</b>		<b>-0.075</b>
<b>Overall (Increase)/decrease in Balances</b>		<b>-0.507</b>

- 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 2020/21, in comparison to the revised budget for the year. As previously reported, there was a projected underspend against the General Fund budget of £122.7k at quarter 3, this underspend has increased and provisional outturn is now an overall budget surplus of £148.4k.

4.1.3 The Housing Revenue Account is reporting a provisional underspend against the revised budget of £74k. Allowing for this adjustment, HRA balances were £1.075m and the HRA Repairs Accounts balance was £1.350m as at 31<sup>st</sup> March 2021.

4.1.4 Further details on these are provided in the Narrative Report in the Statement of Accounts (SOA page 3) and were subject to a separate report to Performance Scrutiny Committee and Executive 22nd June 2021 and 24<sup>th</sup> June 2021 respectively.

## 4.2 The Balance Sheet (SOA page 23)

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 31<sup>st</sup> March 2021 are:

4.2.2 **General Balances** – General balances have increased by £0.507m during the year, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
General Fund balances	2.236	2.668	0.432
HRA balances	0.99	1.075	0.075
HRS	0	0	0
<b>Total</b>	<b>3.235</b>	<b>3.742</b>	<b>0.507</b>

4.2.3 **Earmarked Reserves** - in total monies carried forward to pay for specific future commitments (including the insurance fund) have increased by £14.454m, as analysed below:

Description	Opening Balance £m	Closing Balance £m	Increase/ (Decrease) £m
Other Specific Reserves	11.589	26.043	14.454

This is due to a number of contributions to and from earmarked reserves as reported as part of the 2020/21 Provisional outturn to the Executive 24<sup>th</sup> June 2021 and as detailed in Note 10 (Transfers to/ from Earmarked Reserves) in the Statement of Accounts (SOA page 62). The most significant of these contributions was in relation to timing differences arising from the receipt of

funding from MHCLG for Business Rate Reliefs awarded in response to Covid19, and the subsequent declaration of a deficit on the Collection Fund. Funding of £11.417m was transferred to the Business Rates Volatility Reserve to be used to finance the Collection Fund deficits in 21/22, 22/23 and 23/24.

- 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 £64.359m exceed current liabilities of £43.232 by a ratio of 1.49:1, which represents an increase from the previous year's ratio of 1.38:1. This is due to a decrease in short term borrowing (as per the Council's borrowing strategy).
- 4.2.5 **Debtors** – debtors have increased by £16.9m to £28.389m. The increase is mainly due to increases in balances on the Central Government and County Council shares of the Council Tax and Business Rates Collection Fund deficits (circa £15m). These deficits will be recouped during primarily in 21/22.
- 4.2.6 **Creditors** – have increased by £18.549m to £33.814m. This is mainly due to S31Grants and Business Rates adjustment account (£15.7m) which absorbs the timing differences between statutory accounting requirements and full accruals accounting on the Collection Fund, and Covid 19 Grants (£5.5m).

### 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 in the Balance Sheet has increased by £14.7m (4%) to £430m between 31<sup>st</sup> March 2020 and 31<sup>st</sup> March 2021 (see the Balance Sheet and Notes 14 and 15 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 31<sup>st</sup> March. 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 20/21 have seen an **overall increase in value of £7m**, 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 £7m net upwards movements due to revaluation gains and losses in 20/21, there were:

- **£9.4m of net revaluation gain** required to be charged to Cost of Services in the CIES. This is mainly due to reflecting the social housing value of housing stock (£12.4m).
  - **£2.4m of net downwards revaluations** were reflected in the Revaluation Reserve (shown in Other Comprehensive Income and Expenditure in the CIES). This was mainly due to the downward revaluation (£3.2m) an increase in the council's land and buildings.
- **Additions - New capital investment in assets belonging to the Council totalled £18.6m.** The main areas of expenditure include £12m spent on the Council's new build and acquisition programme, £3.7m improving Council dwellings including re-roofing, kitchens and landscaping and £0.635m improving our parks and open spaces. To pay for this investment, the Council has used £3.74m of capital grants and contributions, £1.63m of capital receipts, £4.62m of the Major Repairs Reserve, £8.54m of unsupported borrowing, and £0.08m 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 2020/21 total depreciation was £9.09m** (of which £2.2m was charged for non-HRA dwellings and was replaced in the MiRS with £1.5m for the repayment of debt and £6.7m depreciation was charged to the HRA which is available in the Major Repairs Reserve for future investment).
  - **Disposals – assets valued at £1.395m in the Balance Sheet were disposed** of in 2020/21. This included 33 Right to Buy sales of council dwellings.



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

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

Full details are provided in Note 44 to the accounts – Defined Benefit Pension Schemes (*SOA page 101*). 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 £4.681m reflecting the retirement benefits earned during 2020/21 and to be funded in the future. This includes £6.477m current service costs and a net interest cost on the defined benefit obligations of £1.896m. 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 £4.681m.
- **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 scheme's liabilities and assets. During 2019/20 the net liability has increased by £24.151m to £106.140m. 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 £106.140m 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 92*) 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 Towards Financial Sustainability 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 31<sup>st</sup> March 2020 and 31<sup>st</sup> March 2021, the Council's total borrowing increased to £123.45m (excluding accrued interest which is shown in the Balance Sheet under short-term borrowing as at 31<sup>st</sup> March 2021).
- The total borrowing can be split between short term borrowing (payable within 12 months) of £7.71m and long term borrowing of £115.74m.
- The average rate of interest payable on borrowing was 3.25% which is a slight decrease on 2019/20 (3.62%) and due to the new low rate shorter-term loans taken being.
- The Comprehensive Income and Expenditure Statement for 2020/21 includes £3.9m interest payable on borrowing (excluding leases) of which £1.5m relates to the General Fund and £2.4m to the HRA.

The maturity profile of the outstanding borrowing as at 31<sup>st</sup> March 2021 is as follows:

Within	£m	% of Total Debt
1 year	7.7	6.20%
1 – 2 years	8.2	6.60%
2 – 5 years	6.1	4.90%
5 -10 years	10.7	8.70%
10 years and over	90.7	73.50%
<b>Total</b>	<b>123.4</b>	<b>100.00%</b>

**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 31<sup>st</sup> March 2021, total investments had increased by £3.35m from £30.55m to £33.9m compared to the previous year end.
- Average investment balances during 2020/21 were £35.8m, compared to £28.8m in 2019/20.
- The average interest rate received on investments in 2020/21 was 0.20% (a decrease of 0.64% on the average rate achieved in 2019/20 due to the low yield available on balances), which was 0.27% above the target average 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 2025 and Strategic Priorities during the financial year 2020/21.
- 5.2 Communication - The final Statement of Accounts will be available on the Council's website, in addition the summary version of the accounts will be published in the Council's Annual Report.

## **6. Organisational Impacts**

- 6.1 Finance - The financial implications are contained throughout this report.
- 6.2 Legal - Legal - In accordance with the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 the Statement of Accounts for 2019/20 had to be approved and published by the Council, together with the audit opinion and certificate, by the 30<sup>th</sup> September 2021. As 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 30<sup>th</sup> September 2021. 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 direct risk implications arising as a result of this report.

## **8. Recommendation**

- 8.1 The Audit Committee are asked to note the final Statement of Accounts 2020/21, noting that the external audit is substantially complete.

- 8.2 The 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 2020-2025  
Financial Performance - Outturn 2020/21

**Lead Officer:** Colleen Warren, Financial Services Manager  
Telephone 873361

## SUMMARY ACCOUNTS 2020 - 21

The Council produces a full set of accounts in compliance with relevant standards. In order to present the most important information from the accounts in a more user-friendly, understandable format this summary of accounts has been produced. The full statement of accounts are made up of a number of key statements and the main ones are summarised below.

### Income and Expenditure

This table outlines the cost of running council services over the year.

<b>NET EXPENDITURE</b>	<b>£'000</b>
Chief Executive	7,403
Housing & Regeneration	538
Communities & Environment	11,465
Major Developments	569
Corporate	(621)
<b>Net Cost of Services</b>	<b>19,354</b>
Other Operating Expenditure	1,379
Taxation and Non-Specific Grant Income	(18,147)
<b>Surplus on Provision of Services</b>	<b>3,393</b>
<b>FINANCED BY:</b>	<b>£'000</b>
Central Government Grant	23
Council Tax	6,859
NNDR Business Rates	5,695
Non-ring fenced Government Grants	2,668
Capital Grants and Contributions	3,355
<b>Surplus on Provision of Services</b>	<b>3,393</b>
Statutory Adjustments	(3,825)
General Fund balance brought forward	(2,236)
<b>General Fund Balance carried forward</b>	<b>(2,668)</b>

The Council's total gross spend on services for the year was approximately £95.052M. Council Tax equated to 10% of all income received by the Council. The City Council received £6.86 million of Council Tax in 2020/21.

## Balance Sheet

The Balance Sheet shows the current financial position of the Council at the end of the year. It shows the value of all assets and liabilities (what the council owes and is owed).

**Here is a summary of the Balance Sheet as at 31 March 2021**

<b>Assets and Liabilities</b>	<b>£'000</b>
Fixed Assets (Land & Buildings)	430,285
Stock (stores of materials)	139
Debtors (people who owe money to the Council)	29,226
Investments (value of money invested)	34,660
Cash at bank	563
Current Liabilities (council debts payable within 1 year)	(43,232)
Long-Term Liabilities (Debts payable after 1 year)	(224,456)
<b>Total Net Assets</b>	<b>227,184</b>
<b>Financed By:</b>	<b>£'000</b>
General Balances	2,668
Earmarked Reserves	49,794
Accounting Reserves	174,723
<b>Total Reserves and Balances</b>	<b>227,184</b>

At the end of the year the council had £0.753m worth of long-term investments and £33.9m of short-term investments. At the end of the year the council had £9.4m of short-term borrowing and £115.7m of long-term borrowing.

## Cash Flow Statement

This table shows the flow of cash during the year:

<b>CASH FLOW STATEMENT</b>	<b>£'000</b>
Cash as at 1 April 2019	(326)
Net Cash flow from operating activities	33,545
Net Cash flow from investing activities	(16,474)
Net cash flow from financing activities	(16,182)
<b>Cash as at 31 March 2020</b>	<b>563</b>

## Housing Revenue Account

It is a legal requirement that all income and expenditure on council houses is kept in a separate account called the Housing Revenue Account:

### Number of properties

The Council owns 7,768 homes, consisting of the following types:

Low-Rise Flats	2,347
Medium Rise Flats	975
High Rise Flats	295
Houses/Bungalows	4,142
<b>Total Council Dwellings</b>	<b>7,768</b>

During the year 33 properties were sold under the Right to Buy scheme.

This table provides a summary of the Housing Revenue Account for 2020/21:

<b>Income</b>	<b>£'000</b>
Council house rents (gross)	(28,760)
Other Income	(316)
<b>Expenditure</b>	<b>£'000</b>
Repairs and maintenance	7,574
Supervision and management	7,457
Capital financing costs	5,734
Corporate costs	(3,811)
<b>(Surplus)/Deficit for year</b>	<b>(15,968)</b>
Statutory Adjustments	15,889
HRA Balance bought forward	(996)
<b>HRA balance carried forward</b>	<b>(1,075)</b>

## Capital Expenditure

Capital expenditure is the money spent by the Council on purchasing and upgrading or improving assets that will help achieve the Council's priorities over a number of years. Good examples are regeneration, building construction and IT upgrades.

In 2020/21 the Council's capital expenditure totalled £19.589 million.

Here is a breakdown of the capital expenditure for 2020/21:

	£'000
Works to the Housing Stock	3,995
Housing Development and Acquisition	12,382
Leisure Centres and Sports provision	136
Improvement and Renovation Grants	750
Corporate Properties	850
Car Park Improvement	85
Western Growth Corridor	389
Towns Fund	831
Other	171
<b>Total Capital Spend</b>	<b>19,589</b>

	£'000
General Fund Investment Programme	3,212
Housing Investment Programme	16,377
<b>Total Capital Spend</b>	<b>19,589</b>



# STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2021



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**An introduction to the City of Lincoln's 2020/21 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 2020/21 and the financial position at 31 March 2021. The Accounts present expenditure and income incurred by the Council in the financial year 2020/21 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 2020/21 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 2021 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 2020/21**

The City of Lincoln Council is a high performing an innovative organisation, focussed on providing quality services and delivering outcomes that matter. Our Vision 2025 is an ambitious strategic plan that is helping to transform both the Council and the City through our five strategic priorities.

Over the last decade the Council, alongside the majority of other local authorities, has experienced unprecedented financial challenges in various forms. We have had to adapt to; the impact of severe, unprecedented, central government funding reductions; radical reform of the methodology for funding local government - where councils are self-sufficient funded from local taxes with limited reliance on Central Government, changes in the use and demand for services; as well as escalating costs.



The reform of the methodology of funding local government has in particular transferred a significant amount of financial risk and uncertainty to local authorities, creating a greater degree of uncertainty over the budget planning parameters for the Council than has been experienced previously.

In response to this challenging financial environment the Council embraced a forward thinking, ambitious and commercial approach in maintaining a sound financial position. We have a strong track record of planning ahead, securing savings in advance, shifting away from traditional cost cutting exercises to more ambitious and forward thinking opportunities, 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. This is an approach that has served the Council well and allowed us to deliver savings in excess of £9m over the last decade, a significant reduction in comparison to the overall net expenditure budget.

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.

However, the COVID19 pandemic, has had such devastating effect on our lives, families, friends, neighbours, communities and of course on our workplaces. The Council, like all other businesses, has had to make dramatic changes, not only to ensure that we can keep our critical services functioning, but also like councils across the country, to deliver a community leadership role for our city in this time of crisis.

We have created new services to support vulnerable people, taken rough sleepers off the streets and into safe accommodation and ensured key services such as kerbside waste and recycling collections have continued as usual. We have effectively led our communities during the emergency response and are now leading on supporting our communities as we tackle the social and economic challenges ahead.

These dramatic changes brought about by Covid19 have though taken its toll on the financial resilience of the Council as our income streams have plummeted and we have needed to incur additional expenditure to ensure our critical services functioned and to respond to consequences of the pandemic.

In response to the financial risks we were exposed to, and in advance of any financial support from Government, we took early action in 2020/21 to implement a range of measures to reduce some areas of expenditure. These measures were aimed at ensuring we were able to continue to deliver our critical services and to ensure our balances remained at an adequate level to provide resilience for future years.

Although these measures were primarily one-off opportunities and not ongoing reductions in services, they did still, in some circumstances limit service standards and performance during 2020/21. This was as a result of recruitment being initially restricted, expenditure budgets reduced, and staff furloughed. These interventions were not all 'easy wins' and will have had implications for the Council both now and in future years.

Subsequently an extensive financial support package was provided by the Government for all local authorities which included a sales, fees and charges income compensation scheme, un-ringfenced grant allocations and a local tax income guarantee scheme.

Although both the General Fund and Housing Revenue Account have maintained balanced budget positions in 2020/21 this does not mean that the financial issues for the Council are resolved, it simply means that the in-year budget challenges have been addressed.

## **Performance**

The Council has a new strategic plan known as Vision 2025, covering the period April 2020 to March 2025. This shared vision for the city retains the same key vision statement "Together let's deliver Lincoln's ambitious future", but now includes an additional aspiration of "Let's address the challenge of climate change".

We had to take the decision not to commence new projects as an immediate response to the pandemic situation, although a few larger ongoing projects kept moving throughout, albeit at a slower pace than originally envisaged.

Due to the impact of the pandemic, reporting on performance has had to change a little during 2020/21 to reflect on how the council not only kept their critical services going through the initial stages of the pandemic, but also delivered their community leadership role for the city.

A first report in 2020/21 called "Emerging from the Pandemic" was published in November 2021 as a joint Q1/2 performance report and covers a mix of performance results where they are available as well as updates on what all services are doing to maintain and support their customers, whilst planning their recovery back to a new normal.

A second report "Operational Performance Report Q3/4 2020/21" was published in July 2021 and takes us back to being able to report performance against targets for the majority of our services.

Together these two documents show how the council has been able to maintain all critical services, whilst also delivering key new services to vulnerable residents and to our businesses - and as we exit the 2020/21 year, that whilst performance has undoubtedly been hit by the effects of Covid-19, we have been able to demonstrate robust responses where it was needed.



## 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 2020/21, the approved net expenditure budget for General Fund services was £12.677m. After allowing for planned contributions of £0.286m to non-earmarked general reserves the total Net General Fund Budget for 2020/21 was £12.963m.

These budgets were set prior to the onset of the Covid19 pandemic and as a result there are a significant number of variations in income and expenditure against the approved budget, arising from the impacts of the pandemic, the measures taken to address the budget pressures and the financial support provided by Government.

In response to the pandemic, we have had to adjust our service provision to meet the needs of its users and residents as well as establish new services/responses cells and meet increased costs through contractual arrangements, this has led to the General Fund incurring a considerable amount of exceptional expenditure.

The most significant impact of Covid19 has been on the Council's income streams with monthly income levels plummeting across a range of discretionary services as well as through investments and rental streams, as a result of the shutdown of the economy and its likely phased path to recovery. The Council's reliance on local income streams has increased significantly in recent years as Government funding has reduced through austerity measures and new funding mechanisms have been introduced resulting in the Council having to be more self-sufficient and secure its own funding sources.

In response to the financial risks we were exposed to, and in advance of any financial support from Government, early action was taken in 2020/21 to implement a range of measures aimed at reducing expenditure in the current financial year. These measures included:

- Budget Review – A review of all of the Council's revenue budgets undertaken to identify one off budget reductions.
- Coronavirus Job Retention Scheme – a range of staff from primarily income generating areas were placed on furlough.
- Towards Financial Sustainability – in the year savings programme target was increased.
- Direct Revenue Finance (DRF) – a review of capital financing was undertaken.
- Covid19 Reserve – monies allocated as part of the 19/20 closedown process and held in an earmarked reserve.

The total of these measures amounted £1.898m.

Subsequently, and in response to calls from the sector the Government allocated a total of £4.6bn of general purpose grant funding to support local authorities to cover expenditure related pressures and announced an income compensation scheme to recompense councils for approx. 75p in every £1 of lost sales, fees and charges

income. In addition a local tax income guarantee scheme was announced which sees the Government compensate local authorities for 75% of irrecoverable losses in Council Tax and Business Rates. During 2020/21 we received funding support of £1.877m for COVID19 related pressures and estimate to receive c£2.989m through the income compensation scheme and a further £0.778m through the local tax income guarantee scheme.

Despite this one-off financial support package announced by the Government, the General Fund would still have been unable to maintain a balanced budget position without having taken the measures implemented early in 2020/21.

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

	<b>ACTUAL 2020/21 £'000</b>	<b>REVISED BUDGET 2020/21 £'000</b>	<b>VARIANCE 2020/21 £'000</b>
Chief Executive and Town Clerk	1,855	2,029	(174)
Directorate of Housing & Regeneration	202	201	1
Directorate of Communities & Environment	3,259	4,023	(764)
Directorate of Major Developments	218	218	0
Corporate	1,548	1,415	133
<b>Net Operational Expenditure</b>	<b>7,082</b>	<b>7,885</b>	<b>(803)</b>
Specific Grants	(2,668)	(1,393)	(1,275)
Savings Target	0	9	(9)
Earmarked Reserves	13,050	13,050	0
Insurance Reserve	76	45	31
Capital Accounting Adjustment	6,374	3,054	3,320
Contingencies	0	1,416	(1,416)
<b>Total Expenditure</b>	<b>23,915</b>	<b>24,068</b>	<b>(153)</b>
<b>Contribution To General Balances</b>	<b>434</b>	<b>286</b>	<b>148</b>
<b>Total Net Budget</b>	<b>24,349</b>	<b>24,354</b>	<b>(5)</b>
Business Rates -			
Retained Business Rates Income	(18,339)	(18,154)	(185)
Tariff	13,094	13,094	0
Section 31 grant	(12,908)	(12,794)	(114)
Levy Payment	1,053	749	304
Revenue Support Grant	(23)	(23)	0
Council Tax	(6,915)	(6,915)	0
Council Tax Section 31 Grant	(109)	(109)	0
Council Tax Surplus	(58)	(58)	0
NNDR Deficit	(144)	(144)	0
<b>Total Resources</b>	<b>(24,349)</b>	<b>(24,354)</b>	<b>5</b>



While total expenditure was £23.915m (£0.153m less than budget) this is offset by a £0.148m increase in the actual contribution to general balances. The actual contribution to general balances was £0.434m compared to the approved budget of £0.286m.

Included within the General Fund Budget was an assumed savings target of £0.550m, which were to be delivered in 2020/21 as part of the Council's Towards Financial Sustainability Programme. Despite the pressures of Covid19, this target was exceeded during 2020/21, with a total delivery of £0.559m. The programme continues to be successful and work continues in developing and delivering new projects as part of the programme to secure the additional savings required in 2021/22 and future years.

Although the General Fund maintained a balanced budget position in 2020/21 this does not mean that the financial issues for the Council are resolved, it simply means that the in-year budget challenges have been addressed.

As at 31 March 2021, the Council held £22.234m General Fund revenue reserves, comprising £19.563m earmarked reserves (to cover specific or potential financial risks and liabilities) and £2.671m non-earmarked general reserves. This latter balance represents 10.7% of the 2020/21 annual net service budget and provides an adequate level of reserves to cover unforeseen financial risks. General Balances are currently above the prudently assessed minimum requirements in the Council's Medium-Term Financial Strategy, which will provide additional resilience for the financial effects of COVID19.



### **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 2020/21, the approved net operating budget for the Housing Revenue Account was a deficit of £0.079m. Actual net expenditure for 2020/21 was £0.075m surplus, resulting in a £154k surplus variance against the budget.

These budgets were set prior to the onset of the Covid19 pandemic and as a result there are a significant number of variations in income and expenditure against the approved budget, arising from the impacts of the pandemic.

In line with the General Fund the Housing Revenue Account has also borne the financial impacts of Covid19 resulting in exceptional costs in responding to the pandemic and pressure on income streams.

However, the impacts on the Housing Revenue Account have not been on the same scale as the General Fund with the overall impact of Covid19 resulting in a significant underspend primarily due to delays in repairs and maintenance expenditure on Council dwellings being carried out due to the inability to access properties during the pandemic.

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

	<b>ACTUAL 2020/21 £'000</b>	<b>REVISED BUDGET 2020/21 £'000</b>	<b>VARIANCE 2020/21 £'000</b>
<u>Operational Expenditure</u>			
Repairs & Maintenance	7,574	8,959	(1,385)
Supervision & Management	7,443	7,545	(102)
Provisions (including Bad Debt)	279	297	(18)
Capital Financing	(6,181)	6,649	(12,830)
<b>Sub Total</b>	<b>9,115</b>	<b>23,450</b>	<b>(14,335)</b>
<u>Add:</u>			
HRS – repatriation of surplus	322	(136)	458
Contribution to/(from) HRS (IAS19 & Insurance Fund)	571	0	571
Interest Payable & Similar Charges	2,253	2,530	(277)
<b>Total Expenditure</b>	<b>12,261</b>	<b>25,844</b>	<b>(13,583)</b>
<u>Income</u>			
Rents & Service Charges	(29,076)	(29,021)	(55)
Interest	(22)	(43)	21
<b>Net Expenditure</b>	<b>(16,837)</b>	<b>(3,220)</b>	<b>(13,617)</b>
<u>Less:</u>			
Capital Accounting Adjustment	15,575	0	15,575
Appropriation to/(from) Major Repairs Reserves	2,940	3,184	(244)
Appropriation to/(from) Pension Fund Liability	(3,091)	0	(3,091)
Appropriations to/(from) Earmarked Reserves	1,334	111	1,223
<b>Net HRA (Surplus)/Deficit</b>	<b>(79)</b>	<b>75</b>	<b>(154)</b>

As at 31 March 2021, the Council held £3.692m HRA revenue reserves, comprising £2.617m earmarked reserves (to cover identified specific, potential financial risks and liabilities) and £1.075m 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.

Capital spending in the year was £19.6m compared to the revised approved programme budget of £44.9m, representing an underspend of £25.3m against the profiled budget. The variance in 2020/21 is mostly due to the re-profiling of schemes within the general fund and housing programmes resulting from the delays in delivery of schemes due to the impacts of Covid19. The 2020/21 capital spending and funding position is summarised as follows:

	<b>ACTUAL 2020/21 £'000</b>	<b>BUDGET 2020/21 £'000</b>	<b>VARIANCE 2020/21 £'000</b>
<b>Capital Expenditure</b>			
General Fund	3,212	16,430	(13,218)
Housing Revenue	16,377	28,505	(12,128)
<b>Total Expenditure</b>	<b>19,589</b>	<b>44,935</b>	<b>(25,346)</b>
<b>Financed by:</b>			
Borrowing	8,697	18,292	(9,595)
Capital Receipts	1,633	2,722	(1,089)
Capital Grants and Contributions	4,553	8,028	(3,475)
Major Repairs Reserve	4,624	15,863	(11,239)
Revenue Contributions	82	30	52
<b>Total Financing</b>	<b>19,589</b>	<b>44,935</b>	<b>(25,346)</b>

Major Capital works carried out during 2020/21 are set out in the following table:

	<b>£'000</b>
<b>Housing</b>	
Decent Homes and improvements to Council dwellings	3,474
Health & Safety	179
Council house schemes	12,382
Other major works to housing stock	342
<b>General Fund</b>	
Leisure Centre/Sports Provision	210
Enhancements to corporate properties	64
Car Park enhancements	246
Disabled Facilities Grants	608
Town Centre Improvements	973
Parks Improvements	560
Western Growth Corridor	389
Other Schemes	162
<b>Total</b>	<b>19,589</b>

## 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 202/2021 is provided below:

### Capital Receipts (Note 9)

The Council received £1.05m 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 principal long-term debt outstanding, (excluding loans of £0.03m which the Council holds for local charities and Bonds worth £0.003m), as at 31 March 2021 was £123.4m.

### **Total Long-Term Borrowing Outstanding**

<b>31/03/20</b>		<b>31/03/21</b>
<b>£'000</b>	<b>Source of loan</b>	<b>£'000</b>
94,592	Public Works Loan Board	91,887
25,000	Market and Other Long-Term Loans	31,000
561	Other (3% stock)	561
<b>120,153</b>	<b>Total</b>	<b>123,448</b>

Long and short-term borrowing of £13m was taken during 2020/21. Short-term borrowing of £7m and £2.7m of PWLB borrowing was repaid during 2020/21. This represents a net increase of £3.3m of borrowing since 31 March 2020. The Council remains under borrowed by £12.6m (i.e. the Council's actual borrowing is £12.6m less than its borrowing requirement at 31 March 2021).

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 2020/21 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 a increase in the estimated Pension Fund Reserve net liability over the 2020/21 year of £24.151m, up from £81.989m at 1 April 2020 to £106.140m at 31 March 2021. This increase in the Pension Fund deficit resulted mainly from changes in financial assumptions following the latest triennial review. 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 £106.310m 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 2019, the results at that time identified that there has been a significant improvement in the funding position since the last actuarial review from a 69% funding level to 84%. The next actuarial revaluation is due as at 31<sup>st</sup> March 2022.

