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Lincolnshire
COUNTY COUNCIL
Working for a better future

County Offices
Newland
Lincoln
LN1 1YL

12 September 2014

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 22 September 2014 at 10.00 am in Committee Room One, County Offices, Newland, Lincoln LN1 1YL** for the transaction of the business set out on the attached Agenda.

Yours sincerely

Tony McArdle
Chief Executive

Membership of the Audit Committee
(7 Members of the Council + 1 Voting Added Member)

Councillors Mrs S Rawlins (Chairman), Mrs E J Sneath (Vice-Chairman), N I Jackson, Miss F E E Ransome, S M Tweedale, W S Webb and P Wood

Voting Added Member

Mr P D Finch, Independent Added Person

AUDIT COMMITTEE AGENDA
MONDAY, 22 SEPTEMBER 2014

Democratic Services Officer Contact Details

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Please note: for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

All papers for council meetings are available on: www.lincolnshire.gov.uk/committeerecords

Lincolnshire COUNTY COUNCIL
Working for a better future

AUDIT COMMITTEE
21 JULY 2014

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

Councillors Mrs E J Sneath (Vice-Chairman), N I Jackson, Miss F E E Ransome, S M Tweedale, W S Webb and P Wood

Also in attendance: Mr P D Finch (Independent Added Person)

Officers in attendance:-

Tony Crawley (KPMG), David Forbes (County Finance Officer), Claire Pemberton (Assistant Head of Finance), Lucy Pledge (Audit and Risk Manager) and Rachel Wilson (Democratic Services Officer)

Ian Fifield from LG Futures was also in attendance.

9 APOLOGIES FOR ABSENCE

Apologies for absence were received from Pete Moore, Executive Director for Finance and Public Protection.

10 DECLARATIONS OF MEMBERS' INTERESTS

There were no declarations of interest at this point in the meeting.

11 MINUTES OF THE MEETING HELD ON 23 JUNE 2014

RESOLVED

> That the minutes of the meeting held on 23 June 2014 be agreed as a correct record and signed by the Chairman.

12 DRAFT STATEMENT OF ACCOUNTS 2013/14

Consideration was given to a report which presented the draft Statement of Accounts for Lincolnshire County Council for the financial year 2013/14. Members of the Audit Committee were asked to scrutinise and comment on the draft Statement of Accounts. The final Statement of Accounts would be presented to the Audit Committee in September for approval. Ian Fifield from LG Futures was in attendance at the meeting to guide the Members through the Statement of Accounts and help them to fulfil their role to scrutinise and comment on the financial statements.

The Members of the Committee were guided through the draft Statement of Accounts, and were provided with the opportunity to ask questions on each section. Some of the points raised during discussion included the following:

- The outturn report was currently being circulated which set out the source of the underspend for the year and proposals for its use. This would need to go to Full Council in September for approval;
- The final Statement of Accounts would be approved by the Audit Committee at its meeting in September 2014;
- There was a rolling 5 year programme for the valuation of land and buildings. In addition to this an assessment of the fair value of these assets would be made on 31 March each year;
- In relation the Castle, this was classes as a heritage asset and was included in the Council's books at historic cost. However, it was reported that it would be possible to have a current valuation on the Magna Carta exhibit as a new asset;
- There would be an opportunity with the Statement of Accounts for 2014/15 to look at what is included in the published accounts, in order to make the document shorter. The Committee had some discretion in deciding what should be included in the statement of accounts, and this was something which had the support of the officers;
- Page 81* - the county council was wholly accountable for public health. The authority was the accountable body in terms of Learning Disability services, but not for mental health in terms of its joint working with health in these service areas;
- Clarification was sought regarding the contribution to reserves. It was noted that underspends would be transferred to a variety of reserves, but the majority would go to the financial volatility fund. This would however, need to be approved by the full Council in September. Note 10 provided further detail on all the different reserves;
- Directorates that underspend were able to keep the first 1% of that underspend;
- The difference between reserves and balances was clarified for the Committee;
- Page 83 – this provided a summary of the revenue outturn;
- The Committee was informed that there had been an underspend on the construction of the Energy from Waste plant, which was due to problems which were experienced during the commissioning phase, which led to this being extended. This provided a benefit to the authority as the price per tonne sent for processing during the commissioning phase was lower than the contractual rate which had been in place since the commissioning period ended;
- Money had been saved by not using external borrowing to fund capital projects;
- The authority benefitted if academies wished to purchase any services from the local authority;
- The difference between usable and unusable reserves was highlighted to the Committee. It was noted that the majority of reserves were in unusable reserves, and these tended to be valuations of assets and land;

- The authority did have a policy of not using external borrowing to fund projects, if capital receipts were not available as the preferred funding source;
- Any surplus or deficit from the Legal Shared Service was ring fenced for re-use by the shared service, or divided up amongst the partner authorities;
- Note 13 – it was noted that Council Tax income had fallen materially between the two years due to the impact of local council tax support schemes replacing the abolished national council tax benefit scheme. There was a new business rates system in place, which was provided locally and the county council received a local share and a top up grant from government. It was also noted that the Council Tax Freeze Grant had dropped and had been amalgamated into the Revenue Support Grant;
- In terms of government funding, it was difficult to compare one year with another as figures had been moved around and systems had changed;
- In relation to business rates, if a big business decided to move out of the county, the County Council would not lose out by a great deal, but it would have a significant impact on the appropriate district;
- The opportunity to charge for services within planning were limited;
- PFI contracts would only be included within the short term creditors depending on the timing of the payments, but generally they would not be included within this group;
- Note 24 – employee benefits accrual related to any unpaid leave;
- The Pension fund was very sensitive to long term interest rates;
- Short term borrowing had appeared to increase, but it was noted that this was due to a change in presentation between 2012/13 and 2013/14. Long term borrowing that only had one year of the term left had previously been included within Short Term Creditors rather than Short Term Borrowing;
- Questions were raised regarding Note 55 – Contingent Liabilities, particularly in relation to the Expansion of ESPO and the Lincoln Southern Bypass Blight Payments. In relation to the Lincoln Southern Bypass, it was noted that there were no plans to build the road at this time, but it was important to protect the route of the road;

Other noted brought to the attention of the Committee included the following:

- Note 3 – Critical judgements in applying accounting, and Note 4 – Assumptions made about the future and other major sources of estimation uncertainty. It was suggested that member review these notes and satisfy themselves with the judgements which had been made;
- The Council's County Farms Estate was valued on 31 March each year, and was currently valued at £82m. This was not an operational asset, but was a very valuable investment;
- Academies were classed as a leased asset, as the land and buildings were owned by the authority but not operated by it, and were given a de minimis value due to the length of the lease. If an academy closed, the asset would pass back to the authority, similarly, if the academy gave up the site, the lease would end and the asset would return to the local authority. If the academy chose to relocate and this was funded by the local authority, the new buildings would become a local authority asset (if the academy funded it themselves, they would own the asset);

Pension Fund Accounts

- Page 198 – it was clarified that transfers in referred to anyone who had chosen to transfer pension benefits from another scheme into the Lincolnshire scheme;
- The pension fund was invested in companies worldwide;
- The Pension Fund Accounts would be considered in more detail by the Pensions Committee at its meeting on 24 June 2014;
- All work on the accounts was on time, and was prepared by the deadline.

(*page numbers refer to the page of the agenda pack, not the Statement of Accounts)

It was reported that the Annual Governance Statement would need to be amended to include consideration of the decision of the High Court in relation to the libraries review.

RESOLVED

> That the comments made in relation to the draft Statement of Accounts 2013/14 be noted.

13 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

Consideration was given to a report which discharged the statutory responsibility for bodies such as the County Council to review the effectiveness of internal audit once a year and for the findings of the review to be considered by an appropriate committee of the Council. The paper reported the findings of work undertaken by a joint officer/councillor working group. Whilst a few areas for ongoing monitoring and improvement were identified, the group concluded that the Council did have an effective system of internal audit.

It was noted that this was something the authority had been doing for a number of years, and there were two aspects to it – to review the effectiveness of internal audit and also the effectiveness of the Committee.

Members of the Committee were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report, and some of the points raised during discussion included the following:

- Services such as direct payments were audited, and this would be done by looking at a sample of people to ensure that they were spending their payments on what they were meant for. It was noted that as part of the audit quality assurance framework, direct payments were looked at in terms of system operation, counter fraud, contract management etc., Internal audit had a full right of access to look at any part of the business;
- Concerns were raised regarding the effect that potential reductions in resources could have on the service provided. Members were advised that risk assessments had been carried out in relation to this and how the service would be affected according to differing levels of budget reductions;

- The authority had a combined assurance model, and directors had been asked to attend the meeting in November 2014 in order to answer any queries the Committee had;

RESOLVED

That the Committee endorsed the opinion of the Review Group that the County Council maintained an effective system of internal audit.

14 INTERNAL AUDIT ANNUAL REPORT - 2013/14

Consideration was given to a report which gave the Head of Audit's opinion on the adequacy of the Council's governance, risk and control environment and delivery of the Internal Audit Plan for 2013/14.

It was reported that as part of this, a significant piece of work had been undertaken on the Council's financial systems, and it was found that the Council had good financial management processes in place, that generally worked well. The work did identify some areas of improvement over compliance with systems and controls. However, these were not significant enough to influence the overall opinion. Key control testing on all fundamental financial systems during the year also gave substantial assurance as a result of the work by Internal Audit.

Members of the Committee were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report, and some of the points raised included the following:

- 98% of the plan had been delivered;
- There should be no longer than two months between starting the field work and completing the final report for each audit. The target from April 2015 would be for 80% of audit work to be completed within this time frame;
- Draft reports should be issued within five days of completion of the fieldwork;
- It was felt that the target of 80% was both achievable and challenging;
- Responses from management for the reports were requested within five working days.

There was a request for volunteers from the Committee to meet before the September meeting to review the draft Annual Report, before it was presented to the Committee for approval. Councillors N I Jackson, P Wood and Mr P D Finch volunteered to take part in this review group.

RESOLVED

That the content of the Head of Audit Annual Report be noted.

15 REVIEW OF GOVERNANCE FRAMEWORK & DEVELOPMENT OF ANNUAL GOVERNANCE STATEMENT 2014

Consideration was given to a report which provided the Committee with the opportunity to review the contents of the draft Statement – to ensure that it accurately reflected the Committee's understanding of the Council's governance and assurance arrangements. This was a key activity in the Committee's terms of reference.

It was reported that each year the Council was required to reflect on how well the Council's governance framework had operated during the year and identify any governance issues which needed to be drawn to the attention of Lincolnshire's residents. Good governance underpinned everything the Council did and how services were delivered often came under close scrutiny.

Members were advised that a 'good' Annual Governance Statement was an open and honest self-assessment of how well the Council had run its business across all activities – with a clear statement of the actions being taken or required to address any areas of concern. The development of the Annual Governance Statement was overseen by the Audit Committee.

The Assistant Director Finance and Resources provided a brief update in relation to the outcome of the judicial review of the libraries service. It was noted that the lessons learned would need to be incorporated into the Annual Governance Statement. The final version of the Statement would be presented to the Committee for approval in September. Members were informed that in relation to the judicial review, the judge found in the council's favour in two aspects – that the proposals did not compromise the authority's statutory responsibility to provide a comprehensive library service and it was fully compliant in terms of equality and diversity. There were two areas where the judge asked the Council to re-think which were that the questions in the consultation were closed with limited scope to make alternative suggestions, and that the proposal from Greenwich Leisure should have had further consideration. It was reported that if the Council did wish to pursue the route of Greenwich Leisure's proposal, then a procurement exercise would need to be undertaken, and the library service would effectively be outsourced. Members were advised that there would be an internal review, and this may come to this Committee for consideration.

Members were provided with the opportunity to ask questions to the officers present in relation to the information contained within the report, and some of the points raised during discussion included the following points:

- It was agreed that statistics into the number of contacts and complaints received through the Customer Service Centre could be included in the summary on the first page of the Statement;
- It was requested that the section entitled 'Our Audit Committee' on page 7 of the Statement be re-worded to include reference to the Committee's assurance role;
- All directors had been required to complete a pro-forma which set out the potential risks which could arise from the proposals being considered under the fundamental budget review;

RESOLVED

1. That the Committee agreed that the contents of the Annual Governance Statement accurately reflected how the Council was run;
2. That the Statement included the significant governance issues/key risks it would have expected to be published;
3. That the changes listed above be incorporated into the Statement.

16 WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2014/15 work plan.

Members were provided with the opportunity to discuss the new layout of the work plan and the actions and some of the points raised during discussion included the following:

- It was queried whether it would be helpful for the Committee to review its terms of reference sooner rather than later?
- A fully revised Constitution would go to full Council in September 2014. The Head of Audit advised the Committee that she would pass on the CIPFA terms of reference to the Constitution Review group;
- Every paper which was presented to the Committee in future would be cross referenced with the terms of reference. The various ways of doing this was discussed by the Committee;
- It was thought important that a way for the committee to determine whether they had received the assurance they required for each report was included. The Head of Audit agreed to rethink the design of the work plan to see how this could be incorporated;

RESOLVED

That the design of the Work Plan and Action Plan be reworked as requested by the Committee.

The meeting closed at 1.30 pm

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Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Public Protection

Report to:	**Audit Committee**
Date:	**22 September 2014**
Subject:	**Internal Audit Progress Report to 31 August 2014**

Summary:

This report provides an update on progress made against the Audit Plan 2014/15 and provides summaries of all audits completed within the period April to August 2014.

Recommendation(s):

That the Committee notes the outcomes of Internal Audit work and identifies any actions it requires.

Background

This report provides summaries of all audit reports completed within the period April to August 2014. It also provides an update on the progress made against the current years Audit Plan 2014/15. Details can be found in Appendix A, including:

- Key messages on Internal Audit work completed or in progress
- Other significant pieces of work undertaken
- Summaries of audits with Substantial, or Full, assurance, or assessed as Effective or Some Improvement Required
- Performance Information
- Full report on audits with Limited, or No, assurance, or rated as Inadequate or Major Improvement Required
- Other matters of interest
- Outstanding recommendations

Conclusion

This progress report outlines the key findings from each audit and offers more information on those areas which received a limited or no assurances audit opinion.

During the period April to August we have completed 11 County audits, 8 to final report and 3 to draft report stage, and 9 schools audits. Overall we have completed 25% of the 2014/15 audit plan.

We have two auditors working almost full-time advising / supporting the Agresso implementation project which is a significant part of our work over this year.

In addition to planned work we have also undertaken work on the Birth to Five service, the Libraries Judicial Review, and Information Governance. We have undertaken visits to each of the academies for who we do internal audit work.

The Committee should note the outcomes of the audit work undertaken and identify any action required. Seeking assurance that they:

- Understand the level of assurances being given as a result of audit work and the impact on the Council's governance, risk and control environment.

- Ensure management action has or is being taken to improve controls / manage risks identified.

- Confirm appropriate progress being made on the delivery of the audit plan and performance targets

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Internal Audit Progress Report

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522-553692 or lucy.pledge@lincolnshire.gov.uk.

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Audit LINCOLNSHIRE

Public Sector Auditing.... Private Sector Thinking

Internal Audit Progress Report

Lincolnshire COUNTY COUNCIL

Working for a better future

Date: September 2014

Contents

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Introduction

1. The purpose of this report is to:

   - Provide details of the audit work during the period April to August 2014
   - Advise of progress being made with the Audit Plan 2014/15
   - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. During the period April to August we have completed 11 County audits, 8 to final report and 3 to draft report stage, and 9 schools audits. Overall we have completed 25% of the plan.

3. We have two auditors working almost full-time advising / supporting the Agresso implementation project. Our input to the Agresso project is a significant part of work over this year – representing 10% of the audit plan. We will provide regular highlight reports to the S151 Officer and Project Board and will bring updates to this committee over the year.

4. There are 8 audits in progress and we have also undertaken some additional work on the Birth to Five service, the Libraries Judicial Review, and Information Governance. We have undertaken visits to each of the academies for who we do internal audit work.

5. The assurance levels provided for 2014/15 have been amended in response to the introduction of other UK Public Sector Internal Audit Standards and are based on the Institute of Internal Auditors professional practice. The changes help auditors focus on the significance and importance of the activity in their opinions and recognise that auditors cannot give absolute (Full) assurance. The new levels of assurance are as follows (Appendix 1 outlines the definitions):-

   - Effective
   - Some Improvement Needed
   - Major Improvement Needed
   - Inadequate

Internal Audit work completed in the period April to August 2014

6. The following audit work has been completed and a final report issued:

Full Assurance	Substantial Assurance or Some Improvement Required	Limited Assurance or Major Improvement Required	No Assurance
	▪ Gifts, Hospitality and Register of Interests ▪ Broadband in Lincolnshire ▪ Contract Management – Older People ▪ Social Care and Home to School Transport	▪ Police Notification of Domestic Violence (part Substantial) ▪ Coroners ▪ Risk Management (part Substantial)	▪ MIMS Insurance Management System

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.

7. We are reporting 1 'No Assurance' audit and 3 'Limited Assurance' or 'Major Improvement Required' audits since our last progress report in June 2014. 2 of which have a split assurance of 'Substantial/Limited' . We split assurances where we feel it provides a more accurate position on the control environment and/or level of compliance, for example, centralised controls or the control framework within a service area may be adequate but the concerns may be with the level of user compliance.

8. Progress with the implementation of agreed management action can be found at Appendix 3.

9. Below is a summary of the areas where we gave 'Substantial Assurance' or 'Some Improvement Required'.

Gifts, Hospitality and Register of Interests – Some Improvement Required

We found that the Council's revised Officers' Registration of Interests, Gifts and Hospitality procedure within the Code of Conduct provides effective guidance to staff to enable compliance with their duties under Section 117 of the Local Government Act 1972.

Our examination of the register confirmed that declarations relating to gifts and hospitality have been made by employees across most areas of the Council. This would suggest that the revised policy has embedded and staff are aware of the procedures to follow when required. Gifts and hospitality entries were generally in line with policy advice and guidance.

We did identify scope for improvement to the arrangements for ensuring officer interests are declared by employees and any potential conflicts subsequently managed. Our review of the register found few declarations of interests since the policy was revised in 2012. We also noted that interests declared are not subject to regular review to ensure they remain valid. In view of this, we could not provide the same level of assurance that interests are being proactively managed or that controls have been developed to address any potential risks.

Broadband in Lincolnshire – Substantial

The Council receives £40m (approx) of go BDUK funding which requires validation by Internal Audit as part of the funding conditions.

We found that appropriate samples of completed work have now been tested by the broadband project team. Although initially there was insufficient evidence provided by BT to demonstrate that the payments made related to work undertaken on Lincolnshire's project, this has now been rectified.

We note that the verification checks made by the Broadband project team currently exceed the percentage samples defined in the BDUK milestone to cash guidelines. However, there was some uncertainty over how the Council would be able to verify the direct labour and project management costs. BDUK have now revised their expectations in this area. LCC's project team now has access to BT pay evidence which satisfies BDUK grant conditions and together with the project progress, provides reasonable assurance for each milestone claim.

We note the initial payment to BT was paid without completing a full review of supporting evidence. This was due to time constraints affecting the ERDF spending profile and the need to prevent loss of funding. A subsequent claim showed clear evidence that supporting documents had been provided and appropriate checks made to validate the work prior to payment.

The project is continuing to evolve and is currently ahead of schedule. Further evidence relating to payroll and sub-contractor payments made by BT has been supplied which enables a reasonable review of selected transactions and complies with BDUK guidelines.

Contract Management – Older People – Substantial Assurance

We are pleased to note the progress made in this area following the contracting investigation in 2011. The directorate has now introduced Contract Management Frameworks for all areas of Adult Care. This demonstrates a continuing commitment to the development of Contract Management. Quality checks by management will ensure consistency in the compliance of the new frameworks.

Significant improvement is noted in the management of contracts. The Adult Care team have introduced and are continuing to develop new systems and procedures for the Contract Management of Older People Services.

A Contract Management Framework was introduced in July 2013; this provides a consistent approach to Contract Management within Older People Services. The Framework is supported by detailed guidance in the form of 'Contract Management Framework – Monitoring and Review Process'. With the exception of slight delays in the issue of action plans, we found that guidance is being complied with.

A central tracker for recording Contract Management visits and outcomes has been introduced along with associated guidance. More work is required to ensure that all officers complete the tracker in a timely manner, moving away from individuals maintaining their own records.

The team demonstrates a commitment to the Contract Management process; weekly meetings are held and good practice shared. As part of the implementation of the new framework, managers accompanied officers on visits to ensure consistency and appropriate depth of review.

We have identified some areas where existing arrangements could be enhanced, for example:

- A consistent approach to the completion of the 'CMM and Default Tracker' is needed to provide up to date and complete management information.
- Senior Officers do not currently review the quality of contract management; contract performance issues or poor contract management practice may be missed without management review.

Social Care and Home to School Transport – Some Improvement Required

The commissioning of transport providers by the Transport Team is effective. Through discussion and testing we found that:

- achieving Value for Money is a priority when tendering for contracts
- there are clear procedures in place for Safeguarding
- contracts are well monitored and managed.

We have identified some areas of improvement. These include:

- Enhanced communications between the different Directorates as the process isn't as joined up as it could be. This has the potential to create confusion over what each party is expecting, leading to frustration and delays.
- Collection and retention of signed contracts from operators to allow for tighter control over the contractors.
- Budget monitoring needs to be more controlled and formalised which will enable any issues to be highlighted sooner.
- Review and update of various key pieces of documentation to ensure that all staff are using the correct guidance to complete their role.

Audits in Progress

10. The following audits are currently in progress:

Audits at draft report stage:

- Contract Management Communities
- Carbon Reduction Commitment
- Substance Misuse

Fieldwork in progress

- Key control testing – Quarter One
- Joint Policy Working/Joint Local Plan
- Non-attendance at school
- Budget management
- Families Working Together – Quarters 1&2 claims completed
- Safeguarding
- Information Governance
- Health protection
- Transformation Programme

Other Work

11. **Agresso Implementation**

During 2014/15, the Council is working with partners SERCO and Unit4 to implement the Agresso ERP platform across the organisation. We are taking on an advisory and consultancy role within the Agresso project team, providing insight and support on risk, control, governance and business intelligence. This enables us to contribute to the overall project assurance arrangements around the implementation and redesigned business processes.

We have attended the design workshops and provided input on risk and control where necessary. We also reviewed the solution design documents and provided feedback. The standard system has good in-built control which differs little from the Council's existing control framework. The development of workflow and data controls is key to how processes will be controlled. Any changes to agreed design are approved through a formal change control process.

During the design phase some risks / issues were highlighted and have been reported to the Project Board. The key points include:

- Availability of Mouchel staff to attend the solution design workshops and input into solution design documents.
- The payroll solution design was completed with little input from Mouchel payroll experts. The solution design document reflects the industry standard

with input from SERCO payroll staff. The Mouchel Payroll Manager is now part of the project team and additional resources have been provided by SERCO and Unit4 to assist in the solution build.

- Solution design for schools – initially the strategy regarding communication and engagement was unclear. To help inform the design, a small group of school bursars attended workshops and provided feedback and comment on the Agresso solution presented. Wider communication was achieved through a series of open sessions for schools and there are more open sessions planned for the autumn.
- Interfaces – a number of the council's key systems will interface with Agresso. A solution design has been agreed and build of the interfaces is progressing.

Good programme and project management arrangements are in place to monitor progress and delivery of this project. The key risks associated with the project remain the Council's capacity to deliver this challenging change programme on time and the potential impact of other transformation programs eg organisational reviews/changes. These risks are being managed through the Project Board.

Since mid July, project team members have been working with Unit4 consultants to build the Agresso solution. Initial system testing is scheduled for the end of September and we will review results as part of our assurance work. The project team is also progressing data migration and mapping, developing testing and training strategies and on business process re-design. We will continue to provide assurance through our review of these areas and highlight any issues / risks as appropriate.

12. **Birth to Five**

An Internal Audit investigation was undertaken on the Birth to Five delivery arrangements in the Council at the request of the Director of Children Services. The outcome of this audit identified a number of areas for improvement that supports work already put in place by Children Services to strengthen the management and quality assurance arrangements in this area. The areas of improvement included:

- information sharing / evidence supporting the self assessment framework
- reporting, validation and monitoring of the outcome of the quality assurance framework
- review of the quality assurance framework

13. **Libraries Judicial Review**

A judicial review was lodged against the Council around the lawfulness of the Council's decision making process to review Library Services in Lincolnshire. The High Court quashed the decision - the Council wants to identify any learning which would help strengthen its governance arrangements.

On the 17th July 2014 the outcome of the Libraries Judicial Review was announced. High Court found no evidence that the Council hadn't complied with its statutory obligations including the obligations imposed by the Equality Act. However, the Court ruled that the Council's decision making process was flawed – this was due to 2 key factors,

- the consultation process itself was deemed flawed, and the;
- Council made a mistake by not taking into account more fully Greenwich Leisure Limited's proposal. This proposal was considered relevant due to the Localism Act 2011 and as Greenwich was already running library services.

We have been asked to provide the Chief Executive and the Audit Committee with some independent insight / review on the facts surrounding the decision making process and any lessons learnt on the following lines of enquiry:

i. Timeline of decision and impact analysis supporting decisions – including preparatory work from 1st January 2011 onwards.
ii. Review the circumstances when officers acted on their delegated powers.
iii. The extent legal and other professional advice was taken, considered and acted upon by both Officers and Members (Executive) throughout the timeline.
iv. The adequacy of advice provided to the Executive (through both the Council's formal and informal governance routes).
v. A review of the consultation process adopted and the adequacy / extent the Council considered alternative proposals – identifying any lessons learnt for future consultations / decision making.

The work is scheduled to be completed in October November 2014.

Information Governance

We have commenced a piece of work to investigate some information governance concerns at the request of the Chief Information officer. The audit will look at a number of data breaches that have occurred recently in the Council. It will include a review of how we manage third-parties that process Council data and how data breaches are managed.

14. **Schools and Academies**

We have completed audit reviews on the financial control environment for 9 schools.

We undertake internal audit work for 10 Academies, which covers 15 schools. To date in 2014/15 we have visited each Academy/school once or twice in accordance with the agreements we have with those Academies.

Performance Information

15. Our performance against targets for 2014/15 is shown in the analysis below:

Performance Indicator	Target	Actual
Percentage of plan completed (based on revised plan)	100%	25%
Percentage of recommendations agreed	100%	100%
Percentage of recommendations implemented	100% or escalated	Measured at year end
Timescales	Final report issued within 5 working days of closure meeting / receipt of management responses.	100%
Client Feedback on Audit (average)	Good to excellent	Measured at year end

We propose to review the audit plan in October 2014 to re-assess our priorities and the key risks facing the Council. Our current audit plan and schedule can be found in Appendix 4.

Other Matters of Interest

16. **CIPFA Better Governance Forum – Audit Committee Update (No. 14)**

CIPFA have issued their latest Audit Committee Update. The update contains:

- **Understanding External Audit Quality and Independence**
  Both the quality of the work performed by external auditors and their independence are essential factors underpinning the audit opinion on the financial statements and other audit work performed so it is important for audit committees to have an appreciation of them.

  There are three main areas that are of importance to an audit committee:
  1. That auditor independence is safeguarded.
  2. That a satisfactory quality of audit is provided.
  3. That the customer service provided and client relationships operate well.

- **Counter Fraud Code of Practice**

CIPFA has consulted on its draft code of practice. Comments were required by 18 July and the responses are now being analysed.

The code is made up of five principles:
1. Acknowledge the responsibility of the governing body for countering fraud and corruption.
2. Identify the fraud and corruption risks.
3. Develop an appropriate counter fraud and corruption strategy.
4. Provide resources to implement the strategy.
5. Take action in response to fraud and corruption.

Each of the principles contains a number of more detailed statements that explain what action is required.

- **Government Consultation on Local Audit Regulations**
  DCLG has issued a consultation on regulations relating to the implementation of the Local Audit and Accountability Act 2014. As well as matters relating to the implementation of the Act there are also updated Accounts and Audit Regulations which directly impact on the work of finance and internal audit. Also includes:-
  1. Collective auditor procurement
  2. Accounts and Audit Regulations (England)

- **Other developments**
  - International Framework: Good Governance in the Public Sector
  - Ethical Standards
  - Implementation of the Single Fraud Investigation Service and Accessing Funding for Counter Fraud Activities
  - National Fraud Initiative reports
  - Government Response on Whistleblowing
  - The Audit Committee Cycle

A copy of the update is available from:
http://www.cipfa.org/services/networks/better-governance-forum/corporate-governance-documentation/audit-committee-update-issue-14

Appendix 1 - Assurance Definitions[1]

Full Assurance	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. As a guide there are a few low risk / priority actions arising from the review.
Substantial Assurance	Our critical review or assessment on the activity gives us a reasonable level of confidence 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 are in place and operating sufficiently so that the risk to the activity not achieving its objectives is medium to low. As a guide there are low to medium risk / priority actions arising from the review.
Limited Assurance	Our critical review or assessment on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the risks are not always being operated or are inadequate. Therefore, the risk of the activity not achieving its objectives is medium to high. As a guide there are medium and a few high risk / priority actions arising from the review. Our work did not identify system failures that could result in any of the following: - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements
No Assurance	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. Our work identified system failures that could result in any of the following: - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements The controls to manage the risks are not being operated or are not present. Therefore the risk of the activity not achieving its objectives is high. As a guide there are a large number of medium and high risks / priority actions arising from the review.

[1] These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

Effective	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. As a guide there are a few low risk / priority actions arising from the review.
Some improvement needed	Our critical review or assessment on the activity gives us a reasonable 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. A few specific control or risk issues identified. As a guide there are low to medium risk / priority actions arising from the review.
Major improvement needed	Our critical review or assessment on the activity identified numerous concerns 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. As a guide there are numerous medium and a few high risk / priority actions arising from the review. Our work did not identify system failures that could result in any of the following: - damage to the Council’s reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements
Inadequate	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. Our work identified system failures that could result in any of the following: - damage to the Council’s reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements 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. As a guide there are a large number of high risks / priority actions arising from the review.

Appendix 2 – Audits where assurance is assessed as 'No' or 'Limited'

Children's Services – Domestic Abuse

Introduction and Scope

Reducing domestic abuse is one of the strategic priorities for the Lincolnshire Community Safety Partnership. It is managed through a multi-agency approach which includes the Lincolnshire Domestic Abuse Strategic Management Board, Domestic Abuse Delivery Group and Multi Agency Risk Assessment Conferences (MARAC).

MARAC meetings are held every two weeks to discuss high risk domestic abuse cases, enable effective data sharing and find solutions to reducing the risk of domestic abuse occurring. Children's Services representatives attend each meeting to refer cases, capture information and input to the risk assessment process.

Children's Services are informed of domestic abuse incidences by various different agencies but the majority of cases are reported by Lincolnshire Police. A protocol is currently in place between Lincolnshire Police and Children's Services which sets out the procedure for notifying incidents to the authority and distinguishes between high, medium and low risk cases.

The purpose of our audit is to provide management with assurances that Children's Services have effective arrangements in place to:

- receive, assess and take appropriate action in response to domestic abuse referrals
- participate in the multi-agency response to domestic abuse within the County

Executive Summary

Referrals – Substantial Assurance

We found that the process for dealing with domestic abuse notifications is operating effectively. Review of a sample of domestic abuse referrals identified that they are being appropriately actioned in line with local procedures, dealt with on a timely basis and recorded appropriately within ICS.

Although we found that appropriate actions are being taken promptly to deal with domestic abuse notifications, enhancements to the current arrangements are still required. This includes ensuring all staff have regular training on domestic abuse and finalising the domestic abuse policy, which is currently still in draft format.

Participation at MARAC – Limited Assurance

We identified two significant areas for improvement in relation to the authority's participation in the multi-agency response to domestic abuse. As a result we can only give limited assurance at this time that arrangements are operating effectively. We found that actions arising from MARAC meetings are not always being dealt with within the 5 day period specified in the MARAC operating protocol and that over half of all MARAC meetings within the last six months did not have full attendance by children's services representatives.

Direction of Travel	↑ Improving Discussions with staff during the review identified that provision for staff training is planned for later this year and the timescales for completion of actions from MARAC have been improving over the last few months due to the implementation of new processes.

A sample of 25 medium/low risk domestic abuse notifications and 10 high risk calls received by the Customer Service Centre (CSC) were reviewed during the audit. As a result, the following points of good practice were identified during the review:

- ✓ Action is taken by locality teams on high risk cases within 24 hours of the referral being received. This is usually on the same day.
- ✓ A log is maintained of all high risk calls received by the Customer Service Centre (CSC) and these are checked and signed off by the Team Leader as confirmation that an appropriate referral has been made within ICS and to the relevant locality team
- ✓ Medium and low risk cases are actioned in line with timescales set out in the domestic abuse operating protocol
- ✓ For a sample of cases reviewed, decisions made and actions taken at each stage of the notification process were appropriate and proportional to the level of risk

Details of the areas where processes could be strengthened are as follows:

- Ensuring that actions arising from MARAC meetings are dealt with within the 5 day period specified in the MARAC operating protocol. Although this has improved over recent months there were still 23 outstanding actions at the time of the audit
- Improving Children's Services' attendance at MARAC meetings. At the time of the audit there had been 24 MARAC meetings in the previous 6 months and 14 of these meetings did not have full attendance by children's services reps.
- Ensuring that the draft domestic abuse policy is finalised, approved by management and circulated within Children's Services to ensure that all staff are aware of their roles and responsibilities when dealing with domestic abuse cases

- Developing a regular training programme for practitioners on domestic abuse, the role of the authority in the multi-agency approach and including domestic abuse as part of the induction process for new staff.
- Providing domestic abuse training to call advisors within the CSC
- Ensuring that supervision records are maintained adequately within ICS

Management Response

I am pleased that substantial assurance was found with regard to the processes for domestic abuse notifications. Further work and robust monitoring mechanisms have been put in place to ensure both effective participation at MACAC and actions being completed within 5 days. Liaison has taken place with training to ensure all staff have access to dedicated domestic abuse training.

Management Actions	No	All to be completed by:
High Priority	2	31/05/2014
Medium Priority	4	31/08/2014

Coroners

Introduction and Scope

1.1 Our review of the arrangements for delivering the Coroner's service has focussed on:

- expenditure and financial management
- service delivery arrangements
- the body removal contract
- income

We also reviewed the previous audit findings (July 2013) to confirm they have been addressed.

1.2 Our main focus was on the central controls established by Registration and Celebratory Services to manage the service. We covered high level arrangements operating within both our Coroners' offices.

Background

1.3 Coroners inquire into deaths reported to them, which appear to be violent or of sudden or unknown causes. They seek to establish the cause of death if necessary by post mortem and if the cause remains in doubt an inquest is held. There are specific requirements to investigate deaths in certain circumstances, for example, the death of a person in custody.

1.4 There are three agencies that form the Coroners' Service in Lincolnshire:

- **Senior Coroners** - who are independent judicial officers
- **Lincolnshire Police** – Coroners Officers perform the initial investigation and report to the Senior Coroner.
- **Lincolnshire County Council** - who fund the majority of the Coroner's service and provide the administrative support for the service.

1.5 In Lincolnshire, there are two part-time Senior Coroners covering two areas/jurisdictions - Central and South Lincolnshire. Coroners are not employees of the Authority and no Council officer has line management responsibility for them – they are line-managed by the Chief Coroner or Lord Chief Justice.

1.6 An Assistant Coroner stands in when the Coroner is absent on holiday or through ill health. Each Coroner uses a number of Assistant Coroners to assist with caseloads. The Coroner personally or through a Deputy/Assistant, must be available at all times for their area/jurisdiction.

1.7 Our analysis shows the service dealt with 3242 referrals in 2013 - there was no material change in the overall number of referrals in 2013 compared to 2012. Key changes in activity levels are:

- a 45.2% increase (2011 to 2013) in post mortem volumes in the South Lincolnshire area - the current level of post mortems to referrals (55.3%) is above the national average (42%).

- a 12% increase in the number of inquests being handled by the Central coroner (2013 to 2012).

1.8 Over the past 3 years the level of spending on the Coroners Service has increased by 29% with actual spend in 2013/14 of £1.4m.

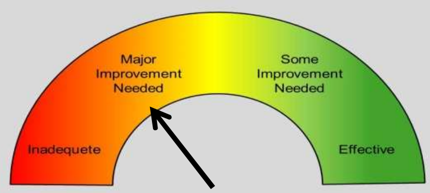
1.9 The service has been overspending against its budget - £339k in 2013/14; £165k 2012/13 and £43k 2011/12.

Executive Summary

Assurance Opinion

Major improvement needed

Coroners - Use of Resources / Financial Management



Coroners have traditionally worked autonomously in order to fulfil their judicial functions – this has, in our opinion, created barriers to collaborative working within Lincolnshire. We found limited routine management information on the Coroners service, particularly around financial commitments, projections, workloads and performance – this reduces confidence on the use of resources and value for money.

The Council requires both Coroners to comply with the Council's financial control framework to ensure effective management of its finances and best value. Due to the previous management structure, the budget holder had limited direct input and oversight of the Coroners' expenditure and ways of working. This has now changed and the financial management is beginning to improve.

Both Coroners operate their own systems which do not ensure the same levels of transparency, consistency and financial control as other service areas. Budget preparation and monitoring have been problematic due to compliance issues associated with the Council's procurement and financial procedures. The County Services Manager (CSM) is currently developing written procedures which should help define systems, expectations and improve overall financial control.

Assurances are limited in areas of significant spend (expert and professional witnesses and long inquest payments to Coroners) due to poor audit trails, inconsistencies and inadequate validation. Another increasing area of spend involves the body removal contract – this is partly due to increased activity but there are also wide provider cost variations resulting in value for money uncertainty. This contract was let to improve service quality and maximise cost efficiencies – the contract monitoring arrangements are evolving and are not currently providing the requisite assurances.

With the 2014 fundamental budget review the Council has the opportunity to explore further cost efficiencies within the coroner service, tying in with the recent Chief Coroner guidance on the merger of coroner areas. We believe there is scope for savings on: salaries, premises, administrative support and equipment which may, in turn, encourage closer working, improved cost certainty, information sharing and greater compliance with the Council's financial control framework.

The findings within this report (particularly around transparency, financial accountability, financial control, engagement, communications and collaborative working) highlight a need to improve the governance within this service area and ensure it contributes to the Council's assurance arrangements.

Direction of Travel

Improving

There is very strong commitment to address the budgetary, control and cultural issues to ensure the Council has the requisite assurances over this area of spend. The County Services Manager already has a greater understanding of the budget, is better placed to challenge expenditure in the future and is working on a comprehensive action plan of changes. Recent guidance from the Chief Coroner will also support the programme of change.

2.1 Detailed findings are included in section 4 of our report and the attached Action Plan includes a number of recommendations that seek to establish processes and strengthen arrangements operating within the service. The key financial management findings relate to the need for:

- improved budget setting and monitoring
- better cost projections / inquest estimates and cost revisions
- commitment accounting
- improved accounting practice, especially around year end
- effective Coroner / Council liaison to discuss budget position and contribute to cost
- saving initiatives and realistic year end projections
- compliance with the Council's financial control framework (financial procedures and procurement rules)

- a mechanism to properly validate long inquest payments
- written procedures covering payments to expert and professional witnesses, Assistant Coroners, jurors, witnesses and self employed individuals

We have identified scope to review the service delivery arrangements to maximise use of resources and reduce costs, where possible, whilst recognising the need to maintain the quality of the Coroner Service. We advise the Service focusses on:

- the viability of merging the coroner areas in Lincolnshire
- caseload allocation
- use of the Coroner support (Assistant Coroners, Coroner's Officers and administrative staff)
- premises
- governance arrangements (including communications and performance)
- Council / Coroner engagement and collaborative working
- maximising the use of IRIS case management system

2.2 The CSM is already taking many positive steps to address the issues included within this report – procedures are being developed, budgets have been reviewed and monitored, contract monitoring is improving and senior management have liaised with the Chief Coroner to obtain clarity on a range of matters around legislation, coroner expenditure and ways of working.

2.3 We would also take this opportunity to thank the CSM, Coroners and administrative staff for their help and assistance throughout this audit.

Management Response

This audit was originally commissioned by the CSM who recognised the need for a fundamental review of historic working practices which were preventing the move to a more modern and customer centric service, and also recognising the need for greater transparent and auditable processes to meet key Council requirements.

The revisions in the Coroners and Justice Act 2009 are helping to facilitate these changes and enable improved services for bereaved families. The Chief Coroner's appointment in September 2012 supports standardised processes, and legislative changes in July 2013 further defined this.

We welcome this report and acknowledge and appreciate the complex nature of the audit recognising the depth of detail, sensitivity of the subject area and the work in progress.

Significant work has already been completed to improve not only the budget process, but other standard operating practices, building on good practices and staff commitment. Procurement opportunities (working with Procurement Lincolnshire) have provided a basis for seeking quality and value for money from services, however a historic lack of management information and varying levels of service provision have added to the complexity of the tender process. As new contracts are arranged, contract monitoring and improved management information will help to ensure that new tender specifications reflect service requirements accurately and deliver best value. In addition, further coronial development work will follow as national guidance is issued by the Chief Coroner and the Ministry of Justice. Staffing changes have also allowed some of the long planned for initiatives to be realised and implemented and this will improve the package of support to Coroners and the general public.

We look forward to working with the Coroners to deliver these changes as their support is fundamental to the success of these initiatives. We recognise this is a unique service and the legislative framework within which it operates. We also acknowledge the vital contribution and commitment to bereaved families provided by all of those involved in the service.

Management Actions	**No**	**All to be completed by:**
High Priority	21	1 September 2014 (majority)
Medium Priority	18	31 December 2014

Risk Management

Introduction and Scope

We have completed an Internal Audit review of Risk Management. This is part of the agreed plan of work for 2013/14.

The purpose of this audit was to provide assurance that there are effective arrangements in place to manage risks to support successful delivery of the Council's services and business plan priorities.

Risk management is a key element of the Council's governance framework and should take place at every level within the council. A revised risk management framework is in place and there is no longer a formal process for Directorates to follow in respect of operational risks.

The Strategic Risk Management Team supports management across the Council to help them take measured risks and create an environment of 'no surprises'. The Team aims to drive forward the embedding of risk management throughout the organisation.

Our review focused on the following areas:

- Strategic risk function and the support provided by the Strategic Risk Management Team.
- Risks associated with recent key decisions – understanding the Council's risk appetite and making informed decisions.
- Directorate management of operational risks - we have taken a health check approach, meeting with the Risk Lead for each Directorate, to gain some assurance on the arrangements in place following the introduction of a different approach for the management of operational risks.

Executive Summary

Assurance Opinion:
Management of strategic and operational risks - Substantial

There is a good framework in place for the council to manage the key risks facing services and successful delivery of business plan priorities. We found clearly assigned ownership and accountability for risk management and defined roles for each party.

Strategic risks are identified, evaluated and documented, with regular monitoring and oversight by the Corporate Risk and Safety Group and the Audit Committee. There are processes in place to identify and assess emerging strategic risks e.g. combined assurance mapping, Directorate Risk and Safety Groups, Directorate Risk & Safety Dashboards.

We have gained some assurance that operational risks are being managed within directorates following removal of the formal process. There are forums available within directorates for discussing, escalating and reporting on current and emerging risks.

It is important in times of change that risks are continually assessed and managed at operational level, even if they are not specifically recorded. Our assurance on management of operational risks was gained primarily from discussion with directorate Risk Leads and review of relevant meeting minutes. In depth assurance obtained at service level would give the Corporate Risk and Safety Group further confidence that risks are effectively managed at this level.

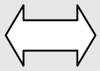
Risks associated with key decisions - Limited

We can only provide limited assurance that decision makers are fully informed of the risks associated with key decisions. Reports to the Executive do not necessarily clearly articulate the risks associated with the recommendation/proposal; actions and controls to manage risks were rarely included.

Decisions may therefore be made without full knowledge and understanding of the risks involved and how these will be managed; decision makers are not in a position to effectively consider the level of risk they are prepared to take.

To ensure informed decisions are made, it is important that the risks associated with any proposed actions and decisions are clearly identified, evaluated and articulated to the decision makers, along with mitigating actions/controls. The decision makers can then think about the level of risk they are prepared to take – whether or not they are prepared to accept the risks associated with the proposals. This is increasingly important in times of commissioning and innovation/changes in service delivery.

Direction of Travel



Strategic risks and associated actions have continued to be effectively identified, evaluated and reported on a regular basis. A full refresh of the strategic risk register is currently ongoing, taking into account current structures, commissioning strategies and emerging risks.

Directorates have recently identified and assessed their top 5 'tactical' risks to provide an overall picture to the Corporate Risk and Safety Group of how they are managing their biggest risks.

There is less confidence around articulation of risks associated with key decisions and consideration of the level of risk the Council is prepared to accept. Improvements are required to ensure decision makers are fully informed.

Reports to the Executive in respect of key decisions set out the benefits of the recommendation and the risks of not agreeing it, but not necessarily the risks associated with the proposed option. It is not clear from the reports and minutes that there is consideration of the level of risk the Council is prepared to take.

Well informed decision making is vital in times of transformational change. Risk Leads and the Strategic Risk Management Team need to ensure that the importance of identifying and evaluating the risks associated with key decisions in reports is communicated. Reports should also include how the risks will be managed. Revision of report templates may be required to prompt inclusion of important information around risks.

Fully informing the decision makers of the risks and mitigating actions/controls will enable them to consider the level of risk they are prepared to accept - for example, a higher level of risk accepted to support innovation; a lower, more cautious risk appetite in areas such as safeguarding.

Using a health check approach, this review has given an oversight of how operational risks are being managed within the directorates since the introduction of a different approach e.g. Directorate Risk & Safety Dashboards. We advise that the Corporate Risk and Safety Group seek further assurance from the Directorate Risk and Safety Groups that operational risks are being effectively managed at service level.

The Financial Procedure relating to Risk Management requires updating; it was last updated in June 2005 and does not reflect the current Risk Management Strategy or the requirements of a commissioning council. If the financial procedures do not reflect current expectations, roles and responsibilities, officers may not be clear about what is required of them; duties and responsibilities may become confused and/or not carried out. Updating the Financial Procedure in line with the revised Risk Management Strategy will clarify mandatory requirements, current best practice and guidance.

A Health Check of risk management in key projects was carried out by the Strategic Risk Management Team in May 2013, to help inform where training and guidance would be of most use and potentially to improve the guidance available. The Health Check found wide variances in the identification, monitoring and management of risks in priority projects. We acknowledge the time elapsed since this review and the changes within the council since its completion. The review did, however, give an indication that risks may not be fully captured and monitored.

It is important that the risks and issues relating to the council's key projects and programmes are identified, monitored and managed effectively to allow successful delivery of the council's priorities. Revisiting the Health Check and working with Risk Leads would enable the Strategic Risk Management Team to provide assurance that risks associated with key projects and programmes are being managed.

We found areas of good practice in the Council's risk management activities, including:

- inclusion of risk as an integral part of Commissioning for Lincolnshire
- the level of risk the Council is prepared to accept, its risk appetite, has been agreed (creative and risk aware)
- delivery of workshops regarding risk appetite to senior managers and members
- review of Corporate Risk and Safety Group arrangements and revision of terms of reference
- regular meetings of the Strategic Risk Management Team with strategic risk owners and/or other officers with responsibility for actions and controls
- assurance on management of risks and effectiveness of actions/controls is sought from management, third parties and Internal Audit as part of the Council's combined assurance model.

Detailed findings, recommendations and agreed actions are shown in the attached Action Plan which once implemented will strengthen current arrangements within the service.

Management Response

Assistant Director - Finance & Resources
The Council is entering a major period of change as it adopts the commissioning council model whilst also undertaking a fundamental review of its service priorities and related budgets in direct response to continued public spending constraints. It is important that the Council has in place, and operates, effective risk management in all its decision making and operations. This report has highlighted that appropriate processes are in place but some improvement is necessary in a number of areas, particularly relating to the role of risk management in decision making. These findings are welcome and the conclusions accepted and a robust action plan is agreed to resolve the issues raised by the end of the calendar year.

Head of Audit and Risk Management
The Council has been and will continue to undergo significant change. The way it operates and deliver services – either directly, with or through other organisations will

provide challenges for managing risk, ensuring transparency and demonstrating accountability. The importance of having effective risk management arrangements in place has never been greater. The audit has provided some good assurance over our risk management strategy and the way we manage our risks. It also identified opportunities to improve and the high priority actions around decision making and the level of risk the Council is prepared to accept across its business units and associated with decision will be completed by December 2014. The key actions are:

- Review and agree a minimum the level of risk information presented to decision makers.
- The Council needs to work through its Commissioning Strategies and Fundamental Budget Review - we will work with Directorate leads via the Corporate Risk & Safety Steering Group, to explore what's an acceptable level of risk for each strategy / business unit. Once established this will be clearly articulated to decision makers.

Management Actions	**No**	**All to be completed by:**
High Priority	1	December 2014
Medium Priority	3	March 2015

MIMS Insurance Management System

Introduction and Scope

We have completed an audit of the MIMS insurance management system which is operated by the Insurance Team and holds details of insurance claims made against the Council. The audit was undertaken at the request of the Head of Audit & Risk Management following concerns as to the integrity of the data held in the system.

The purpose of the audit was to provide assurance on the following areas:

- Administrative arrangements
- Systems documentation
- User policies and procedures
- Access controls
- Controls over data input and processing
- Controls over data output
- User training and guidance
- Back-up and recovery

We also tested a sample of claims for accuracy to assess the integrity of the data in the system and ensure that the information input to the system is correct for estimating the potential financial exposure of the Council to insurance claims.

Executive Summary

Assurance Opinion - No Assurance

The MIMS system acts as a database of information on insurance claims made against the Council. It is important that the information held in MIMS, and reports produced by MIMS, are accurate.

Our sample test of claims identified a high level of errors, although we were not fully able to determine the significance of all the errors. We also found that reports have not always produced the expected information due to issues with the use of, and understanding of, the system.

There is a risk that the data in the system is inaccurate and as a result any analytical data produced by system may also be inaccurate, such as:

- Analyses of claims at a particular location
- Directorate premiums
- Information for tendering

It is important that the staff receive appropriate training in the use of the system and comprehensive guidance is developed. Interim arrangements have been put in place to ensure reports contain the correct data and a permanent solution will have to be found. It is possible that a lack of understanding of the underlying configuration of the system, which was undertaken when the system was originally implemented and was not documented, is a contributory factor to the issues with the reports and so this needs to be addressed.

MIMS is an important system but is not critical. It is not a main financial system and although there are issues with its use, the risks are low in comparison to other financial systems. Management have already put in place interim arrangements to manage the risks of input errors and are working with individuals to reduce error rates, and to ensure the accuracy of reports.

The MIMS system has a small number of users and is hosted remotely by the supplier. Access is by the creation of a virtual private network which in turn requires an LCC email account. We consider access to the system to be secure, however passwords changes are not prompted, there are no minimum password requirements and there is no lock out for repeated failed access attempts.

There are no defined administrative arrangements. With a system of this size and user base this is often not a major issue, however given the issues that we have identified we consider it that it would be helpful to formally establish an administrator role with a written role and responsibilities around the administration of the system such as system access and update, and user training and guidance.

We found that the understanding of the system by the primary users and owners of the system is not sufficient to ensure the system is operated effectively. There has not been sufficient training of users and there is a lack of guidance. The supplier has provided some guidance but it is not complete and does not take account of the way the system has been configured by LCC. Unfortunately this configuration is not documented, although this could most probably be remedied.

A test of 50 claims showed 48% to contain at least one error. A lack of insurance knowledge on our part meant that we were unable to fully assess the significance of the errors. The Head of Audit & Risk Management has analysed the errors and is satisfied that of the 50 claims tested 26% had a significant error. The error rate reflects the lack of training and guidance and could have been mitigated by checks on input which are infrequent and not recorded.

Reports have not always produced the output that is expected. Management are satisfied that this is largely down to incorrect use of the system and inadequate checking of reports. It is possible that the lack of understanding of the underlying configuration of the system is also contributing to this. We noted for example that what was referred to as an 'unwritten rule' for the formatting of locational information does not have to be as strictly applied as we were informed. Management have introduced interim arrangements for the checking of data in reports to ensure it is accurate, and working with the supplier to develop standard reports.