Although the overall funding position has improved, 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. Based on the latest triennial valuation rates will continue to be capped at 1% p.a. over the next three year period to 2022/23.



### **Future Plans**

The Covid19 pandemic has fundamentally affected the way in which the Council works and will have long term and societal impacts. Elements of this change which relate directly to the response phase will, in time, revert largely back to normal. However, an event of this magnitude undoubtedly means that we will need to consider closely how our business and services should operate in the future.

As a result of the pandemic the Council is facing an unprecedented financial detriment. The measures introduced nationally to combat the virus have had direct and indirect negative impacts on our finances, which will need to be managed over future years. The Government has pumped billions of pounds into the economy to support the response phase of the pandemic and to protect jobs and services. In the medium-term the levels of additional borrowing and the budget deficit will need to be managed down at the same time as meeting ongoing needs to invest in recovery to achieve the growth required to repay the deficit. The Government's national strategy to address this challenge is not yet known, nor what it will mean for local government funding more generally. Furthermore, there remains potential



longstanding impacts on the Council's local income sources if behaviour, working practices and spending patterns in the city continue to change.

The financial implications are challenging to estimate with certainty, there continues to be a number of unknowns; from how long, and to what extent any restrictions will continue or be reimplemented and to what recovery will look like, such as how customers/residents/businesses will behave over time.

As we move forward from the pandemic, and as the Country continues through the recovery phase, the Council's faces it's biggest challenge in it's ability to lead on, finance and support key practical and relevant interventions which will be critical to the recovery of not only the council, but also Lincoln and Lincolnshire's economy, whilst ensuring it maintains a balanced financial position.

These interventions will form part of our Vision 2025.

Vision 2025 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 2025, 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 2025 remains as;

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

Underpinning this vision are now five 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 five-year programme.

The five strategic priorities are:

- Let's drive inclusive economic growth
- Let's reduce all kinds of inequality
- Let's deliver quality housing
- Let's enhance our remarkable place
- Let's address the challenge of climate change

Although the new Vision 2025 was adopted in March there was no formal public launch due to COVID-19. There is now a need to review Vision 2025 in light of COVID-19, re-profile the commitments in the strategy, identify any further interventions, and then communicate it widely. This will ensure that we target our priorities in new ways to lead and bolster the City's economic recovery, focussing on what is important right now and deferring some projects to the latter years of the Plan.



## General Fund

The financial challenges created by the impact of Covid19 on the General Fund, coming on top of a decade of austerity in local government, cannot be underestimated.

Alongside these threats to local income sources and new expenditure pressures, local government financing is still set for future significant reform. 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 of this has currently been delayed due to the pandemic and the current implementation date is as yet unannounced. The implications arising from these reforms will have significant, detrimental, implications for the Council

Although there is a significant level of uncertainty about future funding, based on what is currently known, or can be reasonably assumed, the General Fund will need to make further reductions in it's net cost base of £1.75m by 2023/24.

This is a significant target to achieve, particularly in light of the annual revenue reductions of £9m that have been delivered over the past decade. This level of savings has been achieved by re-investing in more efficient ways of working; adopting a more commercial approach; and prioritising resources for economic development measures, whilst making careful use of reserves to meet funding gaps.

However; it is becoming much more difficult to find additional efficiency savings and some being considered need to be delivered as part of longer-term transformational changes to the organisation, we are taking a more prudent approach to commercial ventures; and we cannot deliver the benefits from economic development measures in the short term. We are therefore left with little option but to revert to a more traditional cost cutting measures approach in order to deliver the scale of reductions required within the short lead in time, as well as using reserves in the short term. Ultimately, we will have to make some difficult decisions over the next 12 months as we prioritise which services we can afford to continue to deliver. It will also require the use of our earmarked reserves as a short-term response.

Although closing a gap of this size is a huge challenge it is not unprecedented, and we have the confidence of our track record of delivering strong financial discipline and that we can once again rise to the challenge.

In this current exceptionally uncertain period and funding position our overriding financial strategy therefore continues to be, to drive down the net cost base to ensure



we maintains a sound and sustainable financial position. The key mechanism for carrying out this strategy is through the Towards Financial Sustainability Programme which seeks to bring service costs in line with available funding and, alongside this over the medium term, using the Council's influence and direct investment through its capital programmes to create the right conditions for the City's economy to recover and once again grow.

### **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 for completion in 2021, this will follow on from the completion of refreshed stock condition surveys, agreement of a Lincoln housing specification, refresh of the Lincoln Standard to reflect low carbon/climate change, progression of the Social Housing White paper and to ensure the priority schemes from Vision 2025 are fully reflected.

### **Capital Expenditure**

Despite the pressures the Council's revenue budgets face investment in the Council's assets, to maintain income generating assets, provide new income generating assets and support service delivery is still critical. The Council's capital strategy plans to deliver projects to the value of £89m over the next five years, with £69m estimated to be spent in 2021/22. This includes significant investment in the Council's key strategic projects notably the Western Growth Corridor development, the construction of an extra care facility at De Wint Court in addition to further investment on Council dwellings and Council buildings, including the construction of new council housing.

In addition, the Council has also been successful in securing £19m for the proposed Town Deal Programme. The Programme includes proposals to deliver long term

economic growth in the City and includes contributions to schemes to be delivered by the Council of c£7m. These proposed schemes will play a huge part in supporting the economic recovery of the City post pandemic.



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 funded through a combination of borrowing and 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. It is critical that there continues robust budget management of the HRA to continue to allow the required investment.

### **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 as well as potential reductions arising from the current economic conditions and legacy of COVID19.
- Collection rates for Council Tax, Business Rates and Rents, which are currently being detrimentally impacted by COVID19.
- Income received compared to income targets (e.g. car parking, planning and building control), income in these areas plummeted during 'lockdown' and whilst they are now beginning to recover and reductions have been factored into future years budgets, there is still a significant amount of uncertainty.
- 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.
- Any further financial support provided by Central Government to mitigate cash-flow implications arising from COVID19.

### **Summary**

Although both the General Fund and Housing Revenue Account have maintained balanced budget positions in 2020/21 this does not mean that the financial issues for

the Council are resolved, it simply means that the in-year budget challenges have been addressed. Beyond 2020/21 we are set to face ongoing reductions in resources and increased service costs from the legacy of impacts of Covid19. This will require ongoing reductions in the net cost base in order to live within a significantly reduced resources envelope. The Medium Term Financial Strategy 2021-2026, approved by Full Council in March 2021 sets out the detail of the financial challenge the Council faces.

Whilst addressing the financial challenges we face in the forthcoming years we will also continue to maintain the correct balance between these challenges and ensuring that our limited resources are directed towards the Council's strategic priorities.

Vision 2025 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 help recover Lincoln's economy through schemes such as delivering homes and infrastructure, stimulating jobs and growth, tackling climate change, providing and enhancing support systems for our vulnerable residents, and delivering the Towns Deal Programme. The recovery and growth of the City's economy is now more important than ever.



## Group Accounts

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



The Council has a collaborative arrangement with North Kesteven and West Lindsey District Councils to provide the Central Lincolnshire Joint Planning Unit. This arrangement is hosted by North Kesteven District Council. The Council contributed £99k to the service which is contained within the Communities and Environment line

of the CIES. The Council also has a collaborative arrangement with North Kesteven to provide a shared Revenues and Benefits Service. This shared service is hosted by the City of Lincoln Council. The Council contributed £1.267m to the service which is contained within the Chief Executive's Directorate line in the CIES. Both of these arrangements are governed through a Joint Committee representing each of the partner authorities. Under these arrangements the ventures use their own resources to undertake an activity subject to joint control, and as such do not require consolidation into the Council's accounts. The Council's proportion of activity is accounted for separately within the Core Financial Statements.

### **Further Information**

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

J Gibson FCCA  
Chief Finance Officer  
(Section 151 Officer)

## COUNCIL APPROVAL

The Statement of Accounts for the year 1 April 2020 to 31 March 2021 has been prepared and I confirm that these Accounts were approved by the City of Lincoln Council, at the meeting held on xx November 2021

Councillor Jackie Kirk  
Chair of Council

Date: xx<sup>th</sup> November 2021

## THE STATEMENT OF RESPONSIBILITIES

### 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 2021 and its income and expenditure for the year ended on that date.

J Gibson FCCA  
Chief Finance Officer  
Date: 12th July 2021

## 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
<b>Balance at 31 March 2019</b>	<b>1,849</b>	<b>11,946</b>	<b>1,025</b>	<b>5,675</b>	<b>4,574</b>	<b>564</b>	<b>25,633</b>	<b>177,256</b>	<b>202,889</b>
<b>Movement in reserves during 2019/20</b>									
Surplus or (deficit) on provision of services	(5,712)	0	11,900	0	0	0	6,188	0	6,188
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	28,562	28,562
<b>Total Comprehensive Expenditure and Income</b>	<b>(5,712)</b>	<b>0</b>	<b>11,900</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,188</b>	<b>28,562</b>	<b>34,750</b>
Adjustments between accounting basis & funding basis under regulations (note 9)	6,106	0	(12,294)	3,492	573	4,660	2,537	(2,537)	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>394</b>	<b>0</b>	<b>(394)</b>	<b>3,492</b>	<b>573</b>	<b>4,660</b>	<b>8,725</b>	<b>26,025</b>	<b>34,750</b>
Transfers (to)/from Earmarked Reserves	(7)	(357)	364	0	0	0	0	0	0
<b>Increase/Decrease in Year</b>	<b>387</b>	<b>(357)</b>	<b>(30)</b>	<b>3,492</b>	<b>573</b>	<b>4,660</b>	<b>8,725</b>	<b>26,025</b>	<b>34,750</b>
<b>Balance at 31 March 2020 carried forward</b>	<b>2,236</b>	<b>11,589</b>	<b>995</b>	<b>9,167</b>	<b>5,147</b>	<b>5,224</b>	<b>34,358</b>	<b>203,281</b>	<b>237,638</b>

## 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
<b>Movement in reserves during 2020/21</b>									
Surplus or (deficit) on provision of services	(3,393)	0	15,967	0	0	0	12,574	0	12,574
Other Comprehensive Expenditure and Income	0	0	0	0	0	0	0	(23,028)	(23,028)
<b>Total Comprehensive Expenditure and Income</b>	<b>(3,393)</b>	<b>0</b>	<b>15,967</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12,574</b>	<b>(23,028)</b>	<b>(10,454)</b>
Adjustments between accounting basis & funding basis under regulations (note 9)	16,951	0	(14,563)	4,972	(636)	(1,198)	5,526	(5,526)	0
<b>Net Increase/Decrease before Transfers (to)/from Reserves</b>	<b>13,558</b>	<b>0</b>	<b>1,404</b>	<b>4,972</b>	<b>(636)</b>	<b>(1,198)</b>	<b>18,100</b>	<b>(28,554)</b>	<b>(10,454)</b>
Transfers (to)/from Earmarked Reserves	(13,126)	14,455	(1,329)	0	0	0	0	0	0
<b>Increase/Decrease in Year</b>	<b>432</b>	<b>14,455</b>	<b>75</b>	<b>4,972</b>	<b>(636)</b>	<b>(1,198)</b>	<b>18,100</b>	<b>(28,554)</b>	<b>(10,454)</b>
<b>Balance at 31 March 2021 carried forward</b>	<b>2,668</b>	<b>26,044</b>	<b>1,070</b>	<b>14,139</b>	<b>4,511</b>	<b>4,026</b>	<b>52,458</b>	<b>174,727</b>	<b>227,184</b>



# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2020/21

2019/20			Note	2020/21		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
36,366	(29,507)	6,859	Chief Executive's Directorate	37,122	(29,718)	7,403
3,462	(2,389)	1,074	Housing and Regeneration	3,023	(2,486)	538
17,279	(28,578)	(11,299)	Housing Revenue Account (HRA)	9,715	(29,076)	(19,361)
19,757	(11,174)	8,583	Communities and Environment	22,007	(10,537)	11,470
681	(548)	133	Major Developments	803	(234)	569
(92)	(50)	(141)	Corporate Services	22,382	(23,002)	(621)
<b>77,453</b>	<b>(72,246)</b>	<b>5,207</b>	<b>Cost of Services</b>	<b>95,052</b>	<b>(95,054)</b>	<b>(2)</b>
	813		Other Operating Expenditure			1,206
	7,434		Financing and Investment Income and Expenditure			4,821
	(19,643)		Taxation and Non-Specific Grant Income			(18,600)
	<b>(6,188)</b>		<b>(Surplus) or Deficit on Provision of Services</b>			<b>(12,575)</b>
	(4,914)		(Surplus) or deficit on revaluation of non-current assets	14,22		2,550
	0		Impairment Losses on Non-Current Assets charged to the Revaluation Reserve			0
	26		(Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income	26e		19
	(23,674)		Total re-measurements on defined benefit obligation	44		20,459
	<b>(28,562)</b>		<b>Other Comprehensive Income and Expenditure</b>			<b>23,028</b>
	<b>(34,750)</b>		<b>Total Comprehensive Income and Expenditure</b>			<b>10,454</b>

## BALANCE SHEET AS AT 31 MARCH 2021

31 March 2020 £'000		Notes	31 March 2021 £'000
376,194	Property, Plant & Equipment	14,39,41	393,123
2,907	Heritage Assets	15	2,768
34,646	Investment Property	14,16	34,203
309	Intangible Assets	14,17,39	191
772	Long Term Investments	18,47	753
950	Long Term Debtors	18,47	837
<b>415,778</b>	<b>Long Term Assets</b>		<b>431,875</b>
1,500	Assets Held for Sale	22	0
30,609	Short Term Investments	18,47	33,907
138	Inventories	19	139
3	Cash at Bank	21	563
11,506	Short Term Debtors	18,20,47	28,389
<b>43,756</b>	<b>Current Assets</b>		<b>62,998</b>
(329)	Cash and Cash Equivalents	18,21,47	0
(11,460)	Short Term Borrowing	18,47	(9,418)
(15,265)	Short Term Creditors	18,23,47	(33,814)
<b>(27,054)</b>	<b>Current Liabilities</b>		<b>(43,232)</b>
0	Long Term Creditors	18,47	0
(2,405)	Provisions	24	(2,578)
(110,448)	Long Term Borrowing	18,47	(115,738)
(81,989)	Other Long-Term Liabilities	44	(106,140)
<b>(194,842)</b>	<b>Long Term Liabilities</b>		<b>(224,456)</b>
<b>237,639</b>	<b>Net Assets</b>		<b>227,184</b>
34,358	Usable reserves	10,25	52,461
203,281	Unusable Reserves	26	174,723
<b>237,639</b>	<b>Total Reserves</b>		<b>227,184</b>

## CASH FLOW STATEMENT

2019/20		Notes	2020/21
£'000			£'000
6,188	Net surplus or (deficit) on the provision of services		12,574
15,671	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	28	26,003
(9,354)	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	29	(5,032)
<b>12,505</b>	<b>Net cash flows from Operating Activities</b>		<b>33,545</b>
(13,907)	Investing Activities	30	(16,474)
1,688	Financing Activities	31	(16,182)
<b>286</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>889</b>
(612)	Cash and cash equivalents at the beginning of the reporting period		(326)
<b>(326)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	21	<b>563</b>

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## NOTES TO THE ACCOUNTS

The values held within the proceeding Notes to the Accounts may vary slightly when compared to the main Statements or other Notes, which may also include casting variances. 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 2020/21 financial year and its position at the year-end of 31 March 2021. 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 2020/21 (the Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued in the Accounts and Audit Regulations 2015.

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

#### 2. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods and 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 projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and 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's 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 as a result of a scheme amendment or curtailment which effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement.
- Net interest 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 arise 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.

### **Financial Assets measured at fair Value through Other Comprehensive Income (FVOCI)**

Financial assets that are measured at FVOCI 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 arise in Other Comprehensive Income

## **10. Foreign Currency Translation**

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

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

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

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

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

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

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

Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **Business Improvement Districts**

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

### **Community Infrastructure Levy**

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

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

## **12. Intangible Assets**

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

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

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

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

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

Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

### **13. Interests in Companies and other Entities**

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

### **14. Inventories and Long-Term Contracts**

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

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

### **15. Investment Property**

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

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

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



## 16. Joint Operations

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

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

## 17. Leases

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

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

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

### **The Council as Lessee**

#### **Finance Leases**

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

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A financing charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged



over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

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

### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from use of the leased asset. Charges are made on a straight-line basis over the term of the lease, even if this doesn't match the pattern of payments.

### **The Council as Lessor**

#### **Finance Leases**

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipt Reserve in the Movement in Reserves Statement. Where the amount due in relation to the leased asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

## **Operating Leases**

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

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

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

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

Assets that have physical substance and are held for use in the supply of services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment, with a deminimis level of £10,000.

### **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. Generally, a deminimis level of £10,000 is applied however qualifying expenditure on assets which is lower than £10,000 but where the asset value exceeds this is recognised as capital expenditure.

### **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:

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

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

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

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. However, in exceptional circumstances, gains may be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to services.

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

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

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

### **Impairment**

Assets are reviewed at each year-end for evidence of reductions in value i.e. impairment. Where impairment is identified, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

- Dwellings and Other buildings – straight-line allocation over the useful life of the property as estimated by the Valuer
- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life of each class of asset

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

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

Revaluation gains are also depreciated, with an amount equal to the difference between the current value depreciation charge on assets and the depreciation that

would have been charged based on their historical cost, being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **20. Heritage Assets**

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

- Civic Insignia
- Art and Sculptures
- 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.

- **Ancient Monuments and War Memorials**

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

- **Miscellaneous**

This category includes any other assets which are being held for their contribution to knowledge and culture but do not readily fall into the above categories. One

example is the collection of Books of Remembrance held at the City crematorium. These items are reported in the Balance Sheet at either cost or insurance valuation where material. No depreciation is charged on these assets.

### **Heritage Assets – General**

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's accounting policies on impairment. The Council may occasionally dispose of heritage assets which are unsuitable for public display or to an appropriate body which will ensure the asset is maintained and displayed within a suitable collection e.g. to a museum or historical trust. The proceeds of such items are accounted for in accordance with the Council's accounting policy on disposal of Property, Plant and Equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

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

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus and Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50%

for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are transferred to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

## **22. Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

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

### **Contingent Liabilities**

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

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

### **Contingent Assets**



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

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

## **23. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

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

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

## **25. VAT**

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

## **26. Fair Value**

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

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



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

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

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

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

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

The following Accounting Standards and amendments have been issued but will not be adopted until the 2021/2022 financial year.

- **Amendments to IFRS 3 Business Combinations**
- **Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform.**
- **Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform - Phase 2**

These accounting changes will be required from 1 April **2021**.

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. The provisions in the Code on the going concern requirements reflect the economic and statutory environment in which local authorities operate. As the Council cannot be dissolved without statutory prescription, the accounts will be prepared on a going concern basis.
- **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.

#### 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 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Business Rates</b>  (Balance Sheet 31 March 2021 – Provision for Business Rate Appeals £2.448m)	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 2020/21 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 31 <sup>st</sup> March 2021. 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 (40%) of the balance of business rates appeals at 31 March 2021 amounted to £2.448m, a decrease of £0.173m (8%) from the previous year.  An increase or reduction of 10% of the estimated provision would increase/decrease the Council's share of NNDR appeals provision by £0.248m.
<b>Property, Plant and Equipment (PPE)</b>  (Balance Sheet 31 March 2021 – PPE £391m)	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 £0.082m and for council dwellings £0.217m for every year that the useful lives had to be reduced.
<b>Assets held for sale and investment properties</b>  (Balance Sheet 31 March 2021 - assets held for sale £1.5m - Investment properties £34.2m)	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 and assets held for sale would result in a charge to the Comprehensive Income & Expenditure Statement of £0.357m; a 1% increase in value would result in the recognition of a gain of £0.357m in the Comprehensive Income & Expenditure Statement.
<b>Arrears</b>  Balance Sheet 31 March 2021 - Debtors	As at 31 March 2020, the Council had a balance on current debtors of £32.26m. A review of significant balances suggested that an	If collection rates were to deteriorate by 5% the amount of the impairment of doubtful debts would require an additional

total of £32.26m includes £4.15m debtors (subject to arrears)	impairment of doubtful debts of £4.15m was required.	£0.21m to be set aside as an allowance.
<b>Pension Liability</b>  (Balance Sheet 31 March 2021 - pensions liability £106.140m)	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 (Barnett Waddington) 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 1% decrease in the discount rate assumption would result in an increase in the pension liability of £5.732m.

#### Note 5 – Prior Period Adjustment

None

#### Note 6 – Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 31st August 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31<sup>st</sup> March 2021, 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

2019/20					2020/21				
Net Expenditure Chargeable to General Fund and HRA Balances	Movement of Trading A/C's & Levies etc.	Adjustments Between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to General Fund and HRA Balances	Movement of Trading A/C's & Levies etc.	Adjustments Between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	
4,994	349	1,516	6,859	Chief Executive's Directorate	5,848	(954)	2,509	7,403	
717	0	356	1,073	Housing and Regeneration	212	0	326	538	
(2,849)	0	(8,450)	(11,299)	Housing Revenue Account (HRA)	(4,034)	0	(15,469)	(19,503)	
5,674	99	2,810	8,583	Communities and Environment	6,601	0	4,869	11,470	
229	0	(96)	133	Major Developments	409	0	160	569	
194	818	(1,154)	(142)	Corporate Services	(295)	850	(1,176)	(621)	
8,960	1,266	(5,019)	5,207	Net Cost Of Services	8,742	(104)	(8,782)	(144)	
(8,960)	(1,266)	(1,170)	(11,396)	Other Income and Expenditure	(23,704)	104	11,170	(12,430)	
0	0	(6,189)	(6,189)	(Surplus) or Deficit on Provision of Services	(14,962)	0	2,388	(12,574)	
GF		HRA	Total		GF		HRA	Total	
(13,705)		(1,115)	(14,820)	Opening Balance	(13,825)		(995)	(14,820)	
(120)		120	0	Less/ Plus Surplus or (Deficit) in Year	(14,887)		(75)	(14,962)	
(13,825)		(995)	(14,820)	Closing Balance at 31 March	(28,712)		(1,070)	(29,782)	

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

2019/20				2020/21				
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
188	1,316	12	<b>1,516</b>	Chief Executive's Directorate	1,358	1,102	49	<b>2,509</b>
2	347	7	<b>356</b>	Housing and Regeneration	0	305	21	<b>326</b>
(10,254)	1,796	8	<b>(8,450)</b>	Housing Revenue Account (HRA)	(16,910)	1,298	142	<b>(15,470)</b>
1,740	1,067	3	<b>2,810</b>	Communities and Environment	3,871	908	90	<b>4,869</b>
(196)	96	4	<b>(96)</b>	Major Developments	68	85	7	<b>160</b>
0	(1,154)	0	<b>(1,154)</b>	Corporate	0	(1,176)	0	<b>(1,176)</b>
<b>(8,520)</b>	<b>3,468</b>	<b>34</b>	<b>(5,018)</b>	<b>Net Cost of Services</b>	<b>(11,614)</b>	<b>2,522</b>	<b>310</b>	<b>(8,782)</b>
(3,619)	1,505	944	(1,170)	Other Income & Expenditure from the Funding Analysis	(1,768)	1,170	11,768	11,170
<b>(12,139)</b>	<b>4,973</b>	<b>978</b>	<b>(6,188)</b>	<b>Difference between General Fund Surplus/ Deficit and CIES Income &amp; Expenditure Statement Surplus/ Deficit</b>	<b>(13,382)</b>	<b>3,692</b>	<b>12,078</b>	<b>2,388</b>

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## Note 7B – Segmental Income Analysis

Income received on a segmental basis is analysed below:

	Income from Services	Income from Services
Services	2019/20	2020/21
	£'000s	£'000s
Chief Executive's Directorate	(6,031)	(5,476)
Housing & Regeneration	(982)	(968)
Housing Revenue Account (HRA)	(29,033)	(29,550)
Communities & Environment	(11,052)	(10,188)
Major Developments	(412)	39
Corporate	(0)	(142)
<b>Total Income analysed on a Segmental Basis</b>	<b>(47,510)</b>	<b>(46,285)</b>

## Note 8 – Expenditure and Income Analysed by Nature

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

	2019/20	2020/21
	£'000s	£'000s
<b>Expenditure/ Income</b>		
<b>Expenditure</b>		
Employee Benefit Expenses	26,148	26,105
Other Services Expenses	64,163	83,300
Support Service Recharges	2,815	3,152
Depreciation, Amortisation and Impairment	5,068	(267)
REFCUS	479	970
Interest Payments	9,708	8,337
Precepts and Levies	828	850
Payments to Housing Capital Receipts Pool	729	529
<b>Total Expenditure</b>	<b>109,938</b>	<b>122,976</b>
<b>Income</b>		
Fees, Charges and other Service Income	(64,890)	(59,386)
Interest and Investment Income	(3,582)	(2,615)
Income from Council Tax and Non-Domestic Rates	(12,462)	(15,973)
Government Grants and Contributions	(34,427)	(57,403)
Gain/Loss on Disposal	(766)	(173)
<b>Total Income</b>	<b>(116,127)</b>	<b>(135,550)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>(6,188)</b>	<b>(12,574)</b>



## **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.

2020/21	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments to Revenue Resources</b>						
<b>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:</b>						
Pensions costs (transferred to (or from) the Pensions Reserve)	2,394	1,298	0	0	0	<b>3,692</b>
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	(2)	0	0	0	0	<b>(2)</b>
Council Tax and NNDR transfers to (or from) the Collection Fund Adjustment Account	11,768	0	0	0	0	<b>11,768</b>
Holiday Pay (transferred to the Accumulated Absences Reserve)	167	142	0	0	0	<b>309</b>
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)	3,735	(11,479)	0	6,698	3,355	<b>2,309</b>
<b>Total Adjustments to Revenue Resources</b>	<b>18,062</b>	<b>(10,039)</b>	<b>0</b>	<b>6,698</b>	<b>3,355</b>	<b>18,076</b>
<b>Adjustments between Revenue and Capital Resources</b>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(100)	(1,620)	1,720	0	0	<b>0</b>
Admin costs of RTB	0	42	(42)	0	0	<b>0</b>
Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	529	0	(529)	0	0	<b>0</b>
Posting of HRA resources to the Major Repairs Reserve	0	(2,898)	0	2,898	0	<b>0</b>
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(1,507)	0	(150)	0	0	<b>(1,657)</b>
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(34)	(48)	0	0	0	<b>(82)</b>
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(1,112)</b>	<b>(4,524)</b>	<b>999</b>	<b>2,898</b>	<b>0</b>	<b>(1,739)</b>