We also found a number of other issues that need to be considered or addressed as follows:

- Standing data is not checked to ensure it is correctly input
- Data is archived however it is not known how the archive function works.

- Although there are regular formal meetings with Legal Services they may not be fully effective as comments were made by Legal Services staff that they were not fully kept up to date on changes made to the system.

Management Response

Assistant Director of Resources - Finance & Resources
This review was commissioned by management in the light of a range of service quality issues that emerged during 2013. The MIMS system is not a key financial one but does provide an important range of management information as it is, in effect, an insurance claims database. It is important for tracking historic claims experience and for answering requests for information such as Freedom of Information enquiries. The report recommendations are accepted and will be implemented as part of a wider service improvement plan that is now underway. In the longer term consideration will be given as to whether the present system continues to meet service needs going forward.

Head of Audit & Risk Management
During 2013 we have identified a number of service quality issues that need to be addressed to ensure that the insurance team provide an effective and efficient service and that the Council's Insurance Fund remains solvent and sustainable. An improvement plan is in place which includes the MIMS system. High Priority actions
Include:

- Working with the supplier to see if there are ways to improve input controls and data integrity checking on the system
- Establishing the system admin. role and remit.
- Working with the supplier to develop standard reports / extract routines.
- Develop procedure notes and ensure all the team are sufficiently trained to enable them to perform their roles and are clear about data quality standards – minimising the risk of data entry errors.

Management Actions	No.	All to be completed by:
High Priority	4	31st August (3) and 31st December 2014 (1)
Medium Priority	2	31st December 2014

Appendix 3 - Outstanding recommendations as at 31st August 2014 audits with No, Limited, Inadequate or Major Improvement assurance

Audit Area	Date	Assurance	Recs	Implemented	Overdue		Not Due
					H	M	
Coroners	June 2014	Limited/ Substantial	39	7	15	11	6
Debtors	April 2014	Limited	11	4	2	2	3
Domestic Abuse	June 2014	Limited/ Substantial	6	2		4	
MIMS System	June 2014	No	6	1	2	1	2

Appendix 4 – Internal Audit Plan 2014/15

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Critical Service Areas: - Those areas identified by senior management as having the most impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss, impact on people (risks)						
Executive Director – Pete Moore						
Corporate property						
Property Management	Review the effectiveness and delivery of the Property Strategy and utilisation of its property assets.		Dec 2014			
Capital Contracts	Review of award and management of contracts		Oct 2104			
Fire and Rescue						
Trading Company	Assurance over the governance, risk and control environment arrangements set up for the Company.		Dec 2104			
Sub Total		**50**				
Executive Director – Richard Wills						
Environment & Planning						
Carbon Reduction Commitment	Review of the arrangements in place to comply with the Environment Agency's requirements under the CRC, including sign off of the LCC		July 2014	July 2014		Draft Report

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	Evidence Pack.					
Joint Policy working / Joint Local Plan	Review of joint policy working arrangements to ensure that LCC is clear of its role and responsibilities and is an active partner in managing the risks (link to JPU and Wind farm policies). Provide assurance on the revised delivery arrangements for the central Lincolnshire joint local plan and provide support and advice at key stages through gateway review.		June 2014	June 2014		Fieldwork
Joint waste management strategy	Review to provide assurance on arrangements and progress for the district waste strategy. To include assessment of financial benefits and district engagement.		Dec 2014			
Highways & Transport						
Social Care Transport	To provide assurance that effective arrangements are in place for the operational management of transport services – including Safeguarding arrangements.		May 2014	May 2014	August 2014	Final Report Some Improvement Needed

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Economic Development						
Adult Learning	Review of the financial arrangement in to confirm adequate financial control and sustainability		Oct 2014			
Sub Total		**70**				
Director of Children Services – Debbie Barnes						
Commissioning						
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes. (Co-ordinate audit with Director of Adult Services & Director of Public Health)		July 2014			Audit postponed until October 2014 to allow for a joint audit with PWC (CCG Internal Auditors)
Home to School / College Transport	To provide assurance that effective arrangements are in place for the financial and operational management of Home to School / College transport services – including VfM and Safeguarding arrangements.		May 2014	May 2014	August 2014	Final Report Some Improvement Needed
Regulated Services						
Children's Adolescent Mental Health Services	To provide assurance around the commissioning of Children's Adolescent Mental Health		August 2014			Scoping

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	Service. LCC are lead commissioner for funds allocated by NHS England.					
School Administration Services						
Non-attendance at school	To provide independent assurance that the authority has robust policies and procedures in place to enable them to meet their legal duty to identify children missing education and get them back into education.		June 2014	July 2014		Client Brief
Performance Assurance						
CfBT contract	Audit of the financial arrangements covering the four funding streams – open book accounting approach		November 2014			
Educational Performance – Moderation	To review the moderation arrangements of pupil attainment across all Key Stages, including Early Years and pupils with special educational needs.		November 2014			
Safeguarding – Organisational Learning	Assurance over organisational learning following the outcome of serious case reviews. Co-		August 2014			Scoped – awaiting approval by LSCB

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	ordinating the audit engagement through the Lincolnshire Children Safeguarding Board.					
Human Resources						
People Management	Review the effectiveness, quality and compliance of the People Strategy launched in 2012 and the strands underpinning delivery of the Council's people management arrangements. Areas not previously reviewed in 2013/14: • Resource & Talent Management • Capability and Disciplinary • Managing Employee Performance & Development		Oct 2014			
Sub Total		150				
Schools	Periodic audits of maintained schools.	150	April 2014	April 2014		9 schools completed
Sub Total		**300**				
Director of Adult Services – Glen Garrod						
Safeguarding	To provide assurance around the Governance and decision making arrangements of the new mandatory Safeguarding Board.		July 2014	July 2014		Fieldwork

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	The audit will also review and assess progress and implementation of recommendations arising from the Lincolnshire Adult Social Care Peer Challenge and Domestic Homicide Reviews.					
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes. (Co-ordinate audit with Director of Children Services & Director of Public Health)		July 2014			Audit postponed until October 2014 to allow for a joint audit with PWC (CCG Internal Auditors)
Information Governance	A review to assess the controls in place for preventing Data Security Breaches.		July 2014	July 2014		Fieldwork
Workforce Development	A review of training planning and delivery arrangements.					Director has requested cancellation
Reablement Service	Review to gain assurance around the new arrangements.		October 2014			
Contract Management	Assurance around the contract governance, monitoring and reporting procedures.					Director has requested cancellation

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Sub Total		**100**				
Director of Public Health – Tony Hill						
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes. (Co-ordinate audit with Director of Adult Services & Director of Children Services)		July 2014			Audit postponed until October 2014 to allow for a joint audit with PWC (CCG Internal Auditors)
Sexual Health Services	Review of the Governance and decision making arrangements for commissioning mandated Sexual Health Services.		December 2014			
Health Protection	A review of the Assurance Framework for protecting the Health of the Local Population, including screening, infection control and immunisation.		July 2014	Aug 2014		Fieldwork
Lincolnshire Community Assistance Scheme	To provide assurance around the application, payment, monitoring and reporting procedures and controls for this new scheme.		June 2014			Delayed
Substance Misuse	Review of the Governance and decision making arrangements for commissioning services.		May 2014	May 2014		Draft Report

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Wellbeing Service	Review of the Governance and decision making arrangements for the implementation of the Wellbeing Service.		November 2014			
Contract Management	To provide assurance around the transfer of Public Health/ NHS contracts to the Authority. Assurance around the contract governance, monitoring and reporting procedures.		Jan 2015			
Sub Total		**100**				
Corporate Functions - Due Diligence - Those systems that support the running of the Council and ensure compliance with key policies						
Executive Director – Pete Moore						
Finance						
Key financial systems – transaction testing	Throughout the year test key controls and transactions feeding into the Council's accounts to ensure financial control environment remains effective throughout the final year		May 2014			Ongoing throughout 2014/15
Mouchel Contract	Assurance over handover arrangements and delivery to the		Sept 2014			Scoped

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	end of the contract.					
Pensions Fund / Administration	Provide assurances over the arrangements to transfer responsibilities to new provider (9 month process from June 2014)		Oct 2014			
Budget Management	On cyclical plan for 2014/15 – although high confidence in this area – analytical review plus deeper dive into service area budgets	150	July 2014	August 2014		Client brief
Procurement Lincolnshire						
Contract Management	Review the effectiveness of contract management model enterprise wide.		Through 2014/15			Ongoing
EU procurement changes	Review of the procurement regulations to ensure that the necessary changes have been implemented.	15	Nov 2014			
Other						
Corporate Governance	To review the effectiveness of the Council's governance arrangements, including compliance with new standards regime		Through 2014/15			Ongoing
Member Support	Review the arrangements for member support in view of the risks identified from the changing political make up of the council	20	Sept 2014			Scoped

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Information governance / records management	To review organisation wide information governance arrangements to provide assurance that data related risks are sufficiently managed whilst ensuring the right data is available at the right time.	15	Dec 2014			
Emergency Planning and Business Continuity	Review the Council's arrangements and resilience to respond and recover to a major event / incident.	15	TBA			
Sub Total		**215**				
ICT						
ICT Infrastructure and service delivery	Work is underway to finalise ICT assurance map and status report – this will inform the choice of audits in this section of the plan. Scheduling of individual ICT audits will be agreed when the assurance map is finalised.		Sept 2014			ICT audit plan has recently been agreed
IT Application	Social Care Case Management System		Sept 2014			
Sub Total		**130**				
Key Projects						
Executive Director – Pete Moore						

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
New Finance System	Support and advise the Implementation Group on the key workstreams re. transfer to the Finance System		April 2014	April 2014		In progress
Broadband in Lincolnshire	To provide assurance on delivery and compliance with the grant conditions.		Feb 2015			
Corporate landlord	To provide a consultative and supportive role for the 'corporate landlord' project as it progresses along its implementation plan during 2014/15	205	Dec 2014			
Executive Director – Richard Wills						
Library needs assessment	Review to confirm that proposals for the future of the Library Service will deliver reported savings.	15		July 2014		Review of organisational learning re Libraries Judicial Review
Director of Children Services – Debbie Barnes						
New HR System	Support and advise the Implementation Group on key HR workstreams		April 2014	April 2014		Ongoing alongside work on New Finance System
Families Working Together	To review and audit claims for Troubled Families Grant. Days allocated on the basis of a quarterly claim.	35	Quarterly claim			Quarters 1 and 2 complete

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Raising the Participation Age (project) / Tracking the Status of 16 – 18 year olds in education, employment or training (critical activity)	From September 2013, all 17 year olds had a duty to participate in education, employment or training. This extends to 18 year olds from September 2014. To review the arrangements in place that ensure young people are aware of their duty to participate and that there will be sufficient provision available. This could include how the LA are identifying young people that are not in education or training, including data sharing arrangements with Educational Institutions.	20	November 2014			
Director of Adult Services – Glen Garrod						
Transformation Programme	Review, advice and guidance around the transformation programmes within Social Care, including the Case Management System and Lincolnshire Sustainability Review - considering the design and application of the governance structure.		July 2014	July 2014		On-going work throughout the year

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	To provide proactive advice and support on governance, managing key risks and effective internal control.	30				
Sub Total		**305**				
Emerging risk & Contingency						
Emerging risk – delivery of transformation	Assurance arrangements around commissioning (in line with the commissioning strategies & the fundamental budget reviews).					
Emerging risk contingency	To audit any significant emerging risks arising in the year – • Responding to legislation eg Care Bill / Dilnot					
Sub Total		**115**				
Other relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the annual status report.	Sept 2014	Sept 2014			Meeting arranged to agree approach and timetable
Sub Total		**50**				
Non-Audit						
Advice & Liaison		44				
Annual Report		1				

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Audit Committee		20				
Sub Total		**65**				
Grand Total 2014/15		**1500**				

Lincolnshire
COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Public Protection

Report to:	**Audit Committee**
Date:	**22 September 2014**
Subject:	**Approval of the Council's Annual Governance Statement 2014**

Summary:

Each year the Council is required to reflect on how well the Council's governance framework has operated during the year and identifiy any governance issues that we need to draw to the attention of Lincolnshire's residents.

Good governance underpins everything we do as a Councill and how we deliver services often comes under close scruitiny.

A 'good' Annual Governance Statement is an open and honest self- assessment of how well we have run our business accross all activities - with a clear statement of the actions being taken or requried to address any areas of concern.

The Audit Committee oversees the development of the Annual Governance Statement and recommends its adoption by the Council.

Recommendation(s):

That the Committee considers the contents of the Annual Governance Statement 2014 , and:

1. agree that it accurately reflects how the Council is run;

2. that the statement includes the significnat governance issues / key risks it would have expected to be published;

3. approves the statement and recommend it for adoption by the Council.

Background

What do we mean by Governance?

1 Governance is about how local authorities ensure that they are:

'doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner'

2 It is comprises of systems, processes and culture and values, by which the Council is directed and controlled and through which they account to, engage with, and where appropriate, lead their communities.

"If management is about running the business – governance is about seeing that it is run properly"[1]

What is the Governance Framework?

3 At its meeting on the 21st July 2014 the Audit Committee considered the draft Annual Governance Statement for 2014. A number of changes to the statement were suggested by the Committee – these have been actioned.

Governance Issues

4 The areas identified where further work is required to improve systems or monitor how the key risks facing the Council are being managed are:
- Maintaining Good Governance
- Integration of Health and Social Care
- Responding to the Care & Support Bill
- Capacity to deliver
- Future Delivery of Support Services
- Safeguarding Children
- Ensuring all children have access to a good education
- Organisational Learning around the Libraries Judicial Review

5 These areas are highlighted because of the need for the Council to be realistic and open about those functions and activities which require, or are likely to require, support (including but not limited to financial support) over the next year in order to ensure that they are working effectively and efficiently. This in turn should ensure that any future problems in those areas are averted or at the very least minimised.

6 The final Annual Governance Statement can be found in Appendix A. It is presented to the Committee for your consideration of the contents eg:

[1] Robert Tricker. An expert in Corporate Governance.

- Does the Statement accurately reflect the Committee's understanding of how the Council is run?
- Have the changes requested by the Committee on the draft statement – considered in July 2014 – been actioned.

Conclusion

7 The Council has a strong control environment which is demonstrated by the realistic and open assessment of its functions and activities.

8 Officers have identified a number of governance issues to be included in the Annual Governance Statement.

9 The purpose of the Annual Governance Statement is to strengthen the Council's governance arrangements – demonstrating accountability. Our governance arrangements should not only be sound but seen to be sound.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire County Council - Annual Governance Statement 31 March 2014

Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Draft Annual Governance Statement 2014	Audit Committee records - 22 July 2014

This report was written by Lucy Pledge, who can be contacted on 01522 553692 or lucy.pledge@lincolnshire.gov.uk.

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Lincolnshire COUNTY COUNCIL
Working for a better future

Annual Governance Statement

2013/2014

Version 1 19.05.14

Lincolnshire County Council in statistics

724,500 residents comprising ***306,971*** households were in receipt of LCC services

569 people became British Citizens through formal citizenship ceremonies in Lincolnshire.

615 compliments and ***835*** complaints were received by LCC. ***87*** complaints and queries went to the Local Government Ombudsman and out of those where a detailed investigation was carried out, only ***11*** were upheld and ***18*** were not upheld.

LCC has ***5,512*** miles of roads and repaired ***50,000*** pot holes last year.

265,000 passenger journeys were made via CallConnect, providing public transport in isolated areas.

7,454 free home fire-safety checks were undertaken

8,360 people attended adult learning courses.

10,334 older people received home care to help them live independently in their homes.

102,540 children attended Lincolnshire's ***356*** schools.

61.8% of pupils achieved 5 or more GCSEs at grades A* to C which is ***2.6%*** above the national average.

2015 sees the opening of the new Magna Carta and Charter of the Forest visitor centre in Lincoln Castle.

413,700 visits were made to the county's heritage sites.

£140 million has been invested in a combined heat and power plant, designed to use ***150,000*** tonnes of rubbish.

Over ***£304 million*** was spent with local suppliers in the last year.

Annual Governance Statement for Lincolnshire County Council 2014

How has this Statement been prepared?

Each year we reflect on how well the Council's governance framework has operated during the year and identify any significant governance issues we need to draw to the attention of Lincolnshire residents.

To help us do this the Council's Audit Committee undertakes a review of the Council's governance framework[1] – considering and challenging evidence and information supplied by an Officer Group (comprising of the Chief Financial Officer, Monitoring Officer, Head of Internal Audit, Head of Legal Services and Democratic Services Manager.

On the 11th June 2014 the draft statement was agreed and signed off by the Corporate Management Team.

On the 21st July 2014 the Audit Committee considered the significant governance issues identified in the Statement – ensuring that the Statement properly reflects how the Council is run and identified any improvement actions.

The final statement was formally approved by the Audit Committee on the 22nd September 2014 - where it was recommended for signing by the Leader of the Council, Chief Executive and the Executive Director – Finance and Public Protection.

[1] The Council has adopted a governance and assurance structure which is consistent with the principles of the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government – 2012 Edition

Introduction by Pete Moore
Executive Director, Finance and Public Protection

"If management is about running the business – governance is about seeing that it is run properly"[2]

Good governance underpins everything we do as a Council and how we deliver services often comes under close scrutiny.

It's important our resources focus on agreed policy and priorities; that there is sound and inclusive decision making with clear accountability for the use of those resources and that key risks are managed effectively. This ensures that we achieve the desired outcomes for the people of Lincolnshire.

We continue to face significant financial challenges with less money for Local Authorities. We will have made savings of nearly £130m by March 2015 and will have also made some modest use of our balances to help support the budget and the change programme the Council will be undertaking. The Spending Review for 2015/16 and our future financial projections indicate that we will have to reduce budgets by a further £90m by March 2019. This will mean reassessing our priorities against available budgets and looking at different ways to deliver our services – working far closer with key partners such as health and police, business, the 'third sector' and community groups.

In this time of change it is vital that people and businesses have trust and confidence in how we run our business and that public money is well spent.

Pete Moore
Executive Director – Finance and Public Protection

[2] Robert Tricker. An expert in Corporate Governance.

What is Corporate Governance?

Lincolnshire County Council spends around £1,000 million of public money every year**.** It is our duty to ***"ensure the greatest benefits for the people in Lincolnshire from the resources we use."***

The public have a right to expect high standards and value for money in how we spend this money to improve the lives of the people of Lincolnshire.

Local Government has been and will continue to undergo significant change. The way we operate and deliver services – either directly, with or through other organisations will provide challenges for managing risk, ensuring transparency and demonstrating accountability. We need to aim for the standards of the best and our governance arrangements should not only be sound but also seen to be sound.

The Framework consists of the systems and processes, cultures and values by which the Council is directed and controlled. It sets out how we account to and engage with the people of Lincolnshire - it's about **Community Leadership**.

It helps us monitor our progress in achieving our goals and whether or not those goals are leading to effective and top quality services.

Our Governance Framework brings together an underlying set of legislative requirements, good practice principles and management processes.

Whose responsibility is it?

Having good governance arrangements is important to everyone involved in the Council. However, it is a key leadership responsibility of the Leader of the Council and of the Chief Executive. They are accountable for ensuring good governance in the Council.

Figure 1 - Our governance framework

Code of Corporate Governance

- Services are delivered economically, efficiently & effectively
- Management of risk
- Effectiveness of internal controls
- Democratic engagement & public accountability
- Budget & financial management arrangements
- Roles & responsibilities of Members & Officers
- Standards of conduct & behaviour
- Compliance with laws & regulations, internal policies & procedures
- Actions plans dealing with significant issues are approved, actioned & reported upon

Assurance Required Upon

Source of Assurance

- Constitution (incl. statutory officers, scheme of delegation, financial management & procurement rules)
- Audit Committee
- Internal & external audit
- Independent & external sources
- Council Executive & Scrutiny
- Medium Term Financial Strategy
- Complaints system
- HR policies & procedures
- Whistleblowing & other countering fraud arrangements
- Risk management strategy & framework
- Performance management system
- Codes of conduct
- Corporate Management Team

- Statement of accounts
- External audit reports
- Internal audit reports
- Local Government Ombudsman report
- Risk Management Reports
- Counter fraud reports
- Scrutiny reviews
- Effectiveness reviews of Audit Committee
- Combined Assurance Status Reports
- Overview & Scrutiny Annual Report
- Performance & Delivery Reports
- Annual Report

Assurances Received

Opportunities to Improve – our key risks

- Maintaining Good Governance
- Integration of Health and Social Care
- Responding to the Care & Support Bill
- Capacity to deliver
- Future Delivery of Support Services
- Safeguarding Children
- Ensuring all children have access to a
- good education
- Organisational learning around the Libraries Judicial Review

Annual Governance Statement

The Council – How it works

The Council is made up of 77 Councillors and operates a Leader and Cabinet model of decision making.

All 77 Councillors meet at full Council to agree the budget and policy framework. Ten Councillors form the Executive. The Executive make the decisions that deliver the budget and policy framework.

The remaining 67 Councillors form scrutiny committees. These committees develop policy and scrutinise decisions made by the Executive and key decisions made by officers – holding them to account. A number of Committees deal with Regulatory issues.

The conduct of Council's business is defined by formal procedures and rules – known as the Constitution. This explains the roles and remits of all committees and the delegation arrangements that are in place. It also contains the Budget and Policy Framework, finance and other procedure rules and the Codes of Conduct for Members and Employees.

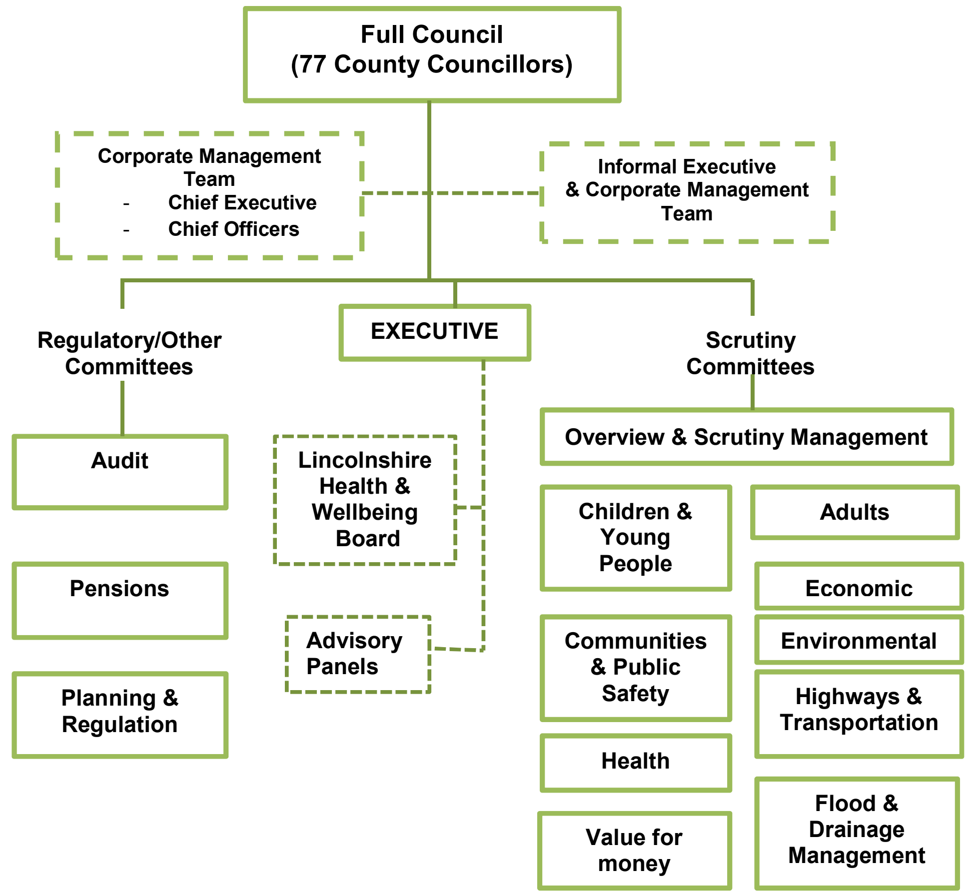
Council elections were held on the 2nd May 2013. This resulted in a change in the Lincolnshire Administration – which is now a coalition of Conservatives, Liberal Democrats and Independents.

In times motivated by change we are committed to sharing as much information about our plans and programmes as possible. Meetings are therefore normally open to the public and we undertake extensive consultation on major changes to the way we propose to deliver our services.

During 2013 we have continued to progress towards becoming a commissioning council. Fundamentally, we are reshaping ourselves as a council completely focused on outcomes, or results, rather than services as in the past. We have already started reviewing senior management structures – during 2014 further organisational change is planned to align our workforce to deliver the 17 commissioning strategies and deliver the spending reductions required of us. Having a strong governance framework during this period will be vital to our success.

Having far closer co-operation with health partners and community groups will play a part in how we run our business. Collaborative governance and accountability arrangements will need to be fully developed – balancing accountability for successful delivery of outcomes with proportionate and pragmatic approaches based on acceptable levels of risk.

Figure 2 – Council Committee Structure



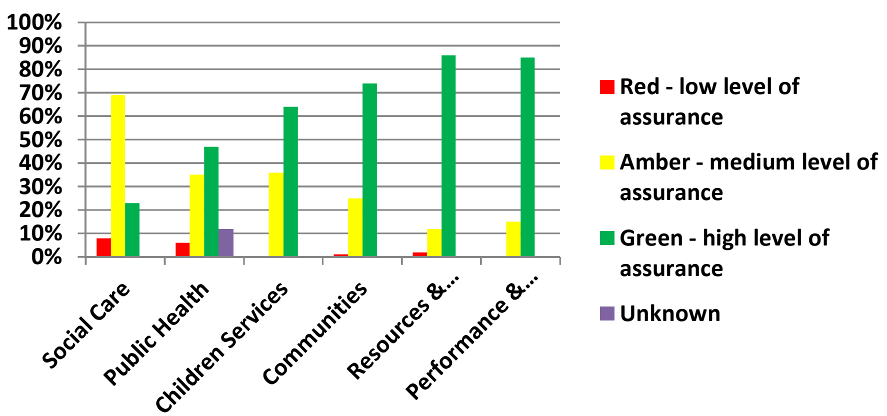
How do we know our arrangements are working?

There are a number of ways we assess if our governance arrangements are working.

Our managers have the day to day responsibility for managing and controlling services - they are accountable for their successful delivery. They set 'the tone from the top' and develop and implement the policies, procedures, processes and controls – ensuring compliance.

A Combined Assurance Status report is produced by each Director on the level of confidence the council can have on its service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. These reports are reviewed by the Audit Committee.

Figure 3 – Overall Assurance Levels 2014



We communicate the vision and purpose of the authority to the public by setting out our objectives and priorities for the year within our Business Plan.

We make sure the public receive high quality services by measuring our success and publically reporting our overall financial position in our Statement of Accounts.

We publish an Annual Report that highlights some real achievements in services provided to Lincolnshire residents, summarises how we spent our budget and shows what efficiency savings we have made.

If for any reason someone feels that the Council has failed to do something that should have been done or has done something badly or feel that they have been treated unfairly we have a Complaints Policy to proactively deal with complaints and learn from our mistakes.

From time to time the council makes decisions that others want to challenge. Apart from our own complaints mechanisms, people who are dissatisfied after that process may take a complaint to the Local Government Ombudsman.

There is one other route for challenge, that of judicial review. This is a legal challenge on the processes that we have followed or allegedly with which we have not complied.

Role of Monitoring Officer

The Executive Director – Environment and Economy is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by us as detailed in the Constitution Part 3,

The Monitoring Officer is responsible for ensuring the Council complies with its duty to promote and maintain high standards of conduct by memebrs and co-opted members of the authority. The Council has adopted a Code of codncut and arrangements by which the Monitoring Officer will deal with complaint that Members may have failed to comply with the requirements of that Code.

Effective Scrutiny and Review

Our Overview and Scrutiny Management Committee exists to review and scrutinise any decision made by the Executive, Executive Councillor or key decision made by an officer. It examines the County Council's overall performance and advises our Overview and Scrutiny Committees of any areas of performance requiring detailed consideration.

Each year an Overview and Scrutiny Annual report is produced which shows the activities undertaken by the 10 Committees and how they have contributed to the delivery of agreed priorities and outcomes.

Managing our Risks

Good risk management is part of the way we work. It is about taking measured risks when making decisions or where we need to encourage innovation in times of major change. This will put us in a stronger position to deliver our goals and provide excellent services. Our risk management process is well established in the way we work. The Audit Committee is responsible for reviewing how effective our risk management procedures are. Our Strategic Risk Register is regularly reviewed and more details can be found in our Risk Management Strategy

Our strategic risk management team supports management to help create an environment of 'no surprises'. A recent Internal Audit Review has identified some opportunities to improve risk information around key decisions, projects and the level of risk the Council is prepared to take across it's different business units.

For more information go to: Risk Management Strategy

Tackling Fraud Locally

We are dedicated to promoting a strong culture to prevent and detect fraud. This is supported by our Counter Fraud Policy and our Whistleblowing Policy.

Our response to Central Government's expectations for tackling fraud and corruption is reflected in the Counter Fraud Policy and annual work plan.

Progress and delivery of our counter fraud work plan is monitored through our Audit Committee with an Annual Report produced to provide information on the overall effectiveness of the Council's Counter Fraud arrangements.

If for any reason someone feels that the Council has failed to do something that should have been done or has done something badly or feel that they have been treated unfairly we have a Complaints Policy to proactively deal with complaints and enables us to learn from our mistakes.

Chief Financial Officer

The Council has designated the Executive Director – Finance and Public Protection as the Chief Finance Officer under Section 152 of the Local Government Act 1972. He leads and directs the Financial Strategy of the Council.

They are a member of the Council's Management Board and have a key responsibility to ensure that the Council controls and manages its money well. They are able to operate effectively and perform their core duties - complying with the CIPFA Statement on the role of the Chief Financial Officer.

Our Audit Committee

The Audit Committee is a vital group that oversees and promotes good governance, ensures accountability and reviews the way things are done. The Audit Committee provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability. The Committee exists to challenge the way things are being done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment.

Our External Auditors attend Audit Committee meetings. At least once a year a private meeting is held with them to help provide the Audit

Committee with independent insight on key issues facing the Council and how well its governance arrangements are working.

Our Internal Audit team is one of the Audit Committees key independent assurance providers.

We have a non-elected member on the Committee. The ability of an independent member to offer different perspectives and constructive suggestions will improve the way we work. For more information go to: [Audit Committee Records]

Internal Audit

Internal Audit provides independent assurance designed to add value and improve how the Council operates. It helps the Council achieve its priorities and objectives by bringing a systematic and disciplined approach to evaluate and improve the management of risk, control and governance processes. It provides constructive and independent challenge to management on the way things are done.

We undertake an annual review of the effectiveness of our Internal Audit service ensuring it conforms with the UK Public Sector Internal Audit Standards including CIPFA's advisory note on the standards and their statement on the role of the Head of Internal Audit in public service organisations.

Our Internal Audit Charter sets out Internal Audits role and remit.

External Audit

The Council's financial statements and annual governance statement are an important way we account for our stewardship of Public funds.

KPMG, our External Auditors, audit our financial statements and provide an opinion on these.

They also assess how well we manage our resources and deliver value for money to the people of Lincolnshire.

Governance Issues

Whilst we are generally satisfied with the effectiveness of our governance framework and assurance arrangements our review identified the following areas where further work is required to improve systems or monitor how the key risks facing the Council are being managed:

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
Maintaining Good Governance			
Maintaining good governance in complex environments and in times of significant change can sometimes become difficult. Our governance and assurance arrangements will need adapting to respond to the changing organisational environment: • Proportionate and pragmatic given collaborative delivery models. • Risk Managements information improved around decisions and clarity on the level of acceptable risk associated with different business units / delivery models. • Effectiveness of the Audit Committee and Overview and Scrutiny Committees. • Implementation of Local Government Transparency Code 2014. • Review of effectiveness of local standard arrangements re members code of conduct (via Audit Committee). • Effectiveness of programme and project management.	Executive Director Finance and Public Protection Safety Monitoring Officer (Executive Director Environment and Economy)	Delivery models will be reviewed as part of the fundamental budget review and the review of Council priorities but will also be an ongoing feature from the new commissioning approach. The Transparency Code has been reviewed and action will be taken to ensure additional information is in place between now and December 2014. Chairman and Vice-Chairman of Committees will be briefed on the Openness of Local Government Bodies Regulations 2014. Standing orders will be amended appropriately. The Council is reviewing its Constitution which will be presented to the September Council Meeting. The Corporate Risk Register was updated recently but will be reviewed	FBR / review of priorities will result in a sustainable medium term budget and an updated Council business plan budget by February 2015. Between 1st October and 31st December 2014. By 30th September 2014 September 2014 (possible further review on Standards before May 2015 Further update of the Corporate Risk Register

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
		following the FBR and as part of the preparation of an updated business plan for 2015/16. The self-review, facilitated by the External Auditors of the effectiveness of the Audit Committee was undertaken in June 2014 and an implementation plan will be developed out of this. Because Executive Director responsibilities have changed in recent months the officer ' governance group' has been re-constituted and will meet on a regular basis to ensure all key governance issues are picked up and addressed in a timely and effective manner.	By 31st March 2015. Implementation plan to be agreed and implemented during 2014/15. Already actioned.
Integration of Health and Social Care			
The transformation of Adult Care continues at scale and pace along with health organisations within Lincolnshire as elsewhere. Achieving better care and keeping the most vulnerable adults safe can only be done in partnership - whether that be with colleagues within the Council such as Public Health and Children's Services, statutory partners such as health colleagues, 3rd sector and independent organisations. For the people working in the service, they will require a change in skills and attitudes. For the organisational shape and processes used today, they also require	Director of Adult Services / Director of Public Health	The first four neighbourhood teams will commence August 2014 with the next wave of four commencing October 2014. A new specification for an intermediate care service funded through a pooled budget will represent a significant step forward regarding service and budget integration and performance improvement in respect to reablement.	31st October 2014

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
fundamental change. The Better Care Fund highlights the initial "Early Implementers" for integration, a level of pooled budget and performance improvement. Lincolnshire Health and Care (LHAC) represents the broader strategic changes currently in design across the social care and health system in Lincolnshire.		The Better Care Fund for Lincolnshire states that by the end of 2015/16 we will have pooled £197m of health and social care funding.	By the end of 2015/16
Responding to the Care and Support Bill			
Future years' budgets for Adult Care will be heavily impacted by the additional cost implications of 'Dilnot' and the Care Act. This results from a mix of the 'cap' on service user contributions, changes to means testing arrangements, impact of self-funders and the impact of demography and in particular increasing life expectancy. The Care Act will reform social care – modernising the law to put people's wellbeing at the heart or the care and support system. It aims to support those people who need it most. To help make difficult choices, and yet optimal ones, a set of decision making criteria has been established and Commissioning strategies established. Appropriate governance structures are in place to ensure that we implement these changes well. The three largest group of people affected will be carers, self-funders and prisoners.	Director of Adult Services	The Care Act must be implemented in Lincolnshire by April 1st 2015. The Dilnot Funding Reforms will need to be implemented by April 2016. The new partnership with Serco (notably with respect to the Customer Service Centre) and the implementation of CMPP (Mosaic) are key inter-dependencies in delivering successful implementation.	31st March 2015

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
Capacity to Deliver			
Local Government continues to face spending reductions. In Lincolnshire, by the end of the decade, our Council budget will be at least 40% less than it was in 2010. We have made significant changes already – more needs to be done – we need new ambitions and to reorganise ourselves so as to deliver these in the most efficient and effective manner possible. Historically, we have been used to delivering services, many of which have been identified for us in legislation or have built up over decades of expectation, practice and procedure. From now on, however, the Council will identify the outcomes it wishes to see in priority areas and then work out how best to bring about those outcomes. All areas of the Council will be subject to fundamental budget reviews.	Pete Moore – Executive Director Finance and Public Protection	As part of the budget process for 2014/15 the Council agreed that a Fundamental Budget Review (FBR) would be undertaken during 2014 to address the financial challenges it faces over the next few years. This will include re-assessing priorities within the new commissioning strategies framework, a reduced budget envelope and with an appropriate assessment of risks. This will result in a sustainable, medium term financial plan and an updated financial strategy to support it.	Initial FBR workshops with the Executive from late June to 31st August 2014. 30th September 2014 – capital workshop and Executive consider overall options and proposals for consultation. 1st October 2014 to 31st January 2015 – consultation on priorities and budgets with the scrutiny committees public, service users, partners and outside bodies. 28th February 2015 – finalisation and approval of budget and medium term financial plan.
Future Delivery of Support Services			
Our contract to deliver back office support functions comes to an end in March 2015. The Future Delivery of Support Services Programme	Chief Information and Commissioning Officer	A new financial and HR system will be implemented from 1st April 2015 – this will mean new support processes and different ways of working. The	1st April 2015

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
(FDSSP) was set up in review how the support services would be delivered with new contract arrangements being put in place in preparation for 1st April 2015.		successful delivery of this programme is vital as it impacts on all areas of Council business. Project governance and assurance arrangements have been put in place to achieve this. Key milestones are approximately each quarter with system design to be complete at the end of July, system build at the end of October, system testing by end of December and migration, user testing and training by the end of March 2015.	
Safeguarding Children			
The action we take to promote the welfare of children and protect them from harm - is everyone's responsibility. Everyone who comes into contact with children and families has a role to play. Safeguarding and promoting the welfare of children includes: protecting children from maltreatment; preventing impairment of children's health or development; ensuring that children grow up in circumstances consistent with the provision of safe and effective care; and taking action to enable all children to have the best outcomes. In order to strengthen our safeguarding arrangements the Service is working in partnership with other agencies to implement a consistent risk assessment framework called Signs of Safety.	Director of Children Services	The Signs of Safety approach has been agreed for implementation across the whole of Children's Services. We plan to work with our Consultant Trainer for 5 years to ensure we embed this approach in all aspects of Children's Services practice. Children's Services offer multi agency briefings which have been well attended and have received excellent feedback, and the Project Manager delivers briefings and overviews to partners to raise awareness of the changes taking place. The Police are currently running a pilot in two of the area frontlline officer	On-going – monitored through performance management / quality assurance framework 31st October 2014

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
Signs of Safety is an innovative strengths-based, safety-organised approach to child protection casework. The partnership is also exploring opportunities to better share information to further assist in safeguarding children.		teams, this will be reviewed in October 2014. Children's Services have a plan for 2-day training sessions to staff, which began in July 2013; monthly Practice Leader (PL) sessions for our front-line managers and Independent Chairs; and targeted training sessions on specific aspects of the Signs of Safety approach. This learning should all be cascaded and shared within teams, and Signs of Safety is a standing agenda item on all team meetings . There is a monthly Steering Group made up of Senior Managers and chaired by our lead Assistant Director, that provides the strategic direction for the project and ensures its knowledge of the approach is kept up to date through bi-monthly practice based Steering Group meetings. LCC plan to work with our Consultant Trainer for 5 years to ensure we embed this approach in all aspects of Children's Services practice. The Project Manager is working with the Practice Leads and consultant to embed in key priority areas including Strategy Discussions, Assessments,	On-going – monitored through performance management / quality assurance framework

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
		Plans and Child Protection meetings. In addition, there are regular communications circulated to staff.	
Ensuring all children have access to a good education			
The Council continues to have a duty to promote educational excellence for all children and young people and be ambitious in tackling underperformance. This includes: taking decisive action in relation to poorly performing schools, developing robust school improvement strategies, promoting high standards in education by supporting effective school to school collaboration and undertaking specified responsibilities in relation to staffing and governance of maintained schools. The Council is currently reviewing how it can best deliver these duties in a changing education landscape.	Director of Children Services	Design and Task Group to be established with Head Teacher representation Design and Task Group to establish memorandum of understanding and develop governance arrangements Mechanism for engaging with Governing Bodies and Academy Sponsors confirmed and delivered Early Implementers to be established Review of early implementers and roll out programme for all schools to be engaged in improvement partnership	30th September 2014 31st December 2014 1st April 2015 30th Sept 2015 1st April 2016 –30th Sept 2016
Organisational Learning around the Libraries Judicial Review.			
A judicial review was lodged against the Council around the lawfulness of the Council's decision making process to redesign Library Services in Lincolnshire. The High Court quashed the decision - the Council will identify any learning which would help strengthen its governance arrangements.	Chief Executive & Chairman of the Audit Committee	An Internal Audit has been commissioned to provide some independent insight / review on the facts surrounding the decision making process and any lessons that can be learnt for the future.	30th November 2014

Conclusion

We are satisfied that plans are in place that will address the areas identified above and will monitor their implementation and operation as part of performance management. The Audit Committee will help provide us with independent assurance during the year.

Signed

………………………….. Date ……/…../…...	**………………………….. Date ……/…../…...**	**………………………….. Date ……/…../…...**
Director – Finance & Public Protection	**Chief Executive**	**Leader of the Council**

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director - Finance and Public Protection

Report to:	**Audit Committee**
Date:	**22 September 2014**
Subject:	**External Audits ISA 260 Report to Those Charged with Governance on Lincolnshire County Council's Statement of Accounts and Lincolnshire County Council Pension Fund Accounts for 2013/14**

Summary:

The Statement of Accounts for Lincolnshire County Council and for Lincolnshire County Council Pension Fund for the financial year 2013/14 have been completed and independently audited.

This report sets out the External Auditors findings in their ISA 260 Report to Those Charged with Governance for the County Council's Statement of Accounts (Appendix A) and for the Pension Fund Accounts (Appendix B).

It is for the Audit Committee to: seek assurance over the adequacy of the External Audit Opinion on the Financial Statements and the Council's Value for Money arrangements and ensure any issues / risk identified by the External Auditor are being effectively managed.

Recommendation(s):

The Executive Director - Finance and Public Protection recommends the Audit Committee:

1. Consider the External Auditors Report to Those Charged with Governance (ISA 260) for Lincolnshire County Council (Appendix A) and the appropriateness of management responses;

2. Consider the External Auditors Report to Those Charged with Governance (ISA 260) for Lincolnshire County Council Pension Fund (Appendix B) and the appropriateness of management responses; and

3. Approve the Letter of Representation on behalf of the Council to enable the Audit Opinion to be issued (Appendix A Lincolnshire County Council's Report to Those Charged with Governance at Appendix 3).

Background

1.1 The Audit Committee were presented with the draft Statements of Accounts for 2013/14 for scrutiny and comment at its meeting on 21 July 2014. Our external auditors, KPMG, have now completed their work on the draft Statements and have issued their ISA 260 Reports to Those Charged with Governance for the Lincolnshire County Council Statement of Accounts and for the Pension Fund Accounts.

Lincolnshire County Council Statement of Accounts

1.2 Appendix A to this report is KPMG's ISA 260 Report to Those Charged with Governance, this report summarises the key issues identified during the audit of the Council's financial statements for the year ending 31 March 2014 and the assessment of our arrangements to secure value for money in the use of resources.

1.3 The Audit Committee is asked to consider KPMG's ISA 260 report. The key points contained in the report are:

- Section two – Headline Messages (page 3). This summarises the headline messages from KPMG's audit. These are:

    - The External Auditor anticipates issuing an unqualified audit opinion by 30 September 2014.

    - The External Auditor is pleased to report that the audit of the financial statements did not identify any material adjustments and that there were no uncorrected differences identified in the Financial Statements.

    - The Council has maintained high standards in the quality of its draft accounts and has good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

    - The Council's organisational control environment is effective, and no significant weaknesses in controls over key financial systems were identified.

    - The Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Again the External Auditor anticipates issuing an unqualified VFM conclusion by 30 September 2014.

  Further details on the Financial Statements audit are provided in section three (pages 4 to 8) and on the Value for Money Conclusion in section four (page 9 to 10).

- Appendix One – Follow up on previous year's recommendations (page 11) details how last year's audit recommendations were addressed.

1.4 The report also includes a draft Letter of Representation (Appendix 3) this must be approved and signed by the Chair of the Audit Committee and the Executive Director – Finance and Public Protection before the audit opinion can be given.

1.5 In addition to the ISA 260 report the following is a list of the amendments that have been made to the accounts since the draft Statements were presented to this Committee on 21 July:

- Minor amendments to the presentation of the balance sheet: moving S106 monies from other long term liabilities to long term creditors and the Fire-fighters Pension balance payable to the County Council from cash to short term debtors;

- An amendment to the carrying value of Investment Properties at 31 March 2014 (£0.476m); and

- Minor presentational amendments to Note 57 Group Accounts, Note 18 Financial Instruments, Note 8 Service Expenditure Analysis and Note 42 External Audit Fee.

<u>Pension Fund Statement of Accounts</u>

1.6 Appendix B to this report is KPMG's ISA 260 Report to Those Charged with Governance, this provides details of matters arising and errors identified in the unaudited accounts.

1.7 The Audit Committee is asked to consider the ISA 260 Report as presented by the External Auditor. The key points contained in the report are:

- Section Two – Headlines (page 3):

    - The External Auditor is pleased to report that their audit of the Pension Fund's statements did not identify any material misstatements and there are no uncorrected misstatements.

    - The External Auditor states that the Council has maintained the high standard in the quality of the accounts and the supporting working papers.

    - The Fund's organisational control environment is effective overall, and the External Auditor has not identified any significant weaknesses in controls over key financial systems.

- Section Three – Pension Fund Audit (page 5). The 2012/13 ISA 260 Report recommended that membership numbers were updated prior to the draft statement being produced. The recommendation was addressed but the membership number information is provided by the Pension Administrator, Mouchel, who were unable to provide the information before the 30 June 2014 deadline.

- Appendix One – Key Issues and Recommendations (page 7). The External Auditor identified an incorrect foreign exchange rate applied to the valuation of an investment. This resulted in an overstatement of £2.5m to the valuation. The External Auditor made one recommendation that all foreign exchange rates applied to the valuation of an investment are checked for accuracy and consistency. The overstatement of £2.5m was corrected to ensure the correct valuation was reported in the Financial Statements. Officers have implemented additional procedures to ensure foreign exchange rates are accurate and consistent.

1.8 In addition to the ISA 260 Report the following amendment have been made to our accounts since the draft Statements were presented to this Committee on 21 July:

- Membership numbers (note 1) have been updated following the completion of the Pensions Administration year-end work.

1.9 No amendments were made to the core financial statements that were presented to this committee on 21 July 2014.

Conclusion

2.1 The 2013/14 Statement of Accounts has been presented satisfactorily and is of good quality. The External Auditor expects to issue an unqualified opinion by the end of September.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire County Council - Report to Those Charged with Governance (ISA260) 2013/14
Appendix B	Lincolnshire County Council Pension Fund - Report to Those Charged with Governance (ISA260) 2013/14

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Claire Pemberton, who can be contacted on 01522 553663 or claire.pemberton@lincolnshire.gov.uk.

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KPMG

cutting through complexity™

Report to those charged with governance (ISA 260) 2013/14 (draft)

Lincolnshire County Council

September 2014

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority’s arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Lincolnshire County Council (‘the Authority’) in relation to the Authority’s 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority’s arrangements to secure economy, efficiency and effectiveness in its use of resources (‘VFM conclusion’).

We have separately issued our *Report to those charged with governance (ISA 260) 2013/14* in respect of the Pension Fund administered by Lincolnshire County Council in September 2014.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during February 2014 (interim audit) and July/August 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- carrying out further work in relation to the specific audit risks identified; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section two summarises the headline messages.
- Section three sets out our key findings from our audit work in relation to the 2013/14 financial statements.
- Section four outlines our key findings from our work on the VFM conclusion.

We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages.

Sections three and four of this report provide further details on each area.

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Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit has not identified any material audit adjustments within the financial statements. There are no uncorrected differences identified by our audit of the Authority's financial statements that we need to report to you.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.
Accounts production and audit process	The Authority has maintained its high standards in the quality of its draft accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has made acceptable progress in relation to the recommendations we made in last year's report.
Control environment	The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to final checks, including Director review, as part our completion procedures. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.

Acknowledgements

We would like to take this opportunity to thank all of the Authority's staff who have assisted us during our audit.

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

The wording of your Annual Governance Statement accords with our understanding.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 22 September 2014.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements. We identified a small number of issues that have been adjusted by management. There are no uncorrected misstatements that we need to report to you.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2014.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. We understand that the Authority will be addressing these where significant. We understand managers are to provide the Audit Committee with further information on all the significant changes made to the draft statements it considered at its July 2014 meeting.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Movements on the General Fund 2013/14

£m	Pre-audit	Post-audit
Deficit on the provision of services	(12.7)	(13.2)
Adjustments between accounting basis & funding basis under Regulations	42.0	42.5
Transfers to earmarked reserves	(28.8)	(28.8)
Increase in General Fund	**0.5**	**0.5**

Balance Sheet as at 31 March 2014

£m	Pre-audit	Post-audit
Property, plant and equipment	1,337.5	1,337.5
Other long term assets	136.0	135.6
Current assets	231.7	232.9
Current liabilities	(102.3)	(103.6)
Long term liabilities	(1,187.7)	(1,187.7)
Net worth	**(415.2)**	**(414.7)**
General Fund	16.4	16.4
Other usable reserves	219.1	219.1
Unusable reserves	179.7	179.2
Total reserves	**(415.2)**	**(414.7)**

Key financial statements audit risks

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

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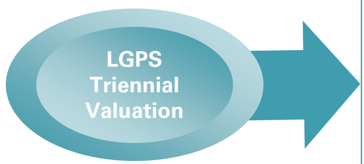
In our External Audit Plan 2013/14, presented to you in March 2014, we identified the key risks affecting the Authority's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Key audit risk	Issue	Findings
	During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The pension numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by some of the admitted bodies, whose pension liabilities represent a significant element of their balance sheet. This includes the Authority itself.	We have reviewed the data provided to the actuary to ensure: ■ The process was undertaken in a suitable control environment; ■ the accuracy of the information provided by agreeing a sample of data to source documentation; ■ the reasonableness of the completeness of the data by conducting an analysis of movements during the period, and reviewing the overall amount of records provided. Our work did not identify any significant issues relating to the accounting or reporting requirements.

Accounts production and audit process

The Authority has maintained its high standards in the quality of its draft accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has made acceptable progress in relation to the recommendations we made in last year's report.

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Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has maintained its strong financial reporting processes. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 20 June 2014, ahead of the 30 June deadline.
Quality of supporting working papers	Our *Accounts Audit Protocol* set out our working paper requirements for the audit. The quality of working papers provided was good and met the standards specified in our *Accounts Audit Protocol*. In particular, the explanatory note that officers provided on their proposed accounting treatment of the Energy from Waste incinerator was of a high standard.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority has made acceptable progress in relation to the recommendations we made in last year's report.

Appendix 1 provides further details.

Control environment

The Authority's organisational control environment is effective, and we were able to rely on the controls over the key financial systems.

During March 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational and control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

We did not identify any specific concerns in relation to your organisational and control environment that we need to report to you.

Internal Audit

We work with your internal auditors to assess the Authority's control framework and may seek to rely on any relevant work they have completed.

We did not need to rely this year on any specific pieces of Internal Audit work in carrying out our testing of the controls over the Authority's key financial systems. We have though taken their work into account in forming our assessment of the general control environment and financial reporting processes (including, for example, the accounting for schools' financial transactions), and in reviewing the Authority's Annual Governance Statement, and have not identified any concerns.

Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

We were able to rely on the controls selected and there are no specific issues or concerns that we need to report to the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

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Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Lincolnshire County Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Lincolnshire County Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 3 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to Managers for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

Subject to completing our consideration of the outcome of the judicial review of the libraries service, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

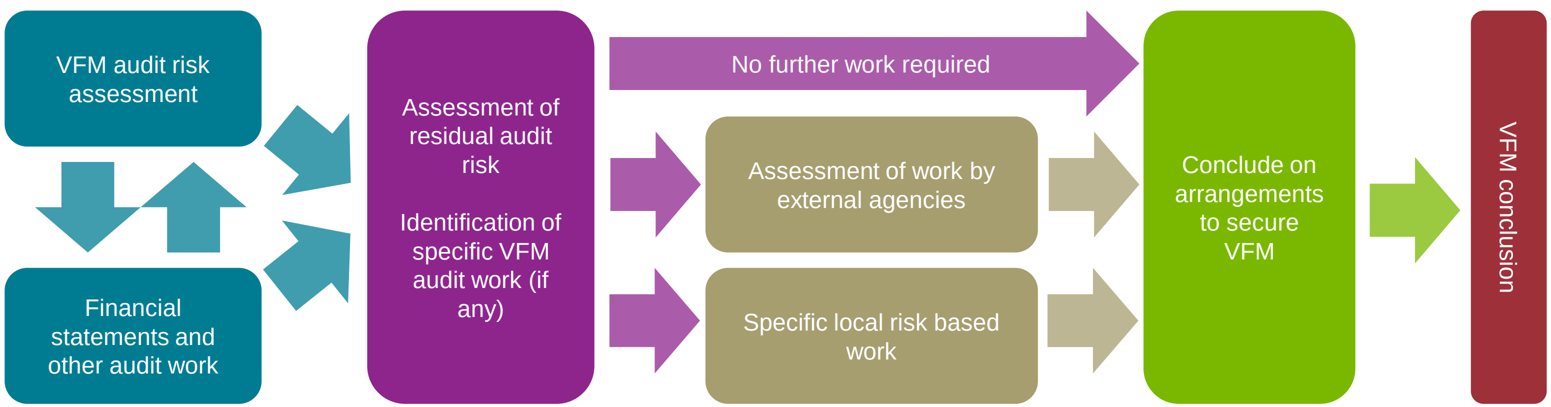
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We identified one significant risk to our VFM conclusion and have completed the additional work required. We have summarised the risk identified, the work carried out and our findings at page 10. We have also considered if the findings of the judicial review decision in respect of the reform of the libraries service in the context of our VFM conclusion responsibilities. We are currently completing that work, and subject to that completion, we are satisfied that the Authority's arrangements in relation to the identified risk were adequate.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Specific VFM risks

We have identified one specific VFM risk.

We are satisfied that the Authority's arrangements in relation to this risk area were adequate. We are currently completing our review of the Authority's response to the judicial review decision in relation to our responsibilities.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work.

In addition to the work we set out in our audit plan, we have considered the outcome of the judicial review of the Authority's review of its libraries service. At the time of writing this report we are reviewing information provided by officers in relation to the Authority's response, and expect to complete our review shortly.

Key findings

Below we set out the findings in respect of those areas where we have identified in our audit plan the residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for this risk. This work is now complete and we also report on this below – we had no significant concerns to report, and provided feedback to officers as we did the work. We have agreed an additional fee of £5,712 for this work with the Authority, which has been approved by the Audit Commission.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Future Delivery of Support Services	The Authority has undertaken a major procurement exercise to re-award its contract for Corporate Support Services. The contract will become live from 1 April 2015. It is expected to have a value of £71m over five years and is forecast to deliver savings of £14m over the period. In view of the importance of this contract we needed assurance about the Authority's arrangements for the economy, efficiency and effectiveness criterion of the VFM conclusion.	We reviewed the arrangements and documentation used by the Authority for the selection of a provider, and the use of the OJEU Competitive Dialogue process. We provided feedback to officers on this piece of work and did not raise any significant issues. Based on the documentation that we have been provided with, the process had been clearly communicated to all parties and had been followed appropriately. We note that in the completed stages of the short-listing process, no challenges were received from any unsuccessful bidders. As part of our 2014/15 audit we will consider the arrangements in place for monitoring and mitigating the risks around handover of the contract to the new provider from 1 April 2015. A key issue will be reviewing the Authority's risk management around the transfer of data from the SAP general ledger system to Agresso, and we will seek to work with internal audit as much as possible.

Appendix 1: Follow up on previous year's recommendations

The Authority has made progress in relation to the recommendations we made in last year’s report.

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Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	2012/13 recommendation	Follow up comments
1	❷	**Related Party Transactions** Comply fully with the Code guidance when disclosing member and senior officers’ declarations of potential related party transactions by including all types of transactions and not just those which are grant related.	We have not identified issues relating to the disclosure of the Related Party Transactions in the Authority’s financial statements this year.
2	❸	**Annual Governance Statement** Shorten the timescale so that the Governance Group signs off the Annual Governance Statement in time for inclusion in the draft accounts presented for audit on or before 30 June each year.	A substantially complete draft Statement was available in July 2014 for the Audit Committee to consider alongside the draft financial statements. Management has continued to seek feedback on the draft Statement. The final Statement presented for the Committee’s approval in September 2014 is not significantly different to the original draft, other than being updated for subsequent events.

Appendix 2: Audit differences

The are no uncorrected misstatements or corrected material misstatements that we need to report to you.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). There are no uncorrected differences identified by our audit of the Authority's financial statements that we need to report to you.

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities. No material misstatements were identified by our audit of the Authority's financial statements and we therefore have nothing to report to you in this regard.

We understand managers are to provide the Audit Committee at its 22 September 2014 meeting to approve the financial statements with a summary of all the significant changes made to the original draft.

Appendix 3: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

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Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 3: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

For any the non audit work provided we have established the following safeguards to maintain the integrity of the audit team:

- Separate teams to conduct the audit and non audit work where appropriate
- Internal risk assessment process prior to conducting any non audit work
- External approval from the Audit Commission

Auditor declaration

In relation to the audit of the financial statements of Lincolnshire County Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Lincolnshire County Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

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KPMG

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Report to those charged with governance (ISA 260) 2013/14

Lincolnshire Pension Fund

September 2014

KPMG

Contents

The contacts at KPMG in connection with this report are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

This document summarises the key issues identified during our audit of Lincolnshire Pension Fund's (the Fund's) financial statements for the year ended 31 March 2014.

Scope of this report

The Audit Commission's Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance. We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2014.

Financial statements

As with the main audit of Lincolnshire County Council (the Authority), our audit of the Fund follows a four stage audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures.

Our on site work for these took place during February 2014 (interim audit) and June/July 2014 (year end audit).

Some of our responsibilities under ISA 260 relate to the Authority as administering authority as a whole and are discharged through our separate ISA 260 Report and Annual Audit Letter for the Authority. This specifically includes our work in the completion stage:

- Declaring our independence and objectivity;
- Obtaining management representations; and
- Reporting matters of governance interest, including our audit fees.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the findings from our audit work on the Fund's financial statements in more detail.

We have raised one recommendation this year. Further detail is enclosed at Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report, by 30 September 2014. At the date of this report our audit of the Fund's financial statements is substantially complete. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.
Audit adjustments	We did not identify any material misstatements and there are no uncorrected misstatements that we need to report to you.
Accounts production and audit process	The Authority has maintained the high standard in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.
Control environment	The Fund's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 22 September 2014.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements and there are no uncorrected misstatements that we need to report to you. The table below illustrates the impact of the corrected misstatements on the Fund. We understand managers are to provide the Audit Committee with further details on the corrections made during the audit to the draft statements.

Movements on the Pension Fund Account Fund 2013/14

£m	Pre-audit	Post-audit
Net additions from dealing with fund members	4.4	4.4
Net returns on investments	94.5	92.0
Increase in Fund	**98.9**	**96.4**
Investments	1583.0	1,580.5
Net current assets/liabilities	10.9	10.9
Net assets of the Fund	**1,593.9**	**1,591.4**

Completion

At the date of this report, our audit of the Fund's financial statements is substantially complete.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority's representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that:

- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; this is not part of our statutory responsibilities but may have been completed as added value work; and
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2014. The Pension Fund Annual Report was approved by the Pensions Committee in July 2014.

Accounts production and audit process

The Authority has maintained the high standard of its draft accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has sought to address the recommendation made in our 2012/13 ISA 260 Report.

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Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. We also assessed the Authority's process for preparing the Fund's financial statements and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has good financial reporting arrangements over the Fund's financial statements. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 27 June 2014.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 23 March 2014 and discussed with Senior Pensions Accountant, set out our working paper requirements for the audit. The quality of working papers provided was met the standards specified in our *Accounts Audit Protocol*. We have included one recommendation at Appendix 1 regarding an improvement opportunity for next year.
Critical accounting matters (key audit risks)	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Prior year recommendations

In our 2012/13 ISA 260 Report we noted that the disclosure in the draft financial statements regarding membership numbers needed to be updated after the statements were produced. We recommended the Authority look to obtain the updated information before the draft statements were produced. The Authority has sought to address this recommendation but it is dependant on its pensions administration partner for this information. It was not possible for it's partner to provide the information before the 30 June 2014 deadline for the Authority's draft statements so the Authority has continued with its existing practice.

Control environment

The controls over the Fund's key financial systems are sound.

During February 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

We found that your organisational control environment is effective overall.

ISAE 3402 reports

The Fund used a total of 7 different fund managers during 2013/14. Fund managers provide assurance reports under International Standard on Assurance Engagements (ISAE) 3402 or equivalents. These reports provide assurance over the controls at a service organisation where these controls are likely to be relevant to user entities' internal control over financial reporting.

Assurance reports were available for all fund managers.

Work on behalf of admitted body auditors

The auditors of admitted bodies requested us to complete specific work on controls operated by the Fund over certain data provided to the Actuary for their estimation of the pensions liabilities and related disclosures for the admitted bodies' 31 March 2013 triennial valuation.

Our work did not identify any specific issues.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Fund should closely monitor progress in addressing specific risks and implementing our recommendations.

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Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Review of foreign exchange rates** We identified during our audit an incorrect foreign exchange rate applied to the valuation of an investment in US Dollars (on this one occasion the Euro rate was used in error). This resulted an overstatement of £2.5m in the valuation of the investment. **Recommendation** Management should review all foreign exchange rates applied to the valuation of an investment for accuracy and consistency.	Agreed and implemented with immediate effect. **Responsible Officer:** Jo Ray (Group Manager) **Due Date:** Immediately

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Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director - Finance and Public Protection

Report to:	**Audit Committee**
Date:	**22 September 2014**
Subject:	**Statement of Accounts for Lincolnshire County Council for the year ended 31 March 2014**

Summary:

This report presents the final Statement of Accounts for Lincolnshire County Council for the financial year 2013/14 for approval.

It is for the Audit Committee to: ensure the explanatory foreword to the accounts help the public understand the authority's financial management of public funds and to consider the outcome of the External Audit and the appropriateness of management responses when approving the Statement of Accounts for 2013/14.

Recommendation(s):

The Executive Director - Finance and Public Protection recommends the Audit Committee:

1. Ensure the explanatory foreword to the accounts help the public understand the authority's financial management of public fund; and

2. Approve the Statement of Accounts for 2013/14.

Background

1.1 The Council is required to make arrangements to prepare Statement of Accounts which give a 'true and fair' view of the financial position for the County Council and for the Pension Fund as at 31 March 2014 together with a record of income and expenditure for the financial year 2013/14.

1.2 The accounts have been prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. The format of the statements and the detailed disclosure notes are specifically prescribed in the Code of Practice.

1.3 Councillors, have little discretion to influence the detail and content of the statements, however, councillors do have a responsibility for corporate governance, including robust scrutiny of the Council's accounts and financial position; and to ensure that the accounts, particularly in the narrative included within the explanatory foreword, help the public understand the authority's financial management of public funds. For this reason, the Audit Committee were presented with the draft Statements of Accounts for 2013/14 at its meeting on 21 July 2014. At this meeting members scrutinised and made comment on the draft accounts.

1.4 The external auditor, KPMG, has now completed their work on the Statement of Accounts and this Committee as 'Those Charged with Governance' have already received their ISA 260 Report as part of this agenda.

1.5 The Audit Committee is now asked to approve the Statement of Accounts.

Conclusion

2.1 The Audit Committee are asked to approve the Statement of Accounts for Lincolnshire County Council for the financial year ended 31 March 2014.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire County Coucil Statement of Accounts 2013/14

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Claire Pemberton, who can be contacted on 01522 553663 or claire.pemberton@lincolnshire.gov.uk.

Lincolnshire County Council
Statement of Accounts 2013-14

Note	Contents:	Page

Statement of Accounts 2013-14

Explanatory Foreword

Introduction to the Accounts

The Statement of Accounts for the year 2013-14 is set out on pages 12 to 16.

The purpose of the published Statement of Accounts is to give electors, local tax payers and service users, elected members, employees and other interested parties clear information about the Council's finances. It should answer such questions as:

- What did the Council's services cost in the year of account?
- Where did the money come from?
- What were the Council's assets and liabilities at the year-end?

Content

The Explanatory Foreword

This provides a general introduction to the Accounts, focusing on explaining the more significant features of the Council's financial activities during the period 1 April 2013 to 31 March 2014. It is based on the information contained in the Statement of Accounts and the Council's Financial Performance Report for 2013-14.

Movement in Reserves Statement for the period 1 April 2013 to 31 March 2014

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement for the period 1 April 2013 to 31 March 2014

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

Balance Sheet as at 31 March 2014

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

Cash Flow Statement for the period 1 April 2013 to 31 March 2014

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

Notes to the Accounts

These comprise of a summary of significant accounting policies, further information and detail of entries in the prime Statements above and other explanatory information.

The Statement of Responsibilities for the Statement of Accounts

This details the financial responsibilities of the Council, the Chairman of the Council and the Executive Director - Finance and Public Protection).

The Governance Statement

This identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for.

Audit Opinion

This contains the External Auditor’s report and opinion on the Accounts.

The Lincolnshire Pension Fund Account

This shows the operation of the Lincolnshire Pension Fund run by the Council for its own employees and employees of the seven District, City and Borough Councils in Lincolnshire along with other admitted bodies.

The Lincolnshire Fire and Rescue Pension Fund Account

This shows the operation of the Lincolnshire Fire and Rescue Pension Fund run by the Council for its own Fire-fighter employees.

A review of financial performance in 2013-14 by the Executive Director of Finance & Public Protection.

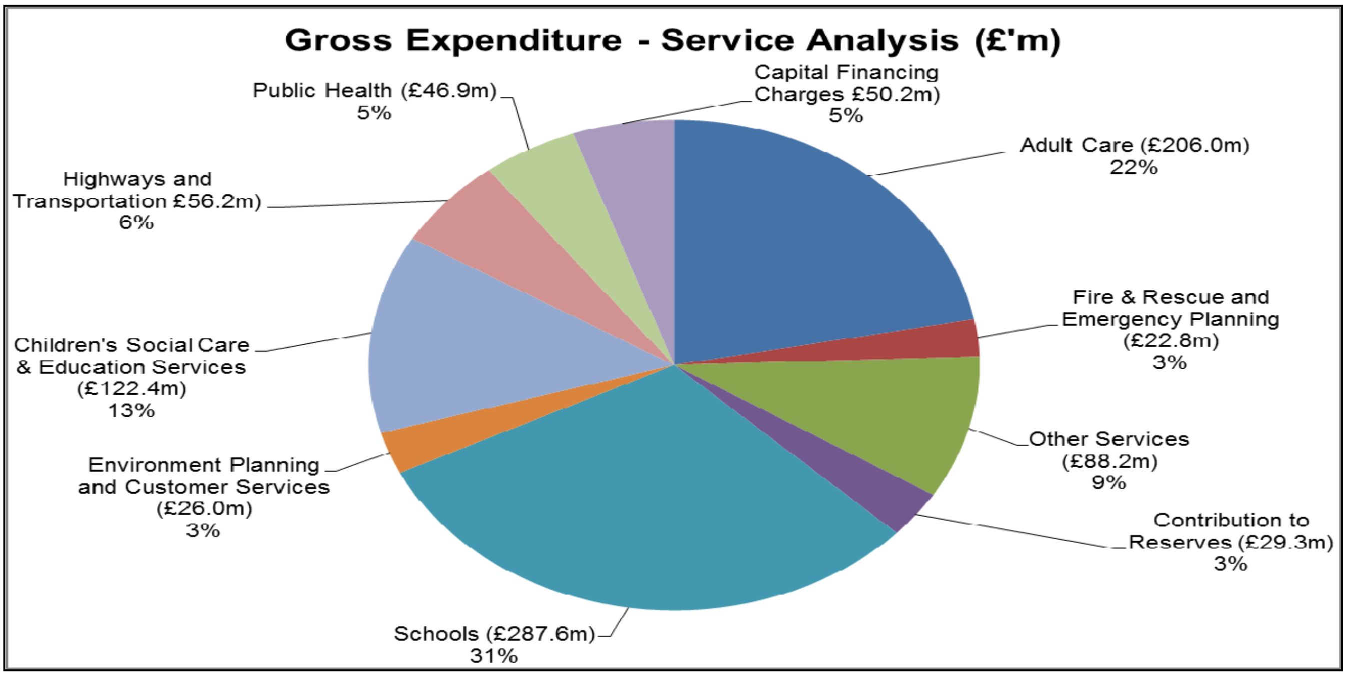
Review of the Year

The County Council set its spending plans for 2013-14 against a backdrop of considerable national economic uncertainty, significantly reduced Government grant funding; the rising demand for services (such as adult care) and delivery of the third year of savings from the Council's core offer review of services. In setting the budget for 2013-14, the Council's aim was to set a balanced and deliverable budget that would effectively address reduced level of funding whilst protecting frontline services wherever possible, and deliver a continued freeze in Council Tax to the people of Lincolnshire for the third year running.

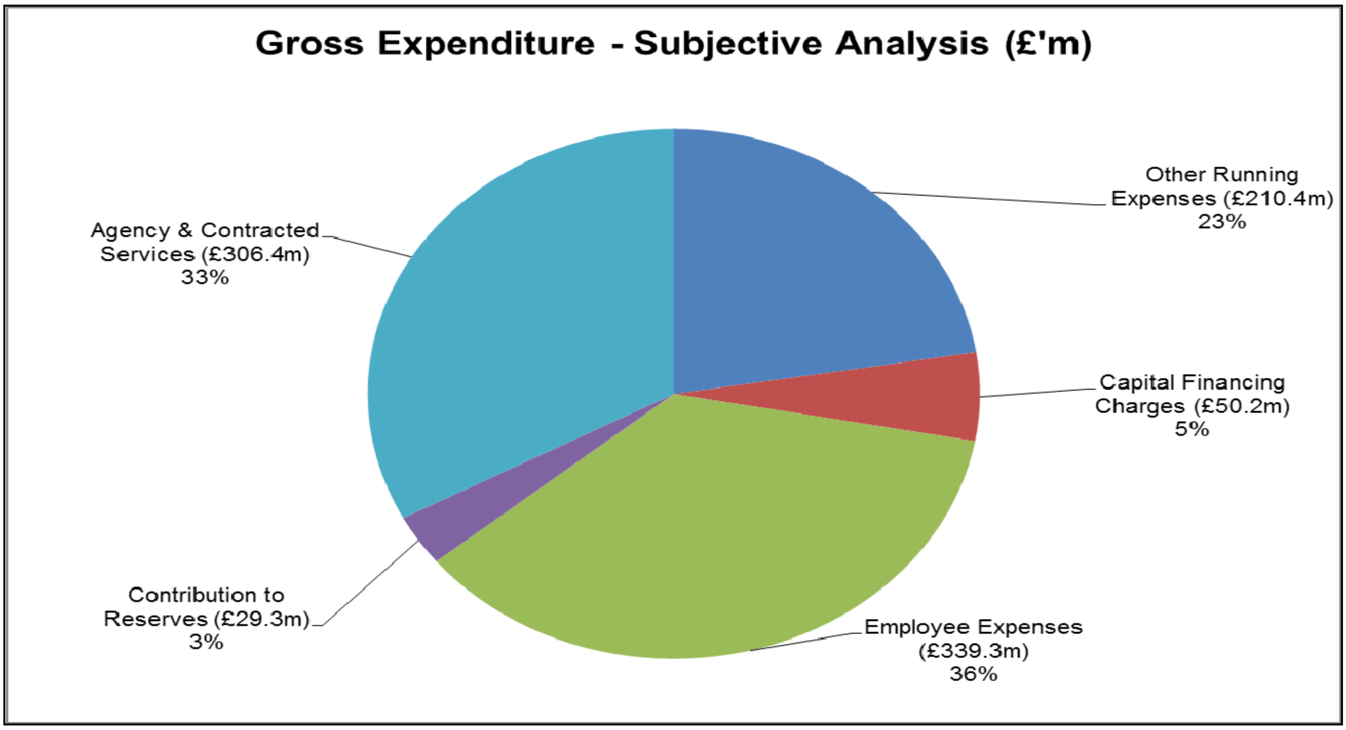
Annual Revenue Spending

The Council spent £906.252m in 2013-14 in providing public services, or £1,238.52 for every person in Lincolnshire.

The Council's annual spending on providing public services are set out in the charts below and show how this was used both by type of service provided and by type of expenditure.



Other Services includes: Economy and Culture, Community Safety and Support Services (including: Finance, ICT and HR).

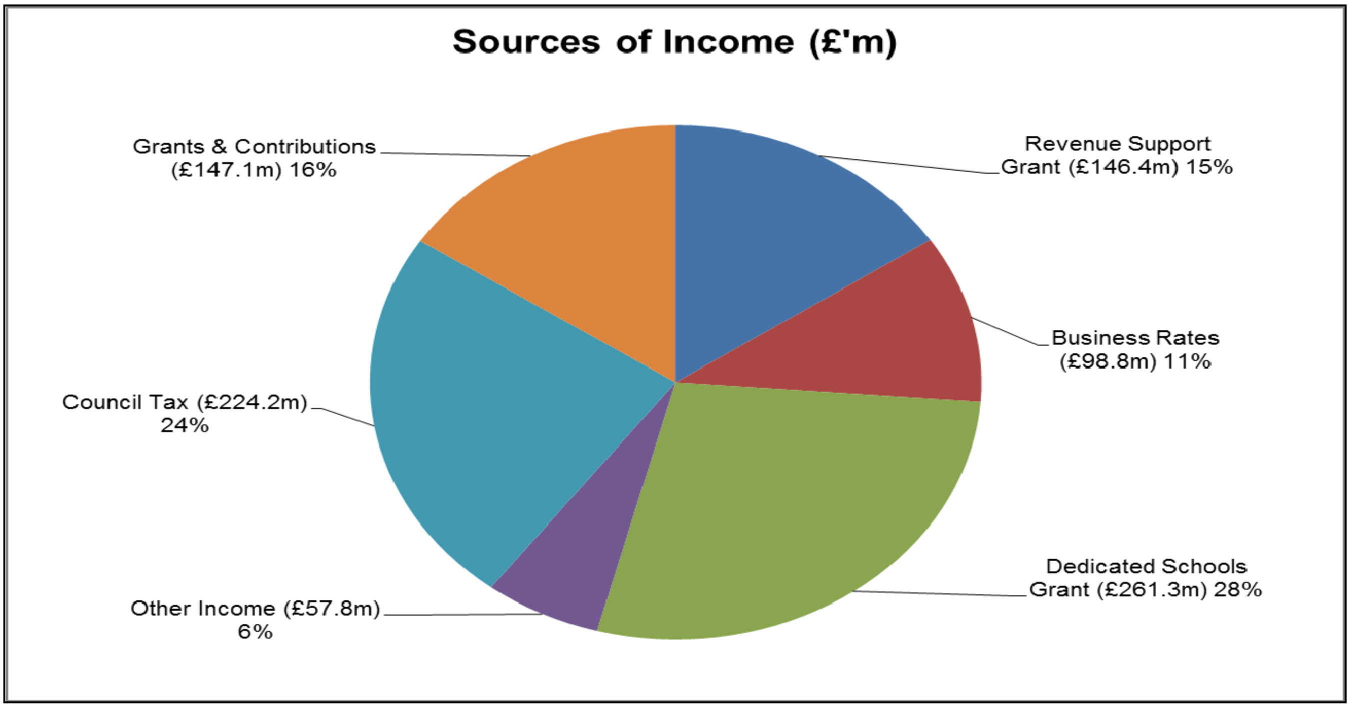


The distribution of expenditure by type differs significantly between different services. For example, salaries and wages comprises 64.6% of expenditure for schools. For services other than schools, salaries and wages comprises 27.0% of expenditure and contract payments comprises 48.6% of total expenditure. These differences reflect how Council services are provided.

Note 32 Amounts Reported for Resource Allocation Decisions provides further details on spending and the services which are provided to the public (page 80).

Annual income

The Council's revenue spending was funded by:



In 2013-14 there have been significant changes to how local authorities are funded, plus continued reductions to the amount of funding received. The previous Formula Grant funding has been replaced with Revenue Support Grant and the Local Retention of Business Rates regime, where 10% of the business rates collected in Lincolnshire are retained by the County Council, plus a top up from central government.

In addition to Revenue Support Grant, the Council also receives specific government grants. The most significant of these was £261.338m of Dedicated Schools Grant which is used for funding education in Lincolnshire.

There have also been changes to the Council Tax system, the Council's other main source of income. Prior to 1 April 2013, households qualifying for Council Tax Benefit would be included in the Council Tax base, and government grant for these properties was paid over to the County Council in the precept. From 2013-14 this benefit is given to households as a discount and these properties are removed from the council tax base. This had the effect of reducing council tax base, and hence the income by 11.5% from previous years.

Revenue budget outturn 2013-14.

The revenue budget outturn for 2013-14 is summarised below:

- Total service revenue spending, excluding schools, was under spent by £12.056m or 2.9%.
- Schools were underspent by £21.158m or 7.6% of the schools budget.
- There was an underspend of £25.555m on other budgets, mainly reflecting a large underspend on capital financing charges during the year.
- The Council received £3.604m or 0.7% of general funding income in excess of budget.
- This give the Council an overall underspend of £62.373m.

The table below shows the outturn of expenditure in 2013-14 compared with the budgets approved by the Council.

Service Revenue Outturn	Budget £'m	Outturn £'m	Over / Under Spend £'m	Percentage Under or Over Spend %
Children's Social Care	45.645	46.194	0.549	1.2%
Education Services	60.197	57.758	-2.439	-4.1%
Adult Care	134.578	133.196	-1.382	-1.0%
Public Health	16.856	16.227	-0.629	-3.7%
Public Health Grant Expenditure	27.542	26.272	-1.270	-4.6%
Public Health Grant Income	-27.542	-26.272	1.270	-4.6%
Highways & Transportation	45.630	43.650	-1.980	-4.3%
Environment Planning & Customer Services	26.942	24.511	-2.431	-9.0%
Economy & Culture	12.887	12.846	-0.041	-0.3%
Fire & Rescue	19.706	19.598	-0.108	-0.5%
Community Safety	19.161	18.014	-1.147	-6.0%
Finance & Resources	17.219	15.337	-1.882	-10.9%
Performance & Governance	22.844	22.278	-0.566	-2.5%
Total Service Budgets	**421.665**	**409.609**	**-12.056**	**-2.9%**
Other Budgets	76.303	50.748	-25.555	-33.5%
Schools Budgets	18.481	-2.677	-21.158	-114.5%
Total Expenditure	**516.449**	**457.680**	**-58.769**	**-11.4%**
Total Income	**-483.419**	**-487.023**	**-3.604**	**0.7%**
Use of / (Contribution to) Reserves	**33.030**	**-29.343**	**-62.373**	**-189%**

Significant variances include:

- Education Services (£2.439m underspend). This was due to a number of factors including: the disestablishment of the Children's Sufficiency Team and vacancies in Youth Services and the Connexions Service.

- Environment Planning and Customer Services (£2.431m underspend). This was primarily due to the extension of the commissioning period at the energy from waste plant. During the commissioning period the charge per tonne of waste was lower than the contractual rate that has been in place since the commissioning period ended.

- Other Budgets (£25.555m underspend). Capital Financing Charges were underspent by £21.231m due to use of internal borrowing and slippage in the capital programme. At the end of the year, £2.627m of the Council's contingency remained unused.

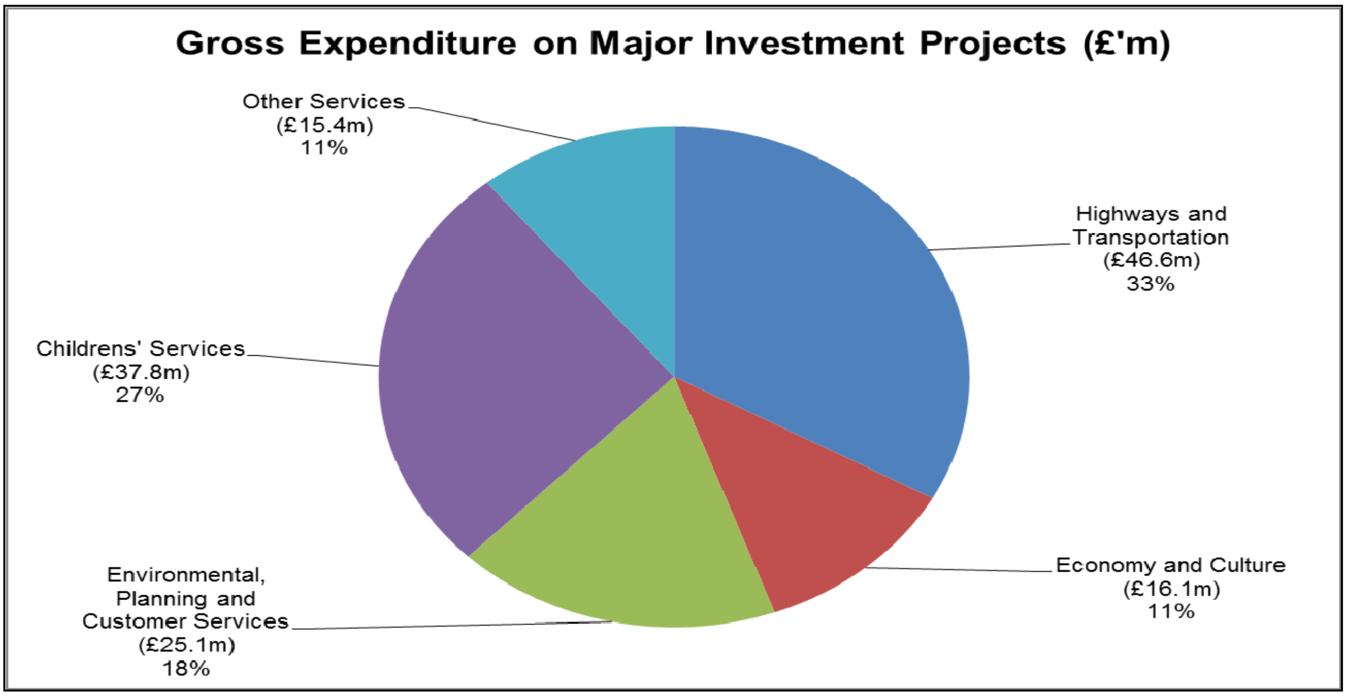
- Schools Budgets (£21.158m underspend). Schools budgets are ring-fenced and carried into the next financial year for schools. This underspend represents a significant reduction on previous years underspend.

Further information on revenue budget spending and outturns can be found in the Review of Financial Performance 2013-14, which is available on the Council's website.

Investment in major projects

The Council spent £141.077m on the County's assets, in particular on roads, the Energy from Waste plant, and schools. The net capital spend was £86.568m and there was an underspending of £8.300m or 8.7%. Explanations of the variances can be found in the Council's Review of Financial Performance Report for 2013-14.

The following chart sets out the spending on major investment projects by service area:



Other includes: Adults Care, Property, Fire and Rescue and IT Related.

In 2013-14 expenditure was incurred on the following schemes:

- Maintenance of roads, bridges, safety fencing, street lighting, signs and lines, and traffic signals;
- Completion of the Energy from Waste scheme, which will divert waste from landfill. The plant is now complete and operational;
- Programme of modernisation to meet the statutory responsibility for provision of educational places and a programme to improve the condition of school buildings;
- Academy schools building programme including: University Academy Holbeach and Grantham Ruskin Academy; and
- Spend on replacement and enhancement of Fire Fleet vehicles and associated equipment.

The Council has received grants from central government and other bodies to fund: maintenance work on roads, the Council's programme of modernisation and improvement of condition of school buildings, provision of education places and the Academies building programme. £46.165m of funding for the capital programme came from temporary internal borrowing, £6.686m from revenue funding and use of earmarked reserves and £3.237m from capital receipts.

The Council sets itself a limit on its total borrowing to ensure that it remains prudent and affordable. The Council's target is to ensure that annual minimum revenue provision (MRP) plus interest are no more than 10.0% of the Council's annual income. The figure for 2013-14 was 5.98%. MRP is the amount required to be set aside as a provision for debt repayment, and in accordance with Regulation, this amount should be prudent to ensure debt is repaid over a period reasonably commensurate with the period over which the capital expenditure funded by borrowing provides benefits. The Council's current policy is to apply the average life method to calculate the MRP and use the MRP in full to repay debt annually.'

Financial health and performance

The Council's revenue budget remains under pressure from reduced funding and service pressures. 2014-15 is the final year of the Council's four year savings programme (locally termed "Core Offer"). When originally approved, this provided the Council with a total of £125m savings over the period 2011-12 to 2014-15 to re-invest in services to meet unavoidable cost pressures and meet expected reductions in Government support. Additional savings have been added to this target to reflect further reductions in local government financing from 2013-14. Savings targets for 2013-14 and 2014-15 now stand at £27.600m and £40.444m respectively.

As well as additional savings the Council has used £11.700m one off contribution from reserves to bridge the remaining gap between the funding available and Council spending in 2013-14. It also plans to use a further £6.780m for the same purpose in 2014-15.

The savings identified from the Council's Core Offer, the additional savings added into 2013-14 and 2014-15 budgets, plus the one off use of reserves in these two financial years, have ensured the Council is well placed to withstand the immediate pressures in local government funding. However, future challenges remain and significant further savings will need to be identified in future years to deliver a balanced budget. The Council will undertake a second fundamental review of its service priorities and related spending needs prior to setting a budget for 2015-16 and beyond.

To meet some of the future financial pressures, the Council established a Financial Volatility Reserve to help smooth the effects of funding changes to local government,£6.780m is already set aside to meet the budget shortfall in 2014-15.This left the balance available for future years – 2015-16 and beyond, at £18.268m. It is now proposed to transfer a further £29.738m into this reserve at the end of 2013-14 as part of the allocation of the carry forward. This will provide the Council with time to develop sustainable budget plans from 2015-16 onwards.

The Council also maintains a general reserve as a contingency against unexpected events or emergencies. The Council sets itself a target, based on a financial risk assessment, of maintaining these reserves within a range of 2.5% to 3.5% of its total budget. The Council's general reserves at 31 March 2014, is £16.400m or 3.5% of the Council's total budget.

In addition to the general reserve and Financial Volatility Reserve, the Council maintains a number of other reserves earmarked for specific purposes (details of these are set out in Note 10).

The programme of savings together with a prudent level of reserves means that the Council has a sound financial base from which to manage the challenges of a difficult medium to longer term outlook for public sector finances.

Economic Climate and future revenue and capital budgets and future financing

The finance settlement from government places additional funding pressures on the County Council when compared to 2013-14. A strategy of making further modest budget reductions allied with the use of earmarked reserves has again been used to produce a balanced budget for 2014-15. Thereafter a further fundamental review of service priorities and related spending will be undertaken, during 2014, to produce a sustainable budget for 2015-16 and beyond. Close monitoring of the delivery of savings will be undertaken and, if necessary, corrective action will be initiated to examine alternative options should this be necessary. The delivery of the detailed schedule of planned savings will be monitored and reported regularly to senior management teams and to Executive councillors as part of the formal, published reports.

The Council's Pension Fund Liability and Change in Accounting Policy

The Local Government Pension Scheme and the Fire-fighters' Pension Scheme both have a liability balance at year end. That is, the present value of fund obligations exceeds the fair value of employer assets in the fund. The total reported pension liability of the two schemes (which is off set in the Balance Sheet by the Pensions Reserve) has increased over the past year from £641.730m to £715.326m.

Due to the nature of pension funds, the liability cannot occur immediately as it represents benefit payments to pensioners over their lifetime. A significant proportion of the membership is also still actively contributing to the fund. The Lincolnshire Pension Fund contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% of the liabilities over a period of 20 years. The Council's contribution rate is consistent with the Actuary's advice.

In 2013-14 there have been revisions to IAS 19 the accounting standard for retirement benefits. The adoption of the revised standard has changed the measurement of the Council's pensions liabilities and requires additional information on asset classification and recognition to be reported. The key changes relates to the expected return on assets for the Local Government Pension Scheme. Advance credit for anticipated outperformance of return seeking assets (such as equities) is no longer permitted. The expected return on assets was previously credited to profit and loss and has been replaced with an equivalent figure calculated using the discount rate (as opposed to that calculated using the expected return on assets assumption).

The Code of Practice on Local Authority Accounting requires any changes in accounting policies to be accounted for retrospectively. To comply with this, the 2012-13 Comprehensive Income and Expenditure Statement has been adjusted. The effect of this change has been calculated by the actuary and has increased the interest on plan asset by £6.627m in the Comprehensive Income and Expenditure Statement. A corresponding adjustment has resulted in reduction in the unrealised loss on Pension Liability in the balance sheet. This change has been reflected in the 2012-13 comparative figures in the Comprehensive Income and Expenditure Statement and supporting notes through the Financial Statements. The prior period adjustment relates solely to the Local Government Pension Scheme, there is no impact on the Fire-fighters' Pension as the scheme is unfunded. Further information on the restatement to the accounts for Retirement Benefits Assets and the new disclosures can be found within Note 54.

Energy from Waste Plant

The Council has undertaken the construction of a plant which will alternatively treat household waste and divert it from landfill. The project commenced in 2011 and the plant became fully operational in March 2014. The total cost of the plant to the Council was £123.476m, which the Council funded using prudential borrowing. All assets associated with the plant are held on the Council balance sheet as property, plant and equipment.

Public Health Responsibilities

In 2013-14 there were two changes to legislation under which the Council took on new responsibilities. Following the implementation of the Health and Social Care Act 2012, the Council took on new responsibilities for Public Health Services from Primary Care Trusts from 1 April 2013. A grant of £27.542m was received from the Department of Health to support this transfer. The Council also received a grant of £1.801m as a result of the Welfare Reform Act 2012 to provide Local Welfare Assistance (Lincolnshire Community Assistance Scheme), following the cessation of the Department of Work and Pensions Social Fund Support (Community Care Grants and Crisis Loans).

Conversion of Schools into Academies

In 2013-14 a number of secondary and primary schools in the County converted to become Academies. These schools are independent of the Council. They receive funding from the Department of Education directly and incur their own expenditure. Before their conversion, these Schools' income and expenditure formed part of the Council's net expenditure on schools. The effect of these schools becoming Academies has reduced the Council's gross expenditure on Education Services by £54.695m and income in this area by £54.944m. Further information is contained within Note 5 Exceptional Items.

In addition to the loss of income and expenditure on these schools, where the assets of a school becoming an Academy were owned by the County Council (i.e. Community and Voluntary Controlled Schools), the school's land and buildings are leased to the Academy Trust. During 2013-14, four primary and one special school assets have been leased to Academy School Trustees on 125 year leases. The County Council have assessed these leases to be finance leases for the buildings and operating leases for the land. These assets have been valued as such and this has led to £11.130m being removed from the value of County Council's assets held on Balance Sheet as at 31 March 2014. A further £0.096m has been removed from the Council's balance sheet for all academy schools equipment which was previously held by the County Council.

During 2013-14, the Council incurred £15.582m of capital expenditure on schools which have become Academies. The Council has received funding through government grants for the majority of this spend.

The Council also prepares an Annual Report. The Annual Report brings together our vision, achievements and accounts. It not only highlights some real achievements for the past year in the services we provide to residents but also summaries how we spent our annual budget.

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

· Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Financial Officer.

· Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

· Approve the Statement of Accounts.

The Chairman's Responsibilities

Signed: …………………………………………… Dated: …………………………

The Executive Director of Finance & Public Protection

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

In preparing these Statement of Accounts, the Executive Director of Finance & Public Protection has:

· selected suitable accounting policies and then applied them consistently;
· made judgements and estimates that were reasonable and prudent; and
· complied with the Local Authority Code.

The Executive Director of Finance & Public Protection has also:

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority as at 31 March 2014 and of its expenditure and income for the year ended on that date.

Signed: …………………………………………… Dated: …………………………

Lincolnshire County Council: Movement in Reserves Statement for the period 1 April 2013 to 31 March 2014

This statement shows the movement in the year on the different reserves held by Lincolnshire County Council, analysed into 'Usable Reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Council.

	Note	General Fund Balance	Earmarked GF Reserves (Note 10)	Capital Receipts Reserve (*1)	Capital Grants Unapplied	Total Usable Reserves (Note 27)	Unusable Reserves (Note 28)	Total Council Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 01 April 2013		**15,900**	**141,695**		**56,242**	213,837	**196,728**	410,565
Movement in Reserves during 2013-14								
Surplus/(Deficit) on the provision of services		(13,195)	-	-	-	(13,195)	-	(13,195)
Other Comprehensive Income and Expenditure		-	-	-	-	-	17,280	17,280
Other Recognisable Gains			108			108		108
Total Comprehensive Income and Expenditure		(13,195)	108	-	-	(13,087)	17,280	4,193
Adjustments between accounting basis & funding basis under regulations	9	42,536	-	-	(7,783)	34,753	(34,753)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves		29,341	108	-	(7,783)	21,666	(17,473)	4,193
Transfers to/from Earmarked Reserves	10	(28,841)	23,472	-	5,369	-	-	-
Increase/(Decrease) in Year 2013-14		500	23,580		(2,414)	21,666	(17,473)	4,193
Balance as at 31 March 2014 Carried Forward		**16,400**	**165,275**	**-**	**53,828**	**235,503**	**179,255**	**414,758**

(*1) It is the Council's policy to fully utilise all capital receipts to finance capital expenditure in the year they are received.

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Lincolnshire County Council: Movement in Reserves Statement for the period 1 April 2012 to 31 March 2013

	Note	Restated (*2) General Fund Balance £'000	Earmarked GF Reserves (Note 10) £'000	Capital Receipts Reserve (*1) £'000	Capital Grants Unapplied £'000	Total Usable Reserves (Note 27) £'000	Restated (*2) Unusable Reserves (Note 28) £'000	Total Council Reserves £'000
Balance as at 01 April 2012		**15,900**	**132,849**	**0**	**42,283**	191,032	**312,248**	503,280
Movement in Reserves during 2012-13								
Surplus/(Deficit) on the provision of services		(58,212)	0	-	-	(58,212)	-	(58,212)
Other Comprehensive Income and Expenditure		-	-	-		0	(34,833)	(34,833)
Other Recognisable Gains			330			330		330
Total Comprehensive Income and Expenditure		**(58,212)**	**330**	**0**	**0**	**(57,882)**	**(34,833)**	**(92,715)**
Adjustments between accounting basis & funding basis under regulations	9	68,305	-	0	12,382	80,687	(80,687)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves		**10,093**	**330**	**0**	**12,382**	**22,805**	**(115,520)**	**(92,715)**
Transfers to/from Earmarked Reserves	10	(10,093)	8,516	-	1,577	0	-	0
Increase/(Decrease) in Year 2012-13		**0**	**8,846**	**0**	**13,959**	**22,805**	**(115,520)**	**(92,715)**
Balance as at 31 March 2013 Carried Forward		**15,900**	**141,695**	**0**	**56,242**	**213,837**	**196,728**	**410,565**

(*1) It is the Council's policy to fully utilise all capital receipts to finance capital expenditure in the year they are received.

(*2) The presentation of the MIRS has changed from 2012-13 Statement of Accounts due to a prior period adjustment arising from the revision to IAS 19 retirement benefits.

Lincolnshire County Council: Comprehensive Income and Expenditure Statement for the period 1 April 2013 to 31 March 2014

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

		(*1) Restated Year ended 31 March 2013					Year ended 31 March 2014
Gross Expenditure £'000	**Income £'000**	**Net Expenditure £'000**		**Note**	**Gross Expenditure £'000**	**Income £'000**	**Net Expenditure £'000**
			Cost of Services				
469,271	(382,979)	86,292	Education Services	(5)	409,721	(311,080)	98,641
62,797	(12,646)	50,151	Children's Social Care		73,280	(13,258)	60,022
236,607	(71,994)	164,613	Adult Care		225,415	(75,824)	149,591
95,724	(11,019)	84,705	Highways and Transport Services		96,437	(13,109)	83,328
23,668	(2,694)	20,974	Cultural and Related Services		23,025	(2,644)	20,381
32,015	(2,095)	29,920	Environmental and Regulatory Services		30,685	(1,610)	29,075
14,858	(5,156)	9,702	Planning Services		18,308	(6,383)	11,925
29,217	(2,985)	26,232	Fire and Rescue Services		32,291	(3,263)	29,028
346	(83)	263	Housing Services		14,704	(693)	14,011
4,212	(1,390)	2,822	Central Services to the Public		5,384	(1,346)	4,038
3,732	(178)	3,554	Corporate and Democratic Core		3,537	(18)	3,519
(11,984)	0	(11,984)	Non Distributed Costs		2,867	0	2,867
960,463	**(493,219)**	**467,244**	**Cost of Services (excluding Acquired and Discontinued Operations)**	**(8)**	**935,654**	**(429,228)**	**506,426**
0	0	0	Surplus or Deficit on Acquired and Discontinued Operations - Public Health & Local Welfare Assistance	(33)	29,476	(28,580)	896
960,463	**(493,219)**	**467,244**	**Cost of Services**		**965,130**	**(457,808)**	**507,322**
		85,714	Other Operating Expenditure	(11)			18,287
		28,718	Financing and Investment Income and Expenditure	(12)			35,266
		(523,464)	Taxation and Non-Specific Grant Income	(13, 46(a))			(547,680)
		58,212	**(Surplus)/Deficit on Provision of Services**				**13,195**
		(56,360)	(Surplus)/Deficit on Revaluation of Non-Current Assets	(28)			(62,388)
		0	Impairment losses on Non-Current Assets charged to Revaluation Reserve				0
		0	(Surplus)/Deficit on Revaluation of Available for Sale Financial Assets				(83)
		91,193	Actuarial (Gains)/Losses on Pension Assets / Liabilities	(28, 54)			45,191
		(330)	Other Recognisable (Gains)/ Losses				(108)
		34,503	**Other Comprehensive Income and Expenditure**				**(17,388)**
		92,715	**Total Comprehensive Income and Expenditure**				**(4,193)**

(*1) The presentation of the Comprehensive Income & Expenditure Statement has changed from the 2012-13 Statement of Accounts due to a prior period adjustment arising from the revision to IAS 19 retirement benefits.

Also Civil Parking Enforcement was a new service for the County Council from 1 April 2012. Net expenditure of £0.028m was shown as an acquired operation in 2012-13 Statement of Accounts. This expenditure is now included under the heading of Highways & Transportation.

Lincolnshire County Council: Balance Sheet as at 31 March 2014

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

31 March 2013 £'000		**Note**	**31 March 2014 £'000**
1,267,991	Property, Plant and Equipment	**(14)**	1,337,523
36,356	Heritage Assets	**(15)**	36,443
72,620	Investment Properties	**(16)**	82,482
7,204	Intangible Assets	**(17)**	5,717
214	Long Term Investments (including Net Pension Assets)	**(18)**	2,214
6,316	Long Term Debtors	**(21)**	8,772
1,390,701	**Long Term Assets**		**1,473,151**
193,081	Short Term Investments	**(18)**	185,013
3,660	Assets Held for Sale	**(23)**	1,544
799	Inventories	**(19)**	1,212
48,133	Short Term Debtors	**(21)**	45,193
245,673	**Current Assets**		**232,962**
(8,356)	Cash and Cash Equivalents	**(22)**	(5,375)
(413)	Short Term Borrowing	**(18)**	(15,749)
(91,414)	Short Term Creditors	**(24)**	(77,421)
(3,784)	Provisions	**(26)**	(5,092)
(103,967)	**Current Liabilities**		**(103,637)**
(5,477)	Long Term Creditors	**(24)**	(11,156)
(4,944)	Provisions	**(26)**	(4,216)
(454,787)	Long Term Borrowing	**(18)**	(443,222)
(656,635)	Other Long Term Liabilities	**(25)**	(729,124)
(1,121,843)	**Long Term Liabilities**		**(1,187,718)**
410,564	**Net Assets**		**414,758**
213,836	Usable Reserves	**(27)**	235,503
196,728	Unusable Reserves	**(28)**	179,255
410,564	**Total Reserves**		**414,758**

Lincolnshire County Council: Cashflow Statement as at 31 March 2014

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

31 March 2013 £'000		31 March 2014 £'000
58,212	Net (surplus) or deficit on the provision of services	13,195
(161,394)	Adjustments to net surplus or deficit on the provision of services for non - cash movements	(125,563)
65,797	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	68,900
(37,385)	**Net cash flow from Operating Activities (Note 29)**	**(43,468)**
43,612	Investing Activities (Note 30)	35,443
(4,032)	Financing Activities (Note 31)	5,044
2,195	**Net (increase) or decrease in cash and cash equivalents**	**(2,981)**
6,161	Cash and cash equivalents as at 1 April	8,356
8,356	Cash and cash equivalents as at 31 March	5,375

Note 1. Statement of Accounting Policies

1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year 2013-14 and the position at the year-end 31 March 2014. The Statement of Accounts has been prepared in accordance with the Accounts and Audit Regulations 2011.

These regulations require the accounts to be prepared in accordance with proper accounting practice. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and Service Reporting Code of Practice 2013-14, supported by International Financial Reporting Standards and statutory guidance.

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

2. Changes in Accounting Policies

Changes in accounting policy may arise through changes to the Code or changes instigated by the Council. For changes brought in through the Code, the Council will disclose the information required by the Code. For other changes we will disclose: the nature of the change; the reasons why; report the changes to the current period and each prior period presented and the amount of the adjustment relating to periods before those presented. If retrospective application is impracticable for a particular prior period, we will disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

3. Prior period adjustments – estimates and errors

The Code requires prior period adjustments to be made when material omissions or misstatements are identified (by amending opening balances and comparative amounts for the prior period). Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

The following disclosures will be made:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction for each Financial Statement line item affected; and
- the amount of the correction at the beginning of the earliest prior period presented.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change. They do not give rise to a prior period adjustment.

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

Property, Plant and Equipment are assets that have a physical substance and are:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- expected to be used during more than one period.

Classification

Property, Plant and Equipment is classified under the following headings in the Council's Balance Sheet:

Operational Assets:
- Land and Buildings;
- Vehicles, Plant, Furniture and Equipment;
- Infrastructure; and
- Community Assets.

Non-Operational Assets:
- Surplus Assets; and
- Assets Under Construction.

a) Initial Recognition

The cost of an item of Property, Plant and Equipment shall be recognised as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

These costs include expenditure incurred to acquire or construct an item of Property, Plant and Equipment, costs associated with bringing an asset into use and costs incurred subsequently to add to, replace part of, or service it as long as the above criteria are met. All costs associated with a capital scheme will be settled on the asset created or enhanced. Initial recognition of Property, Plant and Equipment shall be at cost.

Further details relating to capital expenditure are set out in the Council's Capitalisation Policy.

De minimus level. The Council has set a de minimis level of £10k for recognising Property, Plant and Equipment. This means that any item or scheme costing more than £10k must be treated as capital if the above criteria are met. This relates to initial recognition and subsequent expenditure on assets.

De-recognition associated with asset enhancements. When capital expenditure occurs on an existing asset the element of the asset being replaced must be derecognised. Where the original value of the asset being replaced is not known the value of the replacement will be used as a proxy, and indexed back to an original cost; with reference to the asset's remaining life. De-recognition costs will be charged to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement (gain or loss on the disposal of non-current assets).

b) Measurement after Recognition – Valuation Approach

The Council value Property, Plant and Equipment using the basis recommended by CIPFA in the Code of Practice and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS).

The code requires the following valuation approaches to be adopted:

Operational Assets

- Land and property assets shall be measured at fair value, which is determined as the amount that would be paid for the asset in its existing use (EUV). For assets where there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold, a Depreciated Replacement Cost (DRC) approach will be used (such specialised assets include schools);

- Non-property assets (including: vehicles, plant and equipment) shall be measured at fair value. These are determined to have short asset lives and historic cost is used as a proxy for fair value;

- Land, Property and Equipment associated with the Energy from Waste Plant shall be measured at fair value on a Depreciated Replacement Cost (DRC) approach as it is a specialised asset; and

- Infrastructure assets (such as roads and bridges) and community assets are measured at historic cost. NB: where historic cost information is not known for community assets these have been included within the Balance Sheet at a nominal value.