2020/21	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments to Capital Resources</b>						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(1,633)	0	0	<b>(1,633)</b>
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(4,624)	0	<b>(4,624)</b>
Application of Capital grants to finance capital expenditure	0	0	0	0	(4,553)	<b>(4,553)</b>
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>(1,633)</b>	<b>(4,624)</b>	<b>(4,553)</b>	<b>(10,810)</b>
<b>Total Adjustments</b>	<b>16,950</b>	<b>(14,563)</b>	<b>(634)</b>	<b>4,972</b>	<b>(1,198)</b>	<b>5,527</b>

2019/20	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments to Revenue Resources</b>						
<b>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:</b>						
Pensions costs (transferred to (or from) the Pensions Reserve)	3,177	1,796	0	0	0	<b>4,973</b>
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	(2)	0	0	0	0	<b>(2)</b>
Council Tax and NNDR transfers to (or from) the Collection Fund Adjustment Account	944	0	0	0	0	<b>944</b>
Holiday Pay (transferred to the Accumulated Absences Reserve)	26	8	0	0	0	<b>34</b>
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)	2,429	(7,527)	0	6,598	6,418	<b>7,917</b>
<b>Total Adjustments to Revenue Resources</b>	<b>6,574</b>	<b>(5,723)</b>	<b>0</b>	<b>6,598</b>	<b>6,418</b>	<b>13,867</b>
<b>Adjustments between Revenue and Capital Resources</b>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	0	(2,934)	2,934	0	0	<b>0</b>
Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve)	729	0	(729)	0	0	<b>0</b>
Posting of HRA resources to the Major Repairs Reserve	0	(3,637)	0	3,637	0	<b>0</b>
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(995)	0	(150)	0	0	<b>(1,145)</b>
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(202)	0	0	0	0	<b>(202)</b>
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(468)</b>	<b>(6,571)</b>	<b>2,055</b>	<b>3,637</b>	<b>0</b>	<b>(1,347)</b>

<b>Adjustments to Capital Resources</b>						
Use of the Capital Receipts Reserve to finance capital expenditure	0	0	(1,482)	0	0	<b>(1,482)</b>
Use of the Major Repairs Reserve to finance capital expenditure	0	0	0	(6,790)	0	<b>(6,790)</b>
Application of Capital grants to finance capital expenditure	0	0	0	0	(1,758)	<b>(1,758)</b>
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>(1,482)</b>	<b>(6,790)</b>	<b>(1,758)</b>	<b>(10,030)</b>
<b>Total Adjustments</b>	<b>6,107</b>	<b>(12,294)</b>	<b>573</b>	<b>3,445</b>	<b>4,660</b>	<b>2,490</b>

## Note 10 – Movements in Earmarked Reserves

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

	Balance @ 31.03.19 £'000	Movements	Appropriations		Balance @ 31.03.20 £'000	Movements	Appropriations		Balance @31.03.21 £'000
			Transfers In £'000	Transfers Out £'000			Transfers In £'000	Transfers Out £'000	
<b>General Fund</b>									
Business Rates Volatility	1,456	0	800	(297)	1,959	0	11,417	0	13,376
Council Tax Hardship Fund	0	0	0	0	0	0	531	0	531
Strategic Projects	303	0	0	(157)	146	0	2	(146)	2
Budget Carry Forwards	194	(22)	34	(72)	134	0	416	(68)	482
Grants & Contributions	1,545	(79)	1,476	(1,836)	1,106	0	591	(312)	1,385
Invest to Save (GF)	427	0	32	(123)	336	0	318	(200)	453
Mercury Abatement	414	0	14	(56)	371	0	0	(54)	317
Strategic Growth (GF)	14	0	43	0	57	0	0	(40)	17
Unused DRF	203	0	0	0	203	0	317	(179)	341
Backdated Rent Review	220	0	0	(50)	170	0	0	(170)	0
Funding for Strategic Priorities	1,214	5	0	(292)	926	0	0	(753)	174
IT Reserve	0	0	129	(35)	94	0	100	(71)	124
Revenues & Benefits Shared Service	163	0	25	(163)	25	0	0	(25)	0
Asset Improvement	55	0	0	(51)	4	0	0	(4)	0
Tree Risk Assessment	108	0	36	(38)	106	0	17	(26)	97
Vision2025	0	0	0	0	0	0	411	(206)	204
Organisational Development	85	0	0	(85)	0	0	0	0	0
Lincoln Lottery Reserve	0	0	0	0	0	0	9	0	9
Mayoral Car	47	0	0	0	47	0	0	(20)	27
Yarborough Leisure Centre	2	0	0	0	2	0	0	0	2
Active Nation Bond Reserve	0	0	0	0	0	0	180	0	180
AGP Sinking Fund	0	0	0	0	0	0	2	0	2
Private Sector Stock Condition Survey	45	0	48	(48)	45	0	12	(30)	27
Property Searches	4	0	0	0	4	0	0	(4)	0
Corporate Training	0	0	0	0	0	0	60	0	60
Boston Audit Contract	14	0	0	0	14	0	0	(14)	0
Section 106 Interest	32	0	0	0	32	0	0	0	32

	Balance @ 31.03.19 £'000	Movements	Appropriations		Balance @ 31.03.20 £'000	Movements	Appropriations		Balance @31.03.21 £'000
			Transfers In £'000	Transfers Out £'000			Transfers In £'000	Transfers Out £'000	
Crematorium	0	100	0	(100)	0	0	0	0	0
Christmas Decorations	17	(3)	0	0	14	0	0	0	14
Electric Van Replacement	11	0	4	0	15	0	4	0	19
Air Quality Initiatives	10	0	5	0	15	0	6	(10)	11
Commons Parking	25	0	11	(9)	27	0	0	(7)	20
Tank Memorial	10	0	0	0	10	0	0	0	10
HRS Reserve	89	0	0	(89)	0	0	0	0	0
City Hall Sinking Fund	60	0	0	0	60	0	0	0	60
Birchwood Leisure Centre	0	0	26	0	26	0	20	0	46
Covid Recovery Reserve	0	0	0	0	0	0	1,047	0	1,047
Covid Response	0	0	354	0	354	0	0	0	354
MSCP & Bus Station	0	0	60	0	60	0	0	0	60
Western Growth Corridor Plan	0	0	150	0	150	0	0	(70)	80
<b>Total General Fund Earmarked Reserves</b>	<b>6,766</b>	<b>0</b>	<b>3,247</b>	<b>(3,501)</b>	<b>6,512</b>	<b>0</b>	<b>15,460</b>	<b>(2,409)</b>	<b>19,563</b>
<b>HRA</b>									
HRA Strategic Growth	25	0	76	0	101	0	0	(75)	26
HRA Invest to Save	140	0	0	(7)	133	0	0	0	133
Capital Fees Equalisation	182	0	0	(42)	140	0	0	(30)	110
HRA Strategic Priority	240	0	0	(64)	176	0	625	(79)	722
De Wint Court	73	0	0	0	73	0	0	0	73
HRA Repairs Account	579	0	17	0	595	0	755	0	1,351
HRA Survey Works	60	0	3	(9)	54	0	0	0	54
Stock Retention	22	0	0	0	22	0	0	0	22
Housing Repairs Service	0	0	126	0	126	0	0	0	126
<b>Total HRA Earmarked Reserves</b>	<b>1,321</b>	<b>0</b>	<b>222</b>	<b>(122)</b>	<b>1,420</b>	<b>0</b>	<b>1,380</b>	<b>(184)</b>	<b>2,617</b>
<b>Total Earmarked Reserves</b>	<b>8,087</b>	<b>0</b>	<b>3,469</b>	<b>(3,623)</b>	<b>7,932</b>	<b>0</b>	<b>16,841</b>	<b>(2,593)</b>	<b>22,180</b>
Insurance Fund	3,862	0	445	(650)	3,657	0	375	(170)	3,862
<b>Total Earmarked Reserves</b>	<b>11,949</b>	<b>0</b>	<b>3,914</b>	<b>(4,273)</b>	<b>11,589</b>	<b>0</b>	<b>17,216</b>	<b>(2,763)</b>	<b>26,043</b>

## 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 **2020/21** 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:

2019/20 £'000		2020/21 £'000
3,862	<b>Opening Balance</b>	3,657
(150)	Funding of claims/losses	(170)
425	Contributions from revenue	375
20	Interest on balances	0
(500)	Contributions from reserve	0
<b>3,657</b>	<b>Closing Balance</b>	<b>3,862</b>

## Note 11 – Other Operating Expenditure

2019/20 £'000		2020/21 £'000
828	Levies	850
729	Payments to the Government Housing Capital Receipts Pool	529
(744)	(Gains)/losses on the disposal of non-current assets	(173)
<b>813</b>	<b>Total</b>	<b>1,206</b>

## Note 12 – Financing and Investment Income and Expenditure

2019/20 £'000		2020/21 £'000
3,916	Interest payable and similar charges	3,915
2,452	Net interest on the net defined liability	2,039
1,370	(Surplus)/Deficit on Trading Operations	(877)
(26)	Dividends Receivable	(26)
(230)	Interest Receivable and similar income	(77)
(25)	Changes in fair value of investment properties – non trading	(10)
(22)	Gains/loss on disposal of investment properties	0
<b>7,434</b>	<b>Total</b>	<b>4,964</b>

## Note 13 – Taxation and Non-Specific Grant Income

2019/20 £'000		2020/21 £'000
(6,675)	Council Tax income	(6,859)
(5,772)	Retained Business Rates income and expenditure	(5,695)
(778)	Non service related government grants	(2,668)
(23)	RSG	(23)
(6,418)	Capital grants and contributions	(3,355)
<b>(19,666)</b>	<b>Total</b>	<b>(18,600)</b>



# **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:

<b>Movements in 2020/21</b>										
	<b>Council Dwellings</b>	<b>Land &amp; Buildings</b>	<b>Vehicles Plant &amp; Equip</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Property Plant &amp; Equip Subtotal</b>	<b>Intangible Assets</b>	<b>Investment Properties</b>	<b>TOTAL</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost or Valuation</b>										
<b>At 1 April 2020</b>	<b>257,607</b>	<b>89,222</b>	<b>12,890</b>	<b>5,235</b>	<b>19,750</b>	<b>2,740</b>	<b>387,444</b>	<b>1,992</b>	<b>34,646</b>	<b>424,082</b>
Additions	11,854	53	320	686	0	5,706	<b>18,619</b>	0	0	<b>18,619</b>
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	53	(5,035)	0	0	(135)	0	<b>(5,117)</b>	0	0	<b>(5,117)</b>
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	6,109	(3,273)	0	0	(48)	0	<b>2,788</b>	0	294	<b>3,082</b>
De-recognition and disposals	(1,327)	(439)	0	0	0	0	<b>(1,766)</b>	0	(100)	<b>(1,866)</b>
Other movements in cost or valuation	205	737	(4,042)	0	1,400	(205)	<b>(1,905)</b>	0	(637)	<b>(2,542)</b>
<b>At 31 March 2021</b>	<b>274,501</b>	<b>81,265</b>	<b>9,168</b>	<b>5,921</b>	<b>20,967</b>	<b>8,241</b>	<b>400,063</b>	<b>1,992</b>	<b>34,203</b>	<b>436,258</b>
<b>Depreciation</b>										
<b>At 1 April 2020</b>	<b>(20)</b>	<b>(2,457)</b>	<b>(8,646)</b>	<b>(119)</b>	<b>(7)</b>	<b>0</b>	<b>(11,249)</b>	<b>(1,683)</b>	<b>0</b>	<b>(12,932)</b>
Depreciation/amortisation for year	(6,362)	(1,738)	(687)	0	(4)	0	<b>(8,791)</b>	(118)	0	<b>(8,909)</b>
Depreciation written out to the Revaluation Reserve	0	2,691	0	0	0	0	<b>2,691</b>	0	0	<b>2,691</b>

<b>Movements in 2020/21</b>										
Depreciation written out to the Surplus/Deficit on the Provision of Services	6,316	0	0	0	0	0	<b>6,316</b>	0	0	<b>6,316</b>
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	<b>0</b>	0	0	<b>0</b>
De-recognition – disposals	32	21	0	0	0	0	<b>53</b>	0	0	<b>53</b>
De-recognition – other	0	0	4,042	0	0	0	<b>4,042</b>	0	0	<b>4,042</b>
Other movements in cost or valuation	0	(1)	0	0	1	0	<b>0</b>	0	0	<b>0</b>
<b>At 31 March 2021</b>	<b>(33)</b>	<b>(1,484)</b>	<b>(5,291)</b>	<b>(119)</b>	<b>(10)</b>	<b>0</b>	<b>(6,938)</b>	<b>(1,801)</b>	<b>0</b>	<b>(8,739)</b>
<b>Net book value of assets at 31.03.21</b>	<b>274,468</b>	<b>79,781</b>	<b>3,877</b>	<b>5,799</b>	<b>20,957</b>	<b>8,241</b>	<b>393,124</b>	<b>191</b>	<b>34,203</b>	<b>427,518</b>
<b>Net book value of assets at 31.03.20</b>	<b>257,587</b>	<b>86,763</b>	<b>4,244</b>	<b>5,116</b>	<b>19,744</b>	<b>2,740</b>	<b>376,192</b>	<b>309</b>	<b>34,646</b>	<b>411,147</b>
Owned	274,468	79,781	3,877	5,799	20,957	8,241	393,124	191	34,203	427,518

<b>Movements in 2019/20</b>										
	<b>Council Dwellings</b>	<b>Land &amp; Buildings</b>	<b>Vehicles Plant &amp; Equip</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Property Plant &amp; Equip Subtotal</b>	<b>Intangible Assets</b>	<b>Investment Properties</b>	<b>TOTAL</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost or Valuation</b>										
<b>At 1 April 2019</b>	<b>249,411</b>	<b>93,811</b>	<b>10,680</b>	<b>4,955</b>	<b>11,823</b>	<b>1,679</b>	<b>372,359</b>	<b>1,932</b>	<b>30,478</b>	<b>404,769</b>
Additions	10,768	236	2,203	280	0	1,073	<b>14,560</b>	55	6,888	<b>21,503</b>
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	74	3,204	0	0	89	0	<b>3,367</b>	0	0	<b>3,367</b>
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(442)	(152)	0	0	0	0	<b>(594)</b>	0	(2,741)	<b>(3,335)</b>
De-recognition and disposals	(2,202)	0	0	0	0	0	<b>(2,202)</b>	0	(20)	<b>(2,222)</b>
Other movements in cost or valuation	(2)	(7,879)	7	0	7,838	(12)	<b>(48)</b>	5	41	<b>(2)</b>
<b>At 31 March 2020</b>	<b>257,607</b>	<b>89,222</b>	<b>12,890</b>	<b>5,235</b>	<b>19,750</b>	<b>2,740</b>	<b>387,444</b>	<b>1,992</b>	<b>34,646</b>	<b>424,082</b>
<b>Depreciation</b>										
<b>At 1 April 2019</b>	<b>(14)</b>	<b>(2,739)</b>	<b>(8,102)</b>	<b>(119)</b>	<b>(5)</b>	<b>0</b>	<b>(10,980)</b>	<b>(1,571)</b>	<b>0</b>	<b>(12,551)</b>
Depreciation/amortisation for year	(6,354)	(1,699)	(544)	0	(2)	0	<b>(8,600)</b>	(112)	0	<b>(8,712)</b>
Depreciation written out to the Revaluation Reserve	0	1,545	0	0	1	0	<b>1,546</b>	0	0	<b>1,546</b>
<b>Movements in 2019/20</b>										
Depreciation written out to the Surplus/Deficit on the Provision of Services	6,294	435	0	0	0	0	<b>6,729</b>	0	0	<b>6,729</b>
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0	0	0	<b>0</b>	0	0	<b>0</b>

<b>Movements in 2019/20</b>										
	<b>Council Dwellings</b>	<b>Land &amp; Buildings</b>	<b>Vehicles Plant &amp; Equip</b>	<b>Community Assets</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Property Plant &amp; Equip Subtotal</b>	<b>Intangible Assets</b>	<b>Investment Properties</b>	<b>TOTAL</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
De-recognition – disposals	54	0	0	0	0	0	54	0	0	54
De-recognition – other	0	0	0	0	0	0	0	0	0	0
Other movements in cost or valuation	0	1	0	0	(1)	0	0	0	0	(0)
<b>At 31 March 2020</b>	<b>(20)</b>	<b>(2,457)</b>	<b>(8,646)</b>	<b>(119)</b>	<b>(7)</b>	<b>0</b>	<b>(11,249)</b>	<b>(1,683)</b>	<b>0</b>	<b>(12,932)</b>
<b>Net book value of assets at 31.03.20</b>	<b>257,587</b>	<b>86,763</b>	<b>4,244</b>	<b>5,116</b>	<b>19,744</b>	<b>2,740</b>	<b>376,192</b>	<b>309</b>	<b>34,646</b>	<b>411,147</b>
<b>Net book value of assets at 31.03.19</b>	<b>249,397</b>	<b>91,072</b>	<b>2,578</b>	<b>4,836</b>	<b>11,818</b>	<b>1,679</b>	<b>361,379</b>	<b>360</b>	<b>30,478</b>	<b>392,217</b>
Owned	257,587	86,763	4,053	5,116	19,744	2,740	376,001	309	34,646	391,833
Finance lease	0	0	191	0	0	0	191	0	0	191

## Valuation

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment are to be measured at current 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

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

	<b>Council Dwellings</b>	<b>Land &amp; Buildings</b>	<b>Community Assets</b>	<b>Vehicles Plant &amp; Equip.</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Valuation at historical cost</b>			5,799	3,877		8,241
<b>Valued at current value as at:</b>						
Desktop review	96	490			109	
31/03/2021	273,835	44,225			870	
31/03/2020	472	19,650			1,200	
31/03/2019	65	7,525			16,376	
31/03/2018		1,196			902	
31/03/2017		6,695			0	
<b>Total cost or valuation</b>	<b>274,468</b>	<b>79,781</b>	<b>5,799</b>	<b>3,877</b>	<b>19,457</b>	<b>8,241</b>

## Depreciation

### Tangible Assets

Depreciation, as stated in the Accounting Policies, is calculated on a straight-line basis. The following useful lives and depreciation rates have been used in the calculation of depreciation:

<b><u>Category Of Asset</u></b>	<b><u>Useful Economic Life</u></b>
<b>Council Dwellings</b>	60 years for new properties 30 years for properties over 30 years old
<b>Other Land &amp; Buildings</b>	
- 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

<u>Category Of Asset</u>	<u>Useful Economic Life</u>
- Public Conveniences	50 years
- Recreation Grounds	50 years
- Sports Centres	50 years
<b>Vehicles, Plant &amp; Equipment</b>	
- Computers	5 years
- Equipment	10 years
- Fixtures and Fittings	5 years
- Plant	7/10 years
- Vehicles	5/7 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:

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

### Note 15 – Heritage Assets

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

	<b>Heritage Vehicles £'000</b>	<b>Musical Instruments £'000</b>	<b>Civic Insignia £'000</b>	<b>Other £'000</b>	<b>Total Assets £'000</b>
<b>Cost or Valuation</b>					
At 1 April 2019	38	3,285	2,359	409	6,091
Additions	0	0	0	0	0
De-recognitions	0	(3,185)	0	0	0
<b>At 31 March 2020</b>	<b>38</b>	<b>100</b>	<b>2,359</b>	<b>409</b>	<b>2,906</b>
<b>Cost or Valuation</b>					
At 1 April 2020	38	100	2,359	409	2,906
Additions	0	0	0	0	0
De-recognitions	(38)	(100)	0	0	(138)
<b>At 31 March 2021</b>	<b>0</b>	<b>0</b>	<b>2,359</b>	<b>409</b>	<b>2,768</b>

#### 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 31<sup>st</sup> 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 31<sup>st</sup> March 2017 by external valuers Bamfords.

## Heritage Assets not recognised in the Balance Sheet

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

### Scheduled Ancient Monuments

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

### Memorials

High Street	War memorial
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### Memorials

Dixon Street	War memorial
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:

2019/20 £'000		2020/21 £'000
2,329	Rental income from investment property	1,462
(105)	Direct operating expenses arising from investment property	(5)
(2,741)	Fair value gains/(losses) on investment properties	294
22	Gains/(losses) on disposal of investment properties	0
<b>(495)</b>	<b>Net gain/(loss)</b>	<b>1,751</b>

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

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

2019/20 £'000		2020/21 £'000
<b>30,478</b>	<b>Balance at 1 April</b>	<b>34,646</b>
6,888	Additions	0
(20)	Disposals	(100)
(2,741)	Net gain/loss from Fair Value Adjustment	294
41	Transfers (to)/from Other Land and Buildings	(637)
<b>34,646</b>	<b>Balance at 31 March</b>	<b>34,203</b>

### 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 25 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 2021 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 £118k (£112k in 19/20) was charged to service headings in the Cost of Services.

## Note 18 – Financial Instruments

The Council has the following investments at 31 March 2021:

### 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:

	31/03/2020	31/03/2021
	£000	£000
Non-listed securities	504	504
<b>Total</b>	<b>504</b>	<b>504</b>

### 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 2021

	Unquoted Shares	Other	Total
	£000	£000	£000
<b>Opening Balance</b>	268	0	268
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	(19)	0	(19)
Additions	0	0	0
Disposals	0	0	0
<b>Closing Balance</b>	<b>249</b>	<b>0</b>	<b>249</b>

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

Summary of Financial Instruments		31/3/20	31/3/21
		£000s	£000s
<b>Financial Liabilities at amortised cost</b>			
Long Term Borrowing	Level 1	(110,448)	(115,738)
Short Term Borrowing	Level 1	(11,459)	(9,417)
Long Term Creditors	Level 1	0	0
Short Term Creditors	Level 1	(9,474)	(7,869)
Cash and Cash Equivalents	Level 1	(329)	0
<b>Total Financial Liabilities</b>		<b>(131,710)</b>	<b>(133,024)</b>
<b>Financial Assets at amortised cost</b>			
Short Term Investments	Level 1	30,609	33,907
Long Term Debtors	Level 1	950	837
Short Term Debtors	Level 1	7,044	6,835
Cash and Cash Equivalents	Level 1	0	563
<b>Total Financial Assets</b>		<b>38,603</b>	<b>42,142</b>

Summary of Financial Instruments		31/3/20	31/3/21
		£000s	£000s
Financial Assets at FVOCI*			
Long Term Investments	Level 2/3**	772	753
<b>Total Assets at FVOCI</b>		<b>772</b>	<b>753</b>

\*Fair Value through Other Comprehensive Income

\*\* See table below for detail

There have been no transfers between levels in the hierarchy during 2020/21.

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:

2020/21	Financial Liabilities	Financial Assets		Total
	Amortised Cost	FVOCI		
	£000	£000	£000	£000
Interest Expense	3,912			3,912
Interest Income credited to services		(77)		(77)
Dividend Income			(26)	(26)
Surplus or deficit arising on revaluation of financial assets			19	19
<b>Net (gain)/loss for the year</b>	<b>3,912</b>	<b>(77)</b>	<b>(7)</b>	<b>3,828</b>

2019/20				
Interest Expense	3,916			3,916
Interest Income credited to services		(230)		(230)
Interest Income			(26)	(26)
Surplus or deficit arising on revaluation of financial assets			26	26
<b>Net (gain)/loss for the year</b>	<b>3,916</b>	<b>(230)</b>	<b>(0)</b>	<b>3,686</b>

### 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. Assets measured at Fair value through other comprehensive income are classified in this way due to the business model under which they are being held

and that they have features which are not usually found in a basic lending agreement.

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 31/3/21	As at 31/3/20
			£'000	£'000
Fair Value OCI				
Equity shareholding in Dunham Bridge Company	Level 2	Average price obtained during the last three share sales	504	504
Equity shareholding in Investors in Lincoln	Level 3	Discounted cash flow *	249	268
Total			753	772

\* The Authority's shareholding in Investors in Lincoln - the shares in this company are not traded in an active market and fair value of £267,793 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 carried 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

31/03/20			31/03/21	
Carrying Amount	Fair Value	Fair Value hierarchy**	Carrying Amount	Fair Value
£'000	£'000		£'000	£'000

96,116	102,874	PWLB Debt	Level 2	93,354	106,461
16,175	26,540	Money Market Debt	Level 2	16,174	27,879
565	565	Stock	Level 2	565	565
9,051	9,108	Other	Level 2/3	15,062	15,199
121,907	139,087	<b>Total Debt</b>		125,155	150,104

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.

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

## Financial Assets

31/03/20			31/03/21		
Carrying Amount	Fair Value		Carrying Amount	Fair Value	
£'000	£'000		£'000	£'000	
30,609	30,609	Money Market Investments <1 year	33,907	33,907	
0	0	Money Market Investments >1 year	0	0	
950	950	Long Term Debtors	837	837	
<b>31,559</b>	<b>31,559</b>	<b>Total Investments</b>	<b>34,744</b>	<b>34,744</b>	

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 £106.461m 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 £93.354m would be valued at £106.461m. 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 £124.046m.

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 note for 19/20 has been revised and the figure shown in the Balance Sheet may be subdivided as follows:

	Consumable Stores		Total	
	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000
<b>Balance outstanding at the start of the year</b>	<b>85</b>	<b>138</b>	<b>85</b>	<b>138</b>
Purchases	58	1	58	1
Recognised as an expense in the year	(5)	0	(5)	0
<b>Balance outstanding at the year-end</b>	<b>138</b>	<b>139</b>	<b>138</b>	<b>139</b>

## 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:

31/03/20		31/03/21
£'000		£'000
1,163	Central Government Bodies	13,843
3,195	Other Local Authorities	8,022
2	NHS Bodies	9
11,076	Other Entities and Individuals	10,664
<b>15,436</b>	<b>Total Short-Term Debtors</b>	<b>32,537</b>
<b>(3,930)</b>	Less Impairment Loss Allowance	<b>(4,148)</b>
<b>11,506</b>	<b>Net Short-Term Debtors as per Balance Sheet</b>	<b>28,389</b>

### 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:

31/03/20		31/03/21
£'000		£'000
109	Less than three months	122
316	Three to six months	184
545	Six months to one year	3,438
5,854	More than one year	4,699
<b>6,824</b>	<b>Total</b>	<b>8,444</b>

## Note 21 – Cash and Cash Equivalents

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

31/03/20		31/03/21
£'000		£'000
3	Cash held by the Council	1
(329)	Bank Current accounts	561
<b>(326)</b>		<b>562</b>

The overdrawn balance at 31/3/2012 shows the financial position which includes creditor payments awaiting clearance through the bank account.

## Note 22 – Assets Held for Sale

The Authority had 1 piece of development land as assets held for sale at the beginning of the year. The sale of the asset has been approved but was not completed as at 31<sup>st</sup> March 2021. This asset has been reclassified to Surplus Assets as at 31<sup>st</sup> March 2021.

<b>Current 2019/20 £000</b>		<b>Current 2020/21 £000</b>
1,500	Balance at start of the year	1,500
0	Additions	0
	Newly classified:	
0	- Property Plant & Equipment	0
0	Revaluation gain/(loss)	0
0	Transfers from AHFS	(1,500)
0	Disposals	0
<b>1,500</b>	<b>Closing Balance</b>	<b>0</b>

## 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:

<b>31/03/20 £'000</b>		<b>31/03/21 £'000</b>
(6,740)	Central Government Bodies	(24,825)
(567)	Other Local Authorities	(593)
(7,958)	Other Entities and Individuals	(8,396)
<b>(15,265)</b>	<b>Total</b>	<b>(33,814)</b>



## Note 24 – Provisions

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

	Business Rates RV Reduction the Think Tank  £'000	Compulsory Purchase Order  £'000	Business Rates Appeals  £'000
<b>Balance at 1 April 2020</b>	<b>(37)</b>	<b>(94)</b>	<b>(2,275)</b>
Additional Provisions made in 2020/21	0	0	(920)
Amounts used in 2020/21	0	0	167
Unused Amounts Reversed in 2020/21	0	0	579
Unwinding of Discounting in 2020/21	0	0	0
<b>Balance at 31 March 2021</b>	<b>(37)</b>	<b>(94)</b>	<b>(2,448)</b>

The provision for business rate appeals represents the Council's share (40% of £6.119m) of the total provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2021. 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.

## 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 31/03/20	Net Movement in Year	Balance 31/03/21	Purpose of Reserve	Further Details of Movements
	£'000	£'000	£'000		
Revaluation Reserve	32,181	(2,832)	29,349	Store of gains on revaluation of assets	a) below
Pensions Reserve	(81,989)	(24,151)	(106,140)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 44 to the financial statements
Capital Adjustment Account	252,643	10,520	263,163	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	(53)	2	(51)	Balancing mechanism between the rates at which gains and losses are recognised under the Code of Practice	d) below
Financial Instruments Revaluation Reserve	757	(19)	738	Store of gains on revaluation of investments not yet realised through sales	e) below
Collection Fund Adjustment Account – Council Tax	26	(222)	(196)	Store of Council's share of accumulated surpluses and deficits in relation to Council Tax on the Collection Fund	f) below

Reserve	Balance 31/03/20	Net Movement in Year	Balance 31/03/21	Purpose of Reserve	Further Details of Movements
	£'000	£'000	£'000		
Collection Fund Adjustment Account - NNDR	118	(11,546)	(11,428)	Store of Council's share of accumulated surpluses and deficits in relation to NNDR on the Collection Fund	f) below
Accumulated Absences Account	(460)	(310)	(770)	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
	<b>203,280</b>	<b>(28,557)</b>	<b>174,723</b>		

#### 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.

2019/20 £'000		2020/21 £'000
<b>(27,610)</b>	<b>Balance 1 April</b>	<b>(32,181)</b>
(5,210)	Upward Revaluation of assets	(1,346)
296	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	3,773
<hr/> (4,914)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	<hr/> 2,427
265	Difference between fair value depreciation and historical cost depreciation	281
78	Amounts written out to the Capital Adjustment Account	123
<hr/> <b>(32,181)</b>	<b>Balance 31 March</b>	<hr/> <b>(29,350)</b>

#### 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.

2019/20 £'000		2020/21 £'000
<b>(248,888)</b>	<b>Balance 1 April</b>	<b>(252,643)</b>
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
8,712	Charges for depreciation and amortisation of non-current assets	8,909
0	Other movements of depreciation	0
(6,135)	Revaluation (gains)/losses and impairments on Property, Plant and Equipment	(9,104)
2,741	Fair value movements on Investment Properties	(294)
479	Revenue expenditure funded from capital under statute	970
2,168	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,813
	Other adjustments	15
<b>7,965</b>		<b>2,309</b>
(344)	Adjusting amounts written out of the Revaluation Reserve	(281)
	Adjusting amounts written out of the Revaluation Reserve prior period adjustment	
<b>7,621</b>	Net written out amount of the cost of non-current assets consumed in the year	<b>2,029</b>
	<b>Capital Financing applied in year:</b>	
(1,482)	Use of Capital Receipts to finance new capital expenditure	(1,633)
(150)	Use of Capital Receipts to reduce capital financing requirement	(150)
(6,790)	Use of the Major Repairs Reserve to finance new capital expenditure	(4,624)
(202)	Capital expenditure charged against the General Fund and HRA balances	(82)
(1,758)	Application of Capital Grants to finance new capital expenditure	(4,553)
(995)	Statutory Provision for the financing of capital investment charged against the General Fund and HRA balances (MRP/VRP)	(1,507)
<b>(11,376)</b>		<b>(12,550)</b>
<b>(252,643)</b>	<b>Balance 31 March</b>	<b>(263,163)</b>

### 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:

2019/20 £'000		2020/21 £'000
(57)	Balance 1 April	(57)
0	Council's share of (surplus)/deficit for the year	0
<u>(57)</u>	<b>Balance 31 March</b>	<u>(57)</u>

### 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.

2019/20 £'000		2020/21 £'000
55	Balance 1 April	53
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	(2)
<u>53</u>	<b>Balance 31 March</b>	<u>51</u>

### e) Financial Instruments Revaluation Reserve

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.

2019/20 £'000	Financial Instruments Revaluation Reserve	2020/21 £'000
(783)	Balance 1 April	(757)
0	Transfer from Available for Sale Financial Instruments Reserve	0
26	(Gain)/Loss on FVOCI revaluations in year	19
<u>(757)</u>	<b>Balance 31 March</b>	<u>(738)</u>

### 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.

<b>2019/20</b> <b>£'000</b>		<b>2020/21</b> <b>£'000</b>
<b>(72)</b>	<b>Balance 1 April</b>	<b>(26)</b>
46	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	222
<b>(26)</b>	<b>Balance 31 March</b>	<b>196</b>

**g) 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.

<b>2019/20</b> <b>£'000</b>		<b>2020/21</b> <b>£'000</b>
<b>(1,016)</b>	<b>Balance 1 April</b>	<b>(118)</b>
898	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	11,546
<b>(118)</b>	<b>Balance 31 March</b>	<b>11,428</b>

## h) 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.

2019/20 £'000		2020/21 £'000
<b>425</b>	<b>Balance 1 April</b>	<b>460</b>
(425)	Settlement or cancellation of accrual made at the end of the preceding year	(460)
460	Amounts accrued at the end of the current year	770
	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	
35		310
<b>460</b>	<b>Balance 31 March</b>	<b>770</b>

### Note 27 – Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2019/20 £'000		2020/21 £'000
187	Interest received	129
(3,638)	Interest paid	(3,976)
26	Dividends Received	26
<u>(3,425)</u>		<u>(3,821)</u>

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

2019/20 £'000		2020/21 £'000
8,600	Depreciation	8,791
(6,135)	Impairment and downward valuations	(9,104)
112	Amortisation	118
0	Increase/(decrease) in impairment for bad debts	0
6,014	Increase/(decrease) in creditors	22,216
(1,709)	(Increase)/decrease in debtors	(1,418)
(50)	(Increase)/decrease in inventories	(1)
4,973	Movement in pension liability	3,692
2,148	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	1,828
1,718	Other non-cash items charged to the net surplus or deficit on the provision of services	(119)
<b>15,671</b>		<b>26,003</b>



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

2019/20 £'000		2020/21 £'000
(2,934)	Proceeds from sale of PPE, investment property and intangible assets	(1,677)
(6,420)	Any other items for which the cash effects are investing or financing cash flows	(3,355)
<b>(9,354)</b>		<b>(5,032)</b>

**Note 30 – Cash Flow Statement - Investing Activities**

2019/20 £'000		2020/21 £'000
(21,975)	Purchase of property, plant and equipment, investment property and intangible assets	(18,008)
(131,555)	Purchase of short-term and long-term investments	(172,315)
0	Other payments for investing activities	0
2,934	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,677
130,205	Proceeds from short-term and long-term investments	168,965
6,484	Other receipts from investing activities	3,207
<b>(13,907)</b>	<b>Net cash flows from investing activities</b>	<b>(16,474)</b>

**Note 31 – Cash Flow Statement - Financing Activities**

2019/20 £'000		2020/21 £'000
(237)	Cash payments for the reduction of outstanding liabilities relating to finance leases	(105)
25,001	Cash receipts of short & long-term borrowing	14,673
0	Other receipts from financing activities	0
(20,201)	Repayments of short- and long-term borrowing	(11,425)
(2,875)	Other payments for financing activities	(19,325)
<b>1,688</b>	<b>Net cash flows from financing activities</b>	<b>(16,182)</b>

Reconciliation of liabilities arising from financing activities

2020/21	01/04/2020	Financing Cash Flows		Other non-financing cash flows	31/03/2021
		New loans	Repayments		
	£'000	£'000	£'000	£'000	£'000
Long Term Borrowing	110,448	(6,000)	0	2,710	107,158
Short Term Borrowing	11,460	(5,000)	9,705	(2,710)	13,455
Lease liabilities	105	0	(105)	0	0
<b>Total Liabilities from financing activities</b>	<b>122,013</b>	<b>(11,000)</b>	<b>9,600</b>	<b>0</b>	<b>120,613</b>

2019/20	01/04/2019	Financing Cash Flows		Other non-financing cash flows	31/03/2020
		New loans	Repayments		
	£'000	£'000	£'000	£'000	£'000
Long Term Borrowing	95,354	25,001	(201)	(9,706)	110,448
Short Term Borrowing	21,476		(20,000)	9,984	11,460
Lease liabilities	342	0	(237)		105
<b>Total Liabilities from financing activities</b>	<b>117,172</b>	<b>25,001</b>	<b>(20,438)</b>	<b>278</b>	<b>122,013</b>

### 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. It also manages a number of industrial estates and commercial properties.

2019/20				2020/21		
Exp. £'000	Inc. £'000	Net £'000		Exp. £'000	Inc. £'000	Net £'000
8,473	(7,734)	739	HRS	7,842	(6,949)	894
(210)	(378)	(588)	Industrial Estates	54	(408)	(355)
3,072	(1,951)	1,120	Lincoln Properties	62	(1,478)	(1,416)
<b>11,334</b>	<b>(10,063)</b>	<b>1,271</b>	<b>Total (Surplus)/Deficit</b>	<b>7,958</b>	<b>(8,835)</b>	<b>(877)</b>

### 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) (England) Regulations 2003 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 2020/21 totalled £249,438 (£242,113 in 2019/20).

Payments are defined as:

- i. Basic Allowance
- ii. Special Responsibility Allowance
- iii. Other allowances

## Note 35 – Officers' Remuneration

The Accounts and Audit Regulations 2015 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

2020/21						
Post Title	Salary	Bonuses	Expense Allowances	Compensation for loss of office	Pension Contributions	Total
	£	£	£	£	£	£
Chief Executive <sup>1</sup>	123,588	0	0	0	21,381	144,969
Strategic Director of Housing & Regeneration <sup>2</sup>	96,657	0	0	0	16,722	113,378
Strategic Director of Communities & Environment	96,920	0	0	0	16,767	113,687
Strategic Director of Major Developments	96,584	0	0	0	16,709	113,293
<b>Total</b>	<b>413,748</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>71,578</b>	<b>485,327</b>

<b>2019/20</b>						
<b>Post Title</b>	<b>Salary</b>	<b>Bonuses</b>	<b>Expense Allowances</b>	<b>Compensation for loss of office</b>	<b>Pension Contributions</b>	<b>Total</b>
	£	£	£	£	£	£
Chief Executive <sup>1</sup>	130,256	0	516	0	20,841	151,613
Strategic Director of Housing & Regeneration	91,197	0	321	0	14,592	106,110
Strategic Director of Communities & Environment	92,490	0	278	0	14,698	107,465
Strategic Director of Major Developments	91,008	0	0	0	14,561	105,569
<b>Total</b>	<b>404,950</b>	<b>0</b>	<b>1,115</b>	<b>0</b>	<b>64,691</b>	<b>470,757</b>

1) The salary costs for the Chief Executive include £6.9k relating to election expenses in 2019/20.

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

<b>Remuneration Band</b>	<b>Number of Employees</b>	
	<b>2020/21</b>	<b>2019/20</b>
<b>£</b>		
50,000 - 54,999	8	9
55,000 - 59,999	0	2
60,000 - 64,999	4	1
65,000 – 69,999	4	3
70,000 – 74,999	0	0
75,000 – 79,999	2	2
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 2020/21 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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
							£	£
£0 - £20,000	0	0	0	9	0	9	0	103,264
£20,001 - £40,000	0	0	1	4	1	4	36,398	108,353
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	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							36,398	211,617
Add: Amounts provided for in CIES not included in bandings							0	0
<b>Total cost included in CIES</b>							<b>36,398</b>	<b>211,617</b>

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

### Note 36 – External Audit Costs

In 2020/21 the following fees relating to External Audit and Inspection were incurred in respect of services provided by Mazars, the Council's external auditors:

2019/20 £'000		2020/21 £'000
	<b><u>Fees payable for statutory audit services</u></b>	
53	Fees Payable with regard to external audit services carried out by the appointed auditor	50
<b>53</b>		<b>50</b>
	<b><u>Fees payable for other audit services</u></b>	
13	Fees payable for the certification of grant claims and returns	13
<b>66</b>	<b>Total fee payable to external auditors</b>	<b>63</b>

The fees relating to grant claims can vary from year to year depending on the number of claims to be audited. The figure for 2020/21 is an estimate, as the work will be carried out in the period July to September 2021.

## Note 37 – Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21:

Credited to Taxation and Non-Specific Grant Income		
2019/20 £'000		2020/21 £'000
(22)	Revenue Support Grant	(23)
(721)	New Homes Bonus	(771)
0	Transparency Code Setup Grant	0
0	Business Rates Top Ups	(13)
0	Transparency Code Setup Grant	(8)
0	COVID	(1,877)
(35)	Brexit	0
<b>(778)</b>	<b>Total Non-Ring-fenced Grants shown on CIES</b>	<b>(2,691)</b>
(756)	Disabled Facilities Grants	(852)
(279)	Section 106 agreement	(107)
(1,400)	Lincolnshire County Council	0
(37)	Heritage Lottery Fund	(359)
(864)	Football Foundation	0
(81)	Sport England	0
(29)	Leaseholder Contributions	0
0	Historic England	(142)
0	Department of Transport	(40)
(2,954)	Homes England	(713)
0	MHLCC Towns Fund	(1,000)
(18)	Other Capital Grants and Contributions	(142)
<b>(6,418)</b>	<b>Total Capital Grants and Contributions shown on CIES</b>	<b>(3,354)</b>
	<b>S31 Grants included in Non-Domestic Rates Income on CIES</b>	
<b>(1,663)</b>		<b>(12,657)</b>
<b>(8,859)</b>	<b>Total Non-Ringfenced Grants included in CIES</b>	<b>(18,703)</b>

2019/20 £'000	Credited to Services	2020/21 £'000
(12,364)	Rent Allowances	(12,453)
(12,161)	Rent Rebates	(11,277)
(179)	Discretionary Housing Payments	(227)
(345)	Housing Benefit Administration	(336)
(154)	New Burdens Grant Determination	(15,647)
0	Historic England	(29)
0	Local Council Tax Support Admin Subsidy	(137)
(56)	Home Office	(51)
(173)	Towns Fund	(70)
(1,281)	Homeless Specific	(1,517)
0	COVID Grants	(9,499)
(225)	Other Grants	(81)
<b>(26,936)</b>	<b>Total Grants and Contributions credited to Services</b>	<b>(51,324)</b>

2019/20 £'000	Credited to Services	2020/21 £'000
<u>(35,795)</u>	<b>Total Grants, Contributions and Donated Assets</b>	<u>(70,027)</u>

### 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 2020/21 the Council sent a letter, dated 1 April 2021, to all Members, Chief Officers and Assistant Directors, requesting disclosure of any 'related party transactions'. All letters were returned, one Member and one Officer 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	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 2020/21 were as follows:

2019/20		2020/21
£'000		£'000
442	Upper Witham Drainage Board	453
129	Witham 1 <sup>st</sup> Drainage Board	135
257	Witham 3 <sup>rd</sup> Drainage Board	262
<b>828</b>	<b>Total</b>	<b>850</b>

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

#### RESTATED

2019/20		2020/21
£'000		£'000
207	Lincoln Arts Trust	256
52	Lincoln Dial-a-Ride	26
56	Citizens Advice Bureau	28
32	Lincoln Shopmobility	16
50	Brayford	36

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

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

The company's accounting year-end is 31st March and the latest (audited) accounts are for the year ended 31st March 2020, showing net assets of £4.446m and a loss of £14,778. 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.

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 2020/21 a surplus on the managed workspace units of £25,748 was attributable to the Council.

Details of amounts received from ILL during 2020/21 are shown below:

2019/20 £'000		2020/21 £'000
132	Property Management costs	133
90	Facility Fee	90
5	Management Fee	5

An amount of £4,845 was owed to ILL at 31st March 2021 in respect of property management costs, facility fees and management fees. This is included in the creditors balance in the Council's Balance Sheet.

**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:

2019/20 £'000		2020/21 £'000
	<b>Capital investment</b>	
14,560	Property, Plant and Equipment	18,619
6,888	Investment Properties	0
55	Intangible Assets	0
479	Revenue Expenditure Funded from Capital under Statute	970
<b>21,982</b>		<b>19,589</b>
2019/20 £'000		2020/21 £'000
	<b>Sources of finance</b>	
(1,482)	Capital Receipts	(1,633)
(1,758)	Government grants and other contributions	(4,553)
(202)	Revenue Contributions	(82)
(6,790)	Major Repairs Reserve	(4,624)

<b>(10,232)</b>	<b>Total sources of financing</b>	<b>(10,892)</b>
<b>(11,750)</b>	<b>Capital Financing Requirement</b>	<b>(8,697)</b>
<b>Capital Financing Requirement - Funded by:</b>		
11,750	Unsupported Borrowing	8,697
<b>11,750</b>		<b>8,697</b>

**Analysis of movements in the Capital Financing Requirement in Year:**

120,130	Opening CFR	130,736
11,750	Unsupported borrowing	8,697
0	Adjustments in respect of leases disposed under finance lease	0
(995)	Minimum Revenue Provision/Voluntary Revenue Provision	(1,507)
(150)	Application of capital receipts to reduce CFR	(150)
<b>130,736</b>	<b>Closing CFR</b>	<b>137,776</b>

The Council has a five-year Housing Investment programme, of which £10.16m 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 £2.672m is contractually committed. Crematorium improvements of £2.49m with the remainder to allow completion of schemes for Artificial Grass Pitches (£0.088m), IT and Telephony schemes (£0.044m), Electric vehicle charging points (£0.044m) and Car Park improvements (£0.006m).

**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:

<b>31/03/20</b>		<b>31/03/21</b>
<b>£'000</b>		<b>£'000</b>
192	Vehicles, Plant and Equipment	0
<b>192</b>		<b>0</b>

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired 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:

<b>31/03/20</b>		<b>31/03/21</b>
<b>£'000</b>		<b>£'000</b>
	Finance lease liabilities (net present value of minimum lease payments)	
105	Current	0
0	Non-current	0
2	Finance costs payable in future years	0
<b>107</b>	<b>Minimum lease payments</b>	<b>0</b>

	<b>Minimum Lease Payments</b>		<b>Finance Lease Liabilities</b>	
	<b>31/03/20</b>	<b>31/03/21</b>	<b>31/03/20</b>	<b>31/03/21</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Not later than one year	107	0	105	0
Later than one year and not later than five years	0	0	0	0
Later than five years	0	0	0	0
	<b>107</b>	<b>0</b>	<b>105</b>	<b>0</b>

## Operating leases

The Council has acquired the use of a number of assets, such as vehicles and buildings, under operating leases.

There are no future minimum lease payments due under non-cancellable leases in future years

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

<b>2019/20</b>		<b>2020/21</b>
<b>£'000</b>		<b>£'000</b>
275	Vehicles Plant & Equipment	191
<b>275</b>	<b>Minimum lease payments</b>	<b>191</b>

## 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 2020/21.

## 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:

2019/20		2020/21
£'000		£'000
1,928	Not later than one year	2,238
7,432	Later than one year and not later than five years	8,833
23,554	Later than five years	22,385
<b>32,914</b>		<b>33,457</b>

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 2020/21, £0.386m contingent rents were foregone by the Council (2019/20 £0.381m received).

### Note 41 – Impairment Losses

There were no impairment losses during 2020/21.

### 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 2020/21, incurring liabilities of £0.212m (£0.036m in 2019/20) – 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.

### 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:

2019/20 £'000		2020/21 £'000
	<b><u>Comprehensive Income &amp; Expenditure Statement</u></b>	
	<b>Net Cost of Services:</b>	
6,844	Current Service Cost	6,477
0	Past Service Costs (including curtailments)	0
	<b>Financing and Investment Income and Expenditure:</b>	
2,451	Net Interest Expense	1,896
<b>9,295</b>	<b>Total Post-Employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>8,373</b>
2019/20 £'000		2020/21 £'000
	<b>Re-measurement of the net defined benefit liability comprising:</b>	
14,077	Return on plan assets (excluding the amount included in the net interest expense)	(29,268)
(8,342)	Actuarial gains and losses arising on changes in demographic assumptions	(2,407)
(19,888)	Actuarial gains and losses arising on changes in financial assumptions	54,612
(9,520)	Other	(2,478)
(23,673)	<b>Total re-measurements recognised in Other Comprehensive Income and Expenditure</b>	20,459
<b>(14,378)</b>	<b>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>28,832</b>

2019/20 £'000		2020/21 £'000
<b>Movement in Reserves Statement</b>		
9,295	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	8,373
(4,323)	Actual amount charged against the General Fund Balance for pensions in the year:	(4,681)

### 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:

2019/20 £'000		2020/21 £'000
(209,420)	Present value of the defined obligations	(264,908)
127,431	Fair value of plan assets	158,769
<b>(81,989)</b>	<b>Net liability arising from defined benefit obligation</b>	<b>(106,139)</b>

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

2019/20 £'000		2020/21 £'000
139,623	Opening fair value of scheme assets	127,431
3,341	Interest Income	2,527
(14,077)	The return on plan assets, excluding the amount included in the net interest expense	29,268
4,323	Contributions from employer	4,681
965	Contributions from employees into the scheme	1,028
(6,744)	Benefits Paid	(6,674)
0	Administration Expenses	(105)
0	Settlement Prices received/(paid)	612
<b>127,431</b>	<b>Closing Fair value of scheme assets</b>	<b>158,769</b>

### Reconciliation of Present Value of the scheme liabilities:

2019/20 £'000		2020/21 £'000
240,313	Opening balance at 1 April	209,420
6,844	Current Service Cost	6,159
5,792	Interest Cost	4,423
965	Contributions from scheme participants	1,028
	Re-measurement (gains) and losses:	
(8,342)	Actuarial gains/losses arising from changes in demographic assumptions	(2,407)
(19,888)	Actuarial gains/losses arising from changes in financial assumptions	54,612
(9,520)	Other	(2,478)
0	Past Service Cost	0
	Liabilities assumed/(extinguished) on settlements	825
(6,744)	Benefits Paid	(6,674)
<b>209,420</b>	<b>Closing Balance at 31 March</b>	<b>264,908</b>

## Local Government Pension Scheme assets comprised:

Quoted in Active Markets 2019/20 £'000	Unquoted in Active Markets 2019/20 £'000	Total 2019/20 £'000		Quoted in Active Markets 2020/21 £'000	Unquoted in Active Markets 2020/21 £'000	Total 2020/21 £'000
			Fixed Interest Government Securities:			
1,657	0	1,657	UK	1,728	0	1,728
0	0	0	Overseas	0	0	0
<b>1,657</b>	<b>0</b>	<b>1,657</b>	<b>Sub-total Fixed Interest Government Securities</b>	<b>1,728</b>	<b>0</b>	<b>1,728</b>
			Index Linked Government Securities:			
2,549	0	2,549	UK	2,693	0	2,693
0	0	0	Overseas	0	0	0
<b>2,549</b>	<b>0</b>	<b>2,549</b>	<b>Sub-total Index Linked Government Securities</b>	<b>2,693</b>	<b>0</b>	<b>2,693</b>
			Corporate Bonds:			
14,655	0	14,655	UK	15,473	0	15,473
0	0	0	Overseas	0	0	0
<b>14,655</b>	<b>0</b>	<b>14,655</b>	<b>Sub-total corporate bonds</b>	<b>15,473</b>	<b>0</b>	<b>15,473</b>
			Equities:			
20,134	0	20,134	UK	25,218	0	25,218
48,934	0	48,934	Overseas	63,917	0	63,917
<b>69,068</b>	<b>0</b>	<b>69,068</b>	<b>Sub-Total equities</b>	<b>89,135</b>	<b>0</b>	<b>89,135</b>
			Property:			
10,832	127	10,959	All	10,975	405	11,379
<b>10,832</b>	<b>127</b>	<b>10,959</b>	<b>Sub-Total Property</b>	<b>10,975</b>	<b>405</b>	<b>11,379</b>
			Others:			
0	4,460	4,460	Hedge Fund	0	4,639	4,639
0	8,156	8,156	Private Equity	467	8,686	9,153
127	3,823	3,950	Infrastructure	903	4,016	4,919
382	255	637	Commodities	716	0	716
4,970	0	4,970	Bonds	5,075	0	5,075
0	1,529	1,529	Private Debt	0	1,526	1,526
1,784	637	2,421	Other Diversified Alternatives	2,460	420	2,880
0	510	510	Forward Current Contracts	0	(109)	(109)
1,657	0	1,657	Cash/Temporary Investments	6,943	0	6,943
<b>8,920</b>	<b>19,370</b>	<b>28,290</b>	<b>Sub-Total Others</b>	<b>16,563</b>	<b>19,178</b>	<b>35,741</b>
			Net Current Assets:			
255	0	255	Debtors	109	0	109
0	0	0	Creditors	0	(592)	(592)
<b>255</b>	<b>0</b>	<b>255</b>	<b>Sub-Total Net Current Assets</b>	<b>109</b>	<b>(592)</b>	<b>(483)</b>
<b>107,934</b>	<b>19,497</b>	<b>127,431</b>	<b>Total assets</b>	<b>136,676</b>	<b>18,991</b>	<b>155,668</b>



## Basis for Estimating Assets and Liabilities

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

The Local Government Pension Scheme has been assessed by Barnett Waddington, 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 2019.

The significant assumptions used by the actuary have been:

2019/20		2020/21
	Mortality assumptions:	
	<u>Longevity (in years) at 65 for current pensioners:</u>	
21.4	Men	21.1
23.7	Women	23.6
	<u>Longevity (in years) at 65 for future pensioners:</u>	
22.4	Men	22.0
25.2	Women	25.0
2.2%	Rate of increase in salaries	3.2%
1.9%	Rate of increase in pensions	2.9%
2.3%	Rate for discounting scheme liabilities	2.0%

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.