Non-Operational Assets

- Surplus assets (i.e. assets which the Council no longer operates/are no longer used for service delivery, but are not Investment Properties or meet the definition held for sale) are valued, measured and depreciated in line with the operational asset class; and
- Assets under Construction are held at cost. When these assets are operationally complete, they are reclassified into the appropriate asset class and valued under the adopted approach.

Valuation Programme

Assets are included within the Balance Sheet at fair value. The Council's land and property portfolio is revalued on a five year rolling programme. On an annual basis at year-end, all asset values are reviewed to ensure they are not carried at amounts materially different to fair value.

c) Revaluation Gains and Losses

Movements in asset value arising from revaluation are reflected in the value of these assets held on the Balance Sheet.

If a revaluation increases an asset's carrying amount then this increase will be credited directly to the revaluation reserve to recognise the unrealised gain. In exceptional circumstances, gains might reverse a previous impairment or revaluation decrease charged to the Surplus or Deficit on provision of service.

If a revaluation decreases an asset's carrying amount, the decrease shall be charged initially against any surplus balance in the revaluation reserve in respect of the individual asset. Any additional decrease is recognised in the relevant service revenue account in the Comprehensive Income and Expenditure Statement.

The revaluation reserve only contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Any movements on revaluation arising before this date have been consolidated into the Capital Adjustment Account (CAA).

d) Depreciation

Depreciation is charged on all Property, Plant and Equipment assets with a finite life and is the systematic allocation of its worth over its useful life. This charge is made in line with the following policy:

- Operational buildings are depreciated over their useful life. For buildings which are held at existing use value a useful life of 40 years has been assumed. Asset lives for buildings held on a depreciated replacement cost basis are reviewed as part of the rolling programme of revaluations and the Valuer estimates the useful life. Depreciation is charged on a straight line basis;

- Infrastructure assets, primarily roads, are depreciated over their estimated useful lives, varying from 1-3 years (for capital pothole filling) to 120 years (for bridge structures), on a straight line basis;

- Furniture and non-specialist equipment is depreciated over a period of 5 years, on a straight line basis;

- Vehicles, plant and specialist equipment (including computing equipment) are depreciated over their estimated useful lives, varying between 3 and 15 years. For vehicles purchased after 1 April 2004, the reducing balance method of depreciation is used;

- Land, Property and Equipment associated with the Energy from Waste Plant are depreciated over their useful life. These range from 70 years for Civils (including Building Structures) to 10 years for Instrumentation, Control and Automation assets (ICA); and

- Surplus assets are depreciated in line with the operational asset class.

No depreciation is charged on: Heritage Assets, Investment Properties; land; assets under construction; and assets held for sale.

Depreciation of an asset begins when the asset becomes available for use and ceases when the asset has been derecognised.

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

Component Accounting for Property, Plant and Equipment

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has identified the following significant components within the property portfolio:

- DRC assets (including fire stations, schools, libraries and museums where the building is of a specialised nature): land, structures, services, roof and externals;

- Office Accommodation / Admin Buildings: land; structures, services, roof and externals;

- Other market value and existing use value assets (including economic regeneration units): land and buildings; and
- Energy from Waste Plant: Civils, Mechanicals and Instrumentation, Control and Automation (for each significant part of the plant).

e) Disposal of Property, Plant and Equipment

An item of Property, Plant and Equipment shall be derecognised on disposal, or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from disposals is shown in the Comprehensive Income and Expenditure Statement, on the Other Operating Expenditure line. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement, netted off against the carrying value of the asset at the time of disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed. It is Council policy to fully utilise these receipts to fund the capital programme in the year they are received. These receipts are transferred from the General Fund Balance via the Movement in Reserves to be utilised to fund the capital programme. Sale proceeds below £10k are below the de-minimis and are credited to the Comprehensive Income and Expenditure Statement.

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

f) Impairment of non-Current Assets

If an asset's carrying amount is more than its recoverable amount, the asset is described as impaired. Circumstances that indicate impairment may have occurred include:

- a significant decline in an asset's market value during the period;
- evidence of obsolescence or physical damage of an asset;
- a commitment by the Authority to undertake a significant reorganisation; or
- a significant change in the statutory environment in which the Authority operates.

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

Impairment losses are initially recognised against any revaluation reserve for that asset up to the balance available. Any remaining loss is charged in the Surplus or Deficit on provision of services. This is then reversed through the Movement in Reserves Statement and charged to the Capital Adjustment Account.

5. Intangible Assets

Intangible assets are defined as identifiable non-financial (monetary) assets without physical substance, but are controllable by the Council and expected to provide future economic or service benefits. For the Council the most common classes of intangible assets are computer software and software licences.

a) Recognition and Measurement of assets that qualify as intangible assets, shall be measured and carried at cost, as a proxy for fair value, as these are short life assets.

The Council has a set a de minimis level of £10k for recognising intangible assets. This means that any item or scheme costing more than £10k would be treated as capital if the above criteria are met.

b) Subsequent Expenditure. Costs associated with maintaining intangible assets are recognised as an expense when incurred in the Comprehensive Income and Expenditure Statement.

c) Amortisation. The carrying value of intangible assets with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. Amortisation is charged to the relevant service area in the Comprehensive Income and Expenditure Statement. The useful lives for intangible assets are between 3 and 7 years. Useful asset lives are determined by the ICT budget holder and reviewed and updated annually.

d) Impairment. On an annual basis the ICT budget holder is asked to consider if any indicators of impairment exist for intangible assets held by the Council.

6. Investment Properties

An Investment Property is defined as a property that is solely held to earn rental income or for capital appreciation or both. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods, or is held for sale.

a) Initial Recognition. As with Property, Plant and Equipment, initial recognition is at the costs associated with the purchase.

b) Measurement after Recognition. Investment Properties will be measured at fair value, which is the amount that would be paid for the asset in its highest and best use, (e.g. market value). The fair value of Investment Property held under a lease, is the lease interest in the asset. Investment Properties are subject to annual revaluations.

c) Revaluation Gains and Losses. A gain or loss arising from a change in the fair value of Investment Property shall be recognised in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. These are not permitted by statute to impact on the General Fund Balance. Therefore these gains or losses are reversed out of the General Fund Balance in the Movement on Reserves and posted to the Capital Adjustment Account.

d) Depreciation is not charged on Investment Properties.

e) Disposal of Investment Properties. Gains or losses arising from the disposal of an Investment Property shall be recognised in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. As with revaluation gains or losses, these do not form part of the General Fund Balance and are transferred to fund the capital programme via the Movement in Reserves Statement.

f) Rental Income. Rentals received in relation to Investment Properties are credited to the Financing and Investment Income line and results in a gain for the General Fund Balance.

7. Heritage Assets

Heritage Assets are defined as assets that are held by the Council principally for their contribution to knowledge or culture. Heritage assets held by the Council include:

- Historic Buildings including: Lincoln Castle, Temple Bruer and four historic windmills in Lincolnshire; and
- Collections including: Fine Art Collection; the Tennyson Collection; Local Studies and Archive Collections; Lincolnshire Regiment, Militaria and Arms and Armour Collections; and Agriculture Collections.

Heritage assets are recognised and measured (including the treatment of revaluations gains and losses) in accordance with the Council's accounting policy on non-current assets - Property, Plant and Equipment (accounting policy 4, above). However, some of the measurement rules are relaxed in relation to Heritage Assets. Details of this are set out below:

a) Initial Recognition

- Collections: The collections are relatively static, acquisitions and donations rare. Where they do occur acquisitions will be measured at cost and donations will be recognised at a valuation determined in-house.

b) Measurement after recognition:

- Historic Buildings – Windmills: will be valued at existing use value by the Council's Valuer. These valuations will be included on the Council's rolling programme and will be valued every 5 years.
- Historic Buildings – Lincoln Castle and Temple Bruer: will continue to be carried at historic cost as the Council does not consider that a reliable valuation can be obtained for these assets. This is because of the nature of the assets held and the lack of comparable market values.
- Collections: will be valued based on the insurance valuations held by the Council. Insurance valuations will be reviewed and updated on an annual basis.

c) Impairment and disposals are accounted for in line with the Council's policy on non-current assets – Property, Plant and Equipment (accounting policy 4: e) Disposal of Property, Plant and Equipment and f.) Impairment of non-current assets).

d) Depreciation is not charged on Heritage Assets.

8. Non-Current Assets Held for Sale

These are assets held by the Council which are planned to be disposed of. They meet the following criteria:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;

- The sale must be highly probable (with management commitment to sell and active marketing of the asset initiated);

- It must be actively marketed for a sale at a price that is reasonable in relation to its current fair value; and

- The sale should be expected to qualify for recognition as a completed sale within one year.

a) Measurement. Non-Current Assets Held for Sale will be measured at the lower of carrying value and fair value less costs to sell (fair value here is the amount that would be paid for the asset in its highest and best use, e.g. market value).

b) Depreciation. Is not charged on non-current assets held for sale.

c) Disposal. Receipts from disposals are recognised in the Surplus or Deficit on provision of services.

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed. It is Council policy to fully utilise these receipts to fund the capital programme in the year they are received.

9. Donated Assets

Donated assets are non-current assets which are given to the Council at no cost or at below market value. These assets are initially recognised in the Balance Sheet at this value and then measured at fair value. The difference between the 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.

a) Where there are conditions associated with the asset which remain outstanding. The asset will be recognised in the Balance Sheet with a corresponding liability in the Donated Assets Accounts.

b) Where there are no conditions or the conditions have been met. The donated asset will be recognised in the Comprehensive Income and Expenditure Statement, then transferred to the Capital Adjustment Account through the Movement in Reserves Statement.

After initial recognition, donated assets are treated like all other non-current assets held by the Council and are subject to revaluation as part of the Council's rolling programme.

10. Charges to Revenue for the use of Non-Current Assets

Service accounts and central support services are charged with a capital charge for all non-current assets used in the provision of services to record the real cost of holding non-current assets during the year. The total charge covers:

- the annual provision for depreciation, attributed to the assets used by services;

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

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisation. However, it is required to make a prudent annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the Movement on Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

11. Minimum Revenue Provision

The Council makes provision for the repayment of debt in accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. This requires the Council to set a Minimum Revenue Provision (MRP) which it considers to be prudent. The approach adopted by the Council is to use the average life method (the average life of all the Council's assets) in calculating the MRP to be charged to revenue each year. MRP will be made in equal instalments over the estimated life of the assets acquired through borrowing.

12. Revenue Expenditure Financed through Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation of a non-current asset in the Balance Sheet; has been charged as expenditure to the relevant service revenue account in the year.

Statutory provision reverses these charges from the Surplus or Deficit on provision of services by debiting the Capital Adjustment Account and crediting the General Fund Balance via the Movement in Reserves Statement.

13. Service Concession Agreements (including Private Finance Initiative (PFI) and similar contracts)

Service Concession Agreements are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under such schemes and as ownership of the assets will pass to the Council at the end of the contract for no additional charge, the Council carries these assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. Assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the contractors each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge of 7.20% on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the contractor; and
- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment on the Balance Sheet.

The Council has one PFI scheme for the provision of seven separate schools across the county, which is classified as a Service Concession Arrangement.

14. Borrowing Costs

The Council has adopted the accounting policy of expensing borrowing costs of qualifying assets to the Comprehensive Income and Expenditure Statement (disclosed within Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement) in the year in which they are incurred.

This is current practice based on the fact that borrowing undertaken is not attributed to individual schemes making capitalisation of costs complex with marginal benefit.

15. Classification of Leases

Leases are classified as a finance lease or an operating lease depending on the extent to which risks and rewards of ownership of a leased Property, Plant and Equipment lie with the lessor (landlord) or the lessee (tenant).

IAS 17 'Leases' includes indicators for the classification of leases as a finance lease. Within these indicators the Council has set the following criteria: the 'major part' of the asset life is determined to be 75%; and 'substantially all' of the value is determined to be 75%.

- Finance Lease: A lease is classified as a finance lease when the lease arrangement transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

- Operating Lease: All other leases are determined to be operating leases.

Where a lease covers both land and buildings, these elements are considered separately.

This policy on accounting for leased assets also includes contractual arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment.

a) Finance Leases

i) Lessee – Vehicles, Plant & Equipment will be recognised on the Balance Sheet at cost and depreciated on a straight line basis over the term of the lease (in line with the Council's capitalisation and depreciation policy for vehicles, plant and equipment).

ii) Lessee – Property will be recognised on the Balance Sheet at an amount equal to the fair value of the property, or if lower, the present value of the minimum lease payments, determined at the inception of the lease.

The asset recognised is matched by a liability representing the obligation to pay the lessor. This is reduced as lease payments are made. Minimum lease payments are to be apportioned between the finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement) and the reduction of the deferred liability in the Balance Sheet.

Statutory provision reverses the finance charge, depreciation and any impairment or revaluation from the Comprehensive Income and Expenditure Statement to the Capital Adjustment Account through the Movement in Reserves statement. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements.

iii) Lessor – Property. When a finance lease is granted on a property, the relevant assets are written out of the Balance Sheet to gain or loss on disposal of assets in the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement. A gain is also recognised on the same line in the Comprehensive Income and Expenditure Statement to represent the Council's net investment in the lease. This is matched by a lease asset set up in long term debtors in the Balance Sheet. The lease payments are apportioned between repayment of principal written down against the lease debtor and finance income (credited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Initial direct costs are included in the initial measurement of the debtor and recognised as an expense over the lease term on the same basis as the income.

Rental income from finance leases entered into after 1 April 2010, will be treated as a capital receipt and removed from the General Fund Balance to capital receipts via the Movement in Reserves Statement.

The write off value of disposals is not a charge against council tax as the cost of non-current 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 via the Movement in Reserves Statement.

b) Operating Leases

i) Lessee – Property, Vehicles, Plant & Equipment will be treated as revenue expenditure in the service revenue accounts in the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease.

ii) Lessor – Property, Vehicles, Plant & Equipment shall be retained as an asset on the Balance Sheet. Rental income is recognised on a straight line, basis over the lease term, credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

c) Investment Property Leases (Lessee). In line with IAS 49 'Investment Properties', any lease which is assessed to be an Investment Property will be treated as if it was a finance lease. The fair value of the lease interest is used for the asset recognised. Separate measurement of land and buildings elements is not required when the leases are classified as an Investment Property.

16. Government Grants and Contributions

Government grants and contributions may be received on account, by instalments or in arrears. However, they should be recognised in the Comprehensive Income and Expenditure Statement, as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments. Conditions are stipulations that specify how the future economic benefits or service potential embodied in the grant or contribution must be consumed, otherwise the grant or contribution will have to be returned to the awarding body; and

- The grant or contribution will be received.

Grants and contributions received where the conditions have not yet been satisfied, are carried in the Balance Sheet as creditors and not credited to the Comprehensive Income and Expenditure Statement until the conditions are met.

Capital Grants and Contributions (non-current assets)

Capital grants and contributions are used for the acquisition of non-current assets. The treatment of these grants is as follows:

a) Capital grants where there are no conditions attached to the grant and the expenditure has been incurred. The income will be recognised immediately in Comprehensive Income and Expenditure Statement, in the taxation and non-specific grant income line.

Capital grant income is not a proper charge to the General Fund. It is accounted for through the Capital Financing Requirement (set out in statue) and therefore it does not have an effect on council tax. To reflect this, the income is credited to the Capital Adjustment Account through the Movement in Reserves Statement.

b) Capital grants where the conditions have not been met at the Balance Sheet date. At the Balance Sheet date the grant will be recognised as a Capital Grant Receipt in Advance in the liabilities section of the Balance Sheet. When the conditions have been met, the grant will be recognised as income in the Comprehensive Income and Expenditure Statement and the appropriate statutory accounting requirements for capital grants applied.

c) Capital grants where no conditions remain outstanding at the Balance Sheet date, but expenditure has not been incurred. The income will be recognised immediately in the Taxation and Non Specific Grant Income line of the Comprehensive Income and Expenditure Statement. As the expenditure being financed from the grant has not been incurred at the Balance Sheet date, the grant will be transferred to the Capital Grants Unapplied Account (within usable reserves section of the Balance Sheet), through the Movement in Reserves Statement. When the expenditure is incurred, the grant shall be transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account to reflect the application of capital resources to finance expenditure.

Revenue Government Grants and Contributions

Government grants and other contributions are accounted for on an accruals basis and recognised in the Comprehensive Income and Expenditure Statement when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. Where the conditions have not been met these grants will be held as creditors on the Balance Sheet.

Specific revenue grants are included in the specific service expenditure accounts together with the service expenditure to which they relate. Grants which cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Comprehensive Income and Expenditure Statement after Net Cost of Services.

17. Debtors

Debtors are recognised in the accounts when the ordered goods or services have been delivered or rendered by the Council in the financial year but the income has not yet been received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council; and

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Debtors are recognised and measured at fair value in the accounts. When considering the fair value of long term debtors, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term debtor will be used as a proxy for fair value.

For estimated manual debtors, a de-minimis level of £10k for individual revenue items and £25k for capital items is set.

18. Creditors

Creditors are recorded where goods or services have been supplied to the Council by 31 March but payment is not made until the following financial year.

Creditors are recognised and measured at fair value in the accounts. When considering the fair value of long term creditors, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term creditors will be used as a proxy for fair value.

For estimated manual creditors, a de-minimis level of £10k for individual revenue items and £25k for capital items is set.

19. Provision for Bad and Doubtful Debt

Where there is evidence that the Council may not be able to collect all amounts due to it, a provision for impairment is established. The provision made is the difference between the current carrying value of the debt and the amount likely to be collected. At the end of the financial year, bad debt provisions will be made for debts that have been outstanding for more than twelve months. The Council's policy is:

- Adult Social Care debtors are grouped by type and provided for on this basis plus the age of the debt; and
- Other aged debtors over 12 months old. Significant debtors are reviewed on a case by case basis, all remaining debtors are 100% provided for.

The provision for impairment is recognised as a charge to the relevant revenue service account in the Comprehensive Income and Expenditure Statement for the income that might not be collected.

20. Inventories

Inventory assets include and will be carried at the following values:

- Materials or supplies to be consumed or distributed in the rendering of services (e.g. highways salt). These are carried at the lower of cost (calculated as an average price) or current replacement cost (at the Balance Sheet date for an equivalent quantity); and

- Held for sale or distribution in the ordinary course of operations, are carried at the lower of cost or net realisable value.

The Council has set a de-minimis level for recognising inventories of £100k. Inventory balances below this level are not recorded on the Balance Sheet.

21. Cash and Cash Equivalents

a) Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

b) Cash Equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. The Council will classify these as follows:

- Instant Access Deposit Accounts or Overnight Bank Facilities set up for the purpose of meeting short term liquidity requirements and whose return (if any) does not make up the Average Yield Return on Investments, are to be classed as Cash Equivalents.

- Overnight Fixed Deposits, Deposit Based Bank Accounts and Net Asset Value Money Market Funds held for investment purposes for the returns offered, which make up the Councils Average Yield Return on its Investments, are to be classed as Short Term Investments.

c) Bank Overdrafts are to be shown separately from Cash and Cash Equivalents where they are not an integral part of an Authority's cash management. They are to be shown net of Cash and Cash Equivalents where they are an integral part of an Authority's cash management.

22. Provisions

The Council sets aside provisions for future expenses where: a past event has created a current obligation (legal or constructive) to transfer economic benefit; it is probable that an outflow of economic benefits or service potential will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are charged to relevant revenue service account in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation. When the obligation is settled, the costs are charged to the provision set up in the Balance Sheet. When payments are eventually made, they are charged against the provision carried in the Balance Sheet.

The Council has set a de-minimis level for recognising provisions of £100k.

Provisions contained within the Balance Sheet are split between current liabilities (those which are estimated to be settled within the next 12 months) and non-current liabilities (those which are estimated to be settled in a period greater than 12 months).

Provisions are recognised and measured at fair value in the accounts. When considering the fair value of long term provisions, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term provisions will be used as a proxy for fair value.

23. Contingent Liabilities

A contingent liability is where there is a possible obligation to transfer economic benefit resulting from a past event, but the possible obligation will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the Council. The Council discloses these obligations in the narrative notes to the accounts.

These amounts are not recorded in the Council's accounts because:

- it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability at the year end.

The Council has set a de-minimis level for recognising Contingent Liabilities of £100k.

24. Contingent Assets

A contingent asset is where there is a possible transfer economic benefit to the Council from a past event, but the possible transfer will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the Council. The Council discloses these rights in the narrative notes to the accounts.

The Council has set a de-minimis level for recognising Contingent Assets of £100k.

25. Events after the Reporting Date

These are events that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. The Council will report these in the following way if it is determined that the event has had a material effect on the Council's financial position.

- Events which provide evidence of conditions that existed at the end of the reporting period will be adjusted and included within the figures in the accounts; and

- Events that are indicative of conditions that arose after the reporting will be reported in the narrative notes to the accounts.

- Events which take place after the authorised for issue date are not reflected in the Statement of Accounts.

26. Recognition of Revenue (Income)

Revenue shall be measured at the fair value of the consideration received or receivable.

Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, with the exception of non-exchange transactions (such as Council Tax and general rate) where it is assumed there is no difference between the delivery and payment date.

27. Exceptional Items

Exceptional items are material amounts of income or expenditure which occur infrequently in the course of the Council's normal business and are not expected to arise at regular intervals. When these items of income or expense are material, their nature and amount will be disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts depending on how significant the items are to an understanding of the Council's financial performance.

28. Costs of Support Services

The costs of overheads and support services are charged to those who benefit from the supply of services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013-14 (SeRCOP). The costs are recharged to services on the following basis:

Costs	Basis of apportionment
Accommodation	staff numbers
Accountancy services	estimated time
Business support	budget amount
Communications	gross expenditure and sales
Creditor payments	number of payments
Customer service centre	number and length of calls
Debtor services and income collection	number of debtor accounts and number of cash receipts
IT services	number of PC's
Payroll services	number of employees
People Management	number of employees
Programme Centre and Property Rationalisation Programme	gross expenditure and sales
Property services	number of properties
Adult Social Care (Assessments Team and associated Swift IT)	number of Adult Social Care clients

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation; and

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

29. Acquired and Discontinued Operations

Where the Council takes on new activities or ceases providing services, the costs relating to these activities will be identified in the Comprehensive Income and Expenditure Statement, on the surplus or deficit on discontinued operations line. These items will not form part of the net cost of services in the Comprehensive Income and Expenditure Statement in the year they occur.

30. Value Added Tax (VAT)

The Council's Comprehensive Income and Expenditure Statement excludes VAT. All VAT must be passed on (where output tax exceeds input tax) or repaid (where input tax exceeds output tax) to HM Revenue and Customs.

The net amount due to or from HM Revenue and Customs for VAT at the year-end shall be included as part of creditors or debtors balance.

31. Council Tax and Business Rates Income

The collection of Council Tax and Business Rates is in substance an agency arrangement with the seven Lincolnshire District Councils (billing Authorities) collecting Council Tax and Business Rates on behalf of the Council.

The Council Tax and Business Rates income is included in the Comprehensive Income and Expenditure Statement on an accruals basis and includes the precept for the year plus the Council's share of Collection Fund surpluses and deficits from the billing Authorities.

The difference between the income reported in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund, shall be taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

The year-end Balance Sheet includes the Council's share of debtors (arrears and collection fund surpluses) and creditors (prepayments, overpayments and collection fund deficits).

32. 'Cap and Trade' Schemes

Landfill Allowance Trading Scheme – LATS (ceases 31 March 2013)

LATS is the only 'cap and trade' scheme that currently affects Lincolnshire County Council. The LATS scheme is recorded in our accounts as:

- an asset for allowances held;
- LATS grant income (treated as a revenue government grant); and
- a liability for actual biodegradable municipal waste landfill usage.

Allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority, shall be recognised as current assets. They shall be measured initially at their fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial measurement, Authorities shall re-measure the value of landfill allowances as the lower of cost or net realisable value.

As landfill is used, a liability shall be recognised for actual landfill usage. The liability is discharged by using allowances to meet the liability or paying a cash penalty to DEFRA. The liability is measured as the best estimate of the expenditure required to meet the obligation at the reporting date (this will be the present market price of LATS at the Balance Sheet date).

Carbon Reduction Commitment Scheme – CRC

The Council is required to participate in the CRC Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances.

The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Authority is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption.

33. Reserves

a) Useable Reserves

The Council's general revenue balances are held in the General Fund. The Council also maintains a number of specific 'earmarked' reserves for future expenditure on either policy purposes or to cover contingencies. When expenditure is financed from an earmarked reserve, it is charged to the relevant revenue service account in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back to the General Fund Balance via the Movement in Reserves Statement, so that there is no net charge against council tax.

b) Unusable Reserves

Certain reserves are kept to maintain the accounting processes for non-current assets, financial instruments and employee benefits. These accounts do not represent usable resources for the Council. These include:

- Capital Adjustment Account;
- Revaluation Reserve;
- Financial Instruments Adjustment Account;
- Pension Reserve;
- Collection Fund Adjustment Account; and
- Accumulated Absences Reserve.

34. Employee Benefits – Benefits Payable during Employment

a) Benefits Payable During Employment – Short Term Benefits

These are amounts expected to be paid within 12 months of the Balance Sheet date. These include:

- Salaries, wages and expenses accrued up to the Balance Sheet date. These items are charged as an expense to the relevant service revenue account in the year the employees' services are rendered; and

- Annual leave and flexi hours earned, but not yet taken at the Balance Sheet date. An accrual is made for items at the wage and salary rate payable. The accrual is charged to the relevant service revenue account, but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account, so this does not have an impact on council tax.

Teacher Leave Accrual

The accrual for short term benefits for teachers is calculated using a standard methodology, reflecting the fact that teachers across the Council are subject to standard terms and conditions of employment. This methodology is based on the number of days of the Spring Term (both term-time and holiday) that fall within the financial year and the leave entitlement of the teacher (which varies according to whether an individual has left the teaching profession at the end of the Spring term).

b) Long Term Benefits

These are amounts which are payable beyond 12 months. The Council does not have any material long term benefits to be declared within the Financial Statements.

35. Employee Benefits – Termination Benefits

Employee termination benefits arise from the Council's obligation to pay redundancy costs to employees. These costs will be recognised in the Council's Financial Statements at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for a restructuring. For example; when there is a formal plan for redundancies (including the location, function and approximate number of employees affected; the termination benefits offered, and the time of implementation).

These items will be accrued in the Balance Sheet at the year end and charged to the relevant service revenue account. If payments are likely to be payable in more than 12 months from the year end, then these costs will be discounted at the rate determined by reference to market yields.

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

36. Employee Benefits – Post Employment Benefits (Pensions)

Lincolnshire County Council participates in three different pension schemes which provide scheme members with defined benefits related to pay and service. The schemes are as follows:

- **Teachers' Pension Scheme:** This is a notionally funded scheme administered nationally by Capita Teachers' Pensions on behalf of the Department for Education (DFE). The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to teachers' pensions in the year are treated as expenditure on the education service line in the Comprehensive Income and Expenditure Statement.

- **National Health Service Pension Scheme (NHSPS):** This is a notional funded scheme administered national by NHS Pensions on behalf of the Department of Health (DoH) The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to the National Health Service Pension Scheme in the year are treated as expenditure in the Public Health service line in the Comprehensive Income and Expenditure Statement.

- **Uniformed Fire-fighters Pension Scheme (FPS):** From 1 April 2006, a new pension fund for Fire-fighters was set up. This scheme replaced the 1992 Fire-fighters scheme for new Fire-fighters. Both the 1992 and 2006 schemes remain unfunded but there are differences in the contributions payable into each scheme and the benefits paid to members. Both employee and employer contributions are paid into each fund, against which pension payments are made. Each fund is topped up by additional government funding if contributions are insufficient to meet the cost of the pension payments. Any surplus in each fund at the end of each year will be repaid back to the Department for Communities and Local Government (DCLG). Contributions in respect of ill health retirements are still the responsibility of the Council.

- **Local Government Pension Scheme (LGPS):** Other employees are eligible to join the LGPS. The Council pays contributions to a funded pension scheme from which employee pension benefits are paid out.

The pension costs included in the Statement of Accounts in respect of both the LGPS and the FPS have been prepared in accordance with IAS 19 Employee Benefits. The pension costs in respect of both the LGPS and FPS have been estimated by the Pension Fund actuary adviser and have incorporated an actual valuation of the accrued pension liabilities attributable to the Council as the scheme employer.

The Local Government Pension Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme:

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

- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on long term UK Government bonds greater than 15 years).

- The assets of Lincolnshire Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid or last traded price;
- unquoted securities – professional estimates;
- unitised securities – current bid price.

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

- Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

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

- Remeasurements comprising:

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

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

The Council also pays any costs arising in relation to unfunded elements of pensions, paid to certain employees that have retired early and have been awarded discretionary compensation under the provisions of the Council's early retirement policy. These costs are charged to Non-Distributed Costs in the Comprehensive Income and Expenditure Statement.

37. Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves

In Lincolnshire, Local Authority education is provided in: Foundation, Voluntary Aided, Voluntary Controlled and Community Schools (all known as 'maintained schools').

Income and Expenditure

All income and expenditure relating to maintained schools in Lincolnshire is shown in the Council's Comprehensive Income and Expenditure Statement.

Non-Current Assets

Schools non-current assets will be accounted for by considering their substance and economic reality and not merely their legal form. The Code defines non-current assets as "a resource controlled by the Council as a result of a past event and from which future economic benefits or service potential are expected to flow".

If assets are owned by the Council, or the future economic benefits are identified to sit with the Council, then the non-current assets will be recorded in the Balance Sheet. Where the non-current assets and long term liabilities for a school are vested in the individual governing bodies, and it is assessed that the future economic benefits sit with the governing body of the school; no Property, Plant and Equipment is recorded in the Council's Balance Sheet.

The exception to this is for any finance leases for IT equipment taken out by the Council on behalf of a school; these remain within the Council's Balance Sheet as the Council retains the liability.

Assets and Liabilities

All assets and liabilities, excluding non-current assets which are covered above, relating to maintained schools are included within the Council's Balance Sheet.

Reserves

The Council maintains specific earmarked reserves for schools balances. At year end balances from dedicated schools budgets, including those held by schools under a scheme of delegation, are transferred into the reserve to be carried forward for each school to use in the next financial year. This ensures that any unspent balances at the end of the financial year are earmarked for use by those schools as required by the Council's scheme for financing schools approved by the Secretary of State for Education.

38. Group Relationships

The Council assesses on an annual basis relationships with other bodies to identify the existence of any group relationships. A de-minimis level of £1.000m has been set for considering bodies to be included within group accounts.

The Council has not identified, and does not in aggregate have any material interests in subsidiaries, associated companies or joint ventures and therefore is not required to prepare group accounts.

39. Financial Instruments

a) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective 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. All the Council's borrowings are carried at amortised cost and the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

No repurchase has taken place as part of a restructuring of the loan portfolio that included the modification or exchange of existing instruments. Therefore gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement and spread over future years under statutory regulation.

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/loss over ten years or the term that was remaining on the loan if less than ten years. The reconciliation of premiums / discounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

b) Financial Assets

Financial Assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and

- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

i) Loans and Receivables

Loans and Receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing & 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 the majority of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has a number of loans at less than market rates (soft loans) for the purpose of service objectives. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be forgone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing & 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 through the Movement in Reserves Statement.

The Council has set a £50k de minimis limit to the value of soft loans or the discounting of interest rates. Below this amount the above accounting treatment for soft loans is not applied and the soft loans are shown in the accounts at their carrying value.

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

Any gains and losses that arise on the derecognition of the assets are credited/debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

ii) Available-for-sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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

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

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

The Council holds a small equity holding of 14,000 of shares at £1 par value, in a company called 'Investors for Lincoln Ltd'. These shares do not have a quoted market price in an active market and therefore their fair value cannot be measured reliably, consequently they are shown in the Balance Sheet at cost.

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

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

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

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

The County Council is required to disclose information relating to the impact of changes in accounting standards on the financial statements as a result of new standards that have been issued, but are not yet required to be adopted.

In the 2013-14 accounts, the County Council is required to disclose the following changes to Accounting Standards which may have an impact on the County Council's accounts in 2014-15. The following standards are being introduced by the 2014-15 Code:

IFRS 10 Consolidated Financial Statements;
IFRS 11 Joint Arrangements;
IFRS 12 Disclosure of Interests in Other Entities;
IAS 27 Separate Financial Statements;
IAS 28 Investments in Associates and Joint Ventures;
IAS 32 Financial Instruments: Presentation; and
Annual Improvements to IFRS 2009-11 Cycle.

The above changes to Accounting Standards and the Code of Practice have been considered and are not expected to have a material impact on the County Council's accounts in 2014-15.

Note 3. Critical judgements in applying accounting

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

Government Funding

- There is a high degree of uncertainty about 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 and reduce levels of service provision.

PFI Contract- Focus Education Lincolnshire

-The County Council entered into a PFI contract with Focus Education (Lincolnshire), for the construction and provision of seven fully serviced school premises. The Council is deemed to control the service provided in these schools and also control the residual value in the school buildings at the end of the agreement. The accounting policy for Service Concessions and Similar Arrangements (including PFI agreements) has been applied to account for this contract and the property, plant and equipment assets associated with these schools, plus the outstanding liability for the PFI finance lease have been included within the Council's balance sheet. Details of the Council's PFI contract accounting are set out in Note 50 Private Finance Initiatives (PFI) and Similar Contracts.

On the 1st March 2013, one of the seven PFI schools - the Phoenix School at Grantham, converted to Academy status. A lease has been agreed between the County Council and the Academy to reflect the effects of the conversion. This lease is accounted for in accordance with the County Council's Accounting Policies on Leases.

Energy from Waste Plant

- The Council has reviewed the arrangements in place for the construction and operation of the Energy from Waste Plant. There are elements of the Energy from Waste contract that meet the definition of a service concession arrangement in that the contract is design, build and operate. However, the land, building and equipment assets associated with the plant have been purchased outright by the Council (and financed through Prudential Borrowing), as such these have been recognised as assets of the Council's in the balance sheet.

Classification of Leases

-The County Council has entered into numerous leases for property and equipment, both as lessee and lessor. All new arrangements are assessed on an annual basis using the Council's accounting policies on leasing. Details of all leases held by the Council are set out in Note 49 Leases.

Group Boundaries - Eastern Shires Purchasing Organisation

- The County Council is one of seven local authority members of Eastern Shires Purchasing Organisation (ESPO). The relationship between the County Council and ESPO has been assessed to be a jointly controlled entity. ESPO has not been consolidated into the County Council's accounts as the relationship is not deemed to be material for the County Council. This relationship has been disclosed as a narrative note within the accounts. Full details of group relationships and other interests are detailed in Note 57.

School Assets

- The County Council's accounting policies on accounting for schools assets states: ‘The Code defines non-current assets as “a resource controlled by the Council as a result of a past event and from which future economic benefit or service potential are expected to flow”. In applying this accounting policy, the following school assets have been included within the balance sheet as non-current assets: community school assets and voluntary controlled school assets. Voluntary aided and foundation school assets have not been included within the County Council's balance sheet as ownership, economic benefit and future service potential of these assets is deemed to be vested in the school's governing body.

Investment Properties

- The County Council has assessed its portfolio of property assets and has identified a small number of assets held for investment purposes (including the Council's County Farms Estate). These assets are held purely for the purposes of capital appreciation or income generation, or both, and have been accounted for under the County Council's policy on investment properties. Further details are contained in Note 16.

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

The Statement of Accounts contain a number of estimated figures that are based on assumptions made by the County Council, about the future or where there is a degree of uncertainty about outcomes. Estimates made take into account: historical experience, current trends and relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates included in the Statement of Accounts.

The County Council's balance sheet as at 31 March 2014 contains the following entries for which there is a significant risk of material adjustments in the forthcoming financial year:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment - PP&E (Valuations and Asset Lives)	- Land and building assets carrying value and remaining useful life are assessed by the County Council's Valuers. These valuations include an assessment of the condition and use of assets. Changes in local government funding and future restructuring of services by the Council may affect the use of existing assets and levels of spending to maintain these assets. This may lead to changes in asset values and asset lives in the future.	Changes to asset value and lives, will have an effect on the annual depreciation charge for use of assets charged to services in the CI&ES. The annual depreciation charge for PP&E in 2013-14 was £67.056m (2012-13 was £75.855m) and the gross book value of these assets was £1,654.837m (2012-13 £1,720.155m). Note 1 on accounting policies and Note 14 Property, Plant and Equipment, details the current policy on valuation methods, asset lives and depreciation applied by the County Council.
Pensions	- The County Council's accounts contain an estimate of the future liability to pay pensions on the retirement of employees. This liability is estimated by the Council's actuary who applies a number of assumptions relating to: salary projections, retirement ages, changes in mortality rates and expected rates of return on pension assets and the discount rates used.	Changes to the actuaries assumptions may materially affect the value of the pension fund liability, however, these changes are difficult to predict as the assumptions interact in complex ways. During 2013-14 the Council's actuaries advised that the net pension liability had increased by £73.596m (£96.359m increase in 2012-13). Details of the pension fund liabilities are set out in Note 54 Defined Benefit Pension Schemes.
Accruals	- Debtor and creditor accruals are measured at the best estimate of the income / expenditure expected at the balance sheet date. Details of debtor and creditor balances are set out in Note 21 (Debtors) and Note 24 (Creditors).	The most significant accrual as at 31 March 2013, is for pay which totals £7.678m (£5.427m of which is for employee leave earned but not taken).

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

Note 5. Exceptional Items

The County Council is required to disclose separately within the financial statements any exceptional items which are material and are not expected to recur frequently in the Council's normal operations.

In 2013-14, an exceptional item has arisen due to the number of schools converting to Academy status. Academies are independent of the Council, they receive funding from the Department for Education directly and incur their own expenditure. Prior to becoming Academy Schools, this income and expenditure formed part of the Council's net expenditure on schools.

The effect of schools converting to Academies in 2013-14 on the Comprehensive Income and Expenditure Statement is:

	Reduction to Gross Expenditure £'000	Reduction to Income £'000	Effect on Net Expenditure £'000
Primary Schools	(19,766)	19,926	160
Secondary Schools	(32,603)	32,666	63
Special Schools	(2,326)	2,352	26
Total Effect on Comprehensive Income & Expenditure Statement	**(54,695)**	**54,944**	**249**

These amounts have not been shown separately on the face of the Comprehensive Income and Expenditure Statement.

In addition to the loss of income and expenditure for schools, where the assets of a school becoming an Academy were owned by the County Council (i.e. Community and Voluntary Controlled Schools), the school's land and buildings are leased to the Academy Trust. During 2013-14, four primary and one special school assets have been leased to Academy School Trustees on 125 year leases. The County Council have assessed these leases to be finance leases for the buildings and operating leases for the land. These assets have been valued as such and this has led to £11.130m being removed from the value of County Council's assets held on Balance Sheet as at 31 March 2014. A further £0.096m has been removed from the Council's balance sheet for all academy schools equipment which was previously held by the County Council.

In 2012-13 a similar reduction occurred due schools becoming Academies. The effect on the CI&ES was to reduce gross expenditure by £75.335m and income by £77.229m, giving a net effect of £1.894m.The effect on the County Council's balance sheet as at 31 March 2013 was a reduction of £86.077m due to land and building assets being leased to Academies Trusts and the removal of schools equipment from the balance sheet of £0.647m.

Note 6. Material items of income and expenditure

The County Council is required to disclose any material amounts of income or expenditure which are not disclosed on the face of the Comprehensive Income and Expenditure Statement or in other supporting notes to the accounts anywhere. Any items that are over 10m that are not disclosed on the face of Comprehensive Income and Expenditure or in other supporting notes needs to be disclosed via this note. Material items (over £10m) not disclosed elsewhere in the accounts are:

A number of Lincolnshire schools have gained academy status during the 2013-14 financial year which has resulted in them no longer being owned by the Council. Further details on the impact on the Comprehensive Income & Expenditure Statement and the gain and loss on the disposal of assets can be found in Note 5 Exceptional Items.

A number of Public Health responsibilities transferred to the County Council from April 2013. Further details can be found in Note 33 Acquired and Discontinued Operations.

In 2013-14 the County Council saw a significant reduction in the Early Intervention Grant (£26.506m in 2012-13 to £19.587m in 2013-14). In 2013-14 rather than being paid as a separate grant it was included partially in the Revenue Support Grant (RSG) and partially in the Dedicated Schools Grant (DSG). As a result of this the income figures for Children's Services on the Comprehensive Income and Expenditure Statement for the 2013-14 financial year were significantly lower. The reason for this may not be obvious but the reduction in the grant can be seen in Note 46 Revenue Grants and Contributions.

Note 7. Events after the balance sheet date

a) Authorisation of Accounts for Issue

The Statement of Accounts were authorised for issue by Pete Moore, CPFA (Executive Director of Finance & Public Protection) in accordance with the Accounts and Audit Regulations 2011 (England).

Signed: …………………………………………… Dated: …………………………

b) Post Balance Sheet Events

In accordance with IAS 10 'Events after the Reporting Period' have been considered on the following basis:

- Events taking place after the date the Accounts were authorised for issue (22 September 2014) are not reflected in the Financial Statements or the notes.

- Events that provide evidence of conditions that existed at the end of the reporting period 31 March 2014 are reflected in the figures in the Financial Statements and the notes, where the information has a material impact.

- Events that arose after the reporting period have not been reflected in the figures in the Accounts. A note of material events which took place after 31 March 2014 is set out here to provide information that is relevant to an understanding of the Council's financial position, but do relate to conditions at this date.

There have been no Events After the Balance Sheet Date to report in the Financial Statements.

Note 8. Service Expenditure Analysis

The net cost of services is presented according to the service expenditure analysis detailed in the Service Reporting Code of Practice (SeRCOP) as issued by CIPFA. A further breakdown of the figures shown in the Comprehensive Income and Expenditure Statement is provided below:

2012-13				2013-14		
Gross Expenditure £'000	Income £'000	(*1) Restated Net Expenditure £'000		Gross Expenditure £'000	Income £'000	Net Expenditure £'000
			CHILDREN'S AND EDUCATION SERVICES - EDUCATION SERVICES			
40,651	(30,657)	9,994	Early Years	40,295	(5,694)	34,601
217,606	(176,520)	41,086	Primary Schools	194,538	(185,333)	9,205
131,703	(124,300)	7,403	Secondary Schools	83,472	(59,442)	24,030
42,597	(36,513)	6,084	Special Schools	43,480	(37,704)	5,776
15,510	(5,180)	10,330	Services to Young People and Other Community Learners	13,684	(2,179)	11,505
21,204	(9,809)	11,395	Other Strategic Functions	34,252	(20,728)	13,524
469,271	**(382,979)**	**86,292**	**TOTAL**	**409,721**	**(311,080)**	**98,641**
			CHILDREN'S AND EDUCATION SERVICES - CHILDREN'S SOCIAL CARE			
1,620	(60)	1,560	Service Strategy	2,497	(88)	2,409
15,650	(2,258)	13,392	Commissioning and Social Work	25,931	(5,145)	20,786
20,911	(1,044)	19,867	Children Looked After	22,018	(1,401)	20,617
14,056	(4,600)	9,456	Family Support Services	13,131	(2,121)	11,010
4,524	(3,579)	945	Youth Justice	4,417	(3,740)	677
413	(173)	240	Children's and Young People's Safety	590	(137)	453
525	(545)	(20)	Asylum Seekers	4	0	4
5,098	(387)	4,711	Other Children's and Families' Services	4,692	(626)	4,066
62,797	**(12,646)**	**50,151**	**TOTAL**	**73,280**	**(13,258)**	**60,022**
			ADULT CARE			
1,460	(13)	1,447	Service Strategy	269	(4)	265
131,575	(40,445)	91,130	Older People (Aged 65 or Over) including Older Mentally Ill	129,380	(47,968)	81,412
18,993	(3,235)	15,758	Adults Aged Under 65 with a Physical Disability or Sensory Impairment	19,503	(4,525)	14,978
61,263	(19,616)	41,647	Adults Aged Under 65 with Learning Disabilities	60,679	(16,563)	44,116
13,770	(5,627)	8,143	Adults Aged Under 65 with Mental Health Needs	12,917	(5,099)	7,818
9,546	(3,058)	6,488	Other Adult Services	2,667	(1,665)	1,002
236,607	**(71,994)**	**164,613**	**TOTAL**	**225,415**	**(75,824)**	**149,591**
			HIGHWAYS AND TRANSPORT SERVICES			
7,567	(1,450)	6,117	Transport Planning, Policy and Strategy	6,059	(1,403)	4,656
11,140	(741)	10,399	Structural Maintenance	10,620	(3,862)	6,758
29,055	(3,075)	25,980	Capital Charges Relating to Construction Projects	30,980	0	30,980
10,776	(994)	9,782	Environmental, Safety and Routine Maintenance	11,433	(1,122)	10,311
5,637	(564)	5,073	Street Lighting (including energy costs)	6,159	(686)	5,473
7,634	(198)	7,436	Winter Service	4,672	(221)	4,451
5,711	(1,766)	3,945	Traffic Management and Road Safety	6,503	(1,488)	5,015
302	(274)	28	Parking Services	769	(897)	(128)
17,902	(1,957)	15,945	Public Transport	19,242	(3,430)	15,812
95,724	**(11,019)**	**84,705**	**TOTAL**	**96,437**	**(13,109)**	**83,328**
			CULTURAL AND RELATED SERVICES			
6,513	(1,382)	5,131	Culture and Heritage	6,434	(1,393)	5,041
1,612	(103)	1,509	Recreation and Sport	1,369	(85)	1,284
892	(26)	866	Open Spaces	509	(65)	444
1,295	(392)	903	Tourism	1,590	(359)	1,231
13,356	(791)	12,565	Library Services	13,123	(742)	12,381
23,668	**(2,694)**	**20,974**	**TOTAL**	**23,025**	**(2,644)**	**20,381**

2012-13 Gross Expenditure £'000	Income £'000	(*1) Restated Net Expenditure £'000		2013-14 Gross Expenditure £'000	Income £'000	Net Expenditure £'000
			ENVIRONMENTAL AND REGULATORY SERVICES			
2,828	(137)	2,691	Community Safety (Crime Reduction)	2,621	(251)	2,370
912	(215)	697	Flood Defence and Land Drainage	867	(27)	840
3,263	(828)	2,435	Regulatory Services	3,072	(734)	2,338
19,999	(202)	19,797	Waste Disposal	19,438	(89)	19,349
119	(115)	4	Trade Waste	130	(111)	19
4,867	(597)	4,270	Recycling	4,480	(392)	4,088
27	(1)	26	Waste Minimisation	77	(6)	71
32,015	**(2,095)**	**29,920**	**TOTAL**	**30,685**	**(1,610)**	**29,075**
			PLANNING SERVICES			
901	(345)	556	Development Control	1,090	(387)	703
612	(32)	580	Planning Policy	728	(48)	680
1,434	(467)	967	Environmental Initiatives	1,431	(436)	995
578	(8)	570	Economic Research	464	(22)	442
3,383	(1,025)	2,358	Business Support	4,040	(1,151)	2,889
5,379	(2,506)	2,873	Economic Development	7,737	(3,840)	3,897
2,571	(773)	1,798	Community Development	2,818	(499)	2,319
14,858	**(5,156)**	**9,702**	**TOTAL**	**18,308**	**(6,383)**	**11,925**
			FIRE & RESCUE SERVICES			
1,475	(376)	1,099	Community Safety	1,345	(421)	924
27,742	(2,609)	25,133	Fire Fighting and Rescue Operations	30,946	(2,842)	28,104
29,217	**(2,985)**	**26,232**	**TOTAL**	**32,291**	**(3,263)**	**29,028**
			HOUSING SERVICES			
346	(83)	263	Other Council Property: Travellers' Sites	541	(79)	462
			Supporting People	14,163	(614)	13,549
346	**(83)**	**263**	**TOTAL**	**14,704**	**(693)**	**14,011**
			CENTRAL SERVICES TO THE PUBLIC			
1,930	(1,187)	743	Registration of Births, Deaths and Marriages	2,132	(1,184)	948
18	0	18	Elections	846	0	846
837	(164)	673	Emergency Planning	767	(116)	651
1,427	(39)	1,388	Coroners' Court Services	1,639	(46)	1,593
4,212	**(1,390)**	**2,822**	**TOTAL**	**5,384**	**(1,346)**	**4,038**
			CORPORATE & DEMOCRATIC CORE			
2,342	(32)	2,310	Democratic Representation and Management	2,374	(6)	2,368
1,390	(146)	1,244	Corporate Management	1,163	(12)	1,151
3,732	**(178)**	**3,554**	**TOTAL**	**3,537**	**(18)**	**3,519**
			NON DISTRIBUTED COSTS			
(11,984)	0	(11,984)	Non distributed costs	2,867	0	2,867
(11,984)	**0**	**(11,984)**	**TOTAL**	**2,867**	**0**	**2,867**
960,463	**(493,219)**	**467,244**	**COST OF SERVICES (EXCLUDING ACQUIRED AND DISCONTINUED OPERATION)**	**935,654**	**(429,228)**	**506,426**

(*1) The presentation of the Service Expenditure Analysis has changed from 2012-13 Statement of Accounts. Civil Parking Enforcement was a new service undertaken by the Council from 1 April 2012. As an acquired operation, net expenditure £0.028m was excluded from the SEA in the 2012-13 Statement of Accounts. For comparability, this expenditure is now included under the heading Highways & Transport Services.

(*2) The presentation of Supporting People costs has changed from 2013-14.In 2012-13 these costs were included within Adult Care in the Service Expenditure Analysis.From 2013-14 the costs are shown under Housing Services.

Note 9. Adjustments between accounting basis and funding basis under regulations.

This Note details the adjustments that are made to total Comprehensive Income and Expenditure Statement to adjust proper accounting practice for statutory provisions to meet future capital and revenue expenditure.

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

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on 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.

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 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.

Restated 2012-13 General Fund Balance £'000	Restated 2012-13 Usable Reserves Capital Receipts Reserve £'000	Restated 2012-13 Capital Grants Unapplied £'000	Restated 2012-13 Movements in Unusable Reserves £'000		2013-14 General Fund Balance £'000	2013-14 Usable Reserves Capital Receipts Reserve £'000	2013-14 Capital Grants Unapplied £'000	2013-14 Movements in Unusable Reserves £'000
				Adjustments primarily involving the Capital Adjustment Account:				
				Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
(75,802)	0	0	75,802	Charges for depreciation and impairment of non-current assets	(67,055)	0	0	67,055
(14,846)	0	0	14,846	Revaluation losses on Property Plant and Equipment	(13,455)	0	0	13,455
0	0	0	0	Revaluation losses on Heritage Assets	0	0	0	0
(402)	0	0	402	Revaluation losses on Held for Sale Assets	(112)	0	0	112
12,957	0	0	(12,957)	Movements in the market value of Investment Properties	10,813	0	0	(10,813)
(2,491)	0	0	2,491	Amortisation of intangible assets	(2,082)	0	0	2,082
29,296	0	0	(29,296)	Capital grants and contributions applied	41,533	0	0	(41,533)
1,063	0	0	(1,063)	Movement in the Donated Assets Account	0	0	0	0
(6,074)	0	0	6,074	Revenue expenditure funded from capital under statute (net of Grants and Contributions)	(22,557)	0	0	22,557
(86,122)	0	0	86,122	Amounts of Property, Plant & Equipment written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(16,879)	0	0	16,879
(656)	0	0	656	Amounts of assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(1,996)	0	0	1,996
(3,521)	0	0	3,521	Amounts of investment properties written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(1,452)	0	0	1,452

2012-13					2013-14			
Usable Reserves					Usable Reserves			
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movements in Unusable Reserves £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movements in Unusable Reserves £'000
				Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
29,682	0	0	(29,682)	Statutory provision for the financing of capital investment	25,925	0	0	(25,925)
17,255	0	0	(17,255)	Capital expenditure charged against the General Fund	9,677	0	0	(9,677)
				Adjustments primarily involving the Capital Grants Unapplied Account:				
28,207	0	(28,207)	0	Capital grants and contributions unapplied credited to the CI&ES	22,890	0	(22,890)	0
0	0	15,825	(15,825)	Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	30,673	(30,673)
				Adjustments primarily involving the Capital Receipts Reserve:				
6,049	(6,049)	0	0	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&ES	3,238	(3,238)	0	
0	6,049	0	(6,049)	Use of the Capital Receipts Reserve to finance new capital expenditure	0	3,238	0	(3,238)

2012-13 General Fund Balance £'000	2012-13 Usable Reserves Capital Receipts Reserve £'000	2012-13 Capital Grants Unapplied £'000	2012-13 Movements in Unusable Reserves £'000		2013-14 General Fund Balance £'000	2013-14 Usable Reserves Capital Receipts Reserve £'000	2013-14 Capital Grants Unapplied £'000	2013-14 Movements in Unusable Reserves £'000
				Adjustment primarily involving the Financial Instruments Adjustment Account:				
15	0	0	(15)	Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	(171)	0	0	171
				Adjustments primarily involving the Pensions Reserve:				
(41,200)	0	0	41,200	Reversal of items relating to retirement benefits debited or credited to the CI&ES (Note 54)	(64,207)	0	0	64,207
36,034	0	0	(36,034)	Employer's pensions contributions and direct payments to pensioners payable in the year	35,802	0	0	(35,802)
				Adjustments primarily involving the Collection Fund Adjustment Account:				
291	0	0	(291)	Amount by which council tax & business rate income credited to the CI&ES is different from council tax & business rates income calculated for the year in accordance with statutory requirements	(3,766)	0	0	3,766
				Adjustment primarily involving the Accumulated Absences Account:				
1,961	0	0	(1,961)	Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,318	0	0	(1,318)
(68,304)	**0**	**(12,382)**	**80,686**	**Total Adjustments**	**(42,536)**	**0**	**7,783**	**34,753**

Note 10. Transfer to/from earmarked reserves.

The note below sets out the amounts set aside from the General Fund into Earmarked Reserves to provide financing for future expenditure plans and the amounts posted back from Earmarked Reserves to meet General Fund expenditure in 2013-14.

Balance at 1 April 2012 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2013 £'000		Balance at 1 April 2013 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2014 £'000
46,705	27,371	(36,158)	37,918	**Balances from dedicated schools budget including those held by schools under a scheme of delegation**	37,918	21,139	(25,161)	33,896
				Other Earmarked Reserves:				
2,232	3,965	(2,232)	3,965	Other Services	3,965	3,999	(3,965)	3,999
1,053	1,000	(1,053)	1,000	Adverse Weather	1,000	0	0	1,000
3,023	1,035	0	4,058	Insurance	4,058	1,028	0	5,086
114	0	0	114	Invest to Save	114	0	(114)	0
943	0	(266)	677	School's Sickness Insurance Scheme	677	126	0	803
139	10	0	149	Purchase of Museums Exhibits	149	0	(11)	138
11,745	0	(11,745)	0	Waste Disposal	0	0	0	0
563	0	(30)	533	Development - Economic Development Reserve	533	0	0	533
126	0	(61)	65	Development - Migrant Workers Reserve	65	0	(65)	0
771	143	(359)	555	Development - SCS Reserve	555	0	(511)	44
0	0	0		Development - Lincs Coastal Country Park	0	386	0	386
5,312	54	(1,382)	3,984	Health and Well Being	3,984	24	(1,076)	2,932
832	851	(543)	1,140	Legal Services	1,140	1,029	(600)	1,569
0	730	0	730	Procurement	730	51	0	781
203	219	(128)	294	Salix Carbon Management	294	138	(331)	101
1,168	315	(150)	1,333	Safer Communities Development Fund	1,333	0	(500)	833
685	140	0	825	Community Safety Development Fund	825	120	0	945
0	0	150	150	Co-Responder Services	150	0	0	150
0	23,200	0	23,200	Financial Volatility Reserve - Budget Shortfall	23,200	0	(16,420)	6,780
4,356	9,948	(1,256)	13,048	Financial volatility	13,048	29,958	0	43,006
50	0	0	50	Teal Park	50	0	0	50
400	0	0	400	Youth Service Positive Activities Development Fund	400	0	(99)	301
171	0	0	171	Corby Glen/South Lincolnshire Sports fund	171	0	0	171
9,000	0	(9,000)	0	Fire Fleet	0	0	0	0
2,000	0	(2,000)	0	Roads Maintenance - Drought Damage	0	0	0	0
0	2,000	0	2,000	Roads Maintenance	2,000	5,843	(2,000)	5,843
0	500	0	500	Responders to Warmth	500	0	(500)	0
500	4,000	(307)	4,193	Support Services contract	4,193	725	(918)	4,000
0	156	0	156	Civil Parking Enforcement	156	156	0	312
0	363	0	363	Youth Offending Service	363	0	0	363
0	50	0	50	Domestic Homicide Reviews	50	50	0	100
0	0	0	0	New Salt Dome Willingham	0	200	0	200
0	0	0	0	Waste Management Reserve	0	727	0	727
0	0	0	0	Planning Appeals Reserve	0	100	0	100
0	0	0	0	Adoption Reform Reserve	0	600	0	600
0	0	0	0	Community Advisors Reserve	0	287	0	287
0	0	0	0	Local Welfare Provision Reserve	0	221	0	221
0	0	0	0	Property Management	0	250	0	250
0	0	0	0	Broadband Project	0	292	0	292
154	81	0	235	Flood and Water Risk Management (1*)	235	386	0	621
327	6	0	333	Young People in Lincolnshire (1*)	333	0	0	333
52	24	(52)	24	Members Big Society (1*)	24	0	(16)	8
500	0	0	500	Lincoln Eastern Bypass (LEB) (1*)	500	0	0	500
400	0	(300)	100	Unsuitable Transport Routes (1*)	100	0	0	100

Balance at 1 April 2012 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2013 £'000		Balance at 1 April 2013 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2014 £'000
522	216	0	738	Families Working Together (1*)	738	0	0	738
413	0	(213)	200	Enterprise Schemes (1*)	200	0	(9)	191
0	180	0	180	Asbestos Pressure Reserve (1*)	180	0	(43)	137
0	191	0	191	Children's Insurance Pressures Reserve (1*)	191	0	(191)	0
0	20	0	20	Adult Care Operations - Lincoln Prison Reserve (1*)	20	0	0	20
0	381	0	381	DAAT Pooled Budget (1*)	381	0	(115)	266
				Revenue Grants and Contributions Unapplied Reserves				
7,046	0	(906)	6,140	Growth Points - Lincoln	6,140	10	(2,307)	3,843
3,789	0	(1,631)	2,158	Growth Points - Grantham	2,158	0	(286)	1,872
2,359	2,069	(460)	3,968	Children Services	3,968	524	(1,033)	3,459
735	163	(45)	853	Highways and Transport	853	3,972	(120)	4,705
7,015	3,721	(1,596)	9,140	Adult Care	9,140	14,737	(7,106)	16,771
9,801	4	(10)	9,795	Growing Places	9,795	186	(2,931)	7,050
6,378	2,592	(3,852)	5,118	Other Grants and Contributions	5,118	3,992	(1,248)	7,862
131,582	**85,698**	**(75,585)**	**141,695**	**Total**	**141,695**	**91,256**	**(67,676)**	**165,275**

(*1) The presentation of the temporary service reserves has been changed to show these balances individually from 2013-14.

The balance held by schools under the scheme of delegation, represents the net underspending of school budget shares in 2013-14. It is earmarked for use by those schools as required by the Lincolnshire County Council Scheme for financing Schools approved by the Secretary of State for Education.

The **Other Services Reserve** represents net under and overspendings in 2013-14 on services other than schools (i.e. Children's Services, Adult Care, Public Health, Communities, Corporate Services) which will be carried forward for use in 2014-15.

The **Adverse Weather** reserve is used to fund any overspend of the council's Winter Maintenance budget caused by the weather being particularly severe.

The reserve for **Insurance** is earmarked for potential future claims under the excess clauses of the Council's external insurance policies. Separate provision is made within Provisions for all claims currently outstanding.

The **Invest to Save** reserve provides funding for the implementation costs of initiatives which will produce future savings and pay back the initial investment over a period of years.

The reserve for **Schools Sickness Insurance Scheme** represents the unspent balance of amounts set aside by schools to provide cover for staff absences.

The reserve for the **Purchase of Museum Exhibits** is earmarked for this purpose in future years. This also includes the reserve for the Tennyson Collection, which is earmarked for the preservation and expansion of the collection of Tennyson's works held at Lincoln's central library.

The specific need for a **Waste Disposal** reserve is no longer applicable. This has been transferred into the Financial Volatility Reserve.

The **Development** reserve will be used to fund one off service developments and improvements.

The **Health and Wellbeing** reserve has been set up with contributions from both Lincolnshire County Council and Lincolnshire Primary Care Trust. It will be used to fund future initiatives which will help to achieve the objectives and aspirations of both parties.

The **reserve for Legal Services** represents what the Practice carried forward from 2013-14. The Legal Services Management Board will agree on what proportion of the surplus should be distributed to the shared service partners in 2014-15.

The **Procurement Reserve** represents Procurement Lincolnshire's underspend at the end of 2013-14. The underspend relates to both Council money and partners money. This amount will be carried into 2014-15 for schemes for mutual benefit to all the partners.

Salix Carbon Management is a reserve to provide the Council match funding for Salix compliant carbon management projects.

The **Safer Communities Development Fund** was set up from a planned underspend of Area Based Grant in 2008-09. The reserve will enable the commissioning process to continue as the Government grant reduces.

Community Safety Development Fund was set up from an underspend of development funding in 2008-09 to be used for the implementation of the Positive Futures and Neighbourhood Management Projects.

The **Co-responder Services** Reserve has been set up to provide financial support to Lincolnshire Fire and Rescue co-responder scheme. The scheme is based at twenty-one stations and operates in partnership with LIVES and EMAS. The scheme provides a vital first response to medical emergencies within Lincolnshire and helps maintain the health and wellbeing of our communities.

The **Financial Volatility** and the **Financial Volatility - Budget Shortfall** reserves have been established to help the Council deal with the future uncertainties around Local Government funding. The Financial Volatility - Budget Shortfall Reserve contains £23.2m which the Council has budgeted as contributions to the revenue budget in 2014-15 and 2015-16.

The **Teal Park** reserve was created for a bond that has been put in place for the development of this site.

The **Youth Service Positive Activities Development** reserve has been established to support a small grants scheme to transform the traditional Youth Services to a community delivery model.

Corby Glen South Lincolnshire Sports Fund has been established to recycle a capital receipt from the sale of playing field land in Corby Glen back into sports facilities in the Corby Glen area of the county.

The **Fire Fleet reserve** was used to fund the purchase of the fire and rescue vehicles when the Council took on ownership of the fleet during 2012-13.

The **Roads Maintenance - Drought Damage** reserve was used for key road maintenance schemes including that relating to drought damage to the highways during 2013-14.

The **Roads Maintenance reserve** has been established to provide for additional funding for Highways related matters to be undertaken in 2014-15.

The **Responders to Warmth reserve** has been established to continue the Council's contribution to this voluntary sector organisation who assist people with disabilities and long term conditions which are worsened by living in cold conditions.

The **Support Services Contract reserve** will be used to fund the specialist services required to enable the support service contract to be re-let.

The **Civil Parking Enforcement Reserve** has been set up to carry forward annual surpluses/deficits in this area, due to the volatility of income in this service.

The **Youth Offending Service reserve** has been set up to deal with changes in funding for the service area.

The **Domestic Homicide Reviews Reserve** has been established to fund the Council's costs for the statutory responsibility under section 9 of the Domestic Violence, Crime and Victim's Act (2004).

The **New Salt Dome Reserve** has been established to fund a new salt dome at Willingham Highways Depot to enable a more efficient Winter Maintenance service.

The **Waste Management Reserve** has been created to fund £0.727m of Waste Management's 2014/15 savings target. The service will use the fundamental budget review to identify a base budget solution for the savings target.

The **Planning Appeals Reserve** has been created to fund complex and costly planning appeals during future financial periods.

The **Adoption Reform Reserve** has been created to carry forward the unspent part of the unringfenced element of the Adoption Reform Grant received by the Council in 2013-14.

The **Community Advisors Reserve** has been created to fund the Community Engagement Services capacity for building resilience in communities by sharing through the development of community hub networks.

The **Local Welfare Provision Reserve** has been created to carry forward the unspent, unringfenced grant received by the Council in 2013/14 for the Lincolnshire Community Assistance Scheme (LCAS).

The **Property Management Reserve** has been established to tackle various property issues which will arise in 2014/15 and 2015/16 where dual premises costs may be a pressure along with relocating staff.

The **Broadband Reserve** is to provide funding for costs associated with implementing the 'OnLincolnshire' broadband programme.

The **Temporary Service** reserves will be used to fund a number of service projects to be undertaken in 2013-14 and beyond.

The **Flood and Water Risk Management Reserve** has been established to retain monies from the Local Services Support Grant for flood and risk water management in future years.

The **Young People in Lincolnshire Reserve** will be used for initiatives that benefit young people.

The **Members Big Society Reserve** has been established to carry forward any unspent elements of their £2,000 allowance to be spent in their constitution.

The **Lincoln Eastern Bypass (LEB) Reserve** will fund initial costs on getting the scheme started.

The **Unsuitable Transport Routes Reserve** will fund capital investment in a number of unsuitable transport routes will generate savings on school transport.

The **Families Working Together Reserve** has been established to carry forward the underspend on this programme in future financial years.

The **Enterprise Schemes Reserve** has been established to fund four schemes which run across more than one financial year.

The **Asbestos Pressure Reserve** will fund the Council's statutory duty to manage asbestos in non-domestic premises and annual inspections of asbestos containing materials in buildings.

The **Children's Insurance Pressures Reserve** has been established to meet an addition charge for third party insurance claims in 2013/14.

The **Adult Care Operations - Lincoln Prison Reserve** has been established to support the Council's agenda of developing broader links with HMP Lincoln and an improved service to inmates and their families.

The **DAAT Pooled Budget Reserve** has been established with the underspend from the Pooled budget for Drug and Alcohol Action Team. This money has been identified to fund the 'Enough is Enough' alcohol action programme.

The **Revenue Grants and Contributions Unapplied** reserve is used where the Council has received funding but the expenditure has not yet taken place. The funding will be used for the schemes that it was awarded for in future accounting periods.

Note 11. Other operating expenditure.

Other operating expenditure in the Comprehensive Income and Expenditure Statement is made up of:

2012-13 £'000		2013-14 £'000
1,062	- Precepts paid to non-principal authorities and levies	1,079
84,250	- Gain or Loss on the disposal of non-current assets	17,096
402	- Revaluation losses on assets held for sale	112
85,714	**TOTAL**	**18,287**

Note 12. Financing and Investment Income and Expenditure.

Financing and investment income and expenditure included in the Comprehensive Income and Expenditure Statement is made up of:

Restated (*1) 2012-13 £'000		2013-14 £'000
19,713	- Interest payable and similar charges	19,906
25,445	-Net Interest on the net defined benefit liability (asset)	28,824
(2,302)	- Interest receivable and similar income	(1,412)
(14,138)	- Income, expenditure and changes in the fair values of investment properties	(12,052)
28,718	**TOTAL**	**35,266**

(*1) The presentation of this note has changed from 2012-13 Statement of Accounts due to a prior period adjustment arising from the revision to IAS 19 retirement benefits.

Note 13. Taxation and Non Specific Grant Income.

Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement is made up of:

2012-13 £'000		2013-14 £'000
(253,681)	Council tax income	(221,137)
(197,680)	National Non-Domestic Rates Income	0
0	Business Rates - Districts	(18,501)
0	Business Rates - Top up fund	(79,603)
	Non-ringfenced government grants	
(3,832)	- Revenue Support Grant	(146,366)
(6,332)	- Council Tax freeze Grant	(2,547)
(2,000)	- Local Services Support Grant	(1,378)
(1,374)	- New Homes Bonus Grant & Returned Topslice	(2,864)
0	-Education Services Grant	(7,492)
0	- Adoption Reform Grant	(1,277)
0	-Other Non Specific Grant	(2,092)
(58,565)	- Capital grants and contributions	(64,423)
(523,464)	**TOTAL**	**(547,680)**

New Homes bonus grant was included within Note 46 Specific Grants credited to the Revenue Account in the Comprehensive Income and Expenditure Statement in 2012-13.

Note 14. Property, Plant and Equipment.

a) Movement on Non-Current Assets

Movement in Property, Plant & Equipment As at 31 March 2014	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infra-structure £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000	PFI Assets Included in Property, Plant & Equipment £'000
Cost or Valuation								
At 1 April 2013	695,929	192,937	673,228	22	26,298	131,741	**1,720,155**	26,579
Additions	22,120	20,830	37,790	0	4,768	19,901	**105,409**	84
Donations	0	0	0	0	0	0	**0**	0
Revaluation Increase to RR	51,708	0	0	0	1,739	0	**53,447**	(527)
Revaluation Decrease to RR	(36,434)	0	0	0	(2,797)	0	**(39,231)**	(85)
Revaluation Increase/(Decrease) to SDPS	(8,641)	0	0	(22)	(4,792)	0	**(13,455)**	86
Derecognition - Disposals	(11,772)	(152,396)	0	0	(3,314)	0	**(167,482)**	0
Derecognition to RR	(329)	0	0	0	0	0	**(329)**	0
Derecognition to SDPS	(2,025)	0	0	0	0	0	**(2,025)**	0
Reclassified to/from Heritage Property	0	0	0	0	0	(118)	**(118)**	0
Reclassified to/from Held for Sale	(365)	0	0	0	(370)	0	**(735)**	0
Reclassified to/from Investment Property	0	0	0	0	0	(80)	**(80)**	0
Reclassifications - Other	52,704	66,302	2,537	0	1,778	(124,040)	**(719)**	0
At 31 March 2014	**762,895**	**127,673**	**713,555**	**0**	**23,310**	**27,404**	**1,654,837**	**26,137**
Depreciation and Impairment								
At 1 April 2013	(52,866)	(171,053)	(224,895)	0	(3,350)	0	**(452,164)**	(2,100)
Depreciation Charge for 2013-14	(21,466)	(11,082)	(34,305)	0	(202)	0	**(67,055)**	(475)
Depreciation written out on upward revaluation	44,390	0	0	0	2	0	**44,392**	531
Depreciation written out on downward revaluation	3,934	0	0	0	426	0	**4,360**	0
Depreciation written out to the SDPS	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the RR	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the SDPS	0	0	0	0	0	0	**0**	0
Derecognition - Disposals	106	152,300	0	0	420	0	**152,826**	0
Derecognition to RR	43	0	0	0	0	0	**43**	0
Derecognition - SDPS	284	0	0	0	0	0	**284**	0
Reclassified to/from Heritage Property	0	0	0	0	0	0	**0**	0
Reclassifications to Asset Held for Sale	0	0	0	0	0	0	**0**	0
Reclassifications to/from Investment Property	0	0	0	0	0	0	**0**	0
Reclassifications - Other	(13)	0	0	0	13	0	**0**	0
At 31 March 2014	**(25,588)**	**(29,835)**	**(259,200)**	**0**	**(2,691)**	**0**	**(317,314)**	**(2,044)**
Net Book Value								
At 31 March 2014	**737,307**	**97,838**	**454,355**	**0**	**20,619**	**27,404**	**1,337,523**	**24,093**
At 1 April 2013	643,063	21,884	448,333	22	22,948	131,741	**1,267,991**	24,479

Movement in Property, Plant & Equipment As at 31 March 2013	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infra-structure £'000	Community Assets '£'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000	PFI Assets Included in Property, Plant & Equipment £'000
Cost or Valuation								
At 1 April 2012	730,875	183,202	614,222	563	34,183	83,806	**1,646,851**	32,767
Additions	15,590	11,082	44,477	0	0	74,972	**146,121**	64
Donations	0	1,063	0	0	0	0	**1,063**	0
Revaluation Increase to RR	66,637	0	0	0	2,332	0	**68,969**	0
Revaluation Decrease to RR	(18,917)	0	0	0	(4,066)	0	**(22,983)**	(1,804)
Revaluation Increase/(Decrease) to SDPS	(11,758)	0	0	(675)	(2,413)	0	**(14,846)**	0
Derecognition - Disposals	(85,965)	(1,654)	0	0	(1,260)	0	**(88,879)**	(4,448)
Derecognition to RR	(605)	0	0	0	0	0	**(605)**	0
Derecognition to SDPS	(4,159)	0	0	0	0	0	**(4,159)**	0
Reclassified to/from Heritage Property	0	0	0	0	0	(1,324)	**(1,324)**	0
Reclassified to/from Held for Sale	(1,140)	0	0	0	(1,836)	0	**(2,976)**	0
Reclassified to/from Investment Property	(542)	0	0	0	0	(122)	**(664)**	0
Reclassifications - Other	5,913	(756)	14,529	134	(642)	(25,591)	**(6,413)**	0
At 31 March 2013	**695,929**	**192,937**	**673,228**	**22**	**26,298**	**131,741**	**1,720,155**	**26,579**
Depreciation and Impairment								
At 1 April 2012	(47,097)	(150,343)	(194,154)	0	(3,474)	0	**(395,068)**	(2,032)
Depreciation Charge for 2012-13	(22,623)	(22,032)	(30,741)	0	(459)	0	**(75,855)**	(534)
Depreciation written out on upward revaluation	9,080	0	0	0	39	0	**9,119**	0
Depreciation written out on downward revaluation	1,654	0	0	0	509	0	**2,163**	152
Depreciation written out to the SDPS	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the RR	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the SDPS	0	0	0	0	0	0	**0**	0
Derecognition - Disposals	5,604	963	0	0	138	0	**6,705**	314
Derecognition to RR	30	0	0	0	0	0	**30**	0
Derecognition - SDPS	391	0	0	0	0	0	**391**	0
Reclassified to/from Heritage Property	0	0	0	0	0	0	**0**	0
Reclassifications to Asset Held for Sale	(8)	0	0	0	0	0	**(8)**	0
Reclassifications to/from Investment Property	0	0	0	0	0	0	**0**	0
Reclassifications - Other	103	359	0	0	(103)	0	**359**	0
At 31 March 2013	**(52,866)**	**(171,053)**	**(224,895)**	**0**	**(3,350)**	**0**	**(452,164)**	**(2,100)**
Net Book Value								
At 31 March 2013	**643,063**	**21,884**	**448,333**	**22**	**22,948**	**131,741**	**1,267,991**	**24,479**
At 1 April 2012	683,778	32,859	420,068	563	30,709	83,806	**1,251,783**	30,735

RR - Revaluation Reserve

SDPS - Surplus or Deficit on the Provision of Services

b) Depreciation and Asset Lives

The Council's depreciation policies are set out in Note 1 Statement of Accounting Policies. All non-current assets that are subject to depreciation are dealt with in accordance with these policies. All assets are assigned a useful economic life over which they are depreciated. For assets subject to revaluation, this life is reviewed whenever an asset is revalued. For assets carried at cost, this is considered on an annual basis.

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

	Useful Economic Life (Years)
Land	999
Buildings	
Specialist Buildings, including Schools, Youth Centres, Residential Homes, Day Centres, Family Centres, Libraries, Museums, Highways Maintenance Depots	15 to 70
Energy From Waste Buildings	
Civil	60
Mechanical	25
Instrumentation, Control and Automation	10
Non-Specialist Buildings	40
Siteworks, including playground, hardstanding, car parks etc.	
- associated with specialist buildings	5 to 55
- associated with non-specialist buildings	20
Infrastructure	
Structures (Bridges)	120
Major Road Construction	60
Street Lighting, Kerbing	40
Drainage	40
Safety Fencing	25
Traffic Signals, Other Street Furniture (Signs, Ornamental structures), Junction Improvements, Bus Stop Infrastructure, Carriageway Works, Footways, Materials Testing, Verges, Rights of Way	20
Reactive Signs	15
Carriageway Surfacing - Non-Principal Roads	12
Patching, Footway Slurry Sealing	10
Carriageway Surfacing - Principal Roads	8
Carriageway Slurry Sealing	6
Potholes - Non-Principal Roads	3
Potholes - Principal Roads	1
Vehicles, Furniture & Equipment	
Energy from Waste - Mechanical	25
Energy from Waste - Instrumentation, Control and Automation (ICA) and Admin Equipment	10
IT Equipment	4
Furniture and Equipment	5
Vehicles	3 to 18

c) Capital Commitments

At 31 March 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014-15 and future years budgeted to cost £17.795m.

Detail	Gross £'000
Grantham Priory Ruskin Academy -Major rebuilding programme	1,596
Bourne Elsea Park -Construction of new Primary School	1,860
Skegness -Construction of new Primary School	2,614
Boston Staniland Academy -Extensions to existing school to provide additional places	1,082
Spalding Wygate Park -Construction of new Primary School	1,606
Crowland Primary School -Remodelling former St Guthlac's School into replacement Primary School	1,917
Kirton Primary School -Extensions to existing school to provide additional places	1,314
Lincoln Castle -To restore Lincoln Castle improving the visitor offer and strengthening the local economy - repair of the walls	1,548
Lincoln Castle -To restore Lincoln Castle improving the visitor offer and strengthening the local economy - developing the prison & building a vault for Magna Carta	4,258

d) Valuations

The County Council undertakes a five year rolling programme of revaluations to ensure that land and buildings are measured at fair value. All valuations are carried out by the Council's appointed Valuers - Mouchel Ltd. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations are carried out as at 1 April.

In addition to the five year rolling programme, and to comply with the Code requirements to carry assets at fair value at balance sheet date, the Council's appointed Valuers have undertaken a review of properties held by the Council to ensure they are all held at Fair Value, as such, all current cost valuations were up to date as at 31 March 2014.

The significant assumptions applied in estimating the fair values are:

- Depreciated Replacement Cost (DRC) has been used where the asset is of a specialised nature, of where there is no evidence of market value or suitably comparable properties (e.g. schools).

Vehicles, Furniture and Equipment, Specialist Equipment, Infrastructure and Community Assets are not subject to revaluation. They are reported at the cost of construction or purchase price, where this information is not available the assets are carried at a nominal amount (e.g. for some Community Assets).

Non-Current Assets carried at historic cost	**2012-13**	**2013-14**
	£'000	**£'000**
Vehicles, Plant, Furniture and Equipment (*1)	21,884	97,838
Infrastructure	448,333	454,355
Community Assets	22	0
Assets Under Construction (*1)	131,741	27,404
Total Cost of Valuation	**601,980**	**579,597**

(*1) The large increase is Vehicles, Plant, Furniture and Equipment relates to the Energy from Waste Plant becoming operational. This has also caused the large reduction in value seen for Assets Under Construction.

Note 15. Heritage Assets.

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The assets held by the Council, which have been classed as Heritage Assets fall into three categories:

1) Windmills
The Council is responsible for four windmills:
- Alford five sail windmill
- Burgh le Marsh windmill
- Ellis Mill in Lincoln
- Heckington Windmill

All four windmills are operational, open to the public on a managed basis and usually staffed by volunteers. Each windmill provides value to the cultural heritage of the County, preserving unusual or even unique features such as Heckington Mill which is the only surviving eight sailed mill in the country.

2) Historic Buildings
The Council owns various historic buildings, the most famous of which is Lincoln Castle. The Castle was constructed by William the Conqueror on the site of a pre-existing Roman fortress. The Castle is open to the public and guided tours are available to give an insight into the history of Lincoln and Lincolnshire. Various cultural and entertainment events are also held at the Castle each year.

Also, the 12th century Temple Bruer Preceptory Tower, which was built to house the military order formed to guard the shrines of the Holy Land and protect pilgrims on the road. This site is managed by Heritage Lincolnshire on behalf of the Council.

3) Collections
The Council owns and is responsible for more than three million items in its collections (held across libraries, museums and archives). These include physical and digital collections from all periods of Lincolnshire's history.

Many items are unique and of high cultural significance on a national or international scale (for example the Tennyson collection, Bishops Rolls and Registers). Others are of local interest for Lincolnshire.

The County's collections bring a wealth of enjoyment and education to those living in Lincolnshire and beyond. The County is legally obliged to protect significant elements of these collections but, importantly, their management and development ensures that the cultural heritage and life of the County are preserved for future generations and are available to the current generation.

The management and development of the collections is governed by the Council's Policy on Collection Management, which can be found on the Council's website in the resident's area, under Leisure, Culture and Heritage. (http://www.lincolnshire.gov.uk/residents-culture-and-heritage/heritage/)

a) Reconciliation of the carrying value of Heritage Assets held

	Windmills	Other Historic Buildings	Collections	Total
	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 April 2013	4,605	4,024	27,727	36,356
Additions - In House construction/Improvement	5	2	0	7
Revaluations recognised in the Revaluation Reserve	(38)	0	0	(38)
Reclassifications	118	0	0	118
At 31 March 2014	**4,690**	**4,026**	**27,727**	**36,443**

	Windmills	Other Historic Buildings	Collections	Total
	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 April 2012	4,599	2,696	27,727	35,022
Additions - In House construction/Improvement	10	4	0	14
Revaluations recognised in the Revaluation Reserve	(4)	0	0	(4)
Reclassifications	0	1,324	0	1,324
At 31 March 2013	**4,605**	**4,024**	**27,727**	**36,356**

b) Valuation

The Heritage Assets held by the Council are valued using an appropriate basis:

- Windmills are valued on an 5 year rolling programme. These valuations are carried out by the Council's appointed Valuers (Mouchel Ltd).
- Other Historic Buildings are carried at historic cost. No current cost valuation is applied to these properties.
- The Collections are valued at their insurance valuation as at 31 March each year. These valuations are provided by the Council's insurers. Valuations for the Collections are reviewed and updated annually.

c) Depreciation

Depreciation is not charged on Heritage Assets

d) Additions to Heritage Assets

There have been no new material Heritage assets purchased during 2013-14.

The £1.329m addition to Other Historic Buildings is the Castle Revealed project at Lincoln Castle.

e) Disposals

There have been no material disposals of Heritage Assets during 2013-14.

f) Heritage Assets Five Year Summary of Transactions

The Code of Practice stipulates that a five year summary of transactions on Heritage Assets should be included here, if such information is available. The Council hold this information from 2010-11 onwards. This is set out in the tables below. It is intended that such information will be complete by 2014-15.

	2010-11 Total Heritage Assets	2011-12 Total Heritage Assets	2012-13 Total Heritage Assets	2013-14 Total Heritage Assets
		£000	£000	£000
Balance at Start of the Year	26,935	31,157	35,022	36,356
Cost of Acquisitions	315	109	14	7
Donated Assets	0	0	0	0
Revaluations	3,907	3,718	(4)	(38)
Carrying Amount of Disposals/Proceeds	0	(114)	0	0
Impairment	0	0	0	0
Reclassifications	0	152	1,324	118
Total at Year End	**31,157**	**35,022**	**36,356**	**36,443**

Note 16. Investment Properties.

Investment Properties are assets held for either capital appreciation or income generation, or both. For these purposes the Council holds the County Farms estates and a small number of other general fund properties. The County Farms estate includes both freehold (owned by the Council) and leasehold (rented by the Council) properties.

a) Investment Properties Income and Expenditure

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

County Farm Estates	**2012-13 £'000**	**2013-14 £'000**
Rental Income from Investment Property	(1,940)	(2,097)
Direct Operating Expenses arising from Investment Property	805	862
Net (Income)/Expenditure	**(1,135)**	**(1,235)**

Other General Fund Properties	**2012-13 £'000**	**2013-14 £'000**
Rental Income from Investment Property	(65)	(56)
Direct Operating Expenses arising from Investment Property	18	52
Net (Income)/Expenditure	**(47)**	**(4)**

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.

b) Movement on Investment Properties

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

	County Farm Estates £'000	**Other General Fund Properties £'000**
Balance at 1 April 2013	71,919	701
Additions - Acquisitions (Purchase and Construction)	0	0
Additions - Subsequent expenditure	421	0
Disposals	(1,452)	0
Net Gains/(Losses) from fair value adjustments	10,813	0
Transfers to/from Property, Plant and Equipment	80	0
Balance at 31 March 2014	**81,781**	**701**
Nature of asset holding		
Owned	81,693	701
Leased	88	0
Balance at 31 March 2014	**81,781**	**701**

	County Farm Estates £'000	Other General Fund Properties £'000
Balance at 1 April 2012	61,776	614
Additions - Acquisitions (Purchase and Construction)	0	0
Additions - Subsequent expenditure	130	0
Disposals	(3,521)	0
Net Gains/(Losses) from fair value adjustments	13,412	(455)
Transfers to/from Property, Plant and Equipment	122	542
Balance at 31 March 2013	**71,919**	**701**

Nature of asset holding		
Owned	71,819	701
Leased	100	0
Balance at 31 March 2013	**71,919**	**701**

c) Revaluations

The Council revalues investment properties annually to ensure that they are carried at fair value. All valuations are carried out by the Council's appointed Valuers - Savils (L&P Ltd) for the County Farms Estate and Mouchel Ltd for other general fund Investment Properties. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations are carried out as at 31 March each year to ensure all Investment Properties are carried at fair value at the Balance Sheet date.

Note 17. Intangible Assets.

The Council accounts for its software and licences as intangible assets. The IT systems are accounted for as part of Property, Plant and Equipment, under the heading Vehicles, Plant, Furniture and Equipment. Intangible assets recognised by the Council include both purchased software, licenses and internally generated software.

a. Movement on intangible assets:

	Software £'000	Software Licenses £'000	Other Intangibles £'000	Total £'000
Balance at 1 April 2013				
- Gross carrying amount	16,037	3,926	41	20,004
- Accumulated amortisation	(9,027)	(3,732)	(41)	(12,800)
Net carrying amount at 1 April 2013	**7,010**	**194**	**0**	**7,204**
Additions:				
- Purchases	454	0	0	454
Asset classified as held for sale	0	0	0	0
Other disposals	0	0	0	0
Amortisation for the period	(2,007)	(75)	0	(2,082)
Other changes - reclassifications	141	0	0	141
Net carrying amount at 31 March 2014	**5,598**	**119**	**0**	**5,717**
Comprising:				
- Gross carrying amounts	12,174	310	0	12,484
- Accumulated amortisation	(6,575)	(192)	0	(6,767)
Balance Sheet amount at 31 March 2014	**5,599**	**118**	**0**	**5,717**

b. Depreciation and Asset Lives

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major classes of intangible assets used by the Council are:

	Useful Economic Life (Years) From	To
- Software	1	10
- Software Licenses	1	7
- Other Intangibles	4	4

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £2.082m (£2.490m in 2012-13) charged to revenue in 2013-14 was charged to the IT cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure on Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

c. Significant Capitalised Software

At 31 March 2014, the County Council has not capitalised any material items of software (with a value over £1m) in 2013-14.

d. Capital Commitments

At 1 April 2014, the Council has entered into a number of contracts for the purchase of intangible assets for 1 April 2014 to 31 March 2015 and for future years budgeted to cost £38.984m. The major commitments are:

Detail	**Gross £'000**
Superfast Broadband - A programme to trigger the installation of digital infrastructure in communities and businesses	30,303
Replacement ERP Finance System - Replacement of the SAP finance system with Agresso in line with the FDSS (Future Delivery of Support Services) programme.	7,000
Case Management System (CMPP) - Replacement of fragmented social care IT systems with a new multi-agency case management system.	1,681

e. Revaluation

The Council does not revalue its intangible assets, all assets are carried at cost. Annually, an impairment review is undertaken to ensure that all intangible assets have an appropriate asset life and carrying value as at 31 March each year.

Note 18. Financial Instruments and the Nature and Extent of Risks Arising from Financial Instruments.

a. Financial Instruments Balance

The following categories of financial instruments are disclosed in the Balance Sheet:

	Long-Term		Current	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£'000	£'000	£'000	£'000
Borrowings				
Financial Liabilities At Amortised Cost (*1)	454,787	443,222	413	15,749
Financial Liabilities at Fair Value Through Profit and Loss	0	0	0	0
Total Borrowings	**454,787**	**443,222**	**413**	**15,749**
PFI & Finance Lease Liabilities				
PFI and Finance Lease Liabilities	14,905	13,799	0	0
Total PFI & Finance Lease Liabilities	**14,905**	**13,799**	**0**	**0**
Creditors & Other Long Term Liabilities				
Financial Liabilities Carried at Contract Amount (*2)	5,477	11,156	78,541	68,533
Total Creditors	**5,477**	**11,156**	**78,541**	**68,533**
Investments				
Loans and Receivables	200	2,200	157,056	149,930
Available for Sale Financial Assets	0	0	36,025	35,083
Unquoted Equity Investments At Cost	14	14	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0	0	0
Total Investments	**214**	**2,214**	**193,081**	**185,013**
Debtors				
Loans and Receivables	6,316	8,772	0	0
Financial Assets Carried at Contract Amount	0	0	31,744	28,263
Total Debtors	**6,316**	**8,772**	**31,744**	**28,263**

(*1) Long term loans repayable within one year and accrued interest on long term borrowing have been reclassified as short term borrowing and are included in Current Borrowing Balance as opposed to being classified as Current Creditors for both 2013 and 2014.

(*2) S106 agreements have been a split between current and long term creditors, this has resulted in an increase in long term creditors and a reduction of current creditors in 2013-14.

b. Financial Instruments Income, Expense, Gains or Losses

The Council's Financial Liabilities are all valued at amortised cost. There have been no gains or losses on derecognition or impairment losses during the year on the financial liabilities held by the Council.

The Council's Financial Assets are predominantly loans and receivables valued at amortised cost; although it's investments held in Stable Net Asset Value Money Market Funds are classed as Available for Sale Financial Assets which are valued at fair value that equates to the carrying value, as 1 unit held in these funds = £1 fair value. Investments held in Certificate of Deposits are also classed as Available for Sale which are also valued at fair value based on the prevailing price at 31 March 2014. The Council has a small share holding in Investors in Lincoln Ltd, a company established to promote economic regeneration and the development and expansion of industry, commerce and enterprise in and around the City of Lincoln. Shares are held to the nominal value of £14,000. These are classed as Unquoted Equity Investments and are valued at cost. No income is received from this investment.

There have been no gains or losses on derecognition or impairment losses during the year on the financial assets held by the Council. No revaluation of assets has taken place and hence no gains or losses on revaluation have occurred.

Interest received or incurred, fee expenses or income received or incurred, or any unrealised gains or losses in fair value of Available for Sale investments, in relation to the financial instruments held by the Council is shown in the following table:

	2012-13 £'000	2013-14 £'000
Unrealised Reduction in Fair Value - Available for Sale Financial Assets held at 31st March	**0**	**15**
Financial Liabilities At Amortised Cost	19,922	19,946
Financial Liabilities at Fair Value Through Profit and Loss	0	0
Total Interest Expense	**19,922**	**19,946**
Total Fee Expense	5	15
Total Expense in Surplus or Deficit on the Provision of Services	**19,927**	**19,961**
Unrealised Increase in Fair Value -Available for Sale Financial Assets held at 31st March	**0**	**(98)**
Loans and Receivables at Amortised Cost	(1,950)	(1,120)
Available for Sale Financial Assets	(360)	(295)
Unquoted Equity Investments At Cost	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0
Total Interest Income	**(2,310)**	**(1,415)**
Total Fee Income	0	0
Interest Received	**(2,310)**	**(1,415)**

c. Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cashflows that take place over the remaining life of the investments using the following assumptions:

- For loans from the PWLB, equivalent borrowing rates available from the PWLB at 31 March 2014 have been applied to provide the fair value under the PWLB debt redemption procedures.

- For non PWLB loans and 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 (other than PWLB debt), or is a trade or other payable or receivable, the fair value is taken to be the principal outstanding or the billed amount.
- The fair value of trade and other payables and receivables, taken to be the invoiced or billed amount, are not shown in the table below.

The fair values calculated are as follows:

	31 March 2013		31 March 2014	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB Debt (Long Term > 12 Months)	444,765	486,634	433,222	448,602
Non PWLB Debt (Long Term > 12 Months)	10,022	9,410	10,000	8,892
PWLB Debt (Short Term < 12 Months)	3,537	3,797	11,543	11,958
Non PWLB Debt (Short Term < 12 Months)	456	455	322	321
Long-Term Creditors & Other Long Term Liabilities	5,477	5,477	11,156	11,156
Total Financial Liabilities at Amortised Cost	**464,257**	**505,773**	**466,243**	**480,929**

Where the fair value is less than the carrying amount, this is due to the Council's portfolio of loans including a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future gain based on economic conditions at the Balance Sheet date arising from a commitment to pay interest to lenders below current market rates.

Where the fair value is more than the carrying amount, the opposite is true, i.e. a number of fixed rate loans held in the Council's portfolio have interest rates payable above current market rates for similar loans. The change in fair value from 31 March 2013 to 31 March 2014, highlights the reduction or increase in market rates over this period.

Loans and Receivables	31 March 2013 Carrying Amount £'000	Fair Value £'000	31 March 2014 Carrying Amount £'000	Fair Value £'000
Loans and Receivables (Long Term > 12 Months)	200	200	2,200	2,191
Loans and Receivables (Short Term < 12 Months)	156,145	156,145	149,475	149,475
Long-Term Debtors	6,316	6,574	8,772	8,892
Financial Assets at Amortised Cost	**162,661**	**162,919**	**160,447**	**160,558**

The fair value is greater than the carrying amount, because the Council's portfolio of long term investments includes a number of fixed rate loans where the interest rate receivable is higher than the estimated rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above the current market rate increases the amount that the Council would receive if it agreed to early repayment of the loans and hence shows a notional future gain.

Available for Sale Investments, not included in the table above are carried on the Balance Sheet at their Fair Value already, which is calculated using the market price of the investments at 31 March 2014. The detail of these investments are shown in the table below.

Available for Sale Investments	31 March 2013 Carrying Amount £000	Fair Value £000	31 March 2014 Carrying Amount £000	Fair Value £000
Certificates of Deposit	0	0	35,000	35,083
Money Market Funds	36,025	36,025	0	0
Available For Sale Financial Assets	**36,025**	**36,025**	**35,000**	**35,083**

As with Loans and Receivables, the Fair Value of the Certificate of Deposits is higher than the original purchase amount due to the majority of Certificates of Deposit held having a higher coupon than those available for similar Certificate of Deposits in the market at the balance sheet date. The Fair Value of Money Market Funds equate to the Carrying Value as 1 unit held in these funds equals £1 fair value.

d. Nature and Extent of Risks Arising From Financial Instruments and How the Authority Manages Those Risks

(i) Key Risks

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;

- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;

- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;

- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

(ii) 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 laid down in a legal framework set out in the Local Government Act 2003 and 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 approving annually in advance prudential indicators for the following three years limiting:

  - o maximum and minimum exposures to fixed and variable rates;
  - o maximum and minimum exposures to the maturity structure of its debt;
  - o maximum annual exposures to investments maturing beyond one year.

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

These items are required to be reported and approved at or before the Council's Annual Council Tax setting budget; and are also reported as part of the Council's annual treasury management strategy and investment strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported quarterly to Councillors.

These treasury management policies are implemented by a central treasury management team. 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 its Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

(iii) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. To minimise this risk, deposits are not made with banks and financial institutions unless they meet the minimum requirements of the Council's investment criteria (based on independent credit rating assessments of institutions and countries, their credit watches and outlooks from credit rating agencies and their credit default spreads), as outlined in its investment strategy. A summary of the minimum requirements are outlined below:

Minimum Acceptable Long-Term Credit Rating:	Bank or Building Society: AA- Money Market Fund: AAA UK Government: Not Applicable
Minimum Acceptable Sovereign (Country) Credit Rating: (UK excepted).	AAA

The following analysis summarises the Council's investments at the reporting date by the long-term credit rating, (using Fitch IBCA's scoring criteria), of the counterparties with whom its investments are made and hence shows its potential exposure to credit risk at the reporting date.

	Amount at 31 March 2013		Amount at 31 March 2014	
Deposits With Banks and Financial Institutions	**£'000**	**%**	**£'000**	**%**
AAA Rated Counterparties	36,025	18.73%	0	0.00%
AA Rated Counterparties	66,145	34.38%	106,625	57.11%
A Rated Counterparties	80,000	41.58%	77,850	41.70%
Other Counterparties (*3)	10,214	5.31%	2,214	1.19%
Total Investments	**192,384**	**100.00%**	**186,689**	**100.00%**

(*3) Other Counterparties are predominantly investments with other Local Authorities (UK Government), who are not credit rated in their own right, however represent low credit risk to the Council.

At the time of making the investment, the financial institutions fully met the Council's minimum investment criteria. A sum of £9.6m investments with AA- Rated Dutch bank Rabobank remained outstanding at the reporting date which no longer met the Council's minimum AAA Sovereign Rating, due to Netherlands losing its AAA status during the year.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council has not received nor expects any losses/defaults from the non-performance by any of its counterparties in relation to its investments.

Collateral – During the reporting period the Council held no collateral as security for its investments.

The Council does not generally allow credit for its customers. However, there is one exception to this where there is an agreed policy in relation to care home fees to allow credit with an attachment over property.

The overdue, but not impaired, amounts of the Council's customers at 31 March 2014 can be analysed by age as follows:

Analysis of Debts by Age	Amount at 31 March 2013		Amount at 31 March 2014	
	£'000	%	£'000	%
Less than 3 months	1,800	28.26%	1,627	25.95%
3 to 6 months	966	15.17%	747	11.91%
6 months to 1 year	1,567	24.60%	1,396	22.26%
More than 1 year	2,036	31.97%	2,500	39.87%
Total Outstanding Debt	**6,369**	**100.00%**	**6,270**	**100.00%**

(iv) Liquidity Risk

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

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

(v) Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Long term risk to the Council relates to managing the exposure to replacing longer term financial instruments (debt and investments) as they mature.

The approved prudential indicator limits for the maturity structure of debt and the limits for investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategists address the main risks and the central treasury team address the operational risks within the approved parameters. These include:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council’s day to day cash flow needs and that the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of the Council’s debt and investments at the reporting date are shown in the table below:

Debt Outstanding- Financial Liabilities	31 March 2013 £'000	31 March 2014 £'000
Less than one year	7,900	15,749
Between one and two years	11,565	21,550
Between two and five years	52,624	66,749
Between five and ten years	84,264	59,011
Between ten and fifteen years	42,941	40,884
Between fifteen and twenty-five years	45,845	37,479
Between twenty-five and thirty-five years	29,439	36,823
Between thirty-five and forty-five years	146,109	175,725
Maturing in more than forty-five years	42,000	5,000
Total	**462,687**	**458,970**

Investments Outstanding - Financial Assets	31 March 2013 £'000	31 March 2014 £'000
Less than one year	193,081	185,013
Between one and two years	0	2,000
Between two and three years	0	0
Maturing in more than three years	214	214
Total	**193,295**	**187,227**

All trade and other payables are due to be paid in less than one year. Trade debtors and creditors are not shown in the table above.

(vi) 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. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on Provision of Services Account will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall (no impact on revenue balances);
- investments at variable rates – the interest income credited to the Surplus or Deficit on Provision of Services Account will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings or Loan and Receivables are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings or fixed rate loans and receivables would not impact on the Surplus or Deficit on Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on Provision of Services and affect the General Fund Balance.

Unrealised nominal gains and losses on the fair value of Available for Sale Investments would be reflected in the Balance Sheet and balanced by an entry in the Available For Sale Reserve in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets.

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 monitor markets 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.

Based on the financial liabilities and assets as at the balance sheet date a one percent point movement in average interest rates would be equivalent to a £1.424m change in the Council's net interest charge in the Comprehensive Income and Expenditure Account. This calculation is based on a full year interest effect at a constant level of borrowing and investments as at the reporting date, a further breakdown is shown in the table below:

Financial Impact of the Interest Rate Risk	Amount at 31 March 2014 £'000
Increase in interest payable on variable rate borrowings	(3)
Increase in interest receivable on variable rate investments	1,427
Impact on Income and Expenditure Account	**1,424**

The impact on the fair value of the Council's long term fixed borrowings and long term fixed investments from a one percentage point movement in average rates is shown below:

	Fair Value 31 March 2014 £'000	Fair Value at 1% Higher £'000	Fair Value at 1% Lower £'000
County Council	467,353	414,741	534,560
Schools	2,099	1,992	2,216
Long Term Fixed Borrowing:	**469,452**	**416,733**	**536,776**
Long Term Fixed Investments:	**1,991**	**1,952**	**2,030**

There is no impact on the Surplus or Deficit on Provision of Services or the Other Comprehensive Income and Expenditure account from the movement in fair value on borrowing and loans & receivables shown above. Fair values have been calculated using the same methodology/assumptions as outlined on page 63. Fair Value of Assets and Liabilities Carried at Amortised Cost.

The impact on fair value of the Councils Available for Sale Investments, already carried on the Balance Sheet at fair value on 31 March 2014, from a 1% movement in average rates is shown in the table below. This impact would be reflected on the Surplus/Deficit on Revenue of Available for Sale Financial Assets as shown in the Comprehensive Income & Expenditure Statement.

	Fair Value 31 March 2014 £'000	Fair Value at 1% Higher £'000	Fair Value at 1% Lower £'000
Available For Sale Investments	**35,083**	**34,980**	**35,187**

Price Risk

The Council, excluding the pension fund, does not generally invest in equity shares and is therefore not exposed to losses arising from movements in the price of shares.

The Council has a small equity holding of 14,000 shares (£1 par value) in a company called Investors in Lincoln Ltd, received in connection with the Council's economic regeneration policies.

These shares are classed as 'Unquoted Equity Investments' valued at cost and do not represent a price risk for the Council.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Note 19. Inventories.

The Council held the following inventory items at 31 March 2014:

	Balance outstanding at 1 April 2013 £'000	Purchases £'000	Recognised as an expense in the year £'000	Written off balances £'000	Reversals of write-off in previous years £'000	Balance outstanding at 31 March 2014 £'000
Salt Stores	799	1,305	(892)			1,212
Total Inventories	**799**	**1,305**	**(892)**	**0**	**0**	**1,212**

The County Council's accounting policies on inventories includes a de-minimus of £100k.

Note 20. Construction Contracts.

The Council does not undertake construction contracts.

Note 21. Debtors.

The Council held the following debtors at 31 March 2014:

31 March 2013 £'000	Amounts falling due in one year:	31 March 2014 £'000
13,964	Central government bodies	15,885
4,373	Other local authorities	1,683
3,303	NHS bodies	5,057
0	Public corporations and trading funds	43
11,602	Bodies external to general government	8,462
10,002	Council tax agency and business rates agency arrangements	10,416
4,889	Payments in advance	3,647
48,133	**Total Short Term Debtors**	**45,193**

31 March 2013 £'000	Amounts falling due after one year:	31 March 2014 £'000
2,248	Central government bodies	1,868
460	Other local authorities	833
10	NHS bodies	0
3,598	Bodies external to general government	6,071
6,316	**Total Long Term Debtors**	**8,772**

All figures included in the table above are shown net of impairment for doubtful debt.

The Council Tax and Business Rates Agency Arrangements figure represents the Council's share of council tax arrears (net of impairment for doubtful debts) and any surpluses on the Collection Funds held by the District Councils in Lincolnshire.

The arrangement for business rates only applies from 1 April 2013. Following the introduction of the new funding regime for local government,10% of the business rates collected locally are used to fund County Council services.

From 2013-14 the Council's accounting policies on manual debtors and creditors includes a diminimus of £10k for revenue and £25k for capital items.

Note 22. Cash and Cash Equivalents.

The Council balance of cash and cash equivalents is made up of the following elements:

31 March 2013 £'000		31 March 2014 £'000
(8,356)	Cash & Cash Equivalents held by the County Council	(5,375)
(8,356)		**(5,375)**

Note 23. Assets Held for Sale.

The Council held the following assets for sale at 31 March 2014:

	Current		Non-Current	
	2012-13 £'000	2013-14 £'000	2012-13 £'000	2013-14 £'000
Balance outstanding at 1 April	2,239	3,660	0	0
Assets newly classified as held for sale:				
- Property, Plant and Equipment	2,985	735	0	0
- Intangible Assets	0	0	0	0
- Other assets/liabilities in disposal groups	0	0	0	0
Revaluation Increase to RR				
Revaluation Decrease to RR	(328)	(262)	0	0
Revaluation Increase/(Decrease) to SDPS	(402)	(112)	0	0
Assets declassified as held for sale:				
- Property, Plant and Equipment	0	0	0	0
- Intangible Assets	0	0	0	0
- Other assets/liabilities in disposal groups	0	0	0	0
Assets Sold	(834)	(2,477)	0	0
Transfers from non-current to current				
Balance Outstanding at 31 March	**3,660**	**1,544**	**0**	**0**

Note 24. Creditors.