## Sensitivity Analysis:

**Increase in  
Assumptions**      **Decrease in  
Assumptions**

	£'000s	£'000s
<b>Adjustment to Discount Rate (increase or decrease by 1%)</b>		
Present Value of Total Obligation	5,396	(5,513)
Projected Service Cost	213	(219)
<b>Adjustment to Long Term Salary (increase or decrease by 1%)</b>		
Present Value of Total Obligation	(893)	884
Projected Service Cost	(4)	4
<b>Adjustment to Pension/Revaluation (increase or decrease by 1%)</b>		
Present Value of Total Obligation	(4,568)	4,473
Projected Service Cost	(216)	211
<b>Adjustment to Life Expectancy (increase or decrease by 1 year)</b>		
Present Value of Total Obligation	(12,729)	12,129
Projected Service Cost	(358)	343

### 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 2022.

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 2020/21 are estimated to be £4.341m.

### 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 is one contingent liability as at 31 March 2021.

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.

#### **Note 46 – Contingent Assets**

The Council has no Contingent Assets as at 31<sup>st</sup> March 2021.

#### **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 3<sup>rd</sup> March 2020. 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](http://www.lincoln.gov.uk)). The key issues during 2020/21 were:

- The Authorised Limit for 2020/21 was forecast to be £158m (revised to £151m). This is the maximum limit of external borrowings or other long-term liabilities during the year.
- The original Operational Boundary was expected to be £143m (revised to £136m). 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 £120m and £50m (mid year update) 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](http://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 2020/21 was approved by full Council on 3<sup>rd</sup> March 2020.

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 31/03/21  £'000 a	Historical experience of default  %	Adjusted for market conditions at 31/03/21  %	Estimated maximum exposure to default £'000 (a * c)
Deposits with banks and financial institutions				
• AAA* rated counterparties (investments up to 1 year)	14,900	0.0000%	0.0000%	0
• AA-* rated counterparties (investments up to 1 year)	5,000	0.0000%	0.0000%	0
• A* rated counterparties (investments up to 1 year)	5,002	0.0130%	0.0130%	1
• A+* rated counterparties (investments up to 1 year)	7,005	0.0107%	0.0107%	1
• A- rated counterparties (investments up to 1 year)	2,000	0.0010%	0.0010%	0
Debtors	6,835	7.17%**	7.17%	490
	<b>40,742</b>			<b>492</b>

\*See Glossary for a definition of ratings

\*\*based on historical experience – this may change in future years due to the effect of Covid 19.

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
<b><u>UK Local Authorities</u></b>					
Brentwood Borough Council	5,000	5,000	0	0	0
<b><u>UK Banks &amp; Building Societies</u></b>					
Lloyds TSB Bank plc	5,000	5,000	0	0	0
Santander	5,000	5,000	0	0	0
Goldman Sachs	2,000	2,000	0	0	0
Coventry Building Society	2,000	2,000	0	0	0
<b><u>UK Money Market Funds</u></b>					
Aberdeen Standard MMF	900	0	900	0	0
BNP Paribas MMF	7,000	0	7,000	0	0
Morgan Stanley MMF	7,000	0	7,000	0	0
<b>Total Investments</b>	<b>33,900</b>	<b>19,000</b>	<b>14,900</b>	<b>0</b>	<b>0</b>

The Council allows credit for its trade debtors, such that £1,308,963 of the £3,491,319 balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31/03/20 £'000		31/03/21 £'000
218	Less than three months	450
300	Three to six months	201
203	Six months to one year	214
866	More than one year	1,317
<b>1,588</b>	<b>Total</b>	<b>2,182</b>

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: -

31/03/20 £'000		31/03/21 £'000
11,459	Less than one year	9,382
2,710	Between one and two years	8,215
3,160	Between two and five years	6,072
104,578	More than five years	101,451
<b>121,907</b>	<b>Total</b>	<b>125,121</b>

## 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:

2019/20		2020/21
£'000		£'000
(155)	Increase in interest receivable on variable rate investments	(252)
<b>(155)</b>	<b>Impact on Income and Expenditure Account</b>	<b>(252)</b>
(60)	Share of overall impact credited to the HRA	(172)
(95)	Share of overall impact credited to the General Fund	(80)
<b>(155)</b>	<b>Total</b>	<b>(252)</b>

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 £0.77m 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 (£0.504m) and Investors in Lincoln (£0.268m). 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 2021

2019/20		Notes	2020/21	2020/21
£'000			£'000	£'000
	<b>Expenditure</b>			
(8,671)	Repairs and Maintenance	5	(7,574)	
(7,250)	Supervision and Management		(7,457)	
(243)	Rents, rates, taxes and other charges		(129)	
(797)	Depreciation, impairment and other adjustments for non-current assets		5,734	
(8)	Debt management costs		(5)	
(285)	Movement in the allowance for bad debts		(279)	
<b>(17,254)</b>	<b>Total Expenditure</b>			<b>(9,710)</b>
	<b>Income</b>			
27,482	Dwelling rents		28,115	
632	Non-dwelling rents		645	
464	Charges for services and facilities		316	
<b>28,578</b>	<b>Total Income</b>			<b>29,076</b>
<b>11,324</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>			<b>19,366</b>
(739)	Transfer from HRS			(894)
<b>10,585</b>	<b>Net Cost for HRA Services</b>			<b>18,472</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>			
766	Gain or (loss) on the sale of HRA assets			173
(2,424)	Interest payable and similar charges			(2,427)
77	Interest and investment income			23
(947)	Pensions interest income on plan assets and interest cost on defined benefit obligation	9		(726)
3,844	Capital grants and contributions receivable			453
<b>11,901</b>	<b>Surplus or (deficit) for the year on HRA services</b>			<b>15,968</b>

## MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

2019/20 £'000		2020/21 £'000
1,025	<b>Balance on the HRA at the end of the previous year</b>	996
11,901	Surplus or (deficit) for year on the HRA Income and Expenditure Statement	15,967
(12,294)	Adjustments between accounting basis and funding basis under statute	(14,555)
<b>(393)</b>	<b>Net increase or (decrease) before transfers to or from reserves</b>	<b>1,412</b>
364	Transfers (to) or from reserves	(1,334)
(29)	<b>Increase or (decrease) in year on the HRA</b>	79
<b>996</b>	<b>Balance on the HRA at the end of the current year</b>	<b>1,075</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### Note 1 – Assets

The number of dwellings in the Council's housing stock, as at 31 March 2021, totalled 7,768 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	885	562	538	2,028
2 Bed	5	119	80	102	306
3 Bed	0	0	12	1	13
<b>Sub-Total</b>	48	1,004	654	641	2,347
Medium Rise Flats (Blocks of 3 up to 5 Storeys)					
1 Bed	2	50	236	216	504
2 Bed	1	214	111	126	452
3 Bed	0	15	3	1	19
<b>Sub-Total</b>	3	279	350	343	975
High Rise Flats (Blocks of 6 Storeys or more)					
1 Bed	0	56	138	0	194
2 Bed	0	30	71	0	101
<b>Sub-Total</b>	0	85	209	0	295
Houses / Bungalows					
1 Bed	157	143	32	24	356
2 Bed	722	766	99	331	1,918
3 Bed	797	546	69	306	1,718
4 or more Beds	97	25	0	28	150
<b>Sub-Total</b>	1,773	1,480	200	689	4,142
<b>Total Dwellings 31 March 2021</b>	<b>1,824</b>	<b>2,849</b>	<b>1,413</b>	<b>1,673</b>	<b>7,768</b>

### 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:

	<b>£ 000</b>
Vacant possession value of council dwellings at 31 March 2021	651,988
Balance sheet valuation applying the Social Housing discount factor	273,835

The Balance Sheet value of HRA Assets is as follows:

2019/20 £'000		2020/21 £'000
256,990	Council Dwellings	273,835
6,152	Other Operational Assets	5,897
17,658	Non-Operational Assets	21,885
<b>280,800</b>	<b>Total at 31 March</b>	<b>301,617</b>

### Note 3 – Depreciation

The Depreciation of HRA Assets is as follows:

Depreciation: 2019/20 £'000	Operational Assets:	2020/21 £'000
6,337	Council Dwellings	6,348
308	Other Operational Assets	351
<b>6,645</b>	<b>Total at 31 March</b>	<b>6,698</b>

### 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.

2019/20 £'000		2020/21 £'000
<b>(5,675)</b>	<b>Balance on 1 April</b>	<b>(9,168)</b>
	Amount transferred from the HRA	
	- Depreciation	
(6,337)	Dwellings	(6,348)
(309)	Other Assets	(351)
-	- Other revenue contributions	(2,898)
<b>(19,048)</b>		<b>(18,764)</b>
3,153	- HRA Capital Expenditure	4,624
<b>(9,168)</b>		<b>(14,139)</b>

## 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.

2019/20 £'000		2020/21 £'000
<b>(579)</b>	Balance on 1 April	<b>(595)</b>
	<b>Expenditure in year</b>	
3,274	Tenant Notified Repairs	2,221
1,539	Void Repairs	1,899
1,688	Servicing Contracts	1,710
561	Painting Programme	(8)
63	Asbestos Removal/Surveys	60
415	Aids & adaptations	363
0	Aids & adaptations (Non HRS)	13
0	Cleansing	84
0	Minor Works	81
55	Decoration Grants	47
0	Tenants Compensation	1
0	COVID Charges	990
0	Skip Recharges	92
0	Control Centre Recharge	27
0	Estate Shops	8
1,075	Other Expenditure	(13)
<b>8,670</b>		<b>7,575</b>
	<b>Income in year</b>	
(8,671)	Contribution from HRA	(7,575)
	Contribution to HRA	(750)
0	Reduction in Repairs Reserve	0
(1)	Contribution from Leaseholders	0
(16)	Interest Received in year	(5)
<b>(8,688)</b>		<b>(8,330)</b>
<b>(595)</b>	<b>Surplus Balance on 31 March</b>	<b>(1,351)</b>

## 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:

2019/20 £'000		2020/21 £'000
	<b>Capital investment</b>	
11,969	Property, Plant and Equipment – HRA	16,377
0	Property, Plant and equipment – GF used as council housing	0
0	Non-Current Assets held for sale	0
8	Intangible Assets	0
0	Revenue Expenditure funded from Capital under Statute	0
<b>11,977</b>		<b>16,377</b>
	<b>Sources of funding</b>	
(1,321)	Capital Receipts	(1,504)
0	Revenue Contributions	(48)
(6,790)	Major Repairs Reserve	(4,625)
(3,866)	Prudential Borrowing	(8,099)
(0)	Government grants and other contributions	(2,101)
<b>(11,977)</b>		<b>(16,377)</b>
<b>0</b>	<b>Balance unfunded at 31 March</b>	<b>0</b>

\* 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 2020/21 (£0.000m in 2019/20).

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 2020/21, there was £8.099m of 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:

2019/20 £'000		2020/21 £'000
(2,946)	Council dwellings	(1,559)
0	- Right to Buy	(60)
	- Discounts repaid	
	Other Receipts	
	- Land Sales reimbursements	
(62)	- Reimbursement of expenditure on	
	General Fund property on sale	0
	Land receipts	
(3,008)		(1,620)
729	Less Pooled (Paid to Central Government)	529
<b>(2,279)</b>	<b>Total</b>	<b>(1,091)</b>

## Note 8 - Rent Arrears

During the year 2020/21 total rent arrears increased by £0.229m or 11.9%, to £2.154m. A summary of rent arrears and prepayments is shown in the following table:

2019/20 £'000		2020/21 £'000
956	Current Tenant Arrears @ 31 March	1,218
969	Former Tenant Arrears @ 31 March	936
1,925	<b>Total Rent Arrears</b>	2,154
(430)	Prepayments @ 31 March	(191)
<b>1,495</b>	<b>Net Rent Arrears</b>	<b>1,963</b>

A bad debt provision of £279,056 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 2021 is £1.907m (£1.778m at 31 March 2020).

## 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:

2019/20		2020/21
£'000		£'000
	<b>HRA Income &amp; Expenditure Statement</b>	
2,519	Current Service Cost	2,365
0	Past Service Costs	0
947	Net interest expense	726
<b>3,467</b>	<b>Total</b>	<b>3,091</b>
(1,671)	Amount to be met from HRA	(1,793)
<b>1,796</b>	<b>Movement on Pension Reserve</b>	<b>1,298</b>



# THE COLLECTION FUND STATEMENT FOR THE YEAR ENDED 31 MARCH 2021

2019/20 £'000 Total		2020/21 £'000 Council Tax	2020/21 £'000 NNDR	2020/21 £'000 Total	Note
<b>INCOME</b>					
(44,185)	Council Tax Payers	(45,458)	0	(45,458)	2
(112)	Income from Ministry of Defence	(108)	0	(108)	
(44,375)	Income from Business Ratepayers	0	(16,681)	(16,681)	3
<b>(88,672)</b>		<b>(45,566)</b>	<b>(16,681)</b>	<b>(62,247)</b>	
<b>EXPENDITURE</b>					
Precepts:					
6,679	- City of Lincoln Council	6,915	0	6,915	
31,405	- Lincolnshire County Council	33,024	0	33,024	
5,865	- Police & Crime Comm. Lincolnshire	6,206	0	6,206	
Business Rates:					
21,028	- Payments to Government	0	22,372	22,372	3
16,791	- Payments to City of Lincoln Council	0	17,707	17,707	3
4,198	- Payments to Lincs County Council	0	4,426	4,426	3
145	- Cost of Collection	0	143	143	
Bad and Doubtful Debts					
7	- Provisions	338	(5)	333	
756	- Write Offs	181	118	299	
210	- Provision for appeals	0	432	432	
2,732	Transfer of Collection Fund Surplus	383	802	1,185	4
<b>89,816</b>		<b>47,047</b>	<b>45,995</b>	<b>93,042</b>	
<b>1,144</b>	<b>Deficit / (Surplus) for the year</b>	<b>1,481</b>	<b>29,314</b>	<b>30,795</b>	
<b>COLLECTION FUND BALANCE</b>					
(2,051)	Balance brought forward at 1 <sup>st</sup> April	(170)	(737)	(907)	
1,144	Deficit/(Surplus) for the year (as above)	1,481	29,313	30,794	
<b>(907)</b>	<b>Balance carried forward at 31<sup>st</sup> March</b>	<b>1,311</b>	<b>28,576</b>	<b>29,887</b>	
<b>Allocated to:</b>					
(145)	- City of Lincoln Council	196	11,430	11,626	
70	- Lincolnshire County Council	938	2,858	3,796	
(22)	- Police & Crime Comm. Lincolnshire	177	0	177	
(810)	- Government	0	14,288	14,288	
<b>(907)</b>		<b>1,311</b>	<b>28,576</b>	<b>29,887</b>	

## 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 2020/21, the City of Lincoln's proportionate share remained consistent with that of 2019/20, as follows:

	<b>2020/21 'Pool'</b>
City of Lincoln	40%
Lincolnshire County Council	10%
Central Government	50%

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 2020/21 was 24,689.50 (24,300 in 2019/20). 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 2020/21 was approved at the Executive on 6<sup>th</sup> January 2020 and was calculated as follows:

Band	Ratio	Dwellings	Equivalent Dwellings after discounts, exemptions and reliefs	Equivalent Band D Dwellings
A Reduced	5/9	0	56	31
A	6/9	27,791	22,797	15,198
B	7/9	8,982	7,717	6,002
C	8/9	4,903	4,350	3,867
D	9/9	2,542	2,296	2,296
E	11/9	1,315	960	1,173
F	13/9	412	357	516
G	15/9	131	129	215
H	18/9	47	10	19
<b>Total</b>		<b>46,123</b>	<b>38,672</b>	<b>29,318</b>
Deduction for Non-Collection				(366)
Crown Properties Adjustment				62
<b>Adjusted to Band D Equivalent</b>				<b>29,014</b>
Council Tax Relief Scheme				(4,324)
<b>Tax Base for the Calculation of Council Tax</b>				<b>24,690</b>

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 Taxpayers in 2020/21 was £45.458m (£44.185m in 2019/20).

## 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 2020/21, the City of Lincoln's retained share remained consistent with that of the previous year as follows:

	2019/20 'Pool'	2020/21 'Pool'
City of Lincoln	40%	40%
Lincolnshire County Council	10%	10%
Central Government	50%	50%

The business rates shares payable for 2020/21 were estimated before the start of the financial year as **£22,130m** (£20.989m in 2019/20) to Central Government, **£4,426m** (£4.198m in 2019/20) to LCC and **£17,704m** (£16.791m in 2019/20) to the City of Lincoln Council. These sums have been paid in 2020/21 and charged to the Collection Fund in year.

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. In 2020/21 the City of Lincoln made a tariff payment from the General Fund to the County Council to the value of **£13.094m** (£12.884m in 2019/20).

The total income from business rate payers collected in 2020/21 was **£16.681m** (£44.375m in 2019/20).

In addition to the top up/tariff, a 'safety net' figure is calculated at 92.5% of baseline amount which ensures that authorities are protected to this level of Business Rates income (either through support from Central Government if they are not in a NNDR Pool/Pilot or as first call on gains from pooling/pilot if authorities are members of an NNDR Pool/Pilot). For the City of Lincoln the value of the safety net figure (net of tariff) is **£3.528m** (£3.472m in 2019/20). 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 2020/21.

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 31<sup>st</sup> March 2021. 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 withdrawn from the collection fund for 2020/21 has been calculated at £0.432m (£0.210m was added in 2019/20).**

For 2020/21, the total non-domestic rateable value at the year-end is **£112.4m** (£112.7m in 2019/20). The national multipliers for 2020/21 were **49.9p** for qualifying Small Businesses, and the standard multiplier being **51.2p** for all other businesses (49.1p and 50.4p respectively in 2019/20).

#### 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 2020 it was estimated that the Collection Fund would have a Council Tax surplus of **£0.383m** (£0.268m in January 2019) and a Business Rates surplus of **£0.802m** (£2.464m surplus in January 2019), a combined Collection Fund surplus of **£1.185m** (£2,732m surplus in January 2019) and so the following amounts were due to or from the preceptors in 2020/21:

2019/20 £'000		2020/21 £'000
(1,588)	City of Lincoln Council	(202)
(1,279)	Lincolnshire County Council	(88)
(34)	Police & Crime Comm. Lincolnshire	(52)
169	Central Government	(843)
<b><u>(2,732)</u></b>	<b>Total</b>	<b><u>(1,185)</u></b>

INDEPENDENT AUDITORS' REPORT TO MEMBERS OF CITY OF LINCOLN  
COUNCIL

## 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) and based on the principles of the "Delivering Good Governance in Local Government Framework 2016"

How we are meeting these defined responsibilities is detailed in the City of Lincoln's Code of Corporate Governance, which is found on our website under your council/information policies & publications/corporate publications. [www.lincoln.gov.uk](http://www.lincoln.gov.uk)

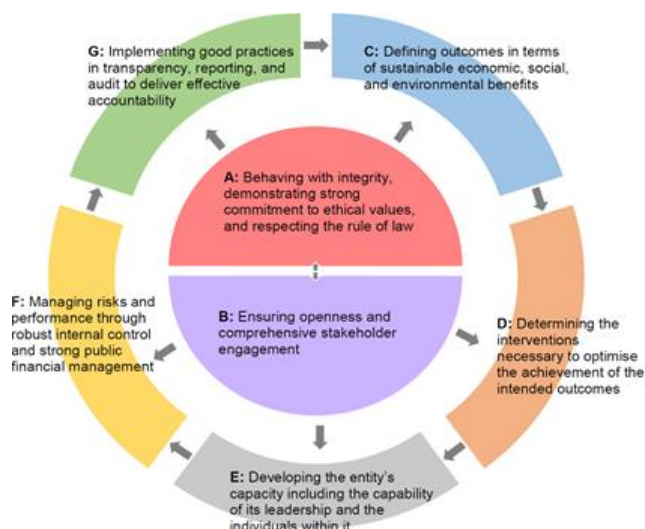
The council's Code of Corporate Governance, comprehensively reviewed in 2017, is updated annually. A further comprehensive review was completed in April 2021, considering the impact of COVID-19.

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. It also includes a new section on the impact on the council, and actions taken as a result, of the COVID-19 pandemic.

### For a glossary of terms used – see Appendix B

### 1.2 The 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:

<b>KEY ELEMENTS OF COUNCIL'S GOVERNANCE FRAMEWORK</b> Key elements of the governance framework at City of Lincoln Council are summarised below:		
<b>Council, Executive, Leader</b> <ul style="list-style-type: none"> <li>❖ Provide leadership; set, develop and implement policy</li> <li>❖ Ensure the Vision 2025 strategies are taken forward</li> <li>❖ Develop, adopt and implement the budget framework</li> <li>❖ Support the city's diverse communities and neighbourhoods to thrive</li> </ul>	<b>Leadership and decision making</b> <ul style="list-style-type: none"> <li>❖ All decision meetings held in public (except those identified as 'part B')</li> <li>❖ Decisions recorded on the council's public website</li> <li>❖ Resources directed according to priorities as set out in Vision 2025</li> </ul>	<b>Risk management</b> <ul style="list-style-type: none"> <li>❖ Risk registers identify both operational and strategic risks</li> <li>❖ Strategic risks are considered by CMT and Executive every quarter</li> <li>❖ Internal audit provides independent objective assurance</li> <li>❖ Council's arrangements comply with the requirements of the CIPFA Statement on the Role of the Head of Internal Audit</li> </ul>
<b>Scrutiny and review</b> <ul style="list-style-type: none"> <li>❖ Scrutiny committees review council policy and can challenge decisions to hold Executive to account</li> <li>❖ Audit and Performance committees review governance, costs vs budget, risk, internal control and delivery of agreed plans</li> <li>❖ Ethics and Engagement Committee and/or Monitoring Officer deals with complaints about, or suspected breaches of member conduct</li> <li>❖ Any two members can hold the Executive to account outside of scrutiny and review by requesting Call-In and reconsideration of an Executive decision</li> </ul>	<b>Corporate Management Team (CMT)</b> <ul style="list-style-type: none"> <li>❖ The CX is the Head of Paid Service and is responsible for all council staff and for leading an effective Corporate Management Team (CMT)</li> <li>❖ CMT ensures there is clear accountability for the use of resources in achieving desired outcomes for service users and the community</li> <li>❖ 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</li> <li>❖ The City Solicitor is the council's Monitoring Officer and is responsible for ensuring legality, good governance and promoting high standards of conduct</li> </ul>	



**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. The first of these sections covers how the council has maintained good governance during the COVID-19 pandemic – some of the activities mentioned are also mentioned under the core principles.

**1.5 Impact of COVID-19 and maintaining good governance**

As with all councils the COVID-19 pandemic caused major disruption to the day to day work of the council, including cancellation of some committee meetings, and changing priorities to protect our most vulnerable residents and local businesses. This meant there was a need to initiate business continuity procedures as well as introducing new or varied governance arrangement in some areas.

**Actions taken to address the impact of the COVID-19 pandemic in 2020/21:**

- Co-ordinated response to the pandemic working with Lincolnshire Local Resilience Forum
- Review of governance arrangements following introduction of the Coronavirus Act 2020, including introduction of virtual council and other key meetings
- Prioritisation of resources to ensure ongoing provision of key services
- Development of a Befriending and Community Helpline service to support the most vulnerable, including council tax support discounts.
- Reallocation of teams to support COVID-19 response, e.g. Civic, Audit and Policy Teams
- Support for local businesses in applying for business rate-payers discounts and business grants payments
- Initial response to the pandemic in terms of delivery of critical services, protection of staff, support for community and vulnerable persons, impact on the local economy and financial impacts on the council
- Some key meeting such as DMTs were temporarily suspended, until it was practical to restart them
- Several HR interim procedures and checklists for managers were introduced to support employees working from home and support their health and wellbeing
- Development of activities to support the city and high street, including leading on multi-agency partnership to support high street recovery.
- One Council – under the Organisational Development pillar we are putting processes in place and revising policies as required in response to COVID-19, particularly around work styles and support for staff and members to ensure we have the governance in place to make sure these new ways of working and new activities are fit for purpose
- Implementation of ongoing support for the community and vulnerable persons through working with partner organisations
- Re-establishment of committee meetings via electronic means to ensure democratic responsibility
- Development of policies and procedures to enable delivery of services, including critical services, whilst ensuring protection of staff and customers.
- Transfer of Befriending service to voluntary sector organisations for those requiring it
- Ensure processes in place to enable businesses in the city to access support, e.g. Environmental Health Officer utilising legal powers to manage re-opening of businesses under COVID-19
- Management of the financial impacts of COVID-19, including an MTFS review
- Performance reporting adapted to identify the impact of the pandemic across all council services and show how individual service areas have responded to changes in demand.
- Q4 19/20 Performance report was a review of 19/20 including initial COVID-19 response

- A combined Q1 and Q2 2020/21 Performance report to help assess impact of COVID-19
- A Q3 2020/21 review of service responses to the ongoing pandemic and recovery plans
- Q4 2020-21 returned to performance measure format
- Reprofile of Vision 2025 Delivery Action Plan to reprioritise projects
- Progressing of access to various central funding pots to support High Street recovery

**Proposed activity for the coming year:**

- Evidenced review of the longer-term effects of Covid on the city (especially health) and any changes in priorities that may be required
- Confirmation of reprofiled Vision 2025 and final Year 2 Delivery Action Plan
- Review of actions taken, and lessons learned from response to the COVID-19 pandemic
- Review of Business Continuity plans in the light of lessons learned
- Many of these actions are covered under the key principles below and further activities will be identified once the council emerges from the current recovery stage
- Protecting Vulnerable People Group will include the impact from Covid on PVP/ safeguarding into an internal audit we have scheduled for 2021

## 1.6 **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 2020/21:**

- Modern Slavery Charter and Statement reviewed
- Communications plan in place for Protecting Vulnerable People (PVP) (social media)
- PVP – children's safeguarding internal audit completed – response July 2021
- A full review of the Code of Corporate Governance was conducted
- Regular portfolio holder meetings re-established following COVID-19 effects
- Revised audit plan developed due to COVID-19. Taken to the Audit Committee in Sept 20
- Regular attendance at both CLT and Service Managers meeting by the Data Protection Officer who provides clear information on any changes of regulations, risks or procedures

**Proposed activity for the coming year:**

- Annual update Code of Corporate Governance
- Update member code of conduct in accordance with government guidelines
- Internal audit on protecting vulnerable people – safeguarding audit
- Review of needs to meet the proposed Subsidy Control Bill
- Review of needs to meet the Electoral Integrity Bill
- Follow up on the feedback from the Children's safeguarding audit

- Adults safeguarding Audit – 2021
- Review proposals for a peer review on Children’s safeguarding in 2022
- Review Domestic Abuse bill – the Victims Bill - summer 2021
- Review proposals in the new Planning Bill
- An External Quality Assessment of Internal Audit is scheduled for 2021/22

## 1.7 CORE PRINCIPLE B: Ensuring openness and comprehensive stakeholder engagement

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

### Activity within Principle B in 2020/21:

- Daily staff briefings during initial COVID-19 emergency, weekly on resumption of services
- Consultation with Befriending Service users prior to transfer to alternative providers
- Consultation with service users ahead of changes to service delivery (e.g. public toilets, Central Market, Town Deal)
- Consultation with partner organisations ahead of changes to funding arrangements (Drill Hall, Dial a ride and Citizens Advice)
- Review of Consultation and Engagement Strategy commenced with member workshop

### Proposed activity for the coming year:

- Complete the review of the Consultation and Engagement Strategy
- Citizen Panel consultation regarding High Street recovery to inform action plan
- Consultation with service users relating to Climate Change
- Undertake consultation in respect of repurposing of Vision 2025

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

Vision 2025 is the council’s vision for the five years to 2025 and forms the second phase of our Vision from 2017 to 2030. As with previous strategic plans, Vision 2025 was developed using a robust evidence base including information gained through consultation with local residents and businesses, and evidence from the Lincoln City Profile. The priorities in Vision 2025 remain broadly similar, but with the addition of a priority to address the challenges of climate change:

- Let’s drive inclusive economic growth
- Let’s deliver quality housing
- Let’s address the challenge of climate change
- Let’s reduce all kinds of inequality
- Let’s enhance our remarkable place

Although the plan was adopted in February 2020, little progress was made during 2020/21 due to the pandemic, although a number of key large projects did continue as soon as restrictions allowed. (e.g. Boultham Park restoration; De Wint Court build). Those projects that continued were monitored through their respective MEGA Boards. Progress towards achieving projects has been included in Quarterly performance reports alongside recovery information.