The Council had the following creditors at 31 March 2014:

31 March 2013 £'000	Amounts falling due in one year:	31 March 2014 £'000
(17,008)	Central government bodies	(8,693)
(3,191)	Other local authorities	(2,905)
(409)	NHS bodies	(3,341)
(2)	Public corporations and trading funds	(10)
(53,874)	Other entities and individuals	(41,737)
(5,328)	Council tax agency and business rates agency arrangements	(8,841)
(2,577)	Receipts in advance	(4,229)
(9,025)	Employee benefits accrual	(7,665)
(91,414)	**Total Short Term Creditors**	**(77,421)**

31 March 2013 £'000	Amounts falling due after one year:	31 March 2014 £'000
(1,815)	Central government bodies	(1,618)
(725)	Other local authorities	(671)
(2,937)	Other entities and individuals	(8,867)
(5,477)	**Total Long Term Creditors**	**(11,156)**

The Council Tax & Business Rates Agency Arrangements figure represents the Council's share of council tax prepayments, overpayments and our share of any deficit owed to the Collection Funds held by the District Council's in Lincolnshire.

The arrangement for business rates only applies from 1 April 2013. Following the introduction of the new funding regime for local government,10% of the business rates collected locally are used to fund County Council services.

From 2013-14 the Council's accounting policies on manual debtors and creditors includes a diminimus of £10k for revenue and £25k for capital items.

Note 25. Other Long Term Liabilities

The Council had the following long term liabilities at 31 March 2014:

31 March 2013 £'000		31 March 2014 £'000
(14,905)	Outstanding Liabilities on PFI and Finance Leases	(13,799)
(641,730)	Pension Liability	(715,325)
(656,635)		**(729,124)**

Note 26. Provisions.

The Council made the following provisions during 2013-14:

Summary of Provisions	**Balance at 1 April 2013 £'000**	**Additional Provisions made in 2013-14 £'000**	**Amounts Used in 2013-14 £'000**	**Unused amounts reversed in 2013-14 £'000**	**Unwinding of discounting in 2013-14 £'000**	**Balance at 31 March 2014 £'000**
Social Services - Section 117	(307)	0	0	0	0	(307)
Waste Disposal Claims	(804)	0	19	785	0	0
Insurance Claims	(6,801)	174	0	68	(224)	(6,783)
Carbon Reduction Scheme	(598)	(41)	0	0	0	(639)
Business Rates Appeals	0	(667)	0	0	0	(667)
Waking Nights Provision	0	(876)	0	0	0	(876)
Onerous Contracts Property Leases	(218)	0	156	26	0	(36)
TOTAL	**(8,728)**	**(1,410)**	**175**	**879**	**(224)**	**(9,308)**

Short Term Provisions	**Balance at 1 April 2013 £'000**	**Additional Provisions made in 2013-14 £'000**	**Amounts Used in 2013-14 £'000**	**Unused amounts reversed in 2013-14 £'000**	**Unwinding of discounting in 2013-14 £'000**	**Balance at 31 March 2014 £'000**
Waste Disposal Claims	(26)	0	19	7	0	0
Insurance Claims	(2,942)	0	0	68	0	(2,874)
Carbon Reduction Scheme	(598)	(41)	0	0	0	(639)
Business Rates Appeals	0	(667)	0	0	0	(667)
Waking Nights Provision	0	(876)	0	0	0	(876)
Onerous Contracts Property Leases	(218)	0	156	26	0	(36)
TOTAL	**(3,784)**	**(1,584)**	**175**	**101**	**0**	**(5,092)**

Long Term Provisions	**Balance at 1 April 2013 £'000**	**Additional Provisions made in 2013-14 £'000**	**Amounts Used in 2013-14 £'000**	**Unused amounts reversed in 2013-14 £'000**	**Unwinding of discounting in 2013-14 £'000**	**Balance at 31 March 2014 £'000**
Social Services - Section 117 Deposits	(307)	0	0	0	0	(307)
Waste Disposal Claims	(778)	0	0	778	0	0
Insurance Claims	(3,859)	174	0	0	(224)	(3,909)
TOTAL	**(4,944)**	**174**	**0**	**778**	**(224)**	**(4,216)**

The Council’s accounting policy on provisions includes a de-minimis of £100k.

Social Services - Section 117 of the Mental Health Act 1983, prescribes that Service Users who have been placed in care under Section 3 of the same Act do not have to pay for aftercare services. Where they have been charged for such services, they are entitled to reimbursement of the charges, plus interest. This provision was made to pay Service Users who are assessed as falling into this category.

The **Waste Disposal** provision has been established for claims against Lincolnshire County Council for necessary remedial work on waste disposal sites sold by the Council. As at 31 March 2014 the waste disposal provision is no longer required.

The **Insurance provision** represents all estimated outstanding claims under the excess clauses of the Council's external insurance polices. Material risks which are met by the Council under current insurance policies are shown below:

Type of Insurance	**Met by the County Council**	
	Each Claim £'000	**Maximum for all such claims £'000**
Public & employer's liability	150	3,000
School property	150	500
Other property	10	100

The provision for **Carbon Reduction Scheme** has been set up because, although the energy data relating to carbon emissions during 2013-14 has been collated, the details of the amount will not be available until 2014-15.

The **Waking Nights** provision has been created following an investigation that found that Children's Services has not paid an extra overnight allowance to night carers as part of a past Job evaluation. This is back pay from 2007.

The Council have and will continue to vacate properties as part of the reductions to funding and services. The lease costs and costs associated with leaving these properties will be provided for as an **onerous contract**.

Note 27. Usable Reserves.

The Council's usable reserves include: the General Fund, Earmarked Reserves (including revenue grants and contributions unapplied), Capital Receipts Reserve and Capital Grants Unapplied.

Reserve	**Balance at 31 March 2013 £'000**	**Balance at 31 March 2014 £'000**
Capital Grants Unapplied	(56,242)	(53,827)
Usable Capital Receipts (*1)	0	0
Earmarked Reserves	(141,695)	(165,276)
General Fund	(15,900)	(16,400)
Total	**(213,837)**	**(235,503)**

Please refer to the Movement in General Reserves Statement, Note 9 Adjustments Between Accounting Basis and Funding Basis Under Regulations and Note 10 Transfer To/From Earmarked Reserves for further details.

(*1)The County Council's policy is to fully utilise Usable Capital Receipts in the year they are received.

Note 28. Unusable Reserves.

Restated (*1) Balance at 31 March 2013 £'000		Note	Balance at 31 March 2014 £'000
(272,346)	Revaluation Reserve	(28a)	(319,865)
(568,151)	Capital Adjustment Account	(28b)	(579,290)
(31)	Financial Instruments Adjustment Account	(28c)	140
641,730	Pension Liability	(28d)	715,325
(4,674)	Collection Fund Adjustment Account	(28e)	(908)
6,744	Accumulated Absences Account	(28f)	5,426
0	Available for Sale Financial Instrument Reserve	(28g)	(83)
(196,728)	**Total**		**(179,255)**

(*1) The presentation of this note has changed from 2012-13 Statement of Accounts due to a prior period adjustment arising from the revision to IAS 19 retirement benefits.

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. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2012-13 £'000		2013-14 £'000	£'000
(240,194)	**Balance at 1 April**		**(272,346)**
(78,087)	Upward revaluation of assets	(97,884)	
21,727	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	35,502	
(56,360)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(62,382)	
6,335	Difference between fair value depreciation and historical cost depreciation	7,115	
17,873	Accumulated gains on assets sold or scrapped	7,748	
24,208	Amount written off to the Capital Adjustment Account	14,863	
(272,346)	**Balance at 31 March**		**(319,865)**

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 Authority as finance for the costs of acquisition, construction and enhancement.

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 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.

2012-13 £'000		2013-14 £'000
(621,730)	**Balance at 1 April**	**(568,151)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
75,802	- Charges for depreciation and impairment of non-current assets	67,055
15,248	- Revaluation losses on Property, Plant and Equipment	13,567
2,491	- Amortisation of intangible assets	2,082
6,074	- Revenue expenditure funded from capital under statute (net of Grants and Contributions)	22,552
90,299	- 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	20,327
(24,208)	Adjusting amounts written out of the Revaluation Reserve	(14,863)
165,706	Net written out amount of the cost of non-current assets consumed in the year	**110,720**
	Capital financing applied in the year:	
(6,049)	- Use of the Capital Receipts Reserve to finance new capital expenditure	(3,238)
(29,296)	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(41,533)
(15,825)	- Application of grants to capital financing from the Capital Grants Unapplied Account	(30,673)
(29,682)	- Statutory provision for the financing of capital investment charged against the General Fund	(25,925)
(17,255)	- Capital expenditure charged against the General Fund	(9,677)
(98,107)		**(111,046)**
(12,957)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(10,813)
(1,063)	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	0
(14,020)		**(10,813)**
(568,151)	**Balance at 31 March**	**(579,290)**

c. Financial Instruments & Financial Assets Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.

2012-13 £'000		2013-14 £'000
(16)	**Balance at 1 April**	**(31)**
0	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0
15	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	15
(30)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	156
(31)	**Balance at 31 March**	**140**

d. Pensions Liability

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

Restated (*1) 2012-13 £'000		2013-14 £'000
545,371	**Balance at 1 April**	**641,729**
91,193	Actuarial gains or losses on pensions assets and liabilities	45,191
41,200	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CI&ES	64,207
(36,034)	Employer's pensions contributions and direct payments to pensioners payable in the year	(35,802)
641,730	**Balance at 31 March**	**715,325**

(*1) The presentation of this note has changed from 2012-13 Statement of Accounts due to a prior period adjustment arising from the revision to IAS 19 retirement benefits.

e. Collection Fund Adjustment Account

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

2012-13 £'000		2013-14 £'000
(4,383)	**Balance at 1 April**	**(4,674)**
(291)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax & business rates income calculated for the year in accordance with statutory requirements	3,766
(4,674)	**Balance at 31 March**	**(908)**

f. Accumulated Absences Account

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

2012-13 £'000		2013-14 £'000	2013-14 £'000
8,705	**Balance at 1 April**		**6,744**
(8,705)	Settlement or cancellation of accrual made at the end of the preceding year	(6,744)	
6,744	Amounts accrued at the end of the current year	5,427	
(1,961)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(1,318)
6,744	**Balance at 31 March**		**5,426**

g.Available for Sale Financial Instrument Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the County Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost; and
- disposed of and the gains are realised.

2012-13 £'000			2013-14 £'000
	Balance at 1 April		
0	Upward revaluation of investments	(83)	
0	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	0	
			(83)
0	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		0
0	**Balance at 31 March**		**(83)**

Note 29. Operating Activities.

The cashflow operating activities include the following items:

2012-13 £'000		2013-14 £'000
(1,717)	Interest received	(1,785)
19,739	Interest paid	19,900
0	Dividends received	0

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

2012-13 £'000		2013-14 £'000
(75,802)	Depreciation	(67,055)
(15,248)	Impairment and downward valuations	(13,567)
(2,491)	Amortisation	(2,082)
(457)	Increase/(decrease) in impairment for bad debts	(173)
6,020	(Increase)/decrease in creditors	(808)
3,832	Increase/(decrease) in debtors	(3,394)
(20)	Increase/(decrease) in inventories	412
(5,166)	Movement in pension liability	(28,404)
(90,300)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(20,335)
18,237	Other non-cash items charged to the net surplus or deficit on the provision of services	9,843
(161,394)	**Net surplus/(deficit) on provison of services for non cash movements**	**(125,563)**

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

2012-13 £'000		2013-14 £'000
0	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investment in associates, joint ventures and subsidiaries)	0
58,566	Capital Grants credited to Surplus or deficit on the provision of services	64,423
6,049	Proceeds from sale of property, plant and equipment, investment property and intangible assets	3,238
1,182	Any other items for which the cash effects are investing or financing cash flows	1,239
65,797	**Net surplus/(deficit) on provison of services for Investing & Financing activities**	**68,900**

Note 30. Investing Activities.

The cashflow investing activities include the following items:

2012-13 £'000		2013-14 £'000
146,921	Purchase of property, plant and equipment, investment property and intangible assets	111,175
972,068	Purchase of short-term and long- term investments	906,021
823	Other payments for investing activities	914
(6,049)	Proceeds from sale of property, plant equipment, investment property and intangible assets	(3,238)
(1,016,868)	Proceeds from short-term and long-term investments	(911,930)
(51,278)	Capital Grants Received (Government)	(65,346)
(2,005)	Other receipts from investing activities	(2,153)
43,612	**Net cash flow from investing activities**	**35,443**

Note 31. Financing Activities.

The cashflow financing activities include the following items:

2012-13 £'000		2013-14 £'000
(12,100)	Cash receipts of short and long-term borrowing	0
0	Other receipts from financing activities	0
1,318	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance-Sheet PFI Contracts	1,304
6,750	Repayments of short and long-term borrowing	3,740
0	Other payments for financing activities	0
(4,032)	**Net cash flow from Financing activities activites**	**5,044**

Note 32. Amounts reported for Resource Allocation Decisions (Segmental Reporting)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice set out by CIPFA. However, decisions about resource allocation are taken by the Council’s Executive on the basis of budget reports analysed across Directorates, and service areas.

These reports are prepared on a different basis from the accounting policies used in the Financial Statements. In particular:

- no charges are made in relation to capital expenditure (where as depreciation and amortisation; and revaluation/impairment losses in excess of the balance on the Revaluation Reserve are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer’s pension contributions) rather than current service cost of benefits accrued in the year; and

- expenditure on support services forms part of the Resources and Chief Executive Offices' budgets and expenditure. However, within the Comprehensive Income and Expenditure Statement these are allocated to front line services based on their usage. Methods of allocation for these services are set out in the Council's accounting policies (Note 1).

a. Income and Expenditure analysed over the Council's directorates and reported in the Council's Outturn Report.

This analysis may include items that do not form part of the Comprehensive Income and Expenditure Statement, hence the need for the Reconciliation from the Segmental Reporting Analysis to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

Service Analysis 2013-14	**Employee Expenses £'000**	**Agency and Contract Payments £'000**	**Other Running Expenses £'000**	**Gross Expenditure £'000**	**Specific Grants and Contributions £'000**	**Other Income (inc. Fees and Charges) £'000**	**Total Income £'000**	**Cost of Services £'000**
Children's Social Care	29,771	16,697	11,010	57,478	(10,807)	(476)	(11,283)	46,195
Education Services	23,205	8,928	32,830	64,963	(3,731)	(3,473)	(7,204)	57,759
Adult Care	25,332	148,395	32,271	205,998	(37,040)	(35,762)	(72,802)	133,196
Public Health	5,053	34,165	7,724	46,942	(4,643)	(100)	(4,743)	42,199
Public Health Grant Income	0	0	0	0	(26,272)	300	(25,972)	(25,972)
Highways & Transportation	8,472	35,970	11,766	56,208	(9,596)	(2,962)	(12,558)	43,650
Environment Planning & Customer Services	5,848	17,501	2,616	25,965	(645)	(808)	(1,453)	24,512
Economy & Culture	9,463	78	10,686	20,227	(5,011)	(2,370)	(7,381)	12,846
Fire & Rescue	18,076	45	4,653	22,774	(2,539)	(637)	(3,176)	19,598
Community Safety	15,683	94	5,914	21,691	(2,333)	(1,345)	(3,678)	18,013
Finance & Resources	2,442	6,785	12,190	21,417	(2,641)	(3,440)	(6,081)	15,336
Performance & Governance	8,560	7,709	6,581	22,850	(381)	(191)	(572)	22,278
TOTAL SERVICE BUDGETS	**151,905**	**276,367**	**138,241**	**566,513**	**(105,639)**	**(51,264)**	**(156,903)**	**409,610**
OTHER BUDGETS								
Capital Financing Charges	0	0	50,157	50,157	0	(1,412)	(1,412)	48,745
Contingency	0	0	0	0	0	0	0	0
Other Budgets	1,494	0	510	2,004	0	0	0	2,004
TOTAL OTHER BUDGETS	**1,494**	**0**	**50,667**	**52,161**	**0**	**(1,412)**	**(1,412)**	**50,749**
SCHOOLS BUDGETS								
Delegated School Budgets	178,631	6,195	54,723	239,549	(20,775)	(4,152)	(24,927)	214,622
Central Services within the DSB	7,233	23,866	16,930	48,029	(3,004)	(986)	(3,990)	44,039
Dedicated Schools Grant	0	0	0	0	(261,338)	0	(261,338)	(261,338)
TOTAL SCHOOLS BUDGETS	**185,864**	**30,061**	**71,653**	**287,578**	**(285,117)**	**(5,138)**	**(290,255)**	**(2,677)**
TOTAL EXPENDITURE	**339,263**	**306,428**	**260,561**	**906,252**	**(390,756)**	**(57,814)**	**(448,570)**	**457,682**
INCOME								
Revenue Support Grant	0	0	0	0	(146,366)	0	(146,366)	(146,366)
Business Rates	0	0	0	0	(79,603)	(19,157)	(98,760)	(98,760)
Council Tax	0	0	0	0	0	(224,247)	(224,247)	(224,247)
Other Non Specific Grants	0	0	0	0	(17,650)	0	(17,650)	(17,650)
TOTAL INCOME	**0**	**0**	**0**	**0**	**(243,619)**	**(243,404)**	**(487,023)**	**(487,023)**
Use/(Contribution) to Reserves				906,252			(935,593)	(29,341)

Service Analysis 2012-13	Employee Expenses £'000	Agency and Contract Payments £'000	Other Running Expenses £'000	Gross Expenditure £'000	Specific Grants and Contributions £'000	Other Income (inc. Fees and Charges) £'000	Total Income £'000	Cost of Services £'000
Children's Social Care	27,372	7,835	12,848	48,055	(5,958)	(331)	(6,289)	41,766
Education Services	24,665	3,924	41,360	69,949	(30,108)	(2,805)	(32,913)	37,036
Adult Care	27,707	144,083	27,759	199,549	(31,255)	(35,491)	(66,746)	132,803
Public Health	2,184	14,619	5,350	22,153	(4,941)	(66)	(5,007)	17,146
Highways & Transportation	10,196	34,947	12,468	57,611	(4,874)	(2,770)	(7,644)	49,967
Environment Planning & Customer Services	5,496	21,849	2,431	29,776	(618)	(908)	(1,526)	28,250
Economy & Culture	9,629	1,564	9,475	20,668	(4,683)	(2,469)	(7,152)	13,516
Fire & Rescue	17,674	26	5,146	22,846	(2,210)	(511)	(2,721)	20,125
Community Safety	14,674	35	5,995	20,704	(2,387)	(1,380)	(3,767)	16,937
Finance & Resources	2,609	10,590	8,999	22,198	(2,970)	(4,379)	(7,349)	14,849
Performance & Governance	7,460	8,008	6,829	22,297	(295)	(169)	(464)	21,833
TOTAL SERVICE BUDGETS	**149,666**	**247,480**	**138,660**	**535,806**	**(90,299)**	**(51,279)**	**(141,578)**	**394,228**
OTHER BUDGETS								
Capital Financing Charges	0	0	55,985	55,985	0	(2,302)	(2,302)	53,683
Contingency	0	0	0	0	0	0	0	0
Council Tax Freeze Grant	0	0	0	0	(6,332)	0	(6,332)	(6,332)
Other Budgets	3,040	0	579	3,619	(3,387)	0	(3,387)	232
TOTAL OTHER BUDGETS	**3,040**	**0**	**56,564**	**59,604**	**(9,719)**	**(2,302)**	**(12,021)**	**47,583**
SCHOOLS BUDGETS								
Delegated School Budgets	217,175	1,175	74,440	292,790	(28,913)	(4,860)	(33,773)	259,017
Central Services within the DSB	8,206	21,078	12,443	41,727	(4,293)	(87)	(4,380)	37,347
Dedicated Schools Grant	0	0	0	0	(293,367)	0	(293,367)	(293,367)
TOTAL SCHOOLS BUDGETS	**225,381**	**22,253**	**86,883**	**334,517**	**(326,573)**	**(4,947)**	**(331,520)**	**2,997**
TOTAL EXPENDITURE	**378,087**	**269,733**	**282,107**	**929,927**	**(426,591)**	**(58,528)**	**(485,119)**	**444,808**
INCOME								
Formula Grant	0	0	0	0	(201,512)	0	(201,512)	(201,512)
Council Tax	0	0	0	0	0	(253,389)	(253,389)	(253,389)
TOTAL INCOME	**0**	**0**	**0**	**0**	**(201,512)**	**(253,389)**	**(454,901)**	**(454,901)**
Use/(Contribution) to Reserves				929,927			(940,020)	(10,093)

A description of the services provided and the sources of funding for these areas is set out below:

Children's Social Care provides services such as child protection and looked after services (including: frontline social workers and adoption/fostering services). Funding comes from LCC contributions and specific grants. This also includes **Home to School Transport.**

Education Services includes school improvement, youth services, targeted early intervention services and career guidance. Funding comes from LCC contributions and specific grants.

Adult Care includes**:**

Older People & Physical Disabilities These two services are managed through one management structure focussing on 18-64 year olds with Physical Disabilities and over 65s with a variety of social care needs. Team members offer support, advice, information and guidance to enable these groups of people in Lincolnshire to live more independently. This is increasingly through Personal Budgets either by Direct Payment or by LCC commissioning services on behalf of the people assessed as needing support. Funding comes from LCC contributions, specific grants from government departments, funding from LCCG's for specific work or projects and fees and charges for services.

Learning Disabilities This is a joint funded service in conjunction with LCCG's under a Section 75 agreement. Additional funding comes from LCC contributions and joint partnership funding with the Department of Health, plus specific grants from government departments, fees and charges for services (including: Fairer Charging Policy and Charges for Residential Accommodation Guidance). It offers support, advice, information and guidance to enable people in Lincolnshire, over the age of 18 with learning disabilities to live more independently providing services such as Residential and Day Care, Home Support, Supported Living, equipment and telecare services. This is provided through personalisation of direct payments and direct provision.

Mental Health The service is provided by Lincolnshire Partnership Foundation Trust (LPFT) under a Section 75 agreement on behalf of the Council. It offers support, advice, information and guidance to enable people over the age of 18 in Lincolnshire with Mental Health difficulties to live more independently. This is provided mostly through the provision of direct payments via a personal budget but also via a direct provision of home care and residential services.

Adult Social Care Operations offers support, advice, information and guidance to enable people in Lincolnshire, over the age of 18, to live more independently providing services such as Residential and Day Care, Home Support, Extra Care Housing, equipment and telecare services. Funding comes from LCC contributions and joint partnership funding with the Department of Health, plus specific grants from government departments, and fees and charges for services (including: Fairer Charging Policy and Charges for Residential Accommodation Guidance).

Public Health provide information and services to enable people to live independently in their own homes providing services such as Supporting People Housing Related Support, Supported Employment Services and Local Involvement Networks (LINKs). Funding comes from LCC contributions, specific grants (including Supporting People) and joint partnership funding with the Department of Health.

Highways and transportation are responsible for maintaining Lincolnshire's road network (including winter maintenance), bus subsidies and transport planning. Funding comes from LCC contributions, plus smaller amounts from government grants and developer contributions.

Environment, Planning and Customer services includes waste disposal, spatial and environmental planning and the Council's Customer Service Centre. Funding comes primarily from LCC contributions.

Economy is responsible for investing to create regeneration opportunities in Lincolnshire. Funding comes from regional, national and European funding, in addition to LCC contributions. **Culture** maintains a network of static and mobile libraries services across the County. It, also provides care and access to Lincolnshire's archives, museum objects, historic buildings and other sites. Funding comes from LCC contributions, government grants and fees and charges.

Fire & Rescue including: fire prevention, protection and emergency response, as well as leading on the County's emergency planning. Funding comes from LCC contributions plus some specific grants (including: urban search and rescue grant) and from other Local Authority contributions.

Community Safety provides the following services to the public; Trading Standards, Registration & Coroners, Youth Offending and Rehabilitation Programmes. In addition, it provides the central Business Support function to the Council. Funding comes primarily from LCC contributions.

Finance & Resources provide the following functions for the Authority: Legal, Audit, Procurement, Corporate Property and Treasury & Financial Strategy. Whilst there are small number of corporate contracts that are recharged out across other directorates, as this area relates to the support services/overheads for LCC then the majority of funding is directly through LCC Contributions.

Performance & Governance provides support services including: HR, ICT, communications and scrutiny functions and support for Councillors and the democratic process. Funding comes from LCC contributions.

Other budgets include: expenditure of capital financing charges which include the annual revenue costs of funding the Council's capital programme e.g. payment of principal and interest on amounts borrowed; insurance and county wide joint projects including council tax second homes and the sustainable community strategy expenditure. Income here is non-ring fenced government grants, Non Domestic Rates and the Council Tax. Other budgets also contains a contingency budget which is set aside to pay for unforeseen events that occur during the year.

b. Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement.

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2012-13 £'000	2013-14 £'000
Net Expenditure in the Directorate analysis (Use of Reserves)	(10,093)	(29,341)
Add: Net expenditure on services and support services not included in main analysis	0	0
Add: Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis (Note 32c)	112,976	139,065
Less: amounts reported to management in the analysis not included in the Comprehensive Income and Expenditure Account (Note 32c)	364,361	397,598
Net Cost of Services in the Comprehensive Income and Expenditure Statement	**467,244**	**507,322**

c. Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2013-14	Service Analysis Cost of Service £'000	Amounts not reported to Management £'000	Amounts not included in CI&ES £'000	Net Cost of Services £'000	Corporate Amounts £'000	(Surplus)/Deficit on Provision of Services £'000
Other income (including fees and charges)	(57,814)	(12,802)	1,412	(69,204)		(69,204)
Income from Council Tax	(243,404)		224,246	(19,158)	(221,137)	(240,295)
Specific Grants and Contributions	(634,375)		262,776	(371,599)	(262,120)	(633,719)
Interest and Investment Income Receivable			2,153	2,153	(14,378)	(12,225)
TOTAL Income	**(935,593)**	**(12,802)**	**490,587**	**(457,808)**	**(497,635)**	**(955,443)**
Employee Expenses	339,263	33,766	(35,503)	337,526		337,526
Agency and Contract Expenditure	306,428		0	306,428	0	306,428
Other Running Expenses	260,561	155	(55,591)	205,125	52	205,177
Support Service Recharges				0	0	0
Depreciation, Amortisation and Impairment		117,946		117,946	(64,423)	53,523
Interest Payable and Similar Charges			(1,895)	(1,895)	20,768	18,873
Precepts and Levies				0	1,079	1,079
Gain or Loss on Disposal of Non-Current Assets				0	17,208	17,208
Pension Interest Cost				0	28,824	28,824
TOTAL Expenditure	**906,252**	**151,867**	**(92,989)**	**965,130**	**3,508**	**968,638**
Surplus/ Deficit on the Provision of Services	**(29,341)**	**139,065**	**397,598**	**507,322**	**(494,127)**	**13,195**

Restated (*1) Reconciliation to Subjective Analysis 2012-13	Service Analysis Cost of Service £'000	Amounts not reported to Management £'000	Amounts not included in CI&ES £'000	Net Cost of Services £'000	Corporate Amounts £'000	(Surplus)/Deficit on Provision of Services £'000
Other income (including fees and charges)	(58,528)	(22,113)	2,302	(78,339)	0	(78,339)
Income from Council Tax	(253,389)	0	253,389	0	(253,681)	(253,681)
Government Grants and Contributions	(628,103)	0	211,218	(416,885)	(211,218)	(628,103)
Interest and Investment Income Receivable	0	0	2,005	2,005	(17,232)	(15,227)
TOTAL Income	**(940,020)**	**(22,113)**	**468,914**	**(493,219)**	**(482,131)**	**(975,350)**
Employee Expenses	378,087	13,794	(36,033)	355,848	0	355,848
Agency and Contract Expenditure	269,733	0	0	269,733	0	269,733
Other Running Expenses	282,107	(31)	(66,670)	215,406	(64)	215,342
Support Service Recharges	0	0	0	0	0	0
Depreciation, Amortisation and Impairment	0	121,326	0	121,326	(58,565)	62,761
Interest Payable and Similar Charges	0	0	(1,850)	(1,850)	20,569	18,719
Precepts and Levies	0	0	0	0	1,062	1,062
Gain or Loss on Disposal of Non-Current Assets	0	0	0	0	84,652	84,652
Pension Interest Cost	0	0	0	0	25,445	25,445
TOTAL Expenditure	**929,927**	**135,089**	**(104,553)**	**960,463**	**73,099**	**1,033,562**
Surplus/ Deficit on the Provision of Services	**(10,093)**	**112,976**	**364,361**	**467,244**	**(409,032)**	**58,212**

(*1) The presentation of this note has changed from 2012-13 Statement of Accounts due to a prior period adjustment arising from the revision to IAS 19 retirement benefits.

Note 33. Acquired and Discontinued Operations.

The following table shows the amount of income and expenditure within the Council's accounts which relates to its acquired and discontinued operations:

	Year ended 31 March 2014		
	Gross Expenditure £'000	Income £'000	Net Expenditure £'000
Local Welfare Assistance	1,581	(1,802)	(221)
Public Health Responsibilities	27,895	(26,778)	1,117
Surplus or Deficit on Acquired and Discontinued Operations	**29,476**	**(28,580)**	**896**

Local Welfare Assistance

From April 2013 Community Care Grants and Crisis Loans previously provided by the Department for Work and Pensions were abolished. From that date responsibility passed to the County Council to provide a locally based and designed provision to deliver a more responsive service that's better targeted and relevant to the needs of vulnerable people in society. The cost of this service is £1.581m and funded by a specific government grant.

Public Health

The Health and Social Care Act 2012 reformed the existing NHS structures and responsibilities with a number of these responsibilities transferring from the NHS to the control of Local Authorities from April 2013.

Public Health is about helping people to stay healthy and avoid illness, so this includes work on a range of policy areas such as immunisation, nutrition, tobacco and alcohol, drugs recovery, sexual health, pregnancy and children's health.

The Council became responsible for commissioning services for many of these policy areas which was funded by a specific government grant for 2013-14.

Following disaggregation of the closing balance sheet of Lincolnshire NHS PCT a number of balances were transferred to the County Council. These are included in the 2013-14 accounts but opening balances were not restated because the amounts were not material.

Note 34. Trading Activities.

The Council has no trading activities to report for 2013-14.

Note 35. Agency Services.

a. Nursing Care

The Council makes payments to independent sector nursing homes for both the nursing care element and the personal care element of the accommodation charges. The nursing care element is the financial responsibility of the Clinical Commissioning Groups.

The Council paid £5.812m (£5.534m in 2012-13) acting as an agent of the Clinical Commissioning Groups in order to simplify the payment arrangements to the homes. The total amount paid is recovered from the Clinical Commissioning Groups.

b. Street Lighting

The Council makes payments on behalf of the District Councils to electricity companies for street lighting. These amounts are then recovered as these charges are the responsibility of the District Councils.

During 2013-14 Lincolnshire County Council paid £0.034m acting as an agent for West Lindsey District Council. £0.039m was recovered. (In 2011-12 £0.015m was spent, with £0.010m being recovered)

Note 36. Road Charging Schemes Under the Transport Act 2000.

The Council has no road charging schemes under the Transport Act 2000.

Note 37. Pooled Budgets

Under Section 31 of the Health Act 1999 (superseded by Section 75 of the Health Act 2006), Lincolnshire County Council has entered into pooled budget arrangements.

The Council is the host Authority for the pooled budgets relating to Learning Disabilities, Integrated Community Equipment Service and Child & Adolescent Mental Health Services, and is responsible for their financial administration.

The NHS Trust is the host Authority for the pooled budgets relating to Mental Health services and Substance Misuse and is responsible for their financial administration.

a. Learning Disability

In 2001-02 Lincolnshire County Council and Lincolnshire Clinical Commissioning Group's established a pooled budget Partnership Arrangement for the provision of Learning Disability services.

2012-13 £'000		2013-14 £'000
55,176	Gross Partnership Expenditure	57,846
(48,580)	Gross Partnership Income	(59,129)
6,596	**Surplus(-)/Deficit(+)**	**(1,283)**
29,335	**Contribution from Lincolnshire County Council**	**45,206**

The underspend for 2013-14 is £1.282m which includes an underspend of £1.173m in relation to daytime opportunities. (However Day Time opportunities are for people of all client groups and not just those with Learning Disabilities). The underspend that can be purely attributable to Learning Disability services is therefore £98k.

This underspend occurred due to a number of reasons.

In the main LD Service, significant savings were achieved in the service through both efficiencies and savings projects. There was through the Practice Enablement Group, far greater control of financial decisions and the timing of when this impacts upon the budget. A new brokerage process for Residential placements has also helped to hold costs down.

As already identified In-House day opportunities has produced a larger than expected underspend.

b. Integrated Community Equipment Service (ICES)

In 2004-05 Lincolnshire County Council and Lincolnshire Clinical Commissioning Group's established a pooled budget Partnership Arrangement for the provision of the Integrated Community Equipment Service.

From 1 November 2012 a new section 75 agreement was put in place between Lincolnshire County Council and Lincolnshire Community Health Services NHS trust, United Lincolnshire Hospitals NHS Trust and Lincolnshire Partnership Foundation NHS Trust

2012-13 £'000		2013-14 £'000
3,791	Gross Partnership Expenditure	5,938
(3,791)	Gross Partnership Income	(5,938)
0	**Surplus(-)/Deficit(+)**	**0**
1,940	**Contribution from Lincolnshire County Council**	**2,948**

This is a 50:50 shared responsibility budget between the Council and the Clinical Commissioning Group's and any overspend is shared.

c. Substance Misuse

With effect from 1st April 2013 Lincolnshire County Council hosts the budget for substance misuse on behalf of the Lincolnshire Drug and Alcohol Action Team (DAAT) which is now under a Memorandum of Understanding across the DAAT Partnership. Previously the budget was hosted by Lincolnshire Primary Care Trusts (LPCT). The budget for substance misuse is termed a virtual pooled fund arrangement but is not operated under S.75 of the National Health Service Act 2006.

Responsibility for providing drug and alcohol services passed to Lincolnshire County Council from 1st April 2013. Because of this the majority of the partnership funding now comes from Lincolnshire County Council via the Public Health ring-fenced grant.

The 2013-14 Gross Partnership Expenditure and Income shows an increase of £768,000 when compared to the 2012-13 totals. This is mainly because the 2013-14 totals include expenditure relating to certain alcohol services for the first time. In 2012-13 these services were funded by LPCT development budgets and as such were excluded from the virtual pooled budget arrangement.

2012-13 £'000		2013-14 £'000
6,934	Gross Partnership Expenditure	7,702
(6,934)	Gross Partnership Income	(7,702)
0	**Surplus(-)/Deficit(+)**	**0**
(147)	**Contribution from Lincolnshire County Council**	**7,527**

There is a risk sharing agreement in place between the parties interested in the DAAT budget. The agreement states that under or overspends on the DAAT budget will be shared between these parties at year end.

For 2013-14 Lincolnshire's share of the risk is 94.5% (51% in 2012-13).

Lincolnshire's received a refund of £380,700 in 2012-13. The budget was fully spent in 2013-14 so no refund was due.

The Council is the host authority for the pooled budget relating to Child & Adolescent Mental Health Services.

d. Child & Adolescent Mental Health Services

In 2012-13 Lincolnshire County Council and Lincolnshire Clinical Commissioning Group's established a pooled budget Partnership Arrangement for the provision of Child & Adolescent Mental Health Service. The size of this pooled budget increased significantly in 2013-14 following variations made which incorporated additional functions in to the Section 75 Agreement.

2012-13 £'000		2013-14 £'000
1,001	Gross Partnership Expenditure	5,198
(1,001)	Gross Partnership Income	(5,198)
0	**Surplus(-)/Deficit(+)**	**0**
495	**Contribution from Lincolnshire County Council**	**725**

Note 38. Members Allowances

The Council paid the following amounts to Members of the Council during the year:

2012-13 £'000		2013-14 £'000
	Members Allowances:	
629	Basic Allowances	630
356	Special Responsibility Allowances	349
985		979
102	Expenses	117
1,087	**TOTAL**	**1,096**

The figures above will always be different to the figures that are disclosed on the Lincolnshire County Council Website as the figures above have been produced on an accruals basis, where as the figures disclosed on the website are produced on a cash basis.

Note 39. Officers' Remuneration

a. Officers' remuneration bandings

The table below shows the total number of staff employed by the Council whose actual remuneration exceeded £50,000 per annum, shown in £5,000 bands. Remuneration includes gross salary, expenses, the money value of benefits in kind and termination payments for staff leaving during the year. In addition, the table also identifies the number of staff that left the Council receiving termination payments in the respective year:

2012-13 Number of Staff			2013-14 Number of Staff	
Remuneration received (excl those receiving termination payments)	**Staff who received termination payments**	**Pay Band**	**Remuneration received (excl those receiving termination payments)**	**Staff who received termination payments**
1	0	£125,000- £129,999	0	0
0	0	£120,000- £124,999	1	0
0	0	£115,000- £119,999	0	0
0	1	£110,000- £114,999	0	1
0	0	£105,000- £109,999	2	1
0	0	£100,000- £104,999	1	1
0	0	£95,000- £ 99,999	2	0
3	1	£90,000- £94,999	1	0
7	3	£85,000- £89,999	6	1
5	1	£80,000- £84,999	6	1
6	0	£75,000- £79,999	6	0
8	2	£70,000- £74,999	10	2
24	1	£65,000- £69,999	35	3
47	0	£60,000- £64,999	46	0
95	1	£55,000- £59,999	79	3
106	6	£50,000- £54,999	100	1
302	**16**	**Total**	**295**	**14**

A breakdown of the numbers between schools and other services can be found at Appendix A at the back of this document.

Note the above table excludes all employees who are included within the Senior Officer remuneration table on the next page.

b. Senior Officers' Remuneration

The Accounts and Audit (England) Regulations 2011 requires Local Authorities to disclose individual remuneration details for senior employees (determined as those who have responsibility for the management of the organisation and who direct or control the major activities of the Council).

Job Title	**Year**	**Salary** £	**Employer's Pension Contribution** £	**(2*) Other Emoluments** £	**Total** £
Senior Officers with a salary over £150,000					
Tony McArdle - Chief Executive	2013-14	173,643	32,740	0	206,383
	2012-13	*173,226*	*32,740*	*696*	*206,662*
Senior Officers with a salary over £50,000 and less than £150,000					
Director of Adult Services (*1)	2013-14	105,000	19,845	0	124,845
	2012-13	*91,059*	*17,210*	*0*	*108,269*
Executive Director - Children's Services	2013-14	126,400	23,811	0	150,211
	2012-13	*120,981*	*22,734*	*0*	*143,715*
Executive Director - Resources & Community Safety	2013-14	125,983	23,957	1,408	151,348
	2012-13	*125,983*	*23,957*	*980*	*150,920*
Executive Director - Communities	2013-14	126,400	23,811	0	150,211
	2012-13	*126,678*	*23,811*	*0*	*150,489*
Executive Director - Performance & Governance	2013-14	125,983	23,811	491	150,285
	2012-13	*125,983*	*23,811*	*1,194*	*150,988*
Chief Fire Officer	2013-14	111,100	23,664	123	134,887
	2012-13	*111,100*	*23,664*	*123*	*134,887*
Director of Public Health	2013-14	*160,835*	*20,595*	*427*	*181,857*
	2012-13	*0*	*0*	*0*	*0*

(*1) Director of Adult Services was appointed from 1 February 2013 (Assistant Director prior to this date). Therefore salary less than other equivalent Senior Officers in 2012-13.

(*2) Other Emoluments include the profit element of car hire and medical insurance.

Note 40. Exit Packages

The numbers of exit packages with total cost (redundancy and pension strain) per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13 £	2013-14 £
£0 - £20,000	103	75	78	35	181	110	£1,443,821	£757,177
£20,001 - £40,000	28	15	32	14	60	29	£1,648,122	£794,917
£40,001 - £60,000	9	0	6	3	15	3	£739,301	£161,705
£60,001 - £80,000	7	0	1	0	8	0	£540,958	£0
£80,001 - £200,000	2	3	0	1	2	4	£180,659	£557,659
Total	**149**	**93**	**117**	**53**	**266**	**146**	**£4,552,861**	**£2,271,458**

Redundancy and pension strain payments are presented in this note in the year that payment is made or accrued (at the point in time when an individual employee is committed to leave the Council). Provisions for redundancy and pension strain costs are not included within this note as they represent costs which are committed, but where specific individuals have not yet been identified.

Details of the actual costs included within the Council's Income and Expenditure for redundancy and pension strain are set out below in Note 41 Termination Benefits. The difference between the values reported in this note and Note 41 Termination Benefits arise due to provisions and any variances between year end accruals and the actual payments made in the next financial year.

Note 41. Termination Benefits.

In 2013-14 the County Council incurred liabilities of £2.163m (£4.604m in 2012-13) from terminating employees contracts of employment. These costs were made up of:

- £1.831m for redundancy payments (£3.931m in 2012-13); and
- £0.332m for pension strain (£0.673m in 2012-13).

Further information on termination benefits can be found in Note 40 on Exit Packages which details the number of exit packages and total cost over bands and Note 54 on Retirement Benefits which details the effect termination benefits have had on pensions in 2013-14.

Note 42. External Audit Costs.

Lincolnshire County Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by KPMG the Council's external auditors:

2012-13 £'000		2013-14 £'000
143	Fees payable to KPMG with regards to external audit services carried out by the appointed auditor for the year	149
0	Fees payable to KPMG in respect of statutory inspections	0
7	Fees payable to KPMG for the certification of grant claims and returns	6
28	Fees payable in respect of other services provided by KPMG during the year	6
178	**Total**	**161**

Note 43. Expenditure on Publicity.

The Council's expenditure on publicity includes: staff advertising, including advertising for teaching and other staff in schools; advertising of statutory notices in relation to highways work and publicity for services such as museums and libraries.

2012-13 £'000		2013-14 £'000
1,357	Other Advertising	1,623
601	Staff Advertising	629
185	County News	190
29	Lincolnshire Show	41
174	Other Publicity	22
13	Public Relations	4
2,359		**2,509**

Other Advertising includes promotional advertising and merchandise (£0.951m) and Highways statutory notices (£0.299m).

Note 44. Landfill Allowances Trading Scheme (LATS).

The scheme ended on 31 March 2013 therefore a £nil value per tonne was applied to all transactions in respect of allowances in 2012-13. There are no transactions to report for financial year 2013-14 as the scheme has ceased.

Note 45. Dedicated Schools Grant.

The Council's expenditure on schools is funded primarily by grant monies provided by the Department of Education, the Dedicated schools Grant (DSG). The DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the Schools Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013-14 are as follows:

Schools Budget Funded by Dedicated Schools Grant	**Central Expenditure £'000**	**Individual Schools Budget £'000**	**Total £'000**
Final DSG for 2013-14 before Academy recoupment			479,340
Academy Figure Recouped for 2013-14			(218,002)
Total DSG after Academy Recoupment for 2013-14			261,338
Brought Forward from 2012-13			16,688
Agreed Initial Budgeted Distribution in 2013-14	51,840	226,185	278,025
In Year Adjustments	(967)	2,213	1,246
Final Budget Distribution for 2013-14	**50,873**	**228,398**	**279,271**
less Actual central expenditure	(48,926)	0	(48,926)
less Actual ISB deployed to schools	0	(210,833)	(210,833)
Total actual expenditure in 2013-14	**(48,926)**	**(210,833)**	**(259,759)**
Local Authority Contribution 2013-14	**5**	**45**	**50**
Carry forward to 2014-15	**1,952**	**17,610**	**19,562**

The Individual Schools Budget includes schools contingency. For the purposes of the deployment of the grant, Individual School Budgets are deemed to be spent once allocated. School balances can be seen elsewhere in the Financial Statements in Note 10 Earmarked Reserves.

Note 46. Grant Income

The Council credited the following grants and contributions and donations to the Comprehensive Income and Expenditure Statement in 2013-14; for grants & contributions where the conditions have been met, or no conditions existed:

2012-13 £'000	a) Credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement	2013-14 £'000
197,680	Contribution from National Non-Domestic Rates	0
0	Business Rates - Districts	18,501
0	Business Rates - Top up fund	79,603
6,332	Council Tax Freeze Grant	2,547
3,832	Revenue Support Grant	146,366
2,000	Local Services Support Grant	1,378
1,374	New Homes Bonus Grant & Returned Topslice	2,864
0	Education Services Grant	7,492
0	Adoption Reform Grant	1,277
0	Other Non Specific Grant	2,092
	Capital Grants and Contributions	
24,038	DFT Asset Protection Grant	23,330
6,233	DfE Basic Need Grant	9,467
9,650	DfE Capital Maintenance Grant	7,165
0	DFT Additional Maintenance Grant 2013/2014	4,205
4,136	DFT Integrated Transport Grant	4,136
1,709	Heritage Lottery Fund	2,776
2,717	ERDF Grant	2,025
1,778	ASC Social Care Capital Grant	1,810
0	DfE Academies Grant	1,705
0	DFT Pinchpoint Funding 2013/2014	1,668
1,875	Devolved Formula Grant	1,455
108	S106 Agreements	992
1,138	CLG Fire Capital Grant	885
127	Local Sustainable Transport Fund	842
1,092	Other Capital Grants and Contributions	592
181	Environment Agency Flood Grant	334
0	Public Health Grant - Drugs & Alcohol Recovery	280
0	Loan to Third Party Payment	253
0	Commuted Sum drawdown (Structures)	250
302	Arts Council	234
378	DfE Secure Unit Grant	10
260	Sustrans Grant	9
887	2 Year Old Entitlement Grant	0
500	16-19 Demographic Growth Capital Grant	0
394	DfE Short Breaks for Disabled Children Grant	0
268,721	**Total**	**326,543**

Details of capital grants unapplied during the financial year and transferred to reserves can be found in the Movement on Reserves Statement and Note 27 Usable Reserves.

2012-13 £'000	b) Credited to Revenue Service Accounts in the Comprehensive Income and Expenditure Statement	2013-14 £'000
293,367	Dedicated Schools Grant	261,338
0	Public Health Grant	26,272
10,476	Other Revenue Grants	13,637
7,563	Pupil Premium	9,709
18,530	Final Business Case Approval Funding	8,952
10,199	YPLA (EFA) 16-19 Funding	5,781
0	DfT S31 road repair grant	3,312
603	Local Sustainable Transfort Fund (LSTF) - DfT	1,834
15	Local Welfare Provision	1,801
1,522	Skills Funding Agency	1,591
0	Dept for Media, Culture & Sport - Contribution to Broadband project	1,351
1,238	Fire Revenue Grant	1,292
0	PE and Sport Grant (EFA)	1,217
659	Young People Learning Agency 16-18 Learner Responsive Funding (YPLA)	522
2,935	SEN & Teacher's Pay Grant (EFA)	328
26,506	Early Intervention Grant Income	0
5,931	LD Health Reform Grant	0
379,544	**Total**	**338,937**

Details of Revenue Grants unutilised during the financial year and transferred to Earmarked Reserves are set out in Note 10.

In addition to these grants, contributions and donations, the Council has received grants, contributions and donations which have not been recognised as income as they have conditions attached to them that have not been met and monies or property may have to be returned to the giver. The balances at the year-end are as follows:

2012-13 £'000	c) Capital Grants and Contributions Receipts in Advance	2013-14 £'000
0	Secure Accommodation Capital Grant 2013-14	16
0	**Total**	**16**

2012-13 £'000	d) Revenue Grants and Contributions Receipts in Advance	2013-14 £'000
0	Public Health Grant	1,271
359	Adult Safeguarding Grant	548
83	Leaving Care Grant	98
46	Pupil Premium	87
0	UASC Home Office	71
0	Armed Forces Covenant	71
0	Residential Care Pilot	24
32	Other Revenue Receipts in Advance	22
20	Adult Social Care Efficiency Programme Grant	20
40	Grant for AHL Museums & Schools Programme	0
580	**Total**	**2,212**

2012-13 £'000	e) Donated Assets Receipts in Kind	2013-14 £'000
1,063	Fire - New Dimensions Assets Transfer	0
1,063	**Total**	**0**

Note 47. Related Parties.

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

a. Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework; within which the Council operates; provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills).

The Council receives revenue support grant from Central Government, this is credited to taxation and non-specific grant income line in the Comprehensive Income and Expenditure Statement. Specific revenue grants are included in the income figures within the net cost of services in the Comprehensive Income and Expenditure Statement. Further details of the grants received by the Council in 2013-14 are set out in Note 13 Taxation and Non Specific Grant Income and Note 46 Grant Income.

Capital grants of £64.439m have also been received by the Council in 2013-14, these are recorded in Note 13 Taxation and Non Specific Grant Income and Note 46 Grant Income.

b. Councillors and Senior Officers

Members of the Council have direct control over the Council's financial and operating policies. The total members' allowances paid in 2013-14 is shown in Note 38.

The Chief Executive and those reporting directly to him may also be able to influence Council policy. Therefore accounting standards require the Council to disclose certain 'related party transactions' between County Councillors, Chief Officers and the Council. This information comes from the statutory registers of interest (maintained for members) and declarations of pecuniary interests (for Officers). Details of all transactions are recorded in the Register of Members' Interest, which are available for public inspection at County Offices on Newland, Lincoln, during normal office hours, or also on-line from the Council's website. All Council members and Chief Officers have been written to, advising them of their obligations and asking for any declarations of related party transactions to be disclosed within the Statement of Accounts.

Two Councillors have not submitted the declaration of interest form this year. Relevant information relating to these Councillors have been used from other sources to compile the information below.

Each Councillor received a grant to the value of £0.002m to be spent within their constituency, these grants have not been included within the note.

During 2013-14 the following have been declared:

Councillors

- Thirty-three Councillors have disclosed that they or their immediate families have control or significant influence over a private organisation;

- Four Councillors or their immediate families have provided services to the Council to the value of £0.142m;

- Three Councillors are members of Parish or Town Councils which received grants to the value of £0.005m;

- Seven Councillors are members of voluntary organisations which received grants to the value of £0.390m;

- A number of Councillors are members of other organisations such as District/Parish Councils, school governors, other public bodies and charities who have provided services for, or received services from the Council;

- One Councillor is a Director of Investors in Lincoln Ltd;

- Two Councillors are on the Management Board of ESPO;

- One Councillor is the Chairman and on the Board of Urban Challenge;

- Two Councillors are on the Board of Lincolnshire Economic Action Partnership; and

- One Councillor is a Reserved Member of SPARSE, which is a grouping of the most rural local authorities in Lincolnshire.

Senior Officers

- Two Chief Officers have disclosed that they or their immediate families have control or significant influence over a private organisation;

- Two Chief Officers are on the Board of Lincolnshire Economic Action Partnership;

- One Chief Officer is a member of the Chief Officers Group of ESPO.

c. Other Public Bodies

The Council has entered into Pooled Budget arrangements with Lincolnshire Clinical Commissioning Groups for Learning Disabilities, Integrated Community Equipment, Substance Misuse, and Child & Adolescent Mental Health Service.

The Council is the administrator of the Lincolnshire Pension Fund and has control of the fund within the overall statutory framework. During the financial year £1.076m was recharged from the Council to the pension fund for scheme administration and management. The pension fund earned a total interest of £0.029m on deposits managed within the Council's own cash, which the Council paid over to the pension fund.

d. Entities Controlled or Significantly Influenced by the Council

The Council does not aggregate any subsidiaries, associated companies or joint ventures and therefore is not required to prepare group accounts. However, the Council has disclosed under the group account note our interest in Eastern Shires Purchasing Organisation (ESPO) in Note 57 Group Relationships and Other Interests.

Note 48. Capital Expenditure and Capital Financing.

The table below shows the financing of the £144.284m capital expenditure (including revenue expenditure financed from capital under statute and finance leases), together with the resources that have been used to finance it. The explanation of movement in year shows the change in the underlying need to borrow to finance capital expenditure.

Further information on the 2013-14 expenditure is provided in the Explanatory Foreword, with details of the asset acquired.