In the latter part of the year the plan was reprofiled to take account of changing priorities brought about by Covid-19 and associated budget pressures. In addition every directorate identified any key priorities necessary to bring services back to the new normal.

**Activity within Principle C in 2020/21:**

- Approval of the MTFS which is a financial representation of the council's Vision 2025
- Ongoing development for embedding sustainability over the next 3 to 5 years
- Repurpose Vision 2025 to support the recovery of the city and council economically and ensure community support
- Plans agreed to improve Lincoln Crematorium facilities and sustainability
- One Council programme development in the IT areas, accelerated as a result of Covid-19
- Participant in Business and Economy recovery cell for Greater Lincolnshire and Rutland with six-month economic recovery plan developed.
- Review the delivery plan for Vision 2025 to take account of the health impact on the council and residents of COVID-19.
- Worked closely with Lincolnshire Resilience Forum partners to support recovery
- Lead on implementation of Business and Economy Recovery Cell short term forward plan for construction sector and place marketing.
- Key partner in Infrastructure Recovery Cell covering Lincolnshire, which includes housing, to ensure infrastructure is in place enabling growth plans to be implemented
- Signed up to civic university agreement with BGU and Lincoln University

**Proposed activity for the coming year:**

- Re-energised implementation on the place strategy for Park Ward/Sincil Bank, highlighted as an area for regeneration following delay as a result of Covid-19.
- Develop 5-year recovery plan linked to Town Investment Plan for the City.
- Further evidence-based review of the Vision 2025 following new data release
- Review of whether the health of our residents is actively considered at an appropriate level throughout the vision
- Public communication of the year 2 Vision 2025 Delivery Plan

## 1.9 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. Whilst service plans for 2020/21 were not completed work is ongoing to ensure robust service management during the recovery stage. 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 2020/21:**

- The TFS programme Team has worked on the phase 7 programme to meet the increased MTFS savings target
- Development of One Council through the four pillars – Organisational Development, Value Processes, Use of Assets and Technology
- Pilot of Office 365 has been extended

- Pilot of desktop refresh
- Technology introduced to adapt to COVID-19
- Review of workstyles to understand technology required
- Refreshed infrastructure platform
- Conducted a PIR on implementation of the revised Lincoln Project Management Model
- Housing repairs online pilot commenced – to enable booking of repairs online.

**Proposed activity for the coming year:**

- Reprofiled Vision 2025 with Year 2 delivery plan
- Complete roll out of Office 365 by September 2021
- Complete desktop refresh
- Look at investment in IT required to support new ways of working
- Establish micro-sites for key services, e.g. Christmas Market, Building Control, Visitor services.
- Identify top 10 interactions with customers and move to online forms where possible to take pressure off contact centre.
- Review of my-info.

## **1.10 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. We have a programme in place under the organisational development pillar of our One Council approach which 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 2025 objectives.

**Activity within Principle E in 2020/21:**

- HR policies relating to home working have been reviewed with training delivered to managers and team leaders
- Continued regular HR line management briefings
- Daily briefings from Chief Executive during COVID-19 emergency, reducing to weekly by the end of 2020/21
- Ongoing implementation of the People Strategy
- Development of One Council pillars – Organisational Development and Create Value Processes, including piloting Office 365 and remote working and introduction of Microsoft Teams for all staff on a planned roll out basis
- Review of space at City hall and Hamilton House to support new ways of working
- Visitor information centre successfully brought back in house

**Proposed activity for the coming year:**

- Needs analysis to be completed on Leadership Development
- Ongoing weekly briefings by Chief Executive
- Ongoing review of space at City Hall and Hamilton House following COVID-19. This will also include community centres and other buildings
- Look at ways to increase and strengthen City hall as a public sector hub
- One Council organisational Pillar to review whether any new issues arise from Covid-19 that need to be addressed either temporarily or more permanently



## **1.11 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.

### **Activity within Principle F in 2020/21:**

- A successful two-phase savings and income generation programme was developed and the first phase (TFS 7a) implemented to address reductions in central government funding.
- Development of One Council activities – the Creating Value Processes programme
- The External auditor issued an unqualified opinion on the authority's final statement of accounts and Value for Money conclusion
- Developed the council's response to the financial situation caused by covid-19 including, ensuring strong financial management to make sure that we manage public funds correctly, e.g. revised budget estimates, enhanced TFS programme, open MARS offer to staff, expenditure control budget review process.
- Review of the Value for Money Statement
- Introduction of the new CIPFA Financial Management Code

### **Proposed activity for the coming year:**

- A key piece of work will be to review control systems to ensure they continue to be fit for purpose with the new ways of working
- Development of measures by Priority Theme Groups to report progress on Vision 2025
- Reinstatement of monthly Vision Priority meetings
- A review of the Corporate Procurement Bill to accommodate the new procurement green paper, which is going through the legal/parliamentary process
- Implementation of agreed action plan to ensure compliance with the CIPFA Financial Management Code
- Review of value for money arrangements to ensure requirements of the new external audit VFM assessment are met

## **1.12 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 2020/21:**

- Due to COVID-19 a revised audit plan was developed and presented to the Audit Committee in September 2020
- A review of the Code of Corporate Governance has been conducted in March 2021
- For those periods in 2020/21 when performance data could not be collected due to covid-19, an alternative report was produced giving members full updates on which services were active, at what level and including additional specific short-term activities
- Despite effects of covid-19, data transparency requirements were met for the year

- A review of the Data transparency website page was conducted to improve visibility

**Proposed activity for the coming year:**

- Further development of the performance management system
- Review of Lincoln Performance Management Framework
- Reinstatement of monthly Vision Priority meetings and thus the annual reports to committee
- CMT to consider the option for a follow up Peer Review
- Completion of the updated partnerships register, identifying the key partnerships for the council

## 2 **Review of effectiveness of the governance framework**

We undertook an assessment of the council's governance framework during 2020/21 through a review of the Council's Code of Corporate Governance (policies and processes) and the review process to develop the AGS and identify any significant issues, or other areas that may require monitoring. We took account of relevant governance audits, third party assurances, combined assurance work, committee reports, risk management, performance management, projects and partnership governance, Vision 2025/One Council, financial management, interviews with senior management and statutory officers.

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 2020/21 the Council was performing adequately across all areas. The audit plan was reduced in 2020/21 due to Covid, however audits completed included governance, risk, financial control, ICT, Covid 19 risks, Projects as well as Combined Assurance. Internal audit was involved in supporting Covid grants during 2020/21 and to help mitigate this there are external assurances in this area through central government, NFI data matching and external audit.

Supporting this assessment is the detailed work undertaken by Internal Audit during the course of the year as part of the Internal Audit plan and Combined Assurance work.

Whilst this identified some agreed actions none were considered significant enough to highlight as potential AGS significant governance issues.

There were two areas of combined assurance assessed as red; however, these risks are being managed – these were not considered significant governance issues. There were several Amber areas; one of these areas - IT DR was a 19/20 significant issue.

As at March 2021 there were a number of high priority audit recommendations both made and outstanding. Outstanding agreed actions were in respect IT security, risk management, information governance, service-related actions. Progress towards addressing these recommendations will be monitored through existing monitoring arrangements and as part of the review of the AGS none were considered significant governance issues.

**The introduction of the CIPFA Financial Management Code 2019 (FM Code)**

The CIPFA FM Code is applicable in shadow form during 20/21 with compliance expected from 21/22.

An assessment against the FM Code has been completed and the CFO reported the findings to Executive 17 March 2021 and Audit committee 23 March 2021. Some actions have been identified, most of which were already planned in for action during 2020/21:

- Continue to support professional development
- Review FPR
- Review CPR
- Review the Code of Corporate Governance
- External quality assessment of IA
- Implement Finance Business Partnership approach
- MTFS to include reference to scenario testing
- Assess implications of changes to the Prudential Code
- Consider use of Citizens Panel for budget consultation
- Annual reporting of key partnerships to Audit committee
- Consider if other major balance sheet items can be made more visible in quarterly reporting

Progress will be monitored through the 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 2019/20

The council has regularly monitored its 2019/20 significant governance issues through senior management and the Audit Committee during 2020/21. Three issues were identified for monitoring:

- **The Disaster Recovery plan in place for IT arrangements:** during 2019/20 significant progress was made towards alignment with the Business Continuity plans that are in place for restoring key services in terms of IT needs. Overall, all but one action had been completed. Also the introduction of an alternative site at Hamilton House for data security has been implemented. However, COVID-19 has made such an impact to both the short and possibly long term working arrangements of the council, that it is felt that this issue should not be removed from the list of significant issues – but instead should remain with a revised focus on what the required outcome needs to be, including a review of the expectations of our IT recovery and resource needs to meet the agreed BC plan needs

#### **THIS ISSUE WILL REMAIN – but with a revised aim and action plan**

- **Review of impact of Coronavirus on the council's service delivery and embedding new ways of working for staff.** COVID-19 has had a significant impact on the council's budget resulting in the need to undertake a comprehensive review of how and what services are delivered ensuring our statutory requirements are met. The council was already undertaking a pilot to enable more agile working, and with the lockdown intervention the council fast tracked this approach and as a part of this specifically reviewed the effectiveness of working conditions for staff and members, now and in the future. Steps have been taken throughout the latter part of 2020/21 to ensure that as the council develops its different approaches to service delivery and new ways of working, that governance is at its heart, recognising that governance arrangements may still need to adapt and change in order that they remain fit for purpose in the future.

#### **THIS ISSUE TO BE REMOVED – initial steps have been taken and it is now part of business as usual activity**



- **Vision 2025 needs to be re-profiled and communicated to a wider audience in the light of COVID-19.** The strategy was adopted but there was no formal public launch was held due to COVID-19 impact. The council's response to the pandemic was to proactively divert resources to tackle the emergency, and all projects and programmes that could be paused/had not already commenced were stopped in a planned way. Tackling the emergency situation and resulting recovery phase has been a long process due to the prevalence of COVID-19 nationally and there is now a need to reflect on how Vision 2025 supports the health of the people of Lincoln and also the health of the city. This may lead to some changes which will be decided before wider communication commences

## **THIS ISSUE WILL REMAIN – but with a revised aim and action plan**

### **5 Significant governance issues identified from 2020/21**

#### **New significant issues identified from 2020/21**

There were no NEW significant issues identified, but as noted above, there will be a revised focus on two of the previous year's issues. A new action/monitoring plan will be drawn up for monitoring purposes.

### **7 Conclusion**

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

#### **Signed**



Leader:

**Date: 8 June 2021**



Chief Executive:

**Date: 6 June 2021**

## GLOSSARY OF TERMS USED IN THE GOVERNANCE STATEMENT

AGS	Annual Governance Statement
CFO	Chief Finance Officer
CMT	Corporate Management Team
CX	Chief Executive
HMO	Houses in Multiple Occupation
HR	Human Resources
ICT	Information and Communications Technology
LPMM	Lincoln Project Management Model
MTFS	Medium Term Financial Strategy
PIMS	Performance Information Management System
PIR	Post Implementation Review
TFS	Towards Financial Sustainability
Vision 2020	The council's strategic plan 2017-20
Vision 2025	The council's strategic plan 2020-25

### **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.

## **CIPFA**

The Chartered Institute of Public Finance and Accountancy.

## **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.

## **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.

**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.

## **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.

## **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

## **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.

**SUBJECT: INTERNAL AUDIT PROGRESS REPORT**

**REPORT BY: CHIEF EXECUTIVE AND TOWN CLERK**

**LEAD OFFICER: PAUL BERRY, PRINCIPAL AUDITOR**

## **1. Purpose of Report**

- 1.1 To present the Internal Audit Progress Report to the Audit Committee, incorporating the overall position reached so far, and summaries of the outcomes of audits completed during the period.

## **2. Executive Summary**

- 2.1 The report highlights progress against the audit plan.

## **3. Background**

- 3.1 A key requirement of public sector internal audit standards is that Internal Audit should report progress periodically to those charged with governance. The Audit Committee has within its terms of reference the responsibility for receiving a regular progress report from Internal Audit on the delivery of the Internal Audit Plan. The latest progress report for 2021-22 is attached as the appendix to this report.

### **3.2 Internal Audit Progress Report**

- 3.3 The Internal Audit progress report attached (Appendix A) covers the following areas :-
- Progress against the plan
  - Summary of Audit work
  - Current areas of interest relevant to the Audit Committee

## **4. Organisational Impacts**

- 4.1 Finance (including whole life costs where applicable)

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

- 4.2 Legal Implications including Procurement Rules

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

- 4.3 Equality, Diversity & Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering

services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

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

## **5. Recommendation**

- 5.1 The Audit Committee is asked to review and comment on the content of the latest Internal Audit Progress Report for 2021-22.

<b>Key Decision</b>	No
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<b>Do the Exempt Information Categories Apply?</b>	No
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<b>Call in and Urgency:</b> Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
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<b>How many appendices does the report contain?</b>	One
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<b>List of Background Papers:</b>	None
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<b>Lead Officer:</b>	Paul Berry, Principal Auditor Telephone 873836
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# Internal Audit Progress Report



**City of Lincoln Council  
December 2021**

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Work in Progress

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Key Performance Indicators

## Other Matters of Interest Page 12

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1 Limited / Low Assurance Reports (None)  
2 Assurance Definitions  
3 Audit Recommendations  
4 2021/22 Audit Plan

**Jaclyn Gibson** – Chief Finance Officer (Head of Internal Audit)  
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This report has been prepared solely for the use of Members and Management of Boston Borough Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not brought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

# Introduction

The purpose of this report is to:

- Provide details of audit work during the period September – November 2021
- Advise on progress with the 2021/22 Plan
- Raise any other matters that may be relevant to the Audit Committee role

## Key Messages

The 2021/22 Plan is progressing and at the end of October 43% has been completed against the target of 54%.

Due to a temporary reduction in resources the Plan is being amended (see separate report) and as a consequence progress has slipped but this should be recovered in quarter 4. Plan details can be found in Appendix 4.

The report summary for the Western Growth review will be presented to a future meeting once the planning application has been determined.

## Assurances

No assurance reviews have been completed in this period.

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

0

HIGH  
ASSURANCE

0

SUBSTANTIAL  
ASSURANCE

0

LIMITED  
ASSURANCE

0

LOW  
ASSURANCE

0

CONSULTANCY

## Other work

### Audits in Progress

- Visitor Information Centre – report being agreed
- Safeguarding – report being agreed
- Income – fieldwork in progress

### Other Audit work

- Election Claims – Three elections were held in May and the expenses claims are being reviewed as they are completed. When they are all done an Advice Note will be issued
- Counter Fraud
  - National Fraud initiative – work is ongoing on matches received and new data required
  - Fraud policies – fraud strategy (completed)
  - Anti-bribery policy update (December 21 - see separate report)
  - Whistleblowing policy update (March 2021)
  - Money Laundering risk assessment – in progress
  - Scam awareness – linking into national schemes
  - Annual fraud report - completed
  - Lincolnshire Counter Fraud Partnership liaison – ongoing
- Business Grants
  - Assistance is given as required

### Audit Plan changes

A separate report is being presented to the December 2021 meeting.



## Benchmarking



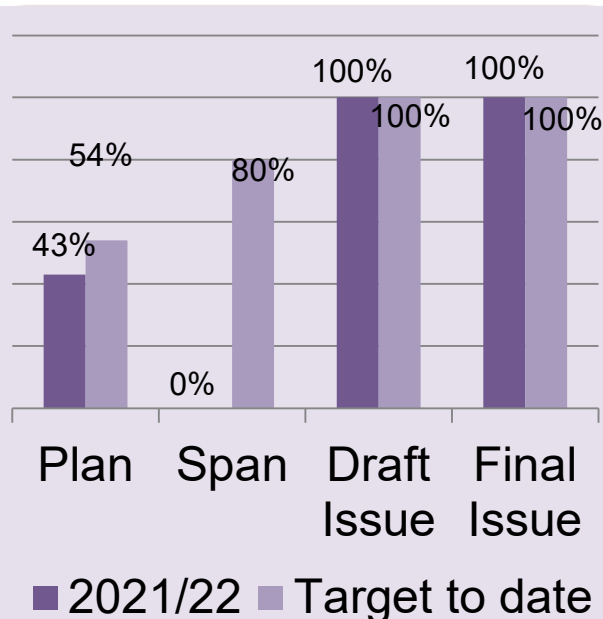
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

## Performance on Key Indicators

**Rated our  
service Good  
to Excellent**

**43% Plan  
Completed**

**Achievement  
of Audit KPI's  
to date**



## Other matters of interest

A summary of matters that will be of particular interest to Audit Committee Members.



### National Audit Office

#### **NAO Cyber and information security: Good practice guide Oct 2021**

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

Audit committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation's data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports audit committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.

The full document can be provided on request.

## Other matters of interest

A summary of matters that will be of particular interest to Audit Committee Members.



**Please find below some of the key extracts from the CIPFA Audit Committee Update Issue 35:**

### **Supporting improvements to risk management arrangements**

The Better Governance Forum held two discussion groups with members in April 2021 to discuss the experience of the pandemic and what it meant for risk management. The groups discussed how their arrangements had fared in supporting the organisation's management through the pandemic. The key areas for improvement identified by the groups were as follows:

- better integration with plans and management processes
- consistency across the organisation, and
- a focus on action.

When asked how improvements to risk management arrangements could be achieved both groups were consistent in their choice of the best action to take – investment in staff training and awareness of risk management.

### **Audit Committee Guidance**

In July the Ministry of Housing Communities and Local Government (MHCLG) issued a further update on progress against the Redmond Review recommendations. One of the areas reviewed as part of the consultation was guidance for Audit Committees which the MHCLG has recommended to be strengthened and updated to support effective audit committee arrangements. The consultation asks for comments on this proposal and whether it is agreed.

The updated guidance is likely to include the following:

- structure
- role of independent members
- how the committee interacts with full council
- reporting to those charged with governance
- core functions
- knowledge, expertise and training of audit committee members
- facility to meet privately with auditors.

Continues on next page.

## Other matters of interest

A summary of matters that will be of particular interest to Audit Committee Members.

### **Key extracts from the CIPFA Audit Committee Update Issue 35 (cont'd)**

#### **Reporting to full council / those charged with governance**

MHCLG is proposing to amend the Accounts and Audit Regulations so that the full council should receive the auditor's annual report from the local auditor. The purpose of this is to improve transparency to the public and ensure all members are aware of issues raised by the auditor and recommendations. It is also proposed that it is accompanied by a report from the audit committee containing its responses to the auditor's annual report.

The full CIPFA Audit Committee Update Issue 35 (July 2021) can be provided on request.

#### **Treasury Management**

CIPFA has announced that it is revising the Prudential and Treasury Management Codes, primarily to address concerns about property investments. A soft implementation is planned for 2022-23 with full implementation expected for 2023-24.

An update will be provided to members as part of part of annual Treasury Management training in February 2022.

There are none.

**High**

Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.

The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.

**Substantial**

Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.

**Limited**

Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.

The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

**Low**

Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.

There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

A recommendation update is presented as a separate report.

## Appendix 4

## 2021/22 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Annual IA Report	Audit opinion & coverage for 2020/21	Q1	May	June	Completed
Partnership Governance	Consultancy to assist in providing assurance for management & Audit cttee	Q1-2			Removed - no IA input required.
Housing Benefit Subsidy	Detailed testing on behalf of External Audit	Q1-2	May 21	Sept 21	High assurance
Housing Benefit & CTS	Assurance that HB, CTS, DHP & CTS Hardship Fund are administered correctly	Q1	May 21	Sept 21	High assurance
Leisure Centres	Assurance that appropriate contingency planning is being undertaken	Q4			Rescheduled
Planned Maintenance	Assurance on the closedown of the Kier contract and the establishment of new arrangements	Q3-4			Rescheduled (was Q2)
Elections / Electoral Registration	Review of the 2021 expenses claim & maintenance of the electoral register	Q2	May 21		2 claims completed & 1 still to do.
Safeguarding	Review of Protecting Vulnerable People processes during Covid	Q2	Sept		Report being agreed
Visitor Information Centre	Assurance on the operation of the service	Q2-3	Aug 21		Report being agreed
Western Growth Corridor	Assurance on partnership governance and programme management arrangements for Phase 1a	Q4			To be removed
Rogue Landlord	Consultancy work on the PIR	Q3-4			Rescheduled (was Q2)
Health & Safety	Risk assessment processes	Q4			Rescheduled (was Q2)
Income	Assurance on income controls in key areas	Q3	Oct		In progress
Stores	Assurance on the changeover of contractor	Q3-4			



## Appendix 4

## 2021/22 Audit Plan Progress

Audit	Scope of Work	Start Planned date	Start Actual date	End Actual date	Status/ Rating
Combined Assurance	Update the assurance map and produce a 2022 Combined Assurance report	Q4			
IA Strategy & Planning	Produce a 2022/23 Audit Plan	Q4			
Town Deal	Assurance on governance, programme & project management arrangements	Q4			
ICT – Projects & Programmes	Assurance on general project management plus specific projects for PSN and IT security training	Q4			With input from external ICT auditor
ICT – Disaster Recovery	Assurance on IT DR planning, incident response & infrastructure resilience	Q4			To be undertaken by an external ICT auditor
Medium Term Financial Strategy	Assurance that assumptions, reserve levels, etc are appropriate and there is integration with other strategic documents	Q4			To be removed
Performance Management	Assurance that the revised PM Framework enables the Council's performance to be effectively monitored.	Q4			
Housing Repairs	Assurance on the operation of the new repairs process and the void repairs process	Q4			To be removed
Counter Fraud	Consultancy / advice work on strategy, training, NFI, money laundering, identity fraud, business grants	Q1-4	April		In progress

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**SUBJECT: INTERNAL AUDIT RECOMMENDATIONS FOLLOW UP**

**REPORT BY: CHIEF EXECUTIVE AND TOWN CLERK**

**LEAD OFFICER: PAUL BERRY, PRINCIPAL AUDITOR**

**1. Purpose of Report**

1.1 To present an update to the Audit Committee on outstanding recommendations.

**2. Executive Summary**

2.1 The report provides members with information on audit recommendations and the ability at the meeting to request managers to provide further feedback.

**3. Background**

3.1 It was agreed that audits over 12 months and 24 months would be separated and managers would also attend for the very oldest reports. There would be no continued monitoring by the Audit Committee after 24 months.

**3.2 Audit recommendations**

3.3 The attached Appendix (A) provides details of the relevant audits, outstanding recommendations / agreed actions and current position.

**4. Organisational Impacts**

4.1 Finance (including whole life costs where applicable)

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

4.2 Legal Implications including Procurement Rules

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

4.3 Equality, Diversity & Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

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

## **5. Recommendation**

5.1 The Audit Committee is asked to review the attached Appendix and responses.

<b>Key Decision</b>	No
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<b>Do the Exempt Information Categories Apply?</b>	No
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<b>Call in and Urgency:</b> Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
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<b>How many appendices does the report contain?</b>	One
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<b>List of Background Papers:</b>	None
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<b>Lead Officer:</b>	Paul Berry, Principal Auditor Telephone 873836
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## City of Lincoln Council



## Audit Recommendations

**December 2021**

## Recommendations over 2 years old

Audit Area	Date	Assurance	No of Recs	Implmntd	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress
Malware / Anti-virus	Nov 18	Substantial	9	8	1 (High)		One recommendation completed.  Update the IT Security Policies (High) – these have been produced and need approval. December 21.
Transport Hub	Dec 18	Substantial	3	2	1		Formal project closure & post implementation review.  A PIR has been drafted and should be signed off by end January 22.
Information management	Jun 19	Substantial	16	15	1		Assist Information Asset Owners to review access to their network drives.  This recommendation is being delivered by the migration to Teams / Office 365. Data will be held in new areas with bespoke access, which effectively means access has been reviewed.  Going forwards it will no longer be monitored.

## Recommendations less than 2 years old

Audit Area	Date	Assurance	No of Recs	Implmntd	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress
Housing Rents	Dec 19	Substantial	4	3	1 (High)		<p>Investigate the possibility of producing a report from Universal Housing which flags up new tenancies not at the target rent.</p> <p>This is proving difficult to implement due to limited resources. Some short-term monitoring work will be done to see if there any issues and generating a report will be looked into if time allows. The annual rent increase process would pick up any tenancies not at the target rent.</p> <p>This recommendation will no longer be monitored.</p>
Licensing	Feb 20	Substantial	7	3	4		<ul style="list-style-type: none"> <li>Develop an operational enforcement strategy. Covid has resulted in more proactive enforcement work being done (with other services &amp; partners) and management feel that a strategy is not required. This rec will not be implemented.</li> <li>Introduce a formal quality control system. This has been partly implemented and should be fully implemented by end Dec 21</li> <li>Develop more meaningful KPIs</li> <li>Establish a consistent process for logging issues / complaints onto APP</li> </ul> <p>The final two recs require improved software to deliver efficiently. The Council is part of a pilot to develop a new system – target extended to Jun 22.</p>

Audit Area	Date	Assurance	No of Recs	Implmntd	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress
ICT Anti-Malware	Mar 20	Substantial	9	5	4 (1 High)		<p>A recommendation to review web filtering arrangements has been implemented.</p> <p>A recommendation to complete guidance on the operation of Alien Vault will not be delivered as this product is no longer used.</p> <ul style="list-style-type: none"> <li>IT security training using videos – product testing is required before rollout. Extended to Dec 21</li> <li>Set minimum compliance standards for remote access by suppliers (High priority). Extended to Dec 21.</li> <li>Security policies linked to mobile device management (smartphones, tablets). A policy has been produced and requires approval (links to Policy rec in 2018 Malware audit). Due Dec 21</li> <li>Review and update the Incident management policy / procedure. Being done as part of an East Midlands IT group. Extended to March 22</li> </ul>
Housing Allocations	Aug 20	Substantial	4	3	1		<p>Annual review of applications.</p> <p>Work is in progress with the system supplier. Extended to March 22.</p>
Homelessness	Aug 20	Substantial	2	1	1		<p>Ensure compliance with document retention &amp; disposal requirements.</p> <p>Work is ongoing with BDIT to determine if the workflow system can do this. Extended to March 22</p>



## Recommendations less than 1 year old

Audit Area	Date	Assurance	No of Recs	Implmntd	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress
Covid-19	Feb 21	Substantial	1	0	0	1	The Information Asset Owner checklist will be updated to reference additional data collected for Covid-19 purposes and ask for confirmation that it is being appropriately retained or disposed. On track to be completed by the target date.
NNDR	May 21	Substantial	1	1	0	0	Recommendation has been implemented.
Risk Management	May 21	Substantial	1	1	1 (High)	0	IA have been advised that the recommendation has been implemented.  In accordance with the Recommendation Follow Up protocol evidence will be obtained to ensure that it has been implemented as agreed.
Office 365	May 21	Substantial	6	5	0	1	Five recommendations implemented.  Retention & disposal work (review DLP policies for Exchange Online and SharePoint Online content). Due Mar 22
Creditors	June 21	High	1	0	0	1	Review and approve authorising officers on Agresso.  Staff resources have caused delays, but work is in progress. Extended to March 22.
Accountancy	June 21	High	1	0	0	1	Implement a six-monthly review of system users.  Staff resources have caused delays. Extended to March 22.