2012-13 £'000		**2013-14 £'000**
492,754	**Opening Capital Financing Requirement**	**547,386**
	Capital Investment:	
147,198	Property, Plant and Equipment	105,416
130	Investment Property	421
1,075	Intangible Assets	454
0	Loans and Advances Treated as Capital Expenditure	3,216
27,513	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	34,778
	Sources of Finance:	
(6,049)	Capital Receipts	(3,237)
(46,185)	Government Grants and Contributions	(72,204)
(22,113)	Government Grants and Contributions funding REFCUS	(12,802)
	Sums set aside from Revenue:	
(17,255)	Direct Revenue Contributions	(9,677)
(29,682)	Minimum Revenue Provision/Loans fund principal	(25,925)
547,386	**Closing Capital Financing Requirement**	**567,826**
54,632	**Movement in Year:**	**20,440**
	Explanation of movement in year:	
0	Increase in underlying need to borrow (supported by government financial assistance)	0
54,170	Increase in underlying need to borrow (unsupported by government financial assistance)	20,241
462	Assets acquired under finance leases	199
0	Assets acquired under PFI/PPP contracts	0
54,632	**Increase/(Decrease) in Capital Financing Requirement**	**20,440**

Note 49 Leases.

a. Lincolnshire County Council as Lessee

i) Finance Leases

The Council has acquired the following assets under finance leases:

Land and Buildings:

County Farms - the Council hold a small number of holdings under lease which are then sub-let as part of the County Farms estate.

Other Land and Buildings – the Council has a small number of leases which it has classified as finance leases.

Vehicles, Plant, Furniture and Equipment - finance lease payments of £0.704m (£0.973m in 2012-13) were made during the year. £0.122m was charged to the Comprehensive Income and Expenditure Statement as interest payable and £0.583m written down to deferred liabilities.

The following amounts are included within tangible fixed assets Note 14 for the Property, Plant and Equipment held under finance leases:

	Land and Buildings £'000	Vehicles, Plant & Equipment £'000
Valuation at 01 April 2013	15,404	887
Additions	63	58
Revaluations	767	0
Depreciation	(374)	(533)
Disposals	(14)	0
Derecognition	0	0
Reclassifications	155	0
Net Book Value at 31 March 2014	**16,001**	**412**
Valuation at 01 April 2012	16,369	5,339
Additions	96	463
Revaluations	(127)	0
Depreciation	(372)	(4,915)
Disposals	(15)	0
Derecognition	(2)	0
Reclassifications	(545)	0
Net Book value as at 31 March 2013	**15,404**	**887**

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 by the Council and finance costs that will be payable by the Council in future years

Land and Buildings:	2012-13 Minimum Lease Payments £'000	2012-13 Finance Lease Liabilities £'000	2013-14 Minimum Lease Payments £'000	2013-14 Finance Lease Liabilities £'000
Not later than one year	6	13	6	13
Between one year and not later than five years	26	51	26	51
Later than five years	213	353	212	341
Total Committed Liabilities as at 31 March	**245**	**417**	**244**	**405**

Vehicles, Plant & Equipment:	2012-13 Minimum Lease Payments £'000	2012-13 Finance Lease Liabilities £'000	2013-14 Minimum Lease Payments £'000	2013-14 Finance Lease Liabilities £'000
Not later than one year	367	98	167	45
Between one year and not later than five years	334	99	149	62
Later than five years	0	0	0	0
Total Committed Liabilities as at 31 March	**701**	**197**	**316**	**107**

The Council sub-lets County Farm holdings held under finance leases. At 31 March 2014 the minimum payments expected to be received under non-cancellable sub-leases was £0.318m.

ii) Operating Leases

The Council has acquired the following assets under operating leases:

Land and Buildings - the Council leases various properties for use in delivering services. The rentals paid during 2013-14 amounted to £1.638m (£1.928m in 2012-13). This includes £1.122m for central office accommodation which is managed by Mouchel and charged to the Council as part of a monthly service charge.

Vehicles, Plant, Furniture and Equipment - the Council makes operating lease payments for equipment, contract car hire vehicles and fleet hire. The amount paid under these arrangements was £3.016m in 2013-14 (£1.993m in 2012-13).

As at 31 March 2014, the Council is committed to making payments of £18.98m under operating leases, comprising the following elements:

	2012-13 £'000	2013-14 £'000
Not later than one year	3,415	3,911
Between one year and not later than five years	7,412	7,422
Later than five years	7,406	7,647
Total Committed Liabilities as at 31 March	**18,233**	**18,980**

b. Lincolnshire County Council as Lessor

i) Finance Leases

The Council has granted a small number of long-term leases for Adult Care properties, which are accounted for as finance leases. Buildings leased at academy sites are also treated as finance leases. There are no significant lease payments and no debtors

The Council does not acquire assets specifically for the purpose of letting under finance leases.

ii) Operating Leases

The Council acts as lessor (landlord), mainly for the County Farms estate and received income from tenants of £2.097m in 2013-14 (£1.941m in 2012-13). The Council also received rental income from other properties; where the value of the lease is material, the income amounted to £1.164m in 2013-14 (£1.049m in 2012-13).

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

	2012-13 £'000	2013-14 £'000
Not later than one year	566	701
Between one year and not later than five years	1,297	1,385
Later than five years	1,670	2,176
Total future minimum lease payments receivable as at 31 March	**3,533**	**4,262**

Note 50. Private Finance Initiatives (PFI) and Similar Contracts

Lincolnshire - Schools PFI Arrangement

a. Background

On 27 September 2001 the Council entered into a 31 year PFI contract with Focus Education (Lincolnshire), for the construction and provision of seven fully serviced school premises across the County. The school sites were completed and became operational, on a phased basis, as shown in the following table:

Buildings: Description	Occupied from
Sleaford St Botolph's County Primary	Sep 2002
Sleaford Church Lane Primary	Jan 2003
Claypole CE County Primary	Mar 2003
The Fortuna Primary, Lincoln	Sep 2003
The Sincil School, Lincoln	Mar 2006
The Phoenix School, Grantham	Sep 2003
The Lady Jane Franklin School, Spilsby	Sep 2003

The contractor is required to provide the school facilities to the specified standard (including school buildings and educational equipment). The school must operate within the policies of the Local Education Authority. The school facilities must be available and ready for use as a school during term time and the school day is specified as 8am to 7pm.

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards.

The Council is required to pay compensation to the contractor if the contract is terminated early to cover: the senior debt, any redundancy costs incurred by the provider, and any future profit elements set out in the contractor's financial model.

The contract ends in 2032, at which time the school premises will transfer to the ownership of the Council at no further cost. The contract specifies the physical condition in which the premises must be transferred.

b. Property, Plant and Equipment Held Under the PFI Contract

The table below shows the fixed assets held by the Council, and the movement in their values during 2013-14. These assets are included in the fixed assets shown in Note 14 Property, Plant and Equipment.

	Land & Buildings £'000	Furniture & Equipment £'000
Valuation at 01 April 2013	24,387	91
Additions	48	37
Revaluations	4	0
Depreciation	(418)	(57)
Disposals	0	0
Reclassifications	0	0
De-recognition	0	0
Net Book Value at 31 March 2014	**24,021**	**71**

	Land & Buildings £'000	Furniture & Equipment £'000
Valuation at 1 April 2012	30,578	157
Additions	16	48
Revaluations	(1,651)	0
Depreciation	(462)	(73)
Disposals	(4,094)	(41)
Reclassifications	0	0
De-recognition	0	0
Net Book Value at 31 March 2013	**24,387**	**91**

c. Liabilities Outstanding under the PFI Contract – Finance Lease Element

The following table shows the outstanding liability on the PFI Finance Lease, and the movement during 2013-14:

	PFI Lease Liability 2012-13 £'000	PFI Lease Liability 2013-14 £'000
Liability as at 1 April	14,505	13,939
Principal Repayments	(567)	(694)
Liability as at 31 March	**13,938**	**13,245**

d. PFI Contract Liabilities

The following table shows a breakdown of the estimated contract costs over the remaining life of the PFI contract, split into the different elements of the total cost.

	Principal Lease Repayments £'000	Financing Costs (Interest) £'000	Service Charges £'000	Total Estimated Payments £'000
Payable in 2014-15	759	929	1,662	**3,350**
Payable between 2015-16 and 2018-19	2,460	3,268	7,626	**13,354**
Payable between 2019-20 and 2023-24	4,027	2,906	10,690	**17,623**
Payable between 2024-25 and 2028-29	4,363	1,476	11,473	**17,312**
Payable between 2029-30 and 2033-34	1,636	161	6,191	**7,988**
Total Committed Liabilities as at 31 March 2014	**13,245**	**8,740**	**37,642**	**59,627**

e. Conversion to Academy Status

On 1st March 2013, the Phoenix School in Grantham converted to Academy status. A lease has been agreed between the Council and the Academy to reflect the effects of conversion. This lease is accounted for in accordance with the Authority's Accounting Policies on Leases and Accounting for Schools.

The figures shown for 2013-14 in Sections c and d above, include £2.1m of principal lease liability and £1.5m of interest liability that relate to the Phoenix School.

Note 51. Impairment Losses.

The Council has not recognised any material impairments in the 2013-14 accounts.

Note 52. Capitalisation of Borrowing Costs.

The Council does not capitalise any borrowing costs.

Note 53. Pension Schemes Accounted for as Defined Contribution Schemes.

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers’ Pension Scheme (TPS), administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement and the Council makes contributions towards the costs based on a percentage of members’ pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers’ contribution rate paid by Local Authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purpose of these Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013-14 the Council paid £12.968m to the administrators of the TPS in respect of employer’s pension contributions. The Council contribution rate to the teacher's pension fund is 14.1% in 2013-14. The Council is responsible for all pension payments relating to compensatory added years under the Council’s early retirement policy.

This includes payments for associated pension increases and mandatory compensation payments to fund the early release of benefits from the scheme. These unfunded benefits amounted to £3.788m in 2013-14 and have an ongoing liability to the Council.

National Health Service Pension Scheme (NHSPS)

Staff who transferred to the County Council from the Health Authority as part of Public Health have remained in the National Health Service Pension Scheme (NHSPS).

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Health uses a notional fund as the basis for calculating the employers’ contribution rate paid by Local Authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013-14 the Council paid £0.274m to the administrators of the NHSPS in respect of employer’s pension contributions. The Council contribution rate to the NHSPS pension fund is 14% in 2013-14.

Note 54. Defined Benefit Pensions Schemes.

Participation in Pension Schemes

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

The Council participates in two post employment schemes:

i. Local Government Pension Scheme (LGPS)

The Local Government Pension Scheme is a funded defined benefits final salary scheme. This means that the Council and employees pay contributions into the fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Council paid employer's contributions of £25.799m into the Lincolnshire Pension Fund in 2013-14, based on 18.9% of scheme employees' pensionable pay.

Under the Council's early retirement policy, additional contributions of £5.704m were made to the Pension Fund for the pre-funding of early retirements and unfunded benefits in respect of compensatory added years and associated pension increases amounted to £1.922m. Further information can be found on pages 122 to 152 and in the Council's Pension Fund Annual Report which is available on request.

The Lincolnshire County Council's pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of it's pension Committee. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the fund are appointed by the committee-See list in the Pension Fund statements on page 127.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from 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 the General Fund the amounts required by statute as described in the accounting policies note.

ii. Fire-fighters' (Uniformed) Pension Scheme (FPS)

In 2013-14 the Council paid employer's contributions of £4.34m to the Lincolnshire Fire and Rescue Pension Fund. There are currently two schemes: the 1992 scheme, where the contribution rate is 21.3% and a new scheme established in 2006, where the contribution rate is 11%. A further £0.926m was paid in respect of ill health retirements and £0.294m in respect of injury benefits. Further information on the Lincolnshire Fire and Rescue Pension fund can be found on pages 153 to 155.

Transactions Relating to Post Employment Benefits (IAS 19 Retirement Benefits accounting entries).

We recognise the cost of retirement benefits in the reported cost of services, when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The unfunded FPS employer's contributions have been defined by the actuary as benefits expenditure reduced by employee contributions. These are gross contributions and have been adjusted by the DCLG government grant. The following transactions have been made in the Comprehensive Income and Expenditure Statement and as movements to the General Fund.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

b. Pension Assets and Liabilities Recognised in the Balance Sheet, Service Costs & Other Comprehensive Income for the Local Government Pension Fund as at 31 March 2014

	Assets £'000	Obligations £'000	Net liability/asset £'000
Fair value of employer assets	843,495		843,495
Present value of funded liabilities		(1,216,901)	(1,216,901)
Present value of unfunded liabilities		(100,124)	(100,124)
Opening position as at 31 March 2013	**843,495**	**(1,317,025)**	**(473,530)**
Service cost			
Current service cost		(32,688)	(32,688)
Past service costs (including curtailments)		(236)	(236)
Effect of settlements	(1,898)	4,439	2,541
Total Service Costs	**(1,898)**	**(28,485)**	**(30,383)**
Net Interest			
Interest income on planned assets	37,742		37,742
interest cost on defined benefit obligation		(58,966)	(58,966)
Impact on asset ceiling			0
Total net Interest	**37,742**	**(58,966)**	**(21,224)**
Total defined benefit cost recognised in Profit or(Loss)	**35,844**	**(87,451)**	**(51,607)**
Cash flows			
Plan participants' contributions	8,521	(8,521)	0
Employer contributions	25,799		25,799
Contributions re unfunded benefits	5,704		5,704
Benefits paid	(39,454)	39,454	0
Unfunded benefits paid	(5,704)	5,704	0
Expected closing position	**874,205**	**(1,367,839)**	**(493,634)**
Remeasurements			
Changes in demographic assumptions		(25,050)	(25,050)
Changes in financial assumptions		411	411
Other experience		25,973	25,973
Return on assets excluding amounts included in net interest	(35,025)		(35,025)
Changes in asset ceiling			0
Total remeasurements recognised in Other Comprehensive Income(OCI)	**(35,025)**	**1,334**	**(33,691)**
Exchange differences			0
Effect of business combinations or disposals			0
Total Exchange and business combinations & disposals	0	0	0
Fair value of employer assets	839,180		839,180
Present value of funded liabilities		(1,265,591)	(1,265,591)
Present value of unfunded liabilities		(100,915)	(100,915)
Closing position as at 31 March 2014	**839,180**	**(1,366,506)**	**(527,326)**

This liability comprises of approximately £28.288m in respect of LPGS unfunded pensions and £72.627m in respect of Teachers unfunded pensions

Analysis of the present value of the defined obligation - Local Government Pension Scheme

	Liability Split	Duration
	%	
Members	37	25.4
Deferred Members	21	23.5
Pensioners	42	11.6
	100	**18.5**

c. Pension Assets and Liabilities Recognised in the Balance Sheet, Service Costs & Other Comprehensive Income for the Local Government Pension Fund as at 31 March 2013

	Assets £'000	Obligations £'000	Net liability/asset £'000
Fair value of employer assets	755,718		755,718
Present value of funded liabilities		(1,157,489)	(1,157,489)
Opening position as at 31 March 2012	**755,718**	**(1,157,489)**	**(401,771)**
Service cost			
Current service cost		(26,688)	(26,688)
Past service costs (including curtailments)		(1,055)	(1,055)
Effect of settlements	(11,334)	27,322	15,988
Total Service Costs	**(11,334)**	**(421)**	**(11,755)**
Net Interest			
Interest income on planned assets	36,067		36,067
interest cost on defined benefit obligation		(54,712)	(54,712)
Impact on asset ceiling			0
Total net Interest	**36,067**	**(54,712)**	**(18,645)**
Total defined benefit cost recognised in Profit or(Loss)	**24,733**	**(55,133)**	**(30,400)**
Cash flows			
Plan participants' contributions	8,737	(8,737)	0
Employer contributions	25,966		25,966
Contributions re unfunded benefits	5,668		5,668
Benefits paid	(36,042)	36,042	0
Unfunded benefits paid	(5,668)	5,668	0
Expected closing position	**779,112**	**(1,179,649)**	**(400,537)**
Remeasurements			
Changes in demographic assumptions			0
Changes in financial assumptions		(137,397)	(137,397)
Other experience		21	21
Return on assets excluding amounts included in net interest	64,383		64,383
Changes in asset ceiling			0
Total remeasurements recognised in Other Comprehensive Income(OCI)	**64,383**	**(137,376)**	**(72,993)**
Exchange differences			0
Effect of business combinations or disposals			0
Total Exchange and business combinations & disposals	0	0	0
Fair value of employer assets	843,495		843,495
Present value of funded liabilities		(1,216,901)	(1,216,901)
Present value of unfunded liabilities		(100,124)	(100,124)
Closing position as at 31 March 2014	**843,495**	**(1,317,025)**	**(473,530)**

d. Pension Assets and Liabilities Recognised in the Balance Sheet, P & L & OCI for the Fire Fighters Pension Fund as at 31 March 2014

	Assets £'000	Obligations £'000	Net liability/asset £'000
Fair value of employer assets	**0**		0
Present value of funded liabilities		(155,600)	(155,600)
Present value of unfunded liabilities		(12,600)	(12,600)
Opening position as at 31 March 2013	0	(168,200)	(168,200)
Service cost			
Current service cost		(5,000)	(5,000)
Past service costs (including curtailments)		0	0
Effect of settlements	0	0	0
Total Service Costs	**0**	**(5,000)**	**(5,000)**
Net Interest			
Interest income on planned assets	0		0
interest cost on defined benefit obligation		(7,600)	(7,600)
Impact on asset ceiling			0
Total net Interest	**0**	**(7,600)**	**(7,600)**
Total defined benefit cost recognised in Profit or(Loss)	**0**	**(12,600)**	**(12,600)**
Cash flows			
Plan participants' contributions	1,100	(1,100)	0
Employer contributions	4,000		4,000
Transfers to/from other authorities	100	(100)	0
Contributions in respect of injury benefits	300		300
Benefits paid	(5,200)	5,200	0
Injury award expenditure	(300)	300	0
Expected closing position	**0**	**(176,500)**	**(176,500)**
Remeasurements			
Changes in demographic assumptions		(4,100)	(4,100)
Changes in financial assumptions		(7,500)	(7,500)
Other experience		100	100
Return on assets excluding amounts included in net interest			0
Changes in asset ceiling			0
Total remeasurements recognised in Other Comprehensive Income(OCI)	**0**	**(11,500)**	**(11,500)**
Exchange differences			0
Effect of business combinations or disposals			0
Total Exchange and business combinations & disposals	**0**	**0**	**0**
Fair value of employer assets	0		0
Present value of funded liabilities		(173,700)	(173,700)
Present value of unfunded liabilities		(14,300)	(14,300)
Closing position as at 31 March 2014	**0**	**(188,000)**	**(188,000)**

The current service cost shown in the table above includes the cost for both the non-injury benefits and injury benefits. This is split £4.495m for the non-injury benefits and £0.559 for the injury benefits.

The interest cost shown in the table above includes the cost for both the non-injury benefits and injury benefits. This is split £7.009m for the non-injury benefits and £0.559m for the injury benefits.

Analysis of the present value of the defined obligation - Fire Fighters Scheme

	Liability Split		**Duration**
	£000	**%**	**Years**
Members	91,200	52.5	26.2
Deferred Members	3,000	1.7	27
Pensioners	79,500	45.8	12.2
	173,700	**100**	**19.8**

	Liability Split		**Duration**
	£000	**%**	**Years**
Contingent injuries	9,100	63.6	26.2
Injury pension liabilities	5,200	36.4	12.7
	14,300	**100**	**21.3**

e. Pension Assets and Liabilities Recognised in the Balance Sheet, P & L & OCI for the Fire Fighters Pension Fund as at 31 March 2013

	Assets £'000	**Obligations £'000**	**Net liability/asset £'000**
Fair value of employer assets	**0**		**0**
Present value of funded liabilities		133,300	**(133,300)**
Present value of unfunded liabilities		10,300	**(10,300)**
Opening position as at 31 March 2013	0	143,600	(143,600)
Service cost			
Current service cost		4,000	**(4,000)**
Past service costs (including curtailments)		0	**0**
Effect of settlements	0	0	**0**
Total Service Costs	0	4,000	(4,000)
Net Interest			
Interest income on planned assets	0		**0**
interest cost on defined benefit obligation		6,800	**(6,800)**
Impact on asset ceiling			**0**
Total net Interest	0	6,800	(6,800)
Total defined benefit cost recognised in Profit or(Loss)	0	10,800	(10,800)
Cash flows			
Plan participants' contributions	1,000	1,000	**0**
Employer contributions	4,200		**4,200**
Transfers to/from other authorities	0	0	**0**
Contributions in respect of injury benefits	200		**200**
Benefits paid	(5,200)	(5,200)	**0**
Injury award expenditure	(200)	(200)	**0**
Expected closing position	0	150,000	**(150,000)**
Remeasurements			
Changes in demographic assumptions		0	**0**
Changes in financial assumptions		18,100	**(18,100)**
Other experience		100	**(100)**
Return on assets excluding amounts included in net interest			**0**
Changes in asset ceiling			**0**
Total remeasurements recognised in Other Comprehensive Income(OCI)	0	18,200	**(18,200)**
Exchange differences			**0**
Effect of business combinations or disposals			**0**
Total Exchange and business combinations & disposals	0	0	0
Fair value of employer assets	0		**0**
Present value of funded liabilities		155,600	**(155,600)**
Present value of unfunded liabilities		12,600	**(12,600)**
Closing position as at 31 March 2014	0	168,200	**(168,200)**

	Liability Split		Duration
	£000	**%**	**Years**
Members	76,100	48.9	26
Deferred Members	2,600	1.7	26.9
Pensioners	76,900	49.4	12.2
	155,600	100	19.2

	Liability Split		Duration
	£000	**%**	**Years**
Contingent injuries	7,600	60.3	26
Injury pension liabilities	5,000	39.7	12.7
	12,600	100	20.7

f. Pension Fund Assets Comprise

The Local Government Pension schemes comprise the following assets:

Asset Class	2012-13 £'000	2012-13 %	2013-14 £'000	2013-14 %
	Fair value of scheme assets		**Fair value of scheme assets**	
Equities (b)				
-Consumer	157,200	18.6%	154,396	18.4%
-Manufacturing	34,838	4.1%	28,352	3.4%
-Energy & Utilities	68,579	8.0%	61,626	7.2%
-Financial	90,464	10.7%	99,153	11.8%
-Health & Care	0	0.0%	0	0.0%
-Information Technology	30,234	3.6%	22,926	2.7%
-Other	95,767	11.4%	106,569	12.7%
Total Equities	**477,082**	**56.5%**	**473,022**	**56.2%**
Bonds				
-Corporate (Investment)	27,258	3.2%	26,160	3.1%
-Corporate (Non-Investment Grade)	0	0.0%	0	0.0%
-Government (Fixed)	16,714	2.0%	15,425	1.8%
-Other	10,998	1.3%	10,015	1.2%
Total Bonds	**54,970**	**6.5%**	**51,600**	**6.1%**
Total Private Equity	**55,943**	**6.6%**	**45,980**	**5.5%**
Property				
-UK	72,178	8.7%	78,889	9.4%
-Global	15,635	1.9%	12,704	1.5%
Total Property	**87,813**	**10.5%**	**91,593**	**10.9%**
Investment Funds & Unit Trusts				
- Equities	41,912	5.0%	39,194	4.8%
- Bonds	49,796	5.9%	52,916	6.3%
-Other	66,434	7.9%	71,926	8.6%
Total Investment Funds	**158,142**	**18.8%**	**164,036**	**19.7%**
Cash and Cash Equivalents	**9,544**	**1.1%**	**12,950**	**1.6%**
Total Derivatives	**0**	**0.0%**	**0**	**0.0%**
Total Assets	**843,494**	**100.0%**	**839,182**	**100.0%**

All scheme assets have quoted prices in active markets.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

The estimated return on scheme assets in the year was 6.4% (2013-14).

g. 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. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hyman Robertson, an independent firm of actuaries, estimates for the Council Fund being based on the latest full valuation of the scheme as at 1 April 2014.

The principal assumptions used by the actuary have been:	2012-13 Local Government Pension Scheme %	2012-13 Fire-fighters' Pension Scheme %	2013-14 Local Government Pension Scheme %	2013-14 Fire-fighters' Pension Scheme %
Price Increases	3.6	3.6	3.6	3.6
Salary Increases (*1)	5.1	3.8	4.1	3.8
Pension Increases (CPI)	2.8	2.8	2.8	2.8
Discount Rate	4.5	4.5	4.3	4.3
Equity investments	4.5	N/A	4.3	N/A
Bonds	4.5	N/A	4.3	N/A
Other	4.5	N/A	4.3	N/A
Take up of option to convert annual pension to lump sum prior to 1 April 2008	25	N/A	25	N/A
Take up of option to convert annual pension to lump sum post 1 April 2008	63	N/A	63	N/A

(*1) Salary increases are 1% p. a. nominal for the year to 31 March 2015 reverting to the long term assumption thereafter.

The table below shows the life expectancy of future and current pensioners and is based on the PFA92 and PMA92 tables; this is projected to the calendar year 2033 for non pensioners and 2017 for pensioners. Life expectancy is based on pensioners of 65 in the LGPS and 60 in the Fire-fighters' scheme.

	Local Government Pension Scheme Male	Local Government Pension Scheme Female	Fire-fighters' Pension Scheme Male	Fire-fighters' Pension Scheme Female
Current Pensioners	22.2	24.4	29.3	31.5
Future Pensioners	24.5	26.8	30.9	33
The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the above tables.	**46.7**	**51.2**	**60.2**	**64.5**

h. Sensitivity Analysis

The sensitivity analyses below have been determined based on reasonable 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 the 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 estimation in the sensitivity analysis have followed the accounting policies of the scheme, i.e. on a 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 a previous period.

Change in assumptions in year ended 31 March 2013	Local Government Pension Scheme		Fire Fighters' Pension Scheme	
	Approximate % Change to Employer Liability	Approximate monetary Amount £000	Approximate % Change to Employer Liability	Approximate monetary Amount £000
0.5% decrease in Real Discount rate	9.0%	126,784	10.0%	19,000
1 year increase in member life expectancy	3.0%	40,995	3.0%	5,600
0.5% increase in the Salary Increase Rate	3.0%	34,837	2.0%	3,900
0.5% increase in the Pension Increase Rate	7.0%	90,660	8.0%	15,500

The Fire Fighters' pension arrangements have no assets to cover its liabilities.

Asset and Liability Matching (ALM) Strategy

The County Council's pension committee has agreed to an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The fund has matched assets to the pensions' obligations by investing long-term fixed interest securities and indexed linked gilt edged investment with maturities that match the benefits payments as they fall due. This is balanced with a need to maintain the liquidity of the fund to ensure that it is able to make current payments. As is required by the pensions and investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce risk of being invested in too narrow a range. A large proportion of the assets relate to equities (60% of scheme assets) and bonds (13%) These percentages are materially the same as last year. The scheme also invests in properties as a part of the diversification of the scheme's investments.

The ALM strategy is monitored annually or more frequently if necessary.

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant 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 implemented on 31 March 2017. The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing 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 scheme to pay pensions and other benefits.

i. Projected defined benefit cost for the period to 31 March 2015

Local Government Pension Scheme

	Assets £000	Obligations £000	Net (liability)/asset £000	% of pay
Projected Current Service Cost		(32,707)	(32,707)	-24.0%
Past service cost including curtailments			0	
Effect of settlements			0	
Total Service Cost	0	(32,707)	(32,707)	-24.0%
Interest income on plan assets	35,971		35,971	26.4%
Interest cost on defined benefit obligation		(58,643)	(58,643)	-43.1%
Total Net Interest Cost	35,971	(58,643)	(22,672)	-16.7%
Total included in Income and Expenditure	**35,971**	**(91,350)**	**(55,379)**	**-40.7%**

Fire Fighters Pension Scheme

	Assets £000	Obligations £000	Net (liability)/asset £000	% of pay
Projected Current Service Cost		(5,800)	(5,800)	-57.3%
Past service cost including curtailments			0	
Effect of settlements			0	
Total Service Cost	0	(5,800)	(5,800)	-57.3%
Interest income on plan assets			0	
Interest cost on defined benefit obligation		(8,100)	(8,100)	-80.0%
Total Net Interest Cost	0	(8,100)	(8,100)	-80.0%
Total included in Income and Expenditure	**0**	**(13,900)**	**(13,900)**	**-137.3%**

The Council expects to pay £27,003m in contributions to the LGPS and £4,960m to the Fire Fighters' scheme in 2014-15.

The weighted average duration of the defined benefit obligation for scheme members is 18.5 years in 2013-14.

j. Prior period adjustment - changes to IAS 19 retirement benefits

IAS 19 the financial reporting standard for retirement benefits has changed for accounting periods starting on or after 1 January 2013. The key change affecting Local Government relates to the expected return on assets for the Local Government Pension Scheme. Advance credit for anticipated outperformance of return seeking assets (such as equities) will no longer be permitted. The expected return on assets is currently credited to the Comprehensive Income and Expenditure Statement , however, from 2013 this is effectively replaced with an equivalent figure calculated using the discount rate (as opposed to that calculated using the expected return on assets assumption).

In accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the adoption of the revisions to IAS 19 constitutes a changes in Accounting Policy which requires the Council to adopt these changes retrospectively for the year 2012-13.

The effect of this change has been calculated by the actuary and has increased the interest on plan asset by £6.627m in the Comprehensive Income and Expenditure Statement. A corresponding adjustment has resulted in an reduction in the unrealised loss on Pension Liabilities in Other Comprehensive Income and Expenditure. There has been no overall impact on the Council's Pension Liability in the balance sheet.

This change has been reflected in the 2012-13 comparative figures in the Comprehensive Income and Expenditure Statement and supporting notes through the Financial Statements.

This prior period adjustment relates solely to the Local Government Pension Scheme, there is no impact on the Fire-fighters' Pension as this scheme is unfunded.

Note 55. Contingent Liabilities.

At 31 March 2014 the Council has the following material contingent liabilities:

a. Insurance

The Council obtained public and employer's liability insurance cover from the Independent Insurance Company between 1995 and 1998. The company went into liquidation to the extent that it will not be able to meet any current or future liabilities, meaning the Council is effectively not insured for this period. It is expected that only the liabilities for employers liability remain, as we would have expected all public liability claims for this period to have been submitted. The position is independently reviewed bi-annually by the insurance reserve actuary to ensure that reserves are sufficient to cover the total liability.

Municipal Mutual Insurance Limited (MMI), the Council's former insurer, ceased writing insurance business in September 1992 and entered a Scheme of Arrangement for an expectation of a solvent run off. This has not occurred and a Scheme of Arrangement has been invoked. The Council paid MMI 15% of the total amount of claims paid on behalf of the County Council, however, a contingency liability still exists due to potential future claims depending upon the future solvency requirements of MMI.

From 1st April 2013 there are no longer insurance provisions in place for conditions caused by the exposure to asbestos or the Legionella Bacterium, for staff or the public. However, the Council has stringent policies and procedures in place to minimise the exposure to either of these risks.

b. Expansion of Eastern Shires Purchasing Organisation (ESPO)

Lincolnshire County Council is one of seven Authorities that comprise the purchasing consortium known as ESPO. The consortium has no separate legal identity and Leicestershire County Council, as the servicing Authority for ESPO, takes on this role in terms of all ESPO's contractual obligations.

ESPO relocated to a new custom built store in Leicester on February 2006. The new store has been financed by a £12.6m PWLB loan taken out by Leicestershire County Council on behalf of the ESPO consortium. Leicestershire has obtained an indemnity from all six other consortium member Authorities to meet the conditions of the loan should ESPO ever fail to make payments. The potential maximum liability is £2.000m.

A financial provision has not been raised in the accounts to cover any future payments under these indemnities as the risk is considered minimal.

c. Lincoln Southern Bypass Blight Payments

The preferred route for the Lincoln Southern bypass was adopted during 2007-08. It is at this time of adoption that legal blight will apply on any land or property sited on this route. In addition, other nearby properties may not trigger blight but may be accepted for purchase under the Council's discretionary powers held under Section 246(2) of the Highways Act 1980.

However, it is unlikely that the road will be constructed within the near future. Potentially, other owners of land and property affected by the road can claim blight at any stage between now and construction. If these claims are upheld then the Council will have to purchase the properties or land in advance of construction. This could, excluding any discretionary purchases, amount to approximately £1.000m.

d. Extra Contractual Referrals

In Lincolnshire, there are a small number of people with Learning Disabilities who were placed in Health accommodation by other Health Authorities. Due to these establishments closing in recent years, Service Users have been moved into places within the community or in some cases their prior accommodation has become their community provision. A part of the pooled arrangements with Lincolnshire Health, we have hitherto paid for the care of these individuals and invoiced the other Local Authorities with the cost.

There are now a number of Authorities who are challenging this process on the basis that those Service Users are now deemed as an ordinary resident of the County and as such, funding responsibility lies with the Council. With on-going involvement with the Department of Health and Legal Services

Any liability is likely to be in the range of nil to £0.750m.

e. Ordinary Residency

In recent years there has been an increase in incidents of Local Authorities exercising "Ordinary Residents Rights" in relation to people who have received services in Lincolnshire and as a result, have resided within the County over a number of years but whose normal residency is outside of the County.

These Local Authorities have become active in claiming that the liability for ongoing support costs lies with the Council and in some cases retrospective charges have been levied.

Where cases have been quantified and verified, these have been included within the Accounts. However where discussions are on-going it is difficult to establish an accurate cost until an agreement is reached.

There are a range of financial outcomes depending on the eventual conclusion of discussions between Lincolnshire and the Authorities in question. Any liability is likely to be in the range of nil to £0.250m.

f. Service User Contributions

The Council are currently investigating the possibility that a small number of Service Users have been assessed for charges towards the cost of their care on an incorrect basis. This may have resulted in Service Users historically paying more towards their service than would otherwise be required. Work is on-going to confirm whether the charges that have been made are appropriate and if not, what the potential liability is to the Council.

Early analysis of the impact of a move to Fairer Charging from the CRAG residential charging model on a sample of 12 Service Users indicates a worse case of an average weekly overcharge of £120 per person; a worse case annual figure of approximately £275,000 for the 44 service users, amounting to a possible overcharge by the Council of £1.925m over seven years.

g. Land and Compensation Claims

Claims for land compensation can be submitted a year after the road opening with part one claims up to seven years. Those received to date are for a significantly higher value than anticipated. The Highways and Transportation service has also received a challenge over the valuation used for land taken by the scheme which is being dealt with through the Lands Tribunal.

There has been some settlement agreed during the 2013-14 financial year and this has reduced any potential contingent liability to £1.300m

h. Environmental Information Regulations 2004 - Property Search Claims

A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charge data. Proceedings have not yet been issued. The Council has been informed that the value of those claims at present is £1.450m plus interest and costs. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been initiated at present.

Note 56. Contingent Assets.

At 31 March 2014 the Council has the following material contingent assets:

a. Compound Interest Claim (VAT)

Between June 2008 and August 2010 Lincolnshire County Council received statutory interest from HMRC in respect of claims for VAT over declared on library charges, cultural services admission charges and take-away food. In all cases, in line with HMRC policy, the amounts were calculated on a simple interest basis.

The Council, in common with a number of local authorities and other tax payers, has a claim lodged in the High Court for compound interest which is currently stood behind the lead case. The High Court has ruled in favour of the taxpayer in the lead case, however the Council has been advised that , as a first instance decision, it is not yet precedent and is not, therefore, binding on cases stood behind.

The value of the contingent asset is £0.277m and has been calculated based on HMRC Statutory Interest rates and adjusted for interest already received.

HMRC have confirmed that they have lodged an appeal to the Court of Appeal which is likely to be heard early to mid 2015.

Note 57. Group Relationships and Other Interests.

Local Authorities may decide for a variety of legal, regulatory and other reasons to conduct their activities with other organisations. For this reason, the Financial Statements of Lincolnshire County Council alone may not give a full picture of the economic activity and financial position.

On an annual basis, the Council is required to consider all activities which it has undertaken with other bodies to assess whether these should be included within the Council's Financial Statements. This exercise has been completed for the Council for 2013-14 and no group relationships have been identified to be consolidated into the County Council's Statement of Accounts. However, in the interests of transparency and accountability, the Council has chosen to disclose its interest in the purchasing consortia Eastern Shires Purchasing Organisation (ESPO).

Interests in Joint Ventures - Eastern Shires Purchasing Organisation - (ESPO)

ESPO is a purchasing consortium established in 1988 for the purchase of goods and supplies and the provision of agreed services to their mutual benefit in accordance with Section 1 of the Local Authorities (Goods and Services) Act 1970. ESPO is constituted as a Joint Committee and Lincolnshire County Council is one of seven constituted members.

ESPO's accounting year end is 31 March and the latest (unaudited) accounts are for the year ended 31 March 2014, these showed net assets of £10.839m in 2013-14 (£9.546m in 2012-13) and a surplus of £1.208m in 2013-14 (a surplus of £1.046m in 2012-13).

Under the terms of the ESPO agreement, if the operations of ESPO were discontinued then the distribution of surplus or deficits will be divided amongst the Member Authorities in direct proportion to the use made of ESPO facilities. Under these arrangements the County Council would be entitled to approximately 15.30% of ESPO's assets and liabilities.

In 2005-06 a PWLB loan was taken out by Leicestershire County Council acting on behalf of ESPO, the six other consortium member Authorities, including the County Council, have provided an indemnity to meet the conditions of this loan should ESPO ever fail to make payments. A contingent liability has been declared within the Financial Statement for this.

A copy of ESPO's Statement of Accounts and Annual Report is available from: ESPO, Barnsdale Way, Grove Park, Enderby, Leicester. LE19 1ES. Telephone 0116 265 7878.

Note 58. Trust Funds

The Council acts as sole administrator for 49 trust funds related to specific services, principally Education and Social Care. Funds are invested either in external marketable securities or held on deposit. They are not included in the Balance Sheet.

The principal trusts are as follows:

	Balance at 31 March 2013 £'000	Income £'000	Expenditure £'000	Balance at 31 March 2014 £'000
Education Trusts	(244)	(14)	15	(243)
Children's Social Care Trusts	(21)	0	0	(21)
Adult Social Care Trusts	(424)	(3)	2	(425)
Other Trusts	(104)	0	10	(94)
Total	**(793)**	**(17)**	**27**	**(783)**

The Education funds relate principally to legacies left by individuals over a period of years in order to provide annual prizes at specified schools or colleges.

The Social Care funds represent monies held in trust either for children in care until such time as they are required or funds for the benefit of the elderly in Council homes.

LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNT & NET ASSETS STATEMENT FOR THE YEAR ENDED 31st MARCH 2014

	See Note	2012/13 £000	2013/14 £000
Contributions and Benefits			
Contributions Receivable	8	74,559	76,984
Transfers in	9	5,674	6,732
		80,233	**83,716**
Benefits Payable	10	73,235	74,244
Leavers	11	6,900	3,922
Administrative expenses	12	1,167	1,188
		81,302	**79,354**
Net additions from dealings with fund members		**(1,069)**	**4,362**
Returns on Investments			
`Investment Income	13	25,002	27,815
Profit (Loss) on Forward Deals & Currency Deals	17	(1,426)	3,085
Change in Market Value of Investments	15	141,590	64,495
Investment management expenses	12	(5,092)	(3,380)
Net returns on investments		**160,074**	**92,015**
Net increase in the Fund during the year		159,005	96,377
Opening net assets of the Fund		1,336,040	1,495,045
Closing net assets of the Fund		**1,495,045**	**1,591,422**
Net Assets statement as at 31st March 2014			
Investments	15		
Equities		842,804	880,027
Pooled Investments:			
Property		155,117	174,701
Private Equity		95,595	83,313
Fixed Interest		155,540	168,971
Index Linked Bonds		29,525	29,623
Equities		74,037	74,715
Alternatives		113,613	125,936
Cash Deposits		14,696	38,836
Other Investment Balances	18	5,242	4,365
		1,486,169	**1,580,487**
Current Assets and Liabilities			
Cash Balances		3,954	4,630
Debtors	19	7,035	6,974
Long Term Debtors	19	2,558	2,131
Creditors	19	(4,671)	(2,800)
		8,876	**10,935**
		1,495,045	**1,591,422**

Notes to the Pension Fund Account

1 Pension Fund Account

The Lincolnshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme and is administered by Lincolnshire County Council.

The following information is a summary only, and further detail can be found in the Lincolnshire County Council Pension Fund Annual Report 2013/14 (available on the Fund's website at www.lincolnshire.gov.uk/pensions), and in the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme Regulations.

General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme to provide pensions and other benefits for pensionable employees of Lincolnshire County Council, the district councils in Lincolnshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee.

Membership

Membership of the LGPS is automatic for eligible employees, but they are able to opt out of the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include charitable organisations and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 185 employer organisations in the Fund including the County Council (a list of scheduled employers is shown at note 28) and the membership numbers are shown below:

	31 Mar 2013	31 Mar 2014
Number of employers with active members	171	185
Number of employees in the scheme		
Lincolnshire County Council	9,949	10,734
Other employers	9,153	9,963
Total	19,102	20,697
Number of pensioners		
Lincolnshire County Council	9,684	10,121
Other employers	6,018	6,456
Total	15,702	16,577
Number of deferred pensioners		
Lincolnshire County Council	18,146	18,794
Other employers	7,653	8,452
Total	25,799	27,246

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2013, and employer contribution rates were set ranging from 15.1% to 28.7% of pensionable pay. In addition, a number of employers are paying deficit contributions as cash payments.

Benefits

Pensions benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1st April 2008	Service post 31st March 2008
Pension	Each year is worth 1/80 x final pensionable salary.	Each year is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3/80 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1st April 2011.

LGPS 2014

The new LGPS 2014 comes into effect from 1st April 2014. The table below shows the key benefit changes between the current scheme and the new scheme. Further details are shown on page 20.

	Service pre 1st April 2014	**Service post 31st March 2014**
Scheme	Final salary scheme, with pension based upon the salary at retirement.	CARE scheme (career average revalued earnings) where each year builds up a pension pot that is revalued in line with inflation.
Pension	Each year is worth 1/60 x final pensionable salary.	Each year is worth 1/49 x salary earned in that year, revalued in line with inflation.
50/50 Option	Not available	Option for employees to pay half the contributions to accrue half of the pension.

2 Basis of Preparation

Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13, based on International Financial Reporting Standards (the Code), and relevant statute, and the 2007 Statement of Recommended Practice (Financial Reports of Pension Schemes). The Code includes guidance on how to apply International Financial Reporting Standards (IFRS's) and International Accounting Standards (IAS's) to local authority accounts.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits due. The accounts do not take into account liabilities to pay pensions and other benefits after the period end. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined by these valuations.

The accounting policies set out below have been applied consistently to all periods presented within these financial statements.

3 Significant Accounting Policies

Fund account - revenue recognition

Contributions income
Contributions receivable are included in the accounts in the year to which they relate. Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the relevant regulations. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment Income

Dividends, interest, stock lending and other investment income have been accrued for in the accounts where amounts were known to be due at the end of the accounting period.

<u>Fund account - expense items</u>

Benefits payable

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administrative expenses

These are accrued appropriately to ensure charges are incurred within the relevant accounting period. The costs of the Pensions Administration team are charged to the Fund.

Investment expenses

These are accrued appropriately to ensure charges are incurred within the relevant accounting period.

Fees for the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase and decrease as the value of the investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee be performance related:

- Invesco Asset Management - Global Equities (ex UK)
- Schroder Investment Management - Global Equities
- Neptune Investment Management – Global Equities
- Threadneedle Asset Management – Global Equities
- Morgan Stanley Investment Management Ltd - Alternative Investments

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.

The cost of obtaining investment advice from external consultants is included in the investment management charges.

The costs of the Council's in-house fund management team are charged to the Pension Fund and a proportion of the Council's costs representing management time spent by officers on investment management are also charged to the Fund.

Net assets statement

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments have been determined as follows:

UK listed securities are stated at bid price.
Overseas listed securities are stated at bid price.
Unit Trusts are stated at bid price from the most recent official valuation.

Other investments are stated at fair value, as estimated by the manager of the particular investment. These valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

Transaction costs are included in the purchase and sale costs of investments and are identified in the notes to the accounts.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contracts are priced at fair value and open contracts are included within the other investment balances.

Cash and cash equivalents

Cash comprises cash in hand and deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31st March 2014 are shown in note 29.

Financial liabilities

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Prior Period Adjustments

The Code requires prior period adjustments to be made when material omissions or misstatements are identified (by amending opening balances and comparative amounts for the prior period). Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

The following disclosures will be made:
• the nature of the prior period error;
• for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and
• the amount of the correction at the beginning of the earliest prior period presented.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change. They do not give rise to a prior period adjustment.

Changes in Accounting Policies

Changes in accounting policy may arise through changes to the Code or changes instigated by the Council. For changes brought in through the Code, the Pension Fund will disclose the information required by the Code. For other changes we will disclose: the nature of the change; the reasons why; report the changes to the current period and each prior period presented and the amount of the adjustment relating to periods before those presented. If retrospective application is impracticable for a particular prior period, we will disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

4 Actuarial Valuation

An actuarial valuation of the Fund undertaken as at 31 March 2013 indicated that the Fund's assets were £1,495m and covered 71.5% of the Funds liabilities. This compared with assets of £1,204m at the valuation as at 31 March 2010, which covered 76% of the Fund's liabilities. The main actuarial assumptions for the 2013 valuation were as follows:

	Nominal per annum %	Real per annum %
Investment Return		
- Equities	4.6	2.1
- Bonds	3.0	
Rate of Pensionable pay inflation	3.8	1.3
Rate of Price inflation	2.5	

The Fund is valued using the projected unit method, which is consistent with the aim of achieving a 100% funding level. The changes in contribution rates resulting from the actuarial valuation as at 31 March 2013 will be effective from April 2014. The contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% over a period of up to 20 years. The next actuarial valuation will be undertaken as at 31 March 2016. A copy of the Fund Valuation report can be obtained from the Council's website.

5 Actuarial Present Value of Promised Retirement Benefits

Below is the note provided by the Fund's Actuary, Hymans Robertson, to provide the Actuarial present value of the promised retirement benefits, as required under the Code. The report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' referred to in the note can be obtained from the Pensions and Treasury Management section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for Lincolnshire Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	**31 Mar 2013** **£m**	**31 Mar 2014** **£m**
Present value of Promised retirement benefits	2,266	2,456

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2014. I estimate this liability at 31 March 2014 comprises £1,032m in respect of employee members, £459m in respect of deferred pensioners and £965m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £190m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	**1 Mar 2013 % p.a.**	**31 Mar 2014 % p.a.**
Inflation/Pension Increase rate	2.8	2.8
Salary Increase Rate*	5.1	4.1
Discount Rate	4.5	4.3

* Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter.

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2007. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.5 years	26.8 years

*Future pensioners are assumed to be aged 45 at the last formal valuation date.

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

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Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-2008 service.

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2014 for IAS19 purposes’ dated 15 April 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston

Anne Cranston AFA
14 May 2014
For and on behalf of Hymans Robertson LLP

6 Assumptions Made and Major Sources of Uncertainly

The accounts contain estimated figures that are based on assumptions made by the council, and other Professionals, 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 accounts for the year ended 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Actual present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. A firm of consulting actuaries are engaged to provide expert advice about the assumptions to be applied.	The effects of changes in the individual assumptions can be measured. For example: 1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £224m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £37m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £171m. 4) a one-year increase in assumed life expectancy would increase the liability by approximately £74m.
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Fund are £85.8m. There is a risk that these may be over or understated in the accounts.

7 Pension Fund Investments 2013/14

The strategic asset allocation for the investment of the Fund, as agreed by the Pensions Committee, is detailed below.

Asset allocation	
UK Equities	20.0%
Global Equities	40.0%
Property	11.5%
Fixed Interest	13.5%
Alternative Investments (incl. Private Equity)	15.0%
	100.0%

Surplus funds are invested in a wide variety of UK and overseas companies, Government Securities, property and other investments, in line with a Statement of Investment Principles. The assets are managed in a number of active and passive investment portfolios. Investment performance is monitored by the Pensions Committee of the County Council.

Fund manager	31-Mar 2013 £m	%	31-Mar 2014 £m	%
EXTERNALLY MANAGED				
Invesco	318	21	332	21
Neptune	72	5	79	5
Schroders	79	5	84	5
Threadneedle	81	5	87	6
Morgan Stanley (Global Brands)	74	5	75	5
Morgan Stanley (Alternatives)	117	8	139	9
Morgan Stanley (Private Equity)	99	7	87	6
Blackrock	97	7	98	6
Goodhart	88	6	101	6
INTERNALLY MANAGED				
Pooled Investments:				
Property	157	11	179	11
UK Equity	299	20	317	20

The Pension Fund Statement of Recommended Practice was amended with effect from 2008/09 to require that managers report valuations at closing prices (either bid or last traded), rather than mid prices that had previously been used. The managers within the Pension Fund have reported their year end valuations at either bid or fair value, as detailed in the table below.

Fund Manager	**Valuation Pricing**
EXTERNALLY MANAGED	
Invesco	Bid
Neptune	Bid
Schroders	Bid
Threadneedle	Bid
Morgan Stanley	Bid/Fair Value
Blackrock	Bid
Goodhart	Bid
INTERNALLY MANAGED	
Pooled Investments:	
Property	Bid/Fair Value
UK Equity	Bid

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JP Morgan. The total amount of stock on loan at the year-end was £28,676,625, and this value is included in the net assets statement to reflect the Funds continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year-end valued at £31,114,222, which represented 108.5% of the value of securities on loan.

Income received from stock lending activities, before costs, was £272,264 for the year ending 31 March 2014 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

8 Contributions Receivable

Contributions receivable are analysed below:

	2012/13 £000	**2013/14 £000**
Employers		
Normal	46,645	48,015
Deficit Funding	8,758	9,603
Additional - Augmentation	1,588	1,446
Members		
Normal	17,387	17,786
Additional years	181	134
	74,559	**76,984**

These contributions are analysed by type of Member Body as follows:

	2012/13 £000	2013/14 £000
Lincolnshire County Council	35,464	34,356
Scheduled Bodies	33,404	37,816
Admitted Bodies	5,691	4,812
	74,559	**76,984**

9 Transfers In

During the year individual transfers in from other schemes amounted to £6.7m (£5.7m in 2012/13).

There were no material outstanding transfers due to or from the Pension Fund as at 31st March 2014.

10 Benefits Payable

	2012/13 £000	2013/14 £000
Pensions	57,730	60,641
Commutations & Lump Sum Retirement Benefits	13,455	12,337
Lump Sum Death Benefits	2,050	1,266
	73,235	**74,244**

These benefits are analysed by type of Member Body as follows:

	2012/13 £000	2013/14 £000
Lincolnshire County Council	40,589	37,857
Scheduled Bodies	30,519	31,820
Admitted Bodies	2,127	4,567
	73,235	**74,244**

11 Payments to and on account leavers

	2012/13 £000	2013/14 £000
Individual transfers to other schemes	6,894	3,917
Refunds to members leaving service	6	5
	6,900	**3,922**

12 Administrative and Investment Management Expenses

The Local Government Pension Scheme Regulations permit costs incurred in connection with the management of the investments and benefit administration to be charged against the Fund. Breakdowns of these costs are set out below. The external Audit fee for the year was £24,350 and is included within the administrative expenses below.