Audit Area	Date	Assurance	No of Recs	Implmntd	Outstanding (extended or overdue)	Not Yet Due	Comments / Progress
Debtors	June 21	High	1	0	0	1	<p>Monitor low value invoices to see if there are more efficient ways to collect the income (ie, combine invoices or raise for longer periods).</p> <p>Work has started and is likely to be an ongoing process. Due Dec 21</p>

**Recommendation Follow Up protocol** (approved by Audit Committee 6th February 2020)

Internal Audit will;

- Record recs on the tracker held in Authority Wide
- Monitor target dates monthly and obtain updates where the rec is due within 1 month
- Agree extensions to target dates
- Review evidence for High priority recs implemented
- Undertake detailed follow up work on all recs in Limited / Low assurance audits 12mths from the report date
- Liaise with Directorates to ensure that;
  - They are able to obtain recommendation data from the tracker
  - Recommendations are being monitored at least 6 monthly via DMT's
  - Portfolio Holders are aware of overdue recommendations
- Advise Service Managers Team and Assistant Director Group that Audit Committee are not happy with the number of recs overdue and the time being taken to implement them

Audit Committee will;

- Receive recommendation update reports at alternating meetings, which mainly focus on High priority recommendations
- Receive verbal updates from service managers where there are outstanding recommendations 12mths from the report issue date
- Receive a 12mth update on Limited / Low assurance audits
- Receive an update on audits where there are outstanding recommendations 24mths from the report issue date – these recommendations will no longer be followed up and management will be advised that they will be accepting the risk

Directors will;

- Approve extensions where the audit recommendation has not been implemented within 12 months (Head of service / Manager will get approval) and this will form part of the 12-month review at Audit Committee.

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**AUDIT COMMITTEE**

**14 DECEMBER 2021**

**SUBJECT: INTERNAL AUDIT PLAN 2021/22 REVIEW**

**DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK**

**REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER**

**1. Purpose of Report**

- 1.1 To advise Audit Committee of a change in the number of days in the Audit Plan and to seek views on audit coverage in the second half of the year and to approve the revised Audit Plan for 2021/22.

**2. Background**

- 2.1 The Internal Audit Plan should focus on the key risks facing the Council and support the annual Head of Internal Audit opinion. The plan should achieve a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year. This is undertaken through a regular review of any changing activity and risks.
- 2.2 The Annual Audit Plan is developed using a combination of:
- the Council's Combined Assurance Model
  - an assessment of risk - based on the significance and sensitivity of key activities
  - consultation with Senior Management
  - issues raised by the Audit Committee
- 2.3 Using the Combined Assurance Model helps streamline and avoid duplication of effort where assurances can be drawn from other sources. The Combined Assurance Model provides coverage of all areas – not just those from Internal Audit.
- 2.4 Planning work takes into account the relative risks of the activity and combined assurance outcomes. Cyclical work is also undertaken on due diligence areas particularly around financial and governance systems.
- 2.5 Internal Audit continues to have the right to conduct its own assurance activity freely and independently to meet its role and remit – even if there appears to be a good level management or alternative assurance in place.
- 2.6 The Internal Audit Plan, together with the combined assurance work, enables the Internal Audit Manager to provide an annual Head of Internal Audit report and opinion around governance, risk and control.

### **3. Reduced Resources in 2021/22**

- 3.1 Following the departure of the Audit Manager the current Audit Plan (attached) needs to be amended to reflect a lower level of resource.
- 3.2 The resource shortfall to the end of the financial year is estimated to be 75 days.
- 3.3 To balance this shortfall 45 days of audit work is to be bought in from Julia Raftery Consulting Ltd and 30 days will be deferred from the Audit Plan until 2022/23. However, if the AM position is filled some (or all) of these audits may be able to be reinstated.
- 3.4 Recruitment to the AM position is currently in progress, a verbal update will be provided at the Audit Committee meeting.

### **4. Audit Plan 2021/22 Amendments**

- 4.1 Set out below are audits, as per the original 2020/21 Audit Plan (attached), that have been either been completed, are in progress, have not yet been started or are suggested for deferral.
- 4.2 Completed
  - Housing Benefit & Council Tax Support
  - Corporate Governance Code review
  - Housing Benefit Subsidy
- 4.3 Not yet started – to be undertaken by Internal Audit/Raftery Consulting/Audit One (IT Auditor):
  - Planned Maintenance (to be undertaken externally)
  - Town Deal (to be undertaken externally)
  - Stores (to be undertaken externally)
  - Performance Management ((to be undertaken externally)
  - Leisure Centres (to be undertaken externally)
  - Health & Safety Risk Assessments
  - IT Programme & Project Management (with some Audit One input)
  - IT DR (Audit One to do)
  - Combined Assurance
- 4.4 Proposed to be deferred until 2022/23 Audit Plan:
  - Medium Term Financial Strategy
  - Western Growth Corridor
  - Housing Repairs
  - Partnership Governance – this work is now being undertaken by the Chief Finance Officer as there is a requirement to complete by March 2022.
- 4.5 Other areas of work that will be undertaken include Counter Fraud, External Quality Assessment, Advice, Recommendation Follow up, Audit Committee reports & support, IA Strategy & Plan 2022/23, and general audit management.

- 4.6 The revised plan focuses on core financial audits and other key areas to enable internal audit to provide an annual opinion on the governance, risk and control environment at the year end.

## 5. Strategic Priorities

- 5.1 The Internal Audit Service and Plan contributes to the Council's strategic priorities, by helping to manage risk and achieve its objectives.

## 6. Organisational Impacts

- 6.1 Finance – The costs incurred through the outsourcing of a number of audits in the Annual Plan will be funded through the vacancy savings accruing until a new Internal Audit Manager is appointed.

- 6.2 Legal Implications including Procurement Rules - The Council is required under the Accounts and Audit Regulations 2011 to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.

- 6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

Due to the nature of the report, no specific Equality Impact Analysis is required.

## 7. Recommendation

- 7.1 Audit Committee are asked to consider the proposed amendments to the Audit Plan, identify any amendments which is considers appropriate, and approve a revised plan for the year.

Key Decision	No
Do the Exempt Information Categories Apply?	No
Call in and Urgency: <b>Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?</b>	No

How many appendices  
does the report contain?

One

List of Background Papers:

None

Lead Officer:

Jaclyn Gibson, Chief Finance Officer  
Jaclyn.gibson@lincoln.gov.uk



# Internal Audit

## Draft 2021/22 Plan



**City of Lincoln Council**  
**March 2021**

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Principal Auditor

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# The Planning Process

## Introduction

This report sets out the Internal Audit Plan as at 1<sup>st</sup> April 2021. The plan details the activities to be audited and the indicative scope for each audit. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

Our audit plan delivers assurance within agreed resources of 275 days, covering the period May 21 to March 22 (11/12ths). Due to the impact of Covid the 20-21 plan was extended into April 21.

The plan may be amended throughout the year to reflect changing assurance needs.

In Appendices A to E we provide for you information details of:

- Auditable Activities
- How the draft plan achieves the requirements of the Audit and Accounts Committee and Head of Internal Audit
- Our Working Protocols and Performance
- Our Quality Assurance Framework

## Developing the plan

The internal audit plan has been developed using various sources including our external intelligence, local knowledge and the meetings held with Assistant Directors and the Senior Leadership Team as a whole. **Figure 1** shows the key sources of information that has helped inform the plan.

We have prioritised our audit work taking account of the impact an activity will have on the Council if it fails. The criteria for determining priority are:

- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.
- **Sensitivity** - how much interest would there

be if things went wrong and what would be the reputational and political impact.

- **Level of Assurance** – we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.
- **Time**– when it will happen (this will determine when the best time to do the Audit is).

**Figure 1 – Key sources of information**



## Updating the Plan

Through the year we will collect business intelligence that identifies emerging audits which could be included in the plan according to priority.

The primary source of business intelligence will be the regular liaison meetings between our team and the nominated liaison contact, other sources of intelligence will include:-

- Committee reports
- Key stakeholders
- Risk registers
- Officer groups

## Delivery and Focus

### Delivering the Plan

The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent – our liaison meetings with senior management will enable us to firm up audit activity during the year.

The aim is to deliver the audits included in the plan in accordance with the schedule which will be devised once the plan is agreed. The schedule will be drawn up following liaison with the various auditees and Assistant Directors. Resources will then be allocated accordingly to the audits at the specified times. It is therefore important that any changes required to the audits or the schedule are notified to Internal Audit as soon as possible to avoid abortive time being spent on audits and for us to reallocate resources.

The Council's Internal Audit Plan is **275 Days**.  
The core team who will be delivering your Internal Audit plan are:

**Head of Internal Audit / Audit Manager**  
John Scott

**Principal**  
Paul Berry

**Auditor**  
Karen Atkinson

### Audit Focus for 2021/22

In the following table we provide information on key audit areas and the rationale for their inclusion in the audit strategy and plan.

The impact of Covid on the public sector has been unprecedented. We have carried out some assurance work in this area during 2020/21 and although the Plan doesn't contain an allocation for further work in 21/22 it is flexible to take account of this and other evolving risks.

Appendix A outlines the various audits to be undertaken within each area. Appendix B contains those areas which we have not been able to include in the plan, but management may wish to consider whether they should be included.

Area	Reason for inclusion
<b>Financial Governance</b>	Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs.
<b>Governance &amp; Risk</b>	Providing assurance that key governance controls are in place and are operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems.
<b>Critical Activities</b>	Our discussions with Assistant Directors identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes.

Area	Reason for inclusion
<b>Project Assurance</b>	There are a number of critical projects identified by the Council.
<b>ICT</b>	Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of ICT has a significant impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively.
<b>Follow Up</b>	<p>In accordance with our follow up protocol we will carry out follow up work when any High priority recommendations are implemented to provide assurance that identified control improvements have been effectively implemented and the risks mitigated.</p> <p>Working with management we also track the implementation of agreed management actions for all audit reports issued.</p>
<b>Combined Assurance</b>	Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in the early part of 2022.
<b>Consultancy Assurance</b>	At the request of management, we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion.

## Annual Internal Audit Opinion

We are satisfied that the level and mix of resources - together with the areas covered in the plan - will enable the Head of Internal Audit to provide their annual internal audit opinion.

## Appendix A – Internal Audit Plan 2021/22

Our proposed planned audits are listed below.

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
<b>Financial Governance</b>						
Medium Term Financial Strategy	To provide assurance that assumptions, reserve levels, etc, are appropriate and there is integration with other strategic documents.	R	G	✓		
Income	Review income controls in key areas to ensure all income due is being collected.	N/A	N/A			
Value for Money	To provide assurance on VFM arrangements across the Council to support External Audit's annual commentary in line with the new code of practice and the CIPFA Financial Code.	N/A	N/A			
<b>Governance and Risk</b>						
Brexit	Provision of advice to the Brexit Working Group.	N/A	N/A	✓		
Performance Management	To provide assurance that the revised PM Framework enables the Council's performance to be effectively monitored.	A	A			
Partnership Governance	Consultancy / advice to assist in providing assurance for management and Audit Committee	A	A	✓		
Corporate Governance	Consultancy / advice to assist in a review of the Corporate Governance Code	A	G			
Counter Fraud	Consultancy / advice work on strategy, training, NFI, money laundering, identity fraud	A	A			
Safeguarding	Protecting Vulnerable People / Safeguarding compliance review	R	A	✓		✓
<b>Critical Activities</b>						
Leisure Centres	To provide assurance that appropriate contingency planning is being undertaken for the possible failure of the current provider.	R	R	✓		
Planned Maintenance	To provide assurance on the closedown of the current contract and the establishment of new arrangements.	R	A	✓		
Visitor Information Centre	To provide assurance on the operation of a new service.	A	G			
Economic Recovery	Consultancy / advice on the provision of business grants	R	A	✓		



Stores	To provide assurance on the changeover of contractor.	A	A			
Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Elections & Electoral Registration	Review of 2021 expenses claim plus maintenance of the electoral register.	A	A			
Housing Repairs	To provide assurance on the operation of the new repairs process and the void repairs process	R	G			
<b>Programme / Project Assurance</b>						
Town Deal	To provide assurance that appropriate governance, programme and project management arrangements are in place.	R	G	✓		
Western Growth Corridor	To provide assurance that appropriate partnership governance and programme management arrangements are in place for the construction of Phase 1a.	A	A	✓		
<b>ICT</b>						
ICT	Scope to be confirmed but likely to be assets, security & projects	A	A			
<b>Follow-up</b>						
Follow-ups	Follow-up of recommendations made for the progress report and on a sample basis.	N/A	N/A			
<b>Combined Assurance</b>						
Combined Assurance	Updating the assurance map and completing the Combined Assurance report.	N/A	N/A			
<b>Days</b>		<b>177</b>				

Grand Total	Total
HB Subsidy Testing	45
Total Internal Audit Days	275

<b>Non-Audit</b>	
External Quality Assessment	
Advice and liaison	
Annual Report	
Audit Committee	
Review IA Strategy and Planning	
<b>Days</b>	<b>53</b>



## Appendix B –Areas not included in the current plan

These are the areas which are not on the plan but are important.

Auditable Areas	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Critical Activities						
New build / new homes / Housing Strategy		R	A			
Business Continuity		R	A			
Corporate Asset Management		R	A	✓		
CCTV		R	A			
Housing Finance / Business Plan		R	A			
Void Management		R	A			
Crematorium project		R	A			
Christmas Market		R	A			
Information Management		R	A			

## Appendix C – Head of Internal Audit's Opinion

Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities – seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council which has been established to:

- Achieve strategic objectives
- Ensure effective and efficient operational systems and programmes.
- Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
- Ensure the reliability and integrity of financial and operational information.
- Ensure economic, efficient and effective use of council resources.
- Ensure compliance with established policies, procedures, laws, regulations and contracts.

### Our Internal Audit Strategy

It is important that the Internal Audit function focusses its work on what matters most to you – providing insight, assurance and added value to the Council. Whilst we have a plan in place this is flexible and may be changed during the year enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. The plan is therefore more dynamic and responsive – essential for an effective Internal Audit service.

Our internal audit activity and plan has been driven by the Council's key objectives within the corporate plan, your key risks and critical service areas identified as part of the Combined Assurance Map.

We aim to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.

By adopting this approach, it is possible to give the Council comfort that there is a comprehensive risk and assurance framework with no potential gaps. We are then able to use our audit planning tool to target resources. This will minimise duplication of effort through sharing and coordinating activities with management and other management oversight functions.

We have identified the level of assurances in place by using the "Three lines of assurance" model – See **Figure 2**.

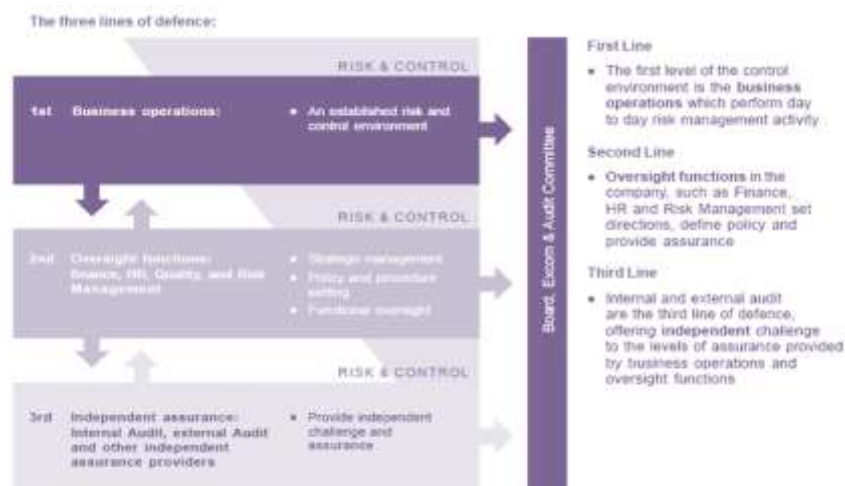


Figure 2 – The three lines of defence

Our Internal Audit Strategy also seeks to co-ordinate our work with other assurance providers where we can. In particular we liaise with External Audit to ensure the Council gets the most out of its combined audit resource – keeping audit fees low.

## Appendix D – Working Protocols

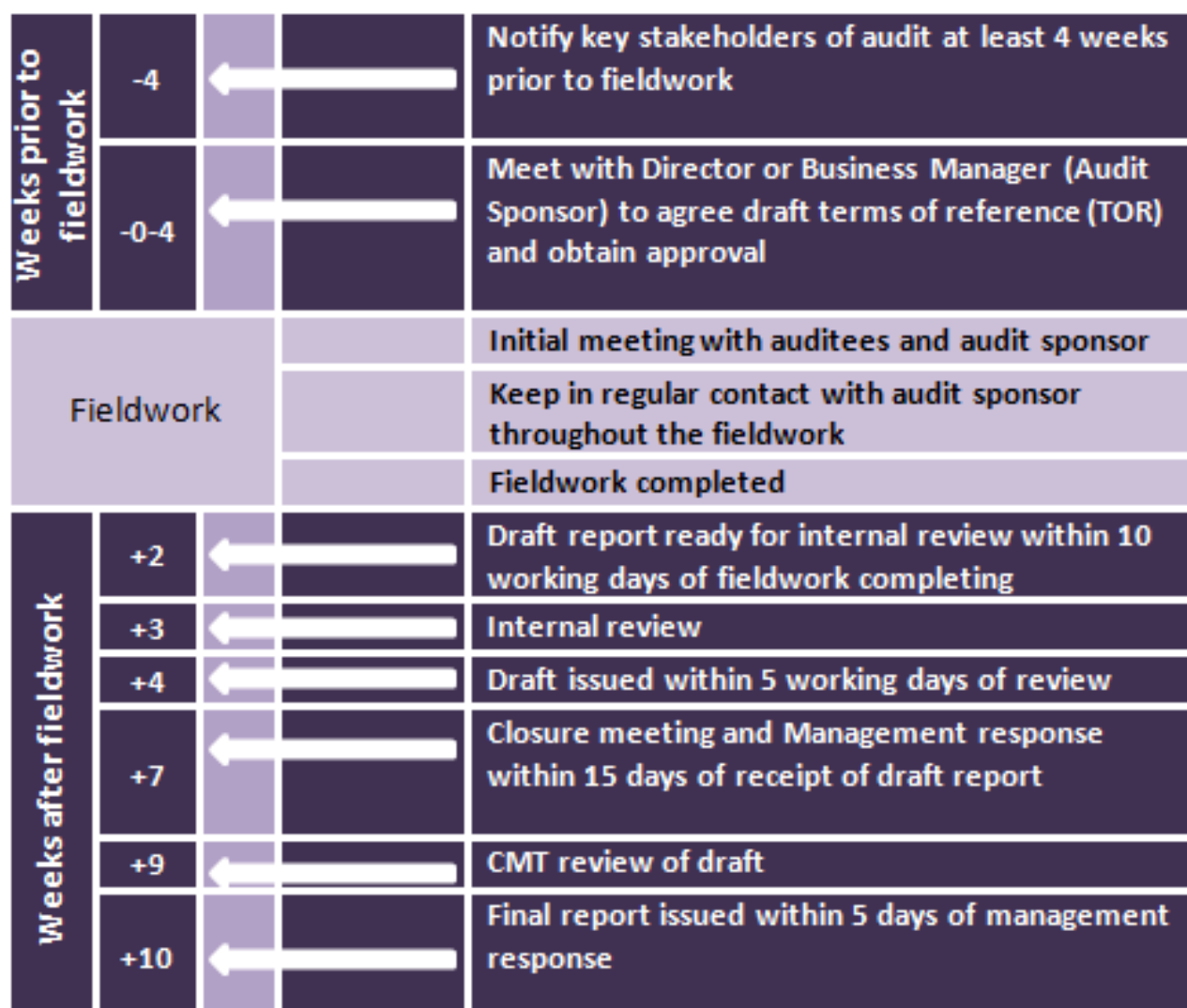
Our approach to delivering of internal audit work is based on a clear protocol detailed in the Audit Charter. How this works in practice is set out at the bottom.

Our performance is monitored by the Section 151 Officer and the Audit Committee - measured against 3 key areas:

- Delivery of planned work.
- Timeliness (contemporary reporting).
- Quality and Impact of work (communicating results / added value).

Strong communication is fundamental to quality delivery and maintaining trusting relationships. We keep management informed in accordance with agreed protocols including:

- Agreeing potential audit work for the forthcoming year
- Providing quarterly updates to evaluate progress and discuss activities and priorities for the next quarter.
- For individual audit engagements we hold planning meetings in person (our preference) by phone or email to discuss and agree the terms of reference and scope of our work.
- We keep you informed of key findings during the audit and upon conclusion we hold a debrief meeting in person to discuss our findings and any outstanding issues.
- We communicate the results of our audit work in a clear and concise way – securing management action where control improvements are needed.



## Appendix E – Our Quality Assurance Framework

Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

Our audit team offers a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework and our training and development programme.

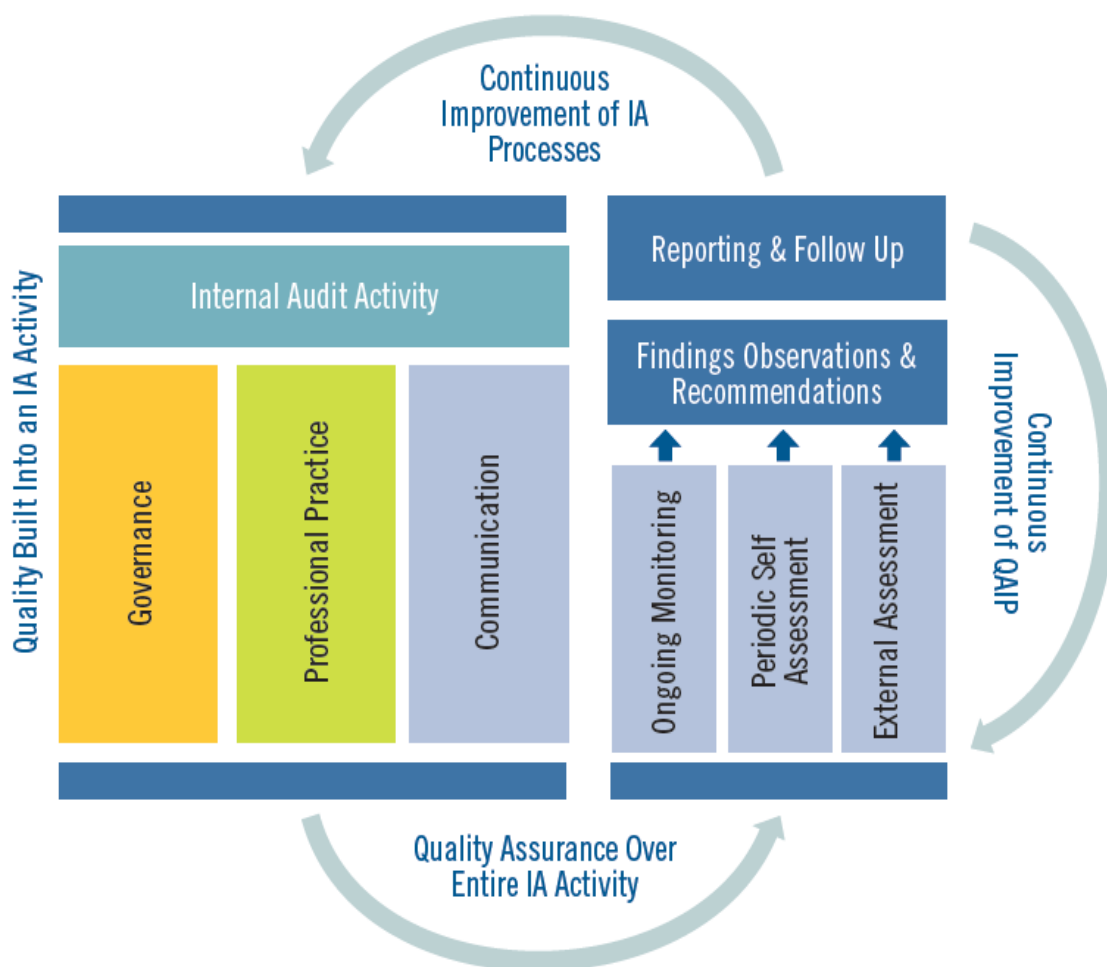
Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must

cover all aspects of internal audit activity – **The diagram below** shows how we structure our internal assessments to ensure appropriate coverage.

We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.

Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Audit Committee and was reviewed in 2019 (and 2020) following the planned revision of the CIPFA Local Government Application Note.

### Quality Assurance and Improvement Program (QAIP) Framework



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<b>SUBJECT:</b>	<b>ANTI-BRIBERY POLICY</b>
<b>REPORT BY:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>LEAD OFFICER:</b>	<b>PAUL BERRY, PRINCIPAL AUDITOR</b>

**1. Purpose of Report**

- 1.1 To obtain comments on and approve the updated Anti-Bribery Policy.

**2. Executive Summary**

- 2.1 The Council's Anti-Bribery Policy was last updated in 2019 and is due for review every two years.

**3. Background & Changes to the Policy**

- 3.1 The Bribery Act 2010 makes it an offence to offer, promise or give a bribe and to request, agree to receive or accept a bribe.
- 3.2 The Policy sets out the Council's policy on anti-bribery in accordance with the legislation and guidance.
- 3.3 A compare to other recent Local Authority Anti-Bribery policies and best practice documents found that no changes to the existing policy are required.

**4. Organisational Impacts**

- 4.1 Finance (including whole life costs where applicable)

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

- 4.2 Legal Implications including Procurement Rules

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

- 4.3 Equality, Diversity & Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

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

## **5. Recommendation**

5.1 That the Audit Committee review and approve the latest version of the policy.

<b>Key Decision</b>	No
---------------------	----

<b>Do the Exempt Information Categories Apply?</b>	No
--	----

<b>Call in and Urgency:</b> Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
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<b>How many appendices does the report contain?</b>	One
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<b>List of Background Papers:</b>	None
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<b>Lead Officer:</b>	Paul Berry, Principal Auditor Telephone 873836
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## **CITY OF LINCOLN COUNCIL**

### **ANTI-BRIBERY POLICY**

#### **1. Foreword**

1.1 Bribery is an inducement or reward offered, promised, or provided to gain personal, commercial, regulatory, or contractual advantage.

1.2 There are four key offences under the Bribery Act 2010:

- bribery of another person (section 1)
- accepting a bribe (section 2)
- bribing a foreign official (section 6)
- failing to prevent bribery (section 7)

1.3 The Bribery Act 2010 makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business.

1.4 There is also a corporate offence under Section 7 of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. This is what is known as a “strict liability” offence. This means that there is no need to prove negligence or management complicity. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.

#### **2. Policy Statement – Anti-Bribery**

2.1 Bribery is a criminal offence. The Council does not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor does, or will, the Council accept bribes or improper inducements.

2.2 To use a third party as a conduit to channel bribes to others is a criminal offence. The Council does not, and will not, engage indirectly in or otherwise encourage bribery.

2.3 The Council is committed to the prevention, deterrence, and detection of bribery.

2.4 The Council has zero-tolerance towards bribery and aims to maintain anti-bribery compliance “business as usual”, rather than as a one-off exercise.

#### **3. Objective of this Policy**

3.1 This policy provides a coherent and consistent framework to enable the Council's employees and members to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees and members to identify and effectively report a potential breach.

3.2 The Council requires that all personnel, including those permanently employed, Members, temporary agency employees and contractors:

- To act honestly and with integrity at all times and to safeguard the Council's resources for which they are responsible.
- To comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the Council operates, in respect of the lawful and responsible conduct of activities.

#### 4. Scope of this Policy

4.1 This policy applies to all the Council's activities. For partners, shared services, and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy.

4.2 Within the Council, the responsibility to control the risk of bribery occurring resides at all levels of the Council. It does not rest solely within assurance functions, but in all business units and corporate functions.

4.3 This policy covers all personnel, including all levels and grades, those permanently employed, temporary agency employees and members, contractors, nonexecutives, agents, Members (including independent members), volunteers and consultants.

#### 5. The Council's Commitment to Action

5.1 The Council commits to:

- Setting out a clear anti-bribery policy and keeping it up to date. Providing a clear framework, guidelines and procedures for the identification and investigation of bribery
- Making all employees and members aware of their responsibilities to adhere strictly to this policy at all times.
- Encouraging its employees and members to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately.
- Rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution.
- Taking firm and vigorous action against any individual(s) involved in bribery.

- Provide information to all employees and members to report breaches and suspected breaches of this policy.
- Ensuring information is provided to enable the general public to report suspected cases of bribery, fraud, and corruption
- Include appropriate clauses in contracts to prevent bribery.

5.2 To help achieve these aims, the council will observe the six principles of:-

- Proportionate procedures
- Top level commitment
- Risk assessment
- Due diligence
- Communication (including training)
- Monitoring and review

### **5.3 Principle 1: Proportionate Procedures**

The Council has procedures in place to prevent bribery by persons associated with it. These are proportionate to the bribery risks faced by the Council and to the nature, scale, and complexity of the Council's activities.

### **5.4 Principle 2: Top Level Commitment**

This policy has been agreed by the Corporate Management Team and the Executive. The Chief Executive, the Chair of the Audit Committee and Directors are committed to preventing bribery by persons associated with it. They foster a culture within the organisation in which bribery is never acceptable.

### **5.5 Principle 3: Risk Assessment**

The nature and extent of the Council's exposure to potential external and internal risks of bribery on its behalf by persons associated with it is periodically assessed. This includes financial risks but also other risks such as reputational damage.

Key areas of risk identified include property disposal, contracts including contract award and monitoring, grants and regulatory activity and enforcement. Risks will be subject review and monitoring and fraud risk reports (including the risk of bribery) will be considered by the Corporate Management Team and Members.

### **5.6 Principle 4: Due Diligence**

The Council takes a proportionate and risk based approach, in respect of persons and third parties who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks.

### **5.7 Principle 5: Communication (Including Training)**

The Council seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risks it faces.

## **5.8 Principle 6: Monitoring and Review**

Procedures designed to prevent bribery are monitored and reviewed and improvements are made where necessary.

## **6. Bribery is Not Tolerated**

6.1 It is unacceptable to act in the following way:

- Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given.
- Give, promise to give, or offer a payment, gift or hospitality to a government official, agent, or representative to "facilitate" or expedite a routine procedure.
- Accept payment from a third party that you know, or suspect is offered with the expectation that it will obtain a business advantage for them.
- Accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by the Council in return.
- Retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy engage in activity in breach of this policy.

## **7. Facilitation Payments**

7.1 Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions. A common example is where a government official is given money or goods to perform (or speed up the performance of) an existing duty. Facilitation payments were illegal before the Bribery Act came into force and they are illegal under the Bribery Act, regardless of their size or frequency.

## **8. Employee and Member Responsibilities**

8.1 The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or under its control. All employees and members are required to avoid activity that breaches this policy.

## 8.2 Employees and members must:

- ensure they adhere to legal and contractual requirements, procedures and practices including the Council's codes of conduct, Contract and Financial procedure rules and procurement guidelines. Ensure that they read, understand, and comply with this policy.
- Raise concerns as soon as possible if there is a belief that a conflict with this policy has occurred or may occur in the future.

8.3 As well as the possibility of civil and criminal prosecution, employees and members that breach this policy may face disciplinary action or other sanctions.

## 9. Gifts and Hospitality and Conflicts of Interest

9.1 This policy is not meant to change the requirements of the Council's stance on gifts and hospitality and existing Member and Officer Codes of Conduct still apply. The offering and acceptance of gifts, donations, sponsorship, and corporate hospitality should be strictly in accordance with the Council's codes and procedures. Conflicts of Interests should be managed in accordance with the Council's codes and procedures.

## 10. Public Contracts and Failure to Prevent Bribery

10.1 Under the Public Contracts Regulations 2006 (which gives effect to EU law in the UK), a company is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence. There are no plans to amend the 2006 Regulations for this to include the crime of failure to prevent bribery. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. This Council has the discretion to exclude organisations convicted of this offence.

## 11. Raising Concerns

11.1 There are multiple channels to raise concerns. These can be via the line manager in the first instance or directly to the City Solicitor, Audit Manager or Human Resources Manager. More detail can be found in the Council's Whistleblowing policy. Reporting suspected cases is vital and this should be done as soon as possible. Retain all information that gave rise to concerns.

11.2 The Council is committed to ensuring that all of us have a safe, reliable, and confidential way of reporting any suspicious activity.

## 12. Investigation

The procedure for investigation follows the fraud response plan set out in the Counter Fraud strategy.

### 13. Other Relevant Policies

- Counter Fraud Policy / Strategy
- Anti-Money Laundering Policy
- Whistleblowing Policy
- Codes of Conduct
- Contract and Financial Procedure Rules
- Data Protection Policy
- Information Security policies

## Annex 1

### **SANCTIONS**

#### **(A) Criminal Liability**

##### **1. Individuals**

The maximum penalty for people convicted under the Bribery Act is 10 years imprisonment and/or personal fines.

Individuals may also be disqualified from being directors under the Company Directors Disqualification Act 1986.

##### **2. Council**

Unlimited fines may be imposed on organisations for failing to prevent bribery. The Serious Fraud Office has indicated that these are likely to be significant amounts. Organisations may also be debarred from bidding from public contracts.

Senior Officers and the Council can both be liable if it can be shown that the Council committed an act of bribery with the consent or connivance of a senior officer or by a person purporting to act in such capacity.

#### **(B) Civil Liability**

In addition, or as an alternative to the criminal penalties, an action may be brought for the recovery of proceeds of crime under the Proceeds of Crime Act 2002, Part 5.

## Annex 2

### **A. Countries Perceived to be high risk for Corruption**

Transparency International annually publishes a Corruptions Perceptions Index ("CPI") which is a useful indicator on the risks of corruption in any said country. <https://www.transparency.org/cpi/2020/index>

### **B. Sectors Perceived to be high risk for Corruption**

The Bribe Payers Index ("BPI") 2011 lists industry sectors in accordance with statistics ranging from bribing officials to frequency of bribes. The survey is available at <https://www.transparency.org/research/bpi/overview>

**End**

**Reviewed: December 2021**

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**AUDIT COMMITTEE****14 DECEMBER 2021**

**SUBJECT: APPOINTMENT OF EXTERNAL AUDITOR**

**DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK**

**REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER**

**1. Purpose of Report**

- 1.1 To recommend to the Audit Committee, for referral to Full Council, that the Council accepts Public Sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for the appointment of external auditors to principal government and police bodies for the five-year period from 2023/24.

**2. Executive Summary**

- 2.1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
- 2.2 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.
- 2.3 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.
- 2.4 The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:
- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
  - if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;

- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and
- supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.

2.5 If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at Full Council. The opt-in period starts on 22<sup>nd</sup> September 2021 and closes on 11<sup>th</sup> March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11<sup>th</sup> March 2022.

### **3. Background**

3.1 Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options;

- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
- To act jointly with other authorities to procure an auditor following the procedures in the Act.
- To opt in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

In order to opt in to the national scheme, a council must make a decision at a meeting of the Full Council.

3.2 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council, in 2017, agreed to opt into the 'appointing person' national auditor appointment arrangements established by PSAA for the period covering the accounts for 2018/19 to 2022/23. Following a tender process to procure the audit services the PSAA appointed Mazars LLP as the Council's external auditor.

## **4. Procurement of External Audit for the period 2023/24 to 2027/28**

### **4.1 The Appointed Auditor**

The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

- 4.2 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
- 4.3 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.
- 4.4 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.
- 4.5 Appointment by the council itself or jointly
- 4.6 The Council may elect to appoint its own external auditor under the Act, which would require the council to;
- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council external audit.
  - Manage the contract for its duration, overseen by the Auditor Panel.
- 4.7 Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 4.8 The national auditor appointment scheme
- PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.
- 4.9 In summary the national opt-in scheme provides the following:
- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;

- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

#### 4.10 Pressures in the current local audit market and delays in issuing opinions

Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.

- 4.11 During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.
- 4.12 The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary

improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.

4.13 This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.

4.14 None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

#### 4.15 The invitation

PSAA is now inviting the Council to opt in for the second appointing period, for 2023/24 to 2027/28, along with all other eligible authorities. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor. Details relating to PSAA's invitation are provided in Appendix A

#### 4.16 The next audit procurement

The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:

- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
- continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);
- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned.

4.17 PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information

provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

- 4.18 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office)<sup>1</sup>, the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.
- 4.19 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

## **5. Assessment of options**

- 5.1 If the Council did not opt in there would be a need to establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council external audit.
- 5.2 Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 5.3 These would be more resource-intensive processes to implement for the council, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The council is unable to influence the scope of the audit and the regulatory regime inhibits the council's ability to affect quality.
- 5.4 The Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.

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<sup>1</sup> MHCLG's Spring statement proposes that overarching responsibility for Code will in due course transfer to the system leader, namely ARGAs, the new regulator being established to replace the FRC.

- 5.5 The national offer provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.
- 5.6 The recommended approach is therefore to opt in to the national auditor appointment scheme.

#### The way forward

- 5.7 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole), except where the authority is a corporation sole.
- 5.8 The Council then needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11<sup>th</sup> March 2022).
- 5.9 PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

### **6. Strategic Priorities**

- 6.1 There are no direct implications for the Council's strategic priorities. The appointment of an External Auditor is a statutory requirement of the Council and as such contributes towards the fitness for purpose of the Council's governance arrangements.

### **7. Organisational Impacts**

#### **7.1 Finance**

There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.

If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

#### **7.2 Legal Implications including Procurement Rules**

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.

Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

## **8. Risk Implications**

- 8.1 As set out in the report, opting into the sector led body approach, through PSAA, minimises the risks inherent in undertaking a standalone or joint procurement process.

The principal risks are that the Council:

- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
- does not achieve value for money in the appointment process.

These risks are considered best mitigated by opting into the sector-led approach through PSAA.

## **9. Recommendation**

- 9.1 The Audit Committee is asked to recommend to Full Council that it accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

**Is this a key decision?** No

**Do the exempt information categories apply?** No

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



**How many appendices does the report contain?**

One

**List of Background Papers:**

None

**Lead Officer:**

Jaclyn Gibson, Chief Finance Officer  
Telephone (01522) 873258

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22 September 2021

To: Mrs Andrews, Chief Executive  
City of Lincoln Council

Copied to: Ms Gibson, S151 Officer  
Councillor Longbottom, Chair of Audit Committee or equivalent

Dear Mrs Andrews,

### **Invitation to opt into the national scheme for auditor appointments from April 2023**

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the [scheme prospectus](#) and our [procurement strategy](#). Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and
3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at [ap2@psaa.co.uk](mailto:ap2@psaa.co.uk). We also publish answers to [frequently asked questions](#) on our website.

If you would like to discuss a particular issue with us, please send an email also to [ap2@psaa.co.uk](mailto:ap2@psaa.co.uk), and we will respond to you.

Yours sincerely

Tony Crawley  
Chief Executive

Encl: Summary of the national scheme

## Why accepting the national scheme opt-in invitation is the best solution

### Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

### The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

### What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in [the scheme prospectus](#).

## **Opting in**

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

## **Local Government Reorganisation**

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

## **Next Steps**

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on [our website](#) and in [the scheme prospectus](#).

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**AUDIT COMMITTEE****14 DECEMBER 2021**

**SUBJECT:               AUDIT COMMITTEE WORK PROGRAMME**

**DIRECTORATE:       CHIEF EXECUTIVE AND TOWN CLERK**

**REPORT AUTHOR:   JACLYN GIBSON, CHIEF FINANCE OFFICER**

**1.     Purpose of Report**

- 1.1    To provide details of the Audit Committee work programme for 2021/22.

**2.     Background**

- 2.1    The Chartered Institute of Public Finance and Accountancy (CIPFA) identifies the purpose of an Audit Committee, in its Practical Guidance for Local Authorities and Police 2018 Edition, as providing those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In local authorities, audit committees are necessary to satisfy the wider requirements for sound financial and internal control. Accounts and Audit (England) Regulations 2015 state ‘the relevant authority must ensure that it has a sound system of internal control which; facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk’. With a known work plan, and appropriate and timely learning and development for Members, the committee will be well prepared and members will gain the knowledge and experience needed to carry out their role effectively.
- 2.2    The Audit Committee approves a work programme each year and monitors progress against it. Any changes to the work programme are reporting to the Committee.

**3.     2021/22 Work Programme**

- 3.1    The proposed work programme is attached at Appendix B. Since last reporting to this Committee, the following changes have been made to the work programme (as shown in red/italics in App B):

- **14<sup>th</sup> December Meeting**

- **Deferrals**

- Six month Counter Fraud Report – due to a reduction in audit resources following the departure of the Internal Audit Manager, this report will now be combined with the annual Counter Fraud Report due to be reported to Committee in July 2022
    - Fraud Risk Register – due to a reduction in audit resources (as above) the work required to update the register will be combined with other scheduled work in early 2022 and reported to Committee at it's meeting on 22<sup>nd</sup> March 2022.

### **Additions**

- Statement of Accounts 2020/22 – this item has been pending the completion of the external audit
- Audit Completion Report – this item has been pending the completion of the external audit
- External Audit Progress Report – update report requested by the External Auditor

- **22<sup>nd</sup> March Meeting**

### **Additions**

- Fraud Risk Register – deferred from 14<sup>th</sup> December meeting as above
- Partnership Governance – an interim report is included elsewhere on this agenda which includes a position statement on the Council's Key Partnerships, a full assurance report will be provided to the 22<sup>nd</sup> March meeting.

3.2 A copy of the Audit Committee's terms of reference is attached at Annex A

## **4. Learning and Development**

4.1 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.

4.2 Members need to consider annually their learning and development plan to support them in delivery of their roles. During 2021/22 Members have received the following training:

- 10<sup>th</sup> June – General Audit Committee Awareness
- 22<sup>nd</sup> July – Local Government Financial Statements

Further training was originally included within the work programme for this current Committee meeting to cover Audit Committee effectiveness and Counter Fraud. The Counter Fraud learning is on hold pending the development of a training package through the Lincolnshire Counter Fraud Partnership and will be rolled out as soon as this is available. In terms of the Audit Committee effectiveness training, this is being considered as part of the wider training needs of the Audit Committee, for which a programme is currently being prepared. Officers intend to provide a further update at the next Committee meeting.

## **5. Strategic Priorities**

5.1 The Internal Audit Service and Audit Committee contributes to the Council's strategic priorities, by helping to manage risk and achieve its objectives.

## **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 – There are no direct legal implications arising as a result of this report.

### 6.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

Due to the nature of the report, no specific Equality Impact Analysis is required.

## 7. Risk Implications

7.1 By identifying the key topics to be considered at the Audit Committee meetings and receiving appropriate learning and development sessions in respect of their roles and responsibilities, Audit Committee Members can undertake their duties effectively and deliver them to a high standard, thereby adding to:

- the robustness of the risk management framework;
- the adequacy of the internal control environment and
- the integrity of the financial reporting and annual governance of the Council.

## 8. Recommendation

8.1 Audit Committee are asked to comment on and agree on the work programme for 2021/22.

Key Decision	No
Do the Exempt Information Categories Apply?	No
Call in and Urgency: <b>Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?</b>	No
How many appendices does the report contain?	Two
List of Background Papers:	None

Lead Officer:

Jaclyn Gibson, Chief Finance Officer  
Jaclyn.gibson@lincoln.gov.uk

**9.1 Audit Committee**

The Council will appoint an Audit Committee.

**9.2 Composition**

Audit Committee

(a) The Audit Committee will comprise • seven Councillors • one independent member

(b) The seven councillors of the Audit Committee should include the Chair of Performance Scrutiny Committee.

(c) A member of the Executive may not be a member of this Committee

**9.3 Statement of purpose**

(a) The Audit Committee will have the following roles and functions:

(b) The audit committee is a key component of the City of Lincoln's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

(c) The purpose of the Audit Committee is to provide independent assurance to the Council members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the City of Lincoln's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

(d) To decide upon and authorise allowances to the Committee's Independent Member.

**Governance, risk and control**

(a) To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

(b) To engage with relevant committees to help support ethical values and reviewing arrangements to achieve those values as appropriate

(c) To appoint Lead Member to monitor and oversee Information Governance practices within the Council along with the Information Governance Board.

(d) To monitor the effectiveness of the Authority's risk management Arrangements (development and operation),

(e) To monitor the Council's anti-fraud and anti-corruption arrangements (including an assessment of fraud risks);

(f) To monitor the counter-fraud strategy, actions and resources.

(g) To monitor progress in addressing risk-related issues reported to the committee.

(h) To maintain an overview of the Council's constitution in respect of contract procedure rules and financial procedure rules;

(i) To review any issue referred to it by the Chief Executive, a Strategic Director, Monitoring Officer, Chief Financial Officer or any Council body as the Chair considers appropriate within the general Terms of Reference of the Committee

(j) To review the Authority's assurance statements, including the Annual Governance Statement prior to approval, ensuring it properly reflects the risk environment and

supporting assurances (including internal audit's annual opinion on governance, risk and control)

(k) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

(l) To review the Council's arrangements for corporate governance, including the local Code of Corporate Governance and agreeing necessary actions to ensure compliance with best practice (the good governance framework, including the ethical framework)

(m) To review the governance and assurance arrangements for significant partnerships or collaborations.

(n) To consider the Council's compliance with its own and other published standards and controls;

(o) To report and make recommendations to Executive or Council on major issues and contraventions;

(p) To have rights of access to other Committees of the Council and to strategic functions as it deems necessary.

(q) To receive on an annual basis a report on the Treasury Management Strategy before approval by the Executive and Full Council.

(r) To be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### **Internal audit**

(a) Receive and consider the annual report and opinion of the Internal Audit Manager including conformance with Internal Audit Standards

(b) Review a summary of internal audit activity including internal audit reports on the effectiveness of internal controls, seeking assurance that action has been taken where necessary on the implementation of agreed actions;

(c) To consider summaries of specific internal audit reports as requested by the Audit committee.

(d) To Approve (but not direct) internal audit's risk-based annual audit plan including resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those sources.

(e) Audit Committee Chair to approve significant interim changes to the risk based internal audit plan and resource requirements followed by report to Audit Committee.

(f) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

(g) To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments

(h) To monitor audit performance, including QAIP results and any nonconformance with PSIAS and LGAN.

(i) To consider whether the non-conformance is significant enough that it must be included in the AGS

(j) Consider the annual review of effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations

(k) To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years

(l) To receive reports outlining the action taken where the Audit manager has concluded that management has accepted a level of risk that may be

unacceptable to the authority or there are concerns about progress with the implementation of agreed actions

(m) To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

(n) To have the right to call any officers or Members of the Council as required to offer explanation in the management of internal controls and risks.

(o) To approve the internal audit charter.

### **External audit**

(a) To consider the reports of external audit and inspection agencies, including the external auditor's annual letter, relevant reports, and the report to those charged with governance

(b) To consider specific reports as agreed with the external auditor.

(c) To advise and recommend on the effectiveness of relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

(d) To comment on the scope and depth of external audit work and to ensure it gives value for money.

(e) To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

(f) To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

(l) To commission work from internal and external audit, as required, and as resources allow;

### **Financial reporting**

(a) The Audit Committee, as the Committee "Charged with Governance" should consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts

(b) To review the annual statement of accounts. The Committee should consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

c) The Committee will monitor management action in response to any issues raised by external audit 151

### **Accountability arrangements**

(a) To report to full council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

## **9.4 Proceedings of the Audit Committee**

(1) The Audit Committee must conduct its proceedings in accordance with Rules 6-8, 12.3 to 12.7, 14 -17 and 18-28 (but not Rule 23.1 or 26 of the Council Procedure Rules set out in Part 4 of this Constitution.

## **9.5 Quorum**

### **Audit Committee**

The quorum for any meeting of the Audit Committee shall be three Councillors.

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## AUDIT COMMITTEE AUDIT WORK PROGRAMME FOR 2021/22

Meeting dates	Audit Items – Revised Agenda	Training (Suggested)
10 <sup>th</sup> June		Training, Member Development
6 July 21	<ul style="list-style-type: none"> <li>• Annual Internal Audit Report</li> <li>• Annual Governance Statement (Draft)</li> <li>• Counter Fraud Policies – Counter Fraud Strategy</li> <li>• Annual Counter Fraud report</li> <li>• Code of Corporate Governance</li> <li>• External Audit - Audit Completion report (19/20)</li> <li>• External audit – annual audit letter (19-20)</li> <li>• Audit Committee Work Programme</li> <li>• Statement of Accounts 19/20</li> </ul>	
15 July 21	<ul style="list-style-type: none"> <li>• Grant audit – approval</li> </ul>	(Additional meeting)
22 July 21	<ul style="list-style-type: none"> <li>• External Audit Progress report</li> <li>• Internal Audit Progress report</li> <li>• Audit recommendations.</li> <li>• Risk Management Annual Update</li> <li>• Review of effectiveness (IA/Audit Committee)</li> <li>• Statement of Accounts (Draft)*</li> <li>• EQA report (approach)</li> <li>• Audit Committee Work Programme</li> </ul>	Local Government Financial Statements explained

23 Sept 21	<ul style="list-style-type: none"> <li>• Internal Audit progress report</li> <li>• Annual Complaints report</li> <li>• Information Governance Update</li> <li>• Audit Committee Work Programme</li> <li>• IT Disaster Recovery update report</li> <li>• Assessment of going concern status</li> </ul>	
14 Dec 21	<ul style="list-style-type: none"> <li>• <del>Six-month Counter Fraud report</del></li> <li>• Code of Corporate Governance (update)</li> <li>• Audit Committee Work Programme</li> <li>• Internal Audit progress report</li> <li>• Annual Governance Statement - monitoring</li> <li>• Audit recommendations report</li> <li>• Counter Fraud policies – Anti bribery policy review</li> <li>• Internal Audit Plan 21-22</li> <li>• Partnership Governance</li> <li>• <i>Statement of Accounts (including Annual Governance Statement) (Final) –</i></li> <li>• <i>External Audit – Audit Completion report (ISA 260 and Letter of Representation)</i></li> <li>• <i>External Audit – Progress Report</i></li> </ul>	
1 Feb 22	<ul style="list-style-type: none"> <li>• Internal Audit Progress report</li> <li>• Treasury management policy and strategy (consultation prior to approval by Council)</li> <li>• Counter fraud policies</li> <li>• Terms of Reference review - Internal Audit (Audit Charter)</li> </ul>	<ul style="list-style-type: none"> <li>• Treasury Management</li> </ul>

	<ul style="list-style-type: none"> <li>• Terms of Reference review – Audit Committee</li> <li>• Audit / Audit Committee effectiveness</li> <li>• Audit Committee Work Programme</li> <li>• CIPFA Financial Management Code Assessment</li> </ul>	
22 Mar 22	<ul style="list-style-type: none"> <li>• Internal Audit Progress report</li> <li>• Audit recommendations report</li> <li>• Combined Assurance report</li> <li>• <i>Fraud risk register</i></li> <li>• Annual Governance Statement –update report</li> <li>• Internal Audit Strategy and Plan 22-23</li> <li>• Risk Management Strategy / annual report</li> <li>• Statement on Accounting Policies</li> <li>• External Audit Inquiries – 20/21 Statement of Accounts (those charged with governance)</li> <li>• IAS19 – Assumptions used to calculate pension entries in the Statement of Accounts and Audit Regulations</li> <li>• External Audit plan update report</li> <li>• Information Governance update</li> <li>• Audit Committee Work Programme</li> <li>• EQA final report</li> <li>• Whistleblowing policy update 2021/2022</li> <li>• <i>Partnership Governance</i></li> </ul>	
Date to be agreed		<ul style="list-style-type: none"> <li>• <i>Counter Fraud (e-learning)</i></li> <li>• <i>Audit Committee effectiveness (general audit committee training and knowledge/skills)</i></li> </ul>

*A private meeting between the Audit Committee and internal and external audit managers can be arranged outside of the meeting agenda times.*

<b>SUBJECT:</b>	<b>EXCLUSION OF THE PRESS &amp; PUBLIC</b>
<b>DIRECTORATE:</b>	<b>CHIEF EXECUTIVE &amp; TOWN CLERK</b>
<b>REPORT AUTHOR:</b>	<b>CAROLYN WHEATER, MONITORING OFFICER</b>

**1. Purpose of Report**

- 1.1 To advise members that any agenda items following this report are considered to contain exempt or confidential information for the reasons specified on the front page of the agenda for this meeting.

**2. Recommendation**

- 2.1 It is recommended that the press and public be excluded from the meeting at this point as it is likely that if members of the press or public were present there would be disclosure to them of exempt or confidential information.

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