	2012/13 £000	2013/14 £000
Benefit Administration Expenses	1,123	1,052
Actuarial & other Professional Charges	44	136
Administrative expenses	**1,167**	**1,188**
Investment, Management & Custody	4,921	3,245
Performance Measurement and other advisory charges	171	135
Investment Management expenses	**5,092**	**3,380**

13 Investment Income

	2012/13 £000	2013/14 £000
Equities	23,673	26,520
Pooled Investments		
Property	955	985
Private Equity	54	0
Alternatives	0	6
Cash deposits	47	30
Stock Lending	273	272
Class Actions	0	2
	25,002	**27,815**

14 Taxes on Income

	2012/13 £000	2013/14 £000
Withholding tax - Equities	1,188	1,060
	1,188	**1,060**

15 Investments

	Value at 31/03/2013 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2014 £000
Equities	842,804	288,543	299,287	47,967	880,027
Pooled Investments					
Property	155,117	13,292	5,459	11,751	174,701
Private Equity	95,595	3,193	15,266	(209)	83,313
Fixed Interest	155,540	11,624	0	1,807	168,971
Index Linked Bonds	29,525	1,377	0	(1,279)	29,623
Equities	74,037	0	0	678	74,715
Alternatives	113,613	41,812	33,269	3,780	125,936
	1,466,231	**359,841**	**353,281**	**64,495**	**1,537,286**
Cash Deposits	14,696				38,836
Other Investment Balances	5,242				4,365
Current Assets & Liabilities	8,876				10,935
	1,495,045	**359,841**	**353,281**	**64,495**	**1,591,422**

	Value at 31/03/2012 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2013 £000
Equities	779,938	247,249	285,247	100,864	842,804
Pooled Investments					
Property	152,538	10,274	6,623	(1,072)	155,117
Private Equity	90,949	6,566	12,972	11,052	95,595
Fixed Interest	143,166	4,922	2,923	10,375	155,540
Index Linked Bonds	26,895	0	0	2,630	29,525
Equities	0	67,500	0	6,537	74,037
Alternatives	96,798	28,091	22,480	11,204	113,613
	1,290,284	**364,602**	**330,245**	**141,590**	**1,466,231**
Cash Deposits	28,409				14,696
Other Investment Balances	3,279				5,242
Current Assets & Liabilities	14,068				8,876
	1,336,040	**364,601**	**330,245**	**141,590**	**1,495,045**

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £502,409 (£504,194 in 2012/13). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme.

A further analysis of the market value of investments is given below:

	31-Mar 2013 £000	%	31-Mar 2014 £000	%
Equities				
UK Quoted	319,114	22	323,815	21
Overseas Quoted	523,690	35	523,690	35
Total Equities	**842,804**	**57**	**880,027**	**56**
Pooled Investments				
Property	127,499	9	150,923	10
Private Equity	2,032	0	1,222	0
Fixed Interest	67,577	5	68,353	4
Index Linked Bonds	29,525	2	29,623	2
Equities	74,037	5	74,715	5
Alternatives	113,613	8	125,936	8
Total UK Pooled	**414,283**	**28**	**450,772**	**29**
Property	27,618	2	23,779	2
Private Equity	93,564	6	82,091	5
Fixed Interest	87,962	6	100,617	6
Total Overseas Pooled	**209,144**	**14**	**209,144**	**13**
Total Pooled Investments	**623,427**	**42**	**657,259**	**42**
Cash				
Short Term Loans/External Deposits	14,696	1	38,836	2
Total	**1,480,927**	**100**	**1,576,122**	**100**

An analysis of the type of pooled investment vehicles is given below:

		2012/13 £000	2013/14 £000
Property			
	Unit Trusts	97,359	116,296
	Other managed funds (LLP's)	57,758	58,405
Private Equity			
	Other managed funds (LLP's)	95,595	83,313
Fixed Interest			
	Other managed funds	155,540	168,971
Index linked gilts			
	Other managed funds	29,525	29,623
Equities			
	Other managed funds	74,037	74,715
Alternatives			
	Other managed funds	113,613	125,936
Total Pooled Vehicles		**623,427**	**657,259**

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. The two investments that fall into this category as follows:

Investment	2012/13 Value (£000)	% of net assets	2013/14 Value (£000)	% of net assets
Goodhart Absolute Return Bond Fund	87,962	5.9	100,617	6.3
Morgan Stanley Alternative Investments	113,613	7.9	125,936	7.9

16 Analysis of Derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the fund. The use of any derivatives is managed in line with the investment management agreements of the various investment managers.

The only direct derivative exposure that the Fund has is in forward foreign currency contracts. In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month	GBP	54	AUD	(98)		-
	JPY	26,000	EUR	(184)		(1)
	MXN	2,061	GBP	(95)		-
	USD	607	GBP	(365)		(1)
	USD	8	CAD	9		-
Over one month						
	GBP	19,737	CHF	(28,800)	132	
	GBP	32,187	EUR	(38,813)	42	
	GBP	121,645	JPY	(20,346,000)	2,962	
	GBP	386,724	USD	(636,849)	4,327	
	CHF	25,600	GBP	(17,617)		(188)
	EUR	333,000	GBP	(27,799)		(219)
	JPY	14,878,000	GBP	(89,484)		(2,683)
	USD	580,100	GBP	(352,715)		(4,411)
Total					**7,463**	**(7,503)**
Net forward currency contracts at 31 March 2014						**(40)**
Prior year comparative						
Open forward currency contracts at 31 March 2013					**9,978**	**(10,745)**
Net forward currency contracts at 31 March 2013						**(767)**

17 Profit (Loss) on Forward Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of the normal trading of the Fund's managers who manage multi-currency portfolios. It also includes the unrealised loss of £0.6m (unrealised loss of £0.8m in 2012/13) from the Fund's two Currency Overlay Managers.

18 Other Investment Balances

		2012/13 £000	2013/14 £000
Dividends Receivable		2,868	2,991
Recoverable Tax		691	888
Outstanding Foreign Exchange		(767)	(40)
Outstanding Stock Lending		0	19
Unsettled Trades	Purchases	0	(1,024)
	Sales	2,450	1,531
		5,242	**4,365**

19 Current Assets and Liabilities

Debtors are recorded in the accounts when income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Debtors include a figure of £4,099,190 for contributions due from employers (2012/13 £3,488,135). Long term debtors are amounts due to the Pension Fund that will not be received within 12 months. The Pension fund only has one long term debtor, the Magistrates Court, who are funding the cost of their pensioner and deferred member liabilities over a 10 year period. Similarly, creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31 March, but payment is not made until the following financial year. As required by the Code, creditors and debtors are split by type below:

	2012/13 £000	2013/14 £000
Debtors		
Central Government Bodies	1,341	745
Other Local Authorities	4,504	4,868
NHS Bodies	0	0
Public Corporations and Trading Funds	46	12
Other Entities and individuals	1,144	1,349
	7,035	**6,974**
Long Term Debtors		
Central Government Bodies	2,558	2,131
Other Local Authorities	0	0
NHS Bodies	0	0
Public Corporations and Trading Funds	0	0
Other Entities and individuals	0	0
	2,558	**2,131**
Creditors		
Central Government Bodies	(1,153)	(569)
Other Local Authorities	(256)	(891)
NHS Bodies	0	0
Public Corporations and Trading Funds	(3,118)	(781)
Other Entities and individuals	(144)	(559)
	(4,671)	**(2,800)**

20 Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity or property investments. At the year end, the value of outstanding commitments to the 25 investment vehicles amounted to £29,109,878.

21 Contingent Assets

Five admitted body employers in the Fund hold insurance bonds or equivalent cover to guard against the possibility of being unable to meet their pension obligations. These arrangements are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

22 Impairment Losses

The Fund has no recognised impairment losses.

23 Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments amounted to £8,675,676.27 (£8,285,448 in 2012/13) and member contributions of £1,087,950.16 (£1,020,583 in 2012/13) were received by the Prudential in the year to 31st March. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

24 Dividend Tax Claims

During the financial year 2006/07, the County Council lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. The total value of the claims is £793,498 and relates to both Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2009/10, the County Council lodged a claim with HM Revenue and Customs for the recovery of withholding tax suffered on manufactured overseas dividends. This is a tax imposed on overseas dividends due to the Pension Fund when the stock is on loan to another party, through the stock lending service provided by the Fund's custodian, JP Morgan. The value of the claim is approximately £714,000 and relates to the periods from 2004/05 to 2008/09. In 2010/11 a top-up claim was submitted for the year 2009/10, for approximately £278,000. No additional claims were made in this area in 2012/13, however top-up claims for the period from 1st April 2011 to 31st March 2013 were made in May 2013, for £377,253. As with the tax claim detailed in the paragraph above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2011/12, the County Council lodged a claim with the relevant tax authorities for the recovery of withholding tax suffered on overseas dividends from Spain (approx. £101,000) and Germany (approx. £165,000), covering the periods from 2007-2010. During the financial year 2012/13 the Spanish tax authorities rejected elements of the claim, reducing the value to approximately £70,000, followed by a further rejection of approximately £65,000. The Pension Fund has appealed these rejections and there has been some positive news in the last year, with the Spanish Authorities accepting a small proportion of claims against them. As with the tax claim detailed in the paragraphs above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

It is expected that resolution of these claims will take a number of years and, if unsuccessful, the Fund could incur a share of the costs of the Commissioners of the Inland Revenue.

During the financial year 2012/13 the County Council successfully lodged a claim with the Austrian tax authorities for the recovery of witholding tax suffered on overseas dividends and received €26,129.62 (approx. £22k) in March 2013.

25 Related Party Transactions

In accordance with Financial Reporting Standard 8 ‘Related Party Disclosures’ material transactions with related parties not disclosed elsewhere are detailed below:-

Under legislation introduced in 2003/04, Councillors are entitled to join the Scheme. Committee member M Leaning of the Pensions Committee currently receives pension benefits from the Fund. Committee members M Allan and A Antcliff are contributing members of the Pension Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council’s cash and lent out in accordance with the Council’s Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £3,838m and interest of £29.1k was earned over the year.

Lincolnshire County Council paid contributions of £25.8m into the Pension Fund during the year and all payments were received within agreed timescales.

Paragraph 3.9.4.2 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulations 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit Regulations 2005) satisfy the key management and personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of Lincolnshire Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lincolnshire County Council at note 47. This can be found on the Council's website at www.lincolnshire.gov.uk.

26 Financial Instruments

Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading. No financial assets were reclassified during the accounting period.

	2012/13			2013/14		
	Designated as fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000
Financial Assets						
Equities	842,804			880,027		
Pooled Investments:						
Property	155,117			174,701		
Private Equity	95,595			83,313		
Fixed Interest	155,540			168,971		
IL Bonds	29,525			29,623		
Equities	74,037			74,715		
Alternatives	113,613			125,936		
Cash		18,650			43,466	
Other Inv. Balances	15,987			12,892		
Debtors		9,593			9,105	
	1,482,218	**28,243**	**-**	**1,550,178**	**52,571**	**-**
Financial Liabilities						
Other Inv. Balances	(10,745)			(8,527)		
Creditors			(4,671)			(2,800)
	(10,745)	**-**	**(4,671)**	**(8,527)**	**-**	**(2,800)**
	1,471,473	**28,243**	**(4,671)**	**1,541,651**	**52,571**	**(2,800)**

Net gains and losses on financial instruments

	2012/13 £000	2013/14 £000
Financial Assets		
Fair value through profit & loss	141,590	64,495
Loans and receivables		
Financial liabilities measured at amortised cost		
Financial Liabilities		
Fair value through profit & loss	(767)	(40)
Loans and receivables		
Financial liabilities measured at amortised cost		
	140,823	**64,455**

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the managers to the private equity funds in which the Lincolnshire Fund has invested.

These valuations are prepared in accordance with the Private Equity and Venture Capital Valuation Guidelines (US investments), and the International Private Equity and Venture Capital Valuation Guidelines (non US investments) which follow the valuation principles of IFRS and US GAAP. Valuations are shown to the latest valuation date available and adjusted for cash flow where required to 31st March 2014.

The value for the alternatives investments with Morgan Stanley are provided by the underlying managers within the pool of investments and assurance is provided by Morgan Stanley on the quality of the valuations.

The following table provides an analysis of the financial assets and liabilities grouped into Level 1 to 3, based on the level at which fair value is observable.

Values at 31st March 2014	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Fair value through profit & loss	1,166,228	174,701	209,249	1,552,699
Loans and receivables	52,571			52,571
Financial liabilities measured at amortised cost				
Total Financial Assets	**1,218,799**	**174,701**	**209,249**	**1,605,270**
Financial Liabilities				
Fair value through profit & loss		(8,527)		(8,527)
Loans and receivables				-
Financial liabilities measured at amortised cost	(2,800)			(2,800)
Total Financial Liabilities	**(2,800)**	**(8,527)**	**-**	**(11,327)**
Net Financial Assets	**1,215,999**	**166,174**	**209,249**	**1,593,943**

Values at 31st March 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit & loss	1,117,893	155,117	209,208	1,482,218
Loans and receivables	28,243			28,243
Financial liabilities measured at amortised cost				
Total Financial Assets	**1,146,136**	**155,117**	**209,208**	**1,510,461**
Financial Liabilities				
Fair value through profit & loss		(10,745)		(10,745)
Loans and receivables				
Financial liabilities measured at amortised cost	(4,671)			(4,671)
Total Financial Liabilities	**(4,671)**	**(10,745)**		**(15,416)**
Net Financial Assets	**1,141,465**	**144,372**	**209,208**	**1,495,045**

27 Nature and Extent of Risks Arising from Financial Instruments

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the Fund. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows.

Market Risk

Market risk is the loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices and yield movements and the asset mix.

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken advice from the Fund's Investment Consultant. The management of the assets is split between a number of managers with different performance targets and investment strategies. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to the Pensions Committee where they are monitored and reviewed.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instrument. To mitigate this price risk, each manager is expected to maintain a diversified portfolio within their allocation.

Price risk - sensitivity analysis

Following analysis of historical data and expected investment return during the financial year, in consultation with a fund manager, the Fund has determined that the following movements in market price are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK Equities	12.2%
Overseas Equities	8.9%
UK Bonds	5.7%
UK Index Linked	7.7%
Overseas Bonds	6.8%
Private Equity	14.6%
Alternative Investments	10.0%
Property	5.8%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits would have been as follows (the prior year comparative is shown below):

Asset Type	Value at 31/03/2014 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	38,836	0.0	38,836	38,836
UK Equities	389,530	12.2	437,053	342,007
Overseas Equities	556,212	8.9	605,715	506,709
UK Bonds	68,353	5.7	72,249	64,457
UK Index Linked	29,623	7.7	31,904	27,342
Overseas Bonds	100,617	6.8	107,459	93,775
Private Equity	83,313	14.6	95,477	71,149
Alternative Investments	125,936	10.0	138,530	113,342
Property	174,702	5.8	184,835	164,569
Dividends Accrued	2,991	0.0	2,991	2,991
Recoverable Tax	888	0.0	888	888
Outstanding FX	(40)	0.0	(40)	(40)
Outstanding Stock Lending	19	0.0	19	19
Unsettled Purchases	(1,024)	0.0	(1,024)	(1,024)
Unsettled Sales	1,531	0.0	1,531	1,531
Total assets available to pay benefits	1,571,487		1,716,423	1,426,551

Asset Type	Value at 31/03/2013 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	14,696	0.0	14,696	14,696
UK Equities	393,151	15.2	452,910	333,392
Overseas Equities	523,690	12.7	590,199	457,181
UK Bonds	67,577	5.8	71,496	63,658
UK Index Linked	29,525	7.0	31,592	27,458
Overseas Bonds	87,963	7.2	94,296	81,630
Private Equity	95,595	14.6	109,552	81,638
Alternative Investments	113,613	10.0	124,974	102,252
Property	155,117	5.8	164,114	146,120
Dividends Accrued	2,868	0.0	2,868	2,868
Recoverable Tax	691	0.0	691	691
Outstanding FX	(767)	0.0	(767)	(767)
Unsettled Purchases		0.0	-	-
Unsettled Sales	2,450	0.0	2,450	2,450
Total assets available to pay benefits	1,486,169		1,659,071	1,313,267

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes to market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Asset Type	31/03/2013 £000	31/03/2014 £000
Cash deposits	14,696	38,836
Cash balances	3,954	4,630
Pooled Fixed Interest Securities	185,065	198,594
Total	203,715	242,060

Interest rate risk - sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Value at 31/03/2014 £000	Change in Year +1% £000	Change in Year -1% £000
Cash deposits	38,836	388	(388)
Cash balances	4,630	46	(46)
Pooled Fixed Interest Securities	198,594	1,986	(1,986)
Total	242,060	2,420	(2,420)

Asset Type	Value at 31/03/2013 £000	Change in Year +1% £000	Change in Year -1% £000
Cash deposits	14,696	147	(147)
Cash balances	3,954	40	(40)
Pooled Fixed Interest Securities	185,065	1,851	(1,851)
Total	203,715	2,037	(2,037)

Currency risk

Currency risk represents the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling.
To assist in managing this risk and to reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

The following table summarises the Fund's currency exposure at 31 March 2014 and 31 March 2013.

Currency Exposure - Asset Type	31/03/2013 £000	31/03/2014 £000
Overseas Equities (quoted)	523,690	556,212
Pooled Investments:		
Overseas Property	27,618	23,779
Overseas Private Equity	93,564	82,091
Overseas Fixed Interest	87,962	100,617
Total	732,834	762,699

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

A 10% fluctuation in the currency is considered reasonable based on an analysis of long term historical movements in month-end exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Value at 31/03/2014 £000	Change in Year +10% £000	-10% £000
Overseas Equities (quoted)	556,212	611,833	500,591
Pooled Investments:			
Overseas Property	23,779	26,157	21,401
Overseas Private Equity	82,091	90,300	73,882
Overseas Fixed Interest	100,617	110,679	90,555
Total	762,699	838,969	686,429

Currency Exposure - Asset Type	Value at 31/03/2013 £000	Change in Year +10% £000	-10% £000
Overseas Equities (quoted)	523,690	576,059	471,321
Pooled Investments:			
Overseas Property	27,618	30,380	24,856
Overseas Private Equity	93,564	102,920	84,208
Overseas Fixed Interest	87,962	96,758	79,166
Total	732,834	806,117	659,551

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk through securities lending, forward currency contracts and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, JPMorgan, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, JPMorgan provide an indemnity to cover borrower default, overnight market risks, fails on return of loaned securities and entitlements to securities on loan. Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 25% of eligible assets can be on loan at any one time.

Forward currency contracts are undertaken by the Fund's two currency overlay managers - Record and HSBC Trinkaus & Burkhardt. The responsibility for these deals therefore rests with the appointed managers. Full due diligence was undertaken prior to the appointment of these managers and they are regularly monitored and reviewed. Both managers are FSA regulated and meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009.

The Pension Fund's bank account is held at Barclays, which holds an A long term credit rating (or equivalent) across three ratings agencies and it maintains its status as a well capitalised and strong financial organisation. The management of the cash held in this account is carried out by the Council's Treasury Manager, in accordance with an agreement signed by the Pensions Committee and the Council. The agreement stipulates that the cash is pooled with the Council's cash and managed in line with the policies and practices followed by the Council, as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services and detailed in its Treasury

Management Practices.

Liquidity risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31 March 2014, these assets totalled £1,153m, with a further £38.8m held in cash. Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

An additional area of risk is in the outsourcing of services to third party service organisations.

The main service areas that the Pension Fund outsources, and the controls in place to monitor them, are:

Pensions Administration
This service is performed by Mouchel, alongside a Council wide contract. In addition to the contract management that the Council undertakes, regular meetings are held between Fund Officers and the Pensions Manager at Mouchel. The Pension Fund is also a member of the CIPFA benchmarking club for Pensions Administration, to allow service comparisons to be made with other Funds.

Custody, Accounting and Performance Measurement

JPMorgan are the Pension Fund's appointed Custodian, with responsibility for safeguarding the assets of the Fund. JPMorgan are a global industry leader, with more than $19 trillion in assets under custody. They have been the Fund's Custodian since 2004, and were reappointed at the end of their seven year contract in March 2011. Monthly reconciliations of holdings are performed to ensure that the Custodians records match those of the Managers. Regular meetings and conference calls are held to discuss performance, and quarterly key performance indicators are produced.

Fund Management
The Fund appoints a number of segregated and pooled fund managers to manage portions of the Pension Fund. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Managers report performance on a monthly basis to officers and performance is reported to the Pensions Committee on a quarterly basis. All segregated managers present in person to the Committee at least once a year. Regular meetings and discussions are held between officers and managers.

28 Scheduled & Admitted Bodies Contributing to the Fund

County and District Councils
Lincolnshire County Council
(incl. LCC schools)
Boston Borough Council
East Lindsey District Council
City of Lincoln Council
North Kesteven District Council
South Holland District Council
South Kesteven District Council
West Lindsey District Council

Internal Drainage Boards
Black Sluice
Lindsey Marsh
North East Lindsey
South Holland
Upper Witham
Welland and Deeping
Witham First
Witham Fourth
Witham Third

Parish and Town Councils
Billinghay PC
Bourne TC
Bracebridge Heath PC
Crowland PC
Deeping St James PC
Gainsborough TC
Greetwell PC
Heighington PC
Horncastle TC
Ingoldmells PC
Langworth PC
Louth TC
Mablethorpe and Sutton TC
Market Deeping TC

Parish and Town Councils
Metheringham PC
Nettleham PC
North Hykeham TC
Skegness TC
Skellingthorpe PC
Sleaford TC
Stamford TC

Academies
Alford Queen Elizabeth
Boston Grammar
Boston High School
Boston West Academy
Boston Witham Federation
Bourne Abbey C of E
Bourne Academy
Bourne Grammar
Bourne Westfield Primary
Bracebridge Infant and Nursery
Branston Community
Branston Junior Academy
Caistor Grammar
Caistor Yarborough
Carlton Academy
Charles Read Academy
Cordeaux Academy
Ellison Boulters Academy
Ermine Primary
Fosse Way
Gainsborough Benjamin Adlard
Gainsborough Parish Church
Giles Academy
Gipsey Bridge Academy
Grantham Kings School
Grantham Walton Girls
Harrowby C of E Infants
Hartsholme Academy
Heighington Millfield Academy
Hillcrest EY Academy
Hogsthorpe Primary Academy
Horncastle QE Grammar
Huntingtower Community Primary
Huttoft Primary Academy
Ingoldmells Academy
John Spendluffe Tech. College

Academies
Kesteven & Sleaford High
Kesteven and Grantham Academy
Kidgate Primary Academy
Kirkby La Thorpe
Lincoln Castle Academy
Lincoln Christs Hospital School
Lincoln Our Lady of Lincoln

Phoenix Family Academy
Priory Federation of Academies
Rauceby C of E
Ruskington Academy
Sir John Gleed
Sir Robert Pattinson Academy
Sir William Robertson
Skegness Academy
Skegness Grammar
Skegness Infant Academy
Skegness Junior Academy
Sleaford Carres Grammar
Sleaford Our Lady of Good Counsel
Sleaford St Georges Academy
Sleaford William Alvey
Spalding Grammar
Splisby Eresby
Spilsby King Edward Academy
St John's Primary Academy
Stamford Malcolm Sargent
Stamford Queen Eleanor
Stamford St Augustine's
Stamford St Gilberts
The Deepings Academy
The Phoenix School
Thomas Cowley Academy
Tower Road Academy
Trent Valley Academy
University Academy Holbeach
Utterby Primary
Washingborough Academy
Welton St Mary's C of E
Welton William Farr CE
West Grantham Federation
White's Wood Academy
William Lovell Academy

Academies
Witham St Hughs Academy
Woodhall Spa Academy

Admitted Bodies
Acis Group
Active Nation
Adults Supporting Adult

Sudbrooke PC
Washingborough PC
Woodhall Spa PC

FE Establishments
Bishop Grosseteste College
Boston College
Grantham College
Lincoln College
Stamford College

Other Scheduled Bodies
Acorn Free School
Compass Point
BG (Lincoln) Ltd
Lincolnshire Police Authority
Lincolnshire Probation Service

Lincoln St Hugh's
Lincoln St Peter & St Paul's
Lincoln Westgate Academy
Ling Moor Academy
Little Gonerby C of E
Long Bennington C of E
Mablethorpe Primary Academy
Manor Leas Infant Academy
Manor Leas Junior Academy
Market Rasen De Aston School
Mercer's Wood Academy
Mount Street Academy
National C of E Juniors
Nettleham Infants Academy
North Kesteven School
North Thoresby Primary

Boston Mayflower
CfBT
Edwards & Blake
G4S
Heritage Trust for Lincs
Lincoln Arts Trust
Lincoln BIG
Lincs HIA
Lincs Sports Partnership
Kier Group (May Gurney)
Mouchel Connextions
New Linx Housing
Rentokil Initial

29 Exchange Rates Applied

The exchange rates used at 31 March 2014 per £1 sterling were:

Australian Dollar	1.7987
Brazilian Real	3.7619
Canadian Dollar	1.8401
Swiss Franc	1.4727
Danish Krone	9.0310
Euro	1.2096
Hong Kong Dollar	12.9322
Indonesian Rupiah	18,938.8237
Israeli Shekel	5.8186
Japanese Yen	171.6914
Korean Won	1,774.5978
Mexican Peso	21.7542
Norwegian Krone	9.9813
New Zealand Dollar	1.9212
Polish Zloty	5.0371
Swedish Krona	10.8091
Singapore Dollar	2.0965
Thai Baht	54.0823
Turkish Lira	3.5664
Taiwan Dollar	50.7689
US Dollar	1.6671
South African Rand	17.5349

Lincolnshire Fire & Rescue Pensions Fund for the year ended 31 March 2014

2012-13 £'000	Fund Account	Note	2013-14 £'000
	Contributions Receivable		
	From employer:		
(1,591)	Contributions in relation to pensionable pay	4	(1,625)
(229)	Early Retirements - Ill Health	4	(59)
	From members		
(969)	Fire-fighters' contributions	4	(1,112)
0	From CLG (commutations special income)		0
	Transfers in:		
(5)	Individual transfers from other schemes from Local Authorities	7	0
(23)	Individual transfers from other schemes other than Local Authorities	7	(74)
	Benefits payable:		
4,128	Pensions	5	4,340
835	Commutations and lump sum retirement benefits	5	951
0	Lump sum death benefits	5	106
	Payments to and on account of leavers:		
0	Individual transfer out to other schemes	7	0
1	Refunds of contributions	7	2
2,147	**Sub Total Net amount payable for the year before top up grant receivable**		**2,529**
(2,147)	Top up grant receivable from sponsoring department	6	(2,529)
0	**net amount payable/receivable**		**0**

31 March 2013 £'000	Net Asset Statement as at:	31 March 2014 £'000
	Current Assets	
346	Pensions paid in Advance	363
0	Amounts due from LCC	0
740	Pensions top up grant due	1,045
1,086	**Total Current Assets**	**1,408**
	Current Liabilities	
(1,086)	Amounts payable to LCC	(1,295)
0	Unpaid pension benefits	(113)
0	Pension payable to central government	0
(1,086)	**Total Current Liabilities**	**(1,408)**
0	**Total**	**0**

Notes to the Fire & Rescue Pension Fund Account

1 Basis of Preparation

The Financial Statements have been prepared in accordance with the main recommendations of the code of practice on Local Authority Accounting issued by the Chartered Institute of Finance & Accountancy.

There is no separate bank account for the Pension Fund, therefore the Council's General Fund is shown as a debtor/creditor in the Net Asset Statement.

The Net Asset Statement does not take account of liabilities to pay pensions and other benefits after the period end.

Note 54 to the Council's Financial Statements shows the Council's long term pension obligations in accordance with International Accounting Standards (IAS19).

2 Lincolnshire Fire and Rescue Pension Fund Account

The Fund was established at 1 April 2006 and covers both the 1992 and 2006 Fire-fighters' Pension Schemes. It was established by the Fire-fighters' Pension Scheme (Amendment) (England) Order 2006 (SI2006 No1810) and is administered by Lincolnshire County Council. Employee and employer contributions are paid into the fund, from which payments to pensioners are made with any difference being met by top up grant from Central Government.

3 Accounting Policies

The Principal Accounting Policies are as follows:

Contributions

For employees who are members of the pension schemes contributions are receivable from the employer (Council) and the members (employees) throughout the year based on a percentage of pensionable pay. The rates are set nationally by the DCLG/Government Actuary Department and subject to triennial revaluation by the Government Actuary's Department.

If ill health retirements are granted the Council is required to make a contribution to the pension fund in accordance with the regulations. This contribution is spread over a 3 year period to deal with financial volatility as the number of Fire-fighters' who retire on grounds of ill health varies from year to year.

No provision is made in the accounts for contributions on pay awards not yet settled .

Benefits

Benefits include recurring payments that are paid in advance of the month for which they relate. An accrual is made at year end so that the payments are accounted for in the year to which they relate and this is shown in the net asset statement. Lump Sum payments are paid as they become due.

The accounts do not take account of liabilities to pay pensions and other benefits after the year end.

Transfer Values

The value of accrued benefits transferred from or to another pension arrangement, including Fire-fighters' pension schemes outside England, are recorded in the accounts on a receipts and payments basis.

Top up Grant

Central Government pay an instalment of top up grant during the year based on estimated activity. The balance is included within the amount of grant receivable and identified in the Net asset statement under current assets or liabilities.

The accounts do not take account of liabilities to pay pensions and other benefits after the year end.

4 Contribution Rates

Under the Fire-fighters pension regulations the contribution rates are set nationally and are subject to triennial revaluation by the Governments Actuary's Department. During 2013/14 the contribution rates for the 2006 scheme were a minimum of 19.5% of pensionable pay (11% employers and tiered contribution of 8.5% to 11.1% based employees' pensionable pay banding) and the contribution rates for the 1992 scheme were a minimun of 32.3% of pensionable pay (21.3% employers and tiered contribution of 11% to 15% based on employees' pensionable pay banding). Contribution tiers for part time and retained firefighters to be based on whole time equivalent pay for their role. Contributions, by the employer for fire-fighters who retire due to ill health are also paid into the Pension Fund in accordance with the regulations.

5 Benefits paid

Lump sum and ongoing pensions are paid to retired officers, their survivors and others who are eligible for benefits under pension schemes. The recurring payments are usually paid monthly in advance at the beginning of the period for which they relate.

6 Central Government pension top up grant

This is an unfunded scheme and consequently there are no investment assets. The fund is balanced to zero each year by receipt of a top up grant from the Central Government Department for Communities and Local Government (DCLG) if contributions are insufficient to meet the cost of benefits payable, or by paying over any surplus to the DCLG. The difference between grant received during the year and grant required to balance to zero is set up as an accrual and shown in the Net Asset Statement.

7 Transfers in and out

The value of accrued benefits of members that are transferred from or to another pension arrangement, if a member joins or leaves the scheme.

Audit Opinion

Independent auditor's report to the members of Lincolnshire County Council

We have audited the financial statements of Lincolnshire County Council for the year ended 31 March 2014 on pages 3 to 175. 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 2012-13.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director (Finance and Public Protection) and auditor

As explained more fully in the Statement of the Executive Director (Finance and Public Protection) Responsibilities, the Executive Director (Finance and Public Protection) 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's and the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director (Finance and Public Protection)); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 160 to 174 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

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

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Lincolnshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Certificate

We certify that we have completed the audit of the financial statements of Lincolnshire County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Mr Tony Crawley

for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
1 Waterloo Way
Leicester
LE1 6LP

September 2014

Annual Governance Statement

Lincolnshire County Council in statistics

724,500 residents comprising ***306,971*** households were in receipt of LCC services

569 people became British Citizens through formal citizenship ceremonies in Lincolnshire.

615 compliments and ***835*** complaints were received by LCC. ***87*** complaints and queries went to the Local Government Ombudsman and out of those where a detailed investigation was carried out, only ***11*** were upheld and ***18*** were not upheld.

LCC has ***5,512*** miles of roads and repaired ***50,000*** pot holes last year.

265,000 passenger journeys were made via CallConnect, providing public transport in isolated areas.

7,454 free home fire-safety checks were undertaken

8,360 people attended adult learning courses.

10,334 older people received home care to help them live independently in their homes.

102,540 children attended Lincolnshire's ***356*** schools.

61.8% of pupils achieved 5 or more GCSEs at grades A* to C which is ***2.6%*** above the national average.

2015 sees the opening of the new Magna Carta and Charter of the Forest visitor centre in Lincoln Castle.

413,700 visits were made to the county's heritage sites.

£140 million has been invested in a combined heat and power plant, designed to use ***150,000*** tonnes of rubbish.

Over ***£304 million*** was spent with local suppliers in the last year.

Annual Governance Statement for Lincolnshire County Council 2014

How has this Statement been prepared?

Each year we reflect on how well the Council's governance framework has operated during the year and identify any significant governance issues we need to draw to the attention of Lincolnshire residents.

To help us do this the Council's Audit Committee undertakes a review of the Council's governance framework[1] – considering and challenging evidence and information supplied by an Officer Group (comprising of the Chief Financial Officer, Monitoring Officer, Head of Internal Audit, Head of Legal Services and Democratic Services Manager.

On the 11th June 2014 the draft statement was agreed and signed off by the Corporate Management Team.

On the 21st July 2014 the Audit Committee considered the significant governance issues identified in the Statement – ensuring that the Statement properly reflects how the Council is run and identified any improvement actions.

The final statement was formally approved by the Audit Committee on the 22nd September 2014 - where it was recommended for signing by the Leader of the Council, Chief Executive and the Executive Director – Finance and Public Protection.

[1] The Council has adopted a governance and assurance structure which is consistent with the principles of the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government – 2012 Edition

Introduction by Pete Moore
Executive Director, Finance and Public Protection

"If management is about running the business – governance is about seeing that it is run properly"[2]

Good governance underpins everything we do as a Council and how we deliver services often comes under close scrutiny.

It's important our resources focus on agreed policy and priorities; that there is sound and inclusive decision making with clear accountability for the use of those resources and that key risks are managed effectively. This ensures that we achieve the desired outcomes for the people of Lincolnshire.

We continue to face significant financial challenges with less money for Local Authorities. We will have made savings of nearly £130m by March 2015 and will have also made some modest use of our balances to help support the budget and the change programme the Council will be undertaking. The Spending Review for 2015/16 and our future financial projections indicate that we will have to reduce budgets by a further £90m by March 2019. This will mean reassessing our priorities against available budgets and looking at different ways to deliver our services – working far closer with key partners such as health and police, business, the 'third sector' and community groups.

In this time of change it is vital that people and businesses have trust and confidence in how we run our business and that public money is well spent.

Pete Moore
Executive Director – Finance and Public Protection

[2] Robert Tricker. An expert in Corporate Governance.

What is Corporate Governance?

Lincolnshire County Council spends around £1,000 million of public money every year**.** It is our duty to **"*ensure the greatest benefits for the people in Lincolnshire from the resources we use.*"**

The public have a right to expect high standards and value for money in how we spend this money to improve the lives of the people of Lincolnshire.

Local Government has been and will continue to undergo significant change. The way we operate and deliver services – either directly, with or through other organisations will provide challenges for managing risk, ensuring transparency and demonstrating accountability. We need to aim for the standards of the best and our governance arrangements should not only be sound but also seen to be sound.

The Framework consists of the systems and processes, cultures and values by which the Council is directed and controlled. It sets out how we account to and engage with the people of Lincolnshire - it's about **Community Leadership**.

It helps us monitor our progress in achieving our goals and whether or not those goals are leading to effective and top quality services.

Our Governance Framework brings together an underlying set of legislative requirements, good practice principles and management processes.

Whose responsibility is it?

Having good governance arrangements is important to everyone involved in the Council. However, it is a key leadership responsibility of the Leader of the Council and of the Chief Executive. They are accountable for ensuring good governance in the Council.

Figure 1 - Our governance framework

Code of Corporate Governance

Assurance Required Upon

- Services are delivered economically, efficiently & effectively
- Management of risk
- Effectiveness of internal controls
- Democratic engagement & public accountability
- Budget & financial management arrangements
- Roles & responsibilities of Members & Officers
- Standards of conduct & behaviour
- Compliance with laws & regulations, internal policies & procedures
- Actions plans dealing with significant issues are approved, actioned & reported upon

Source of Assurance

- Constitution (incl. statutory officers, scheme of delegation, financial management & procurement rules)
- Audit Committee
- Internal & external audit
- Independent & external sources
- Council Executive & Scrutiny
- Medium Term Financial Strategy
- Complaints system
- HR policies & procedures
- Whistleblowing & other countering fraud arrangements
- Risk management strategy & framework
- Performance management system
- Codes of conduct
- Corporate Management Team

Assurances Received

- Statement of accounts
- External audit reports
- Internal audit reports
- Local Government Ombudsman report
- Risk Management Reports
- Counter fraud reports
- Scrutiny reviews
- Effectiveness reviews of Audit Committee
- Combined Assurance Status Reports
- Overview & Scrutiny Annual Report
- Performance & Delivery Reports
- Annual Report

Opportunities to Improve – our key risks

- Maintaining Good Governance
- Integration of Health and Social Care
- Responding to the Care & Support Bill
- Capacity to deliver
- Future Delivery of Support Services
- Safeguarding Children
- Ensuring all children have access to a
- good education
- Organisational learning around the Libraries Judicial Review

Annual Governance Statement

The Council – How it works

The Council is made up of 77 Councillors and operates a Leader and Cabinet model of decision making.

All 77 Councillors meet at full Council to agree the budget and policy framework. Ten Councillors form the Executive. The Executive make the decisions that deliver the budget and policy framework.

The remaining 67 Councillors form scrutiny committees. These committees develop policy and scrutinise decisions made by the Executive and key decisions made by officers – holding them to account. A number of Committees deal with Regulatory issues.

The conduct of Council's business is defined by formal procedures and rules – known as the Constitution. This explains the roles and remits of all committees and the delegation arrangements that are in place. It also contains the Budget and Policy Framework, finance and other procedure rules and the Codes of Conduct for Members and Employees.

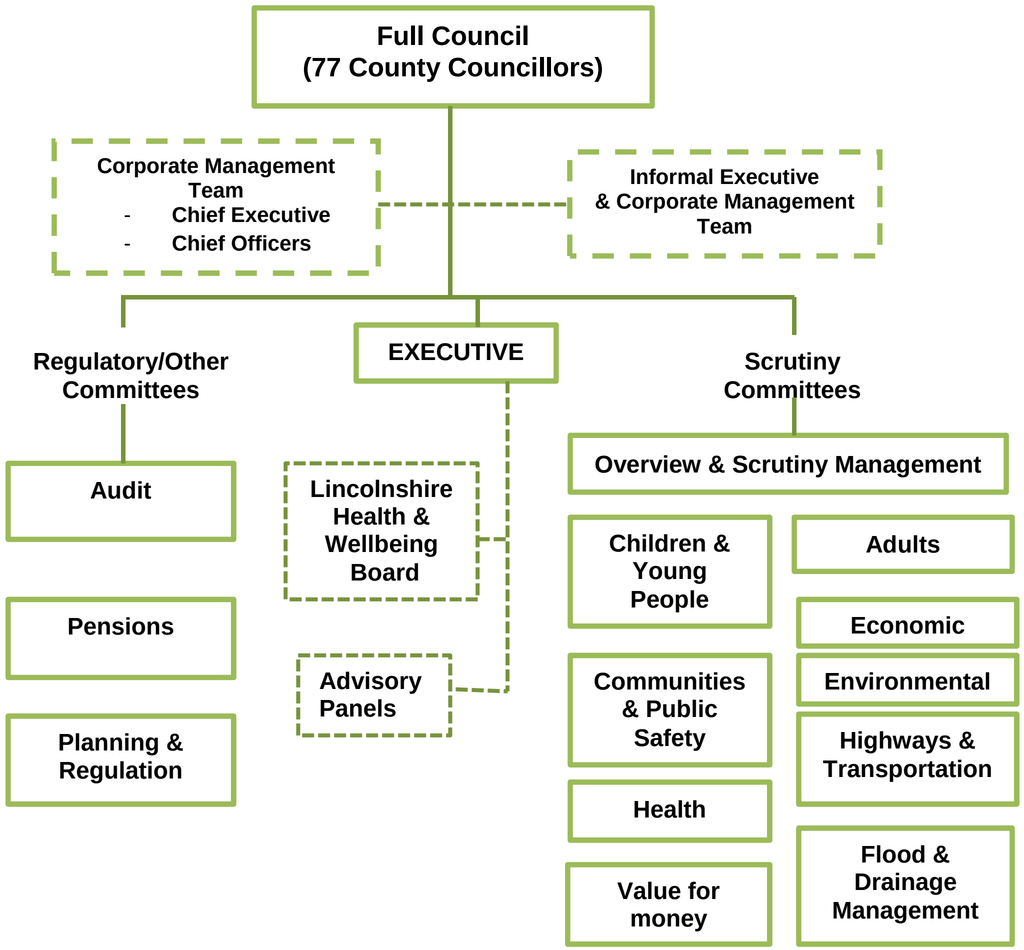
Council elections were held on the 2nd May 2013. This resulted in a change in the Lincolnshire Administration – which is now a coalition of Conservatives, Liberal Democrats and Independents.

In times motivated by change we are committed to sharing as much information about our plans and programmes as possible. Meetings are therefore normally open to the public and we undertake extensive consultation on major changes to the way we propose to deliver our services.

During 2013 we have continued to progress towards becoming a commissioning council. Fundamentally, we are reshaping ourselves as a council completely focused on outcomes, or results, rather than services as in the past. We have already started reviewing senior management structures – during 2014 further organisational change is planned to align our workforce to deliver the 17 commissioning strategies and deliver the spending reductions required of us. Having a strong governance framework during this period will be vital to our success.

Having far closer co-operation with health partners and community groups will play a part in how we run our business. Collaborative governance and accountability arrangements will need to be fully developed – balancing accountability for successful delivery of outcomes with proportionate and pragmatic approaches based on acceptable levels of risk.

Figure 2 – Council Committee Structure



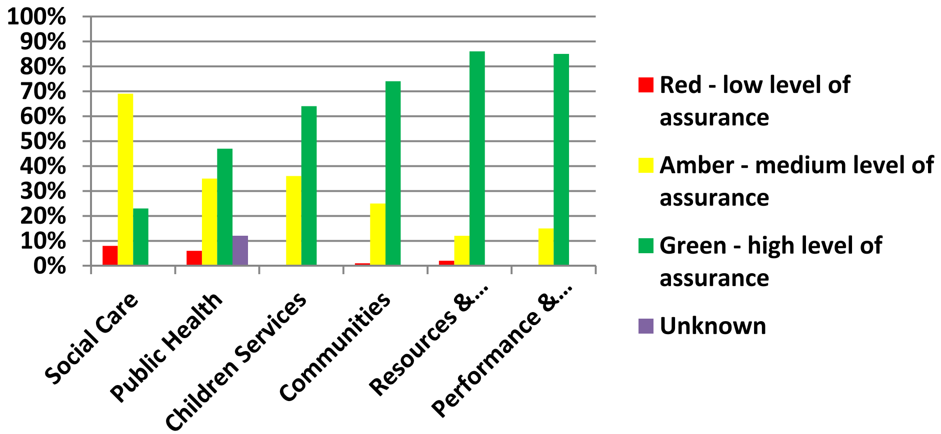
How do we know our arrangements are working?

There are a number of ways we assess if our governance arrangements are working.

Our managers have the day to day responsibility for managing and controlling services - they are accountable for their successful delivery. They set 'the tone from the top' and develop and implement the policies, procedures, processes and controls – ensuring compliance.

A Combined Assurance Status report is produced by each Director on the level of confidence the council can have on its service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. These reports are reviewed by the Audit Committee.

Figure 3 – Overall Assurance Levels 2014



We communicate the vision and purpose of the authority to the public by setting out our objectives and priorities for the year within our Business Plan.

We make sure the public receive high quality services by measuring our success and publically reporting our overall financial position in our Statement of Accounts.

We publish an Annual Report that highlights some real achievements in services provided to Lincolnshire residents, summarises how we spent our budget and shows what efficiency savings we have made.

If for any reason someone feels that the Council has failed to do something that should have been done or has done something badly or feel that they have been treated unfairly we have a Complaints Policy to proactively deal with complaints and learn from our mistakes.

From time to time the council makes decisions that others want to challenge. Apart from our own complaints mechanisms, people who are dissatisfied after that process may take a complaint to the Local Government Ombudsman.

There is one other route for challenge, that of judicial review. This is a legal challenge on the processes that we have followed or allegedly with which we have not complied.

Role of Monitoring Officer

The Executive Director – Environment and Economy is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by us as detailed in the Constitution Part 3,

The Monitoring Officer is responsible for ensuring the Council complies with its duty to promote and maintain high standards of conduct by memebrs and co-opted members of the authority. The Council has adopted a Code of codncut and arrangements by which the Monitoring Officer will deal with complaint that Members may have failed to comply with the requirements of that Code.

Effective Scrutiny and Review

Our Overview and Scrutiny Management Committee exists to review and scrutinise any decision made by the Executive, Executive Councillor or key decision made by an officer. It examines the County Council's overall performance and advises our Overview and Scrutiny Committees of any areas of performance requiring detailed consideration.

Each year an Overview and Scrutiny Annual report is produced which shows the activities undertaken by the 10 Committees and how they have contributed to the delivery of agreed priorities and outcomes.

Managing our Risks

Good risk management is part of the way we work. It is about taking measured risks when making decisions or where we need to encourage innovation in times of major change. This will put us in a stronger position to deliver our goals and provide excellent services. Our risk management process is well established in the way we work. The Audit Committee is responsible for reviewing how effective our risk management procedures are. Our Strategic Risk Register is regularly reviewed and more details can be found in our Risk Management Strategy

Our strategic risk management team supports management to help create an environment of 'no surprises'. A recent Internal Audit Review has identified some opportunities to improve risk information around key decisions, projects and the level of risk the Council is prepared to take across it's different business units.

For more information go to: Risk Management Strategy

Tackling Fraud Locally

We are dedicated to promoting a strong culture to prevent and detect fraud. This is supported by our Counter Fraud Policy and our Whistleblowing Policy.

Our response to Central Government's expectations for tackling fraud and corruption is reflected in the Counter Fraud Policy and annual work plan.

Progress and delivery of our counter fraud work plan is monitored through our Audit Committee with an Annual Report produced to provide information on the overall effectiveness of the Council's Counter Fraud arrangements.

If for any reason someone feels that the Council has failed to do something that should have been done or has done something badly or feel that they have been treated unfairly we have a Complaints Policy to proactively deal with complaints and enables us to learn from our mistakes.

Chief Financial Officer

The Council has designated the Executive Director – Finance and Public Protection as the Chief Finance Officer under Section 152 of the Local Government Act 1972. He leads and directs the Financial Strategy of the Council.

They are a member of the Council's Management Board and have a key responsibility to ensure that the Council controls and manages its money well. They are able to operate effectively and perform their core duties - complying with the CIPFA Statement on the role of the Chief Financial Officer.

Our Audit Committee

The Audit Committee is a vital group that oversees and promotes good governance, ensures accountability and reviews the way things are done. The Audit Committee provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability. The Committee exists to challenge the way things are being done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment.

Our External Auditors attend Audit Committee meetings. At least once a year a private meeting is held with them to help provide the Audit

Committee with independent insight on key issues facing the Council and how well its governance arrangements are working.

Our Internal Audit team is one of the Audit Committees key independent assurance providers.

We have a non-elected member on the Committee. The ability of an independent member to offer different perspectives and constructive suggestions will improve the way we work. For more information go to: Audit Committee Records

Internal Audit

Internal Audit provides independent assurance designed to add value and improve how the Council operates. It helps the Council achieve its priorities and objectives by bringing a systematic and disciplined approach to evaluate and improve the management of risk, control and governance processes. It provides constructive and independent challenge to management on the way things are done.

We undertake an annual review of the effectiveness of our Internal Audit service ensuring it conforms with the UK Public Sector Internal Audit Standards including CIPFA's advisory note on the standards and their statement on the role of the Head of Internal Audit in public service organisations.

Our Internal Audit Charter sets out Internal Audits role and remit.

External Audit

The Council's financial statements and annual governance statement are an important way we account for our stewardship of Public funds.

KPMG, our External Auditors, audit our financial statements and provide an opinion on these.

They also assess how well we manage our resources and deliver value for money to the people of Lincolnshire.

Governance Issues

Whilst we are generally satisfied with the effectiveness of our governance framework and assurance arrangements our review identified the following areas where further work is required to improve systems or monitor how the key risks facing the Council are being managed:

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
Maintaining Good Governance			
Maintaining good governance in complex environments and in times of significant change can sometimes become difficult. Our governance and assurance arrangements will need adapting to respond to the changing organisational environment: • Proportionate and pragmatic given collaborative delivery models. • Risk Managements information improved around decisions and clarity on the level of acceptable risk associated with different business units / delivery models. • Effectiveness of the Audit Committee and Overview and Scrutiny Committees. • Implementation of Local Government Transparency Code 2014. • Review of effectiveness of local standard arrangements re members code of conduct (via Audit Committee). • Effectiveness of programme and project management.	Executive Director Finance and Public Protection Safety Monitoring Officer (Executive Director Environment and Economy)	Delivery models will be reviewed as part of the fundamental budget review and the review of Council priorities but will also be an ongoing feature from the new commissioning approach. The Transparency Code has been reviewed and action will be taken to ensure additional information is in place between now and December 2014. Chairman and Vice-Chairman of Committees will be briefed on the Openness of Local Government Bodies Regulations 2014. Standing orders will be amended appropriately. The Council is reviewing its Constitution which will be presented to the September Council Meeting. The Corporate Risk Register was updated recently but will be reviewed	FBR / review of priorities will result in a sustainable medium term budget and an updated Council business plan budget by February 2015. Between 1st October and 31st December 2014. By 30th September 2014 September 2014 (possible further review on Standards before May 2015 Further update of the Corporate Risk Register

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
		following the FBR and as part of the preparation of an updated business plan for 2015/16. The self-review, facilitated by the External Auditors of the effectiveness of the Audit Committee was undertaken in June 2014 and an implementation plan will be developed out of this. Because Executive Director responsibilities have changed in recent months the officer ' governance group' has been re-constituted and will meet on a regular basis to ensure all key governance issues are picked up and addressed in a timely and effective manner.	By 31st March 2015. Implementation plan to be agreed and implemented during 2014/15. Already actioned.
Integration of Health and Social Care			
The transformation of Adult Care continues at scale and pace along with health organisations within Lincolnshire as elsewhere. Achieving better care and keeping the most vulnerable adults safe can only be done in partnership - whether that be with colleagues within the Council such as Public Health and Children's Services, statutory partners such as health colleagues, 3rd sector and independent organisations. For the people working in the service, they will require a change in skills and attitudes. For the organisational shape and processes used today, they also require	Director of Adult Services / Director of Public Health	The first four neighbourhood teams will commence August 2014 with the next wave of four commencing October 2014. A new specification for an intermediate care service funded through a pooled budget will represent a significant step forward regarding service and budget integration and performance improvement in respect to reablement.	31st October 2014

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
fundamental change. The Better Care Fund highlights the initial "Early Implementers" for integration, a level of pooled budget and performance improvement. Lincolnshire Health and Care (LHAC) represents the broader strategic changes currently in design across the social care and health system in Lincolnshire.		The Better Care Fund for Lincolnshire states that by the end of 2015/16 we will have pooled £197m of health and social care funding.	By the end of 2015/16
Responding to the Care and Support Bill			
Future years' budgets for Adult Care will be heavily impacted by the additional cost implications of 'Dilnot' and the Care Act. This results from a mix of the 'cap' on service user contributions, changes to means testing arrangements, impact of self-funders and the impact of demography and in particular increasing life expectancy. The Care Act will reform social care – modernising the law to put people's wellbeing at the heart or the care and support system. It aims to support those people who need it most. To help make difficult choices, and yet optimal ones, a set of decision making criteria has been established and Commissioning strategies established. Appropriate governance structures are in place to ensure that we implement these changes well. The three largest group of people affected will be carers, self-funders and prisoners.	Director of Adult Services	The Care Act must be implemented in Lincolnshire by April 1st 2015. The Dilnot Funding Reforms will need to be implemented by April 2016. The new partnership with Serco (notably with respect to the Customer Service Centre) and the implementation of CMPP (Mosaic) are key inter-dependencies in delivering successful implementation.	31st March 2015

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
Capacity to Deliver			
Local Government continues to face spending reductions. In Lincolnshire, by the end of the decade, our Council budget will be at least 40% less than it was in 2010. We have made significant changes already – more needs to be done – we need new ambitions and to reorganise ourselves so as to deliver these in the most efficient and effective manner possible. Historically, we have been used to delivering services, many of which have been identified for us in legislation or have built up over decades of expectation, practice and procedure. From now on, however, the Council will identify the outcomes it wishes to see in priority areas and then work out how best to bring about those outcomes. All areas of the Council will be subject to fundamental budget reviews.	Pete Moore – Executive Director Finance and Public Protection	As part of the budget process for 2014/15 the Council agreed that a Fundamental Budget Review (FBR) would be undertaken during 2014 to address the financial challenges it faces over the next few years. This will include re-assessing priorities within the new commissioning strategies framework, a reduced budget envelope and with an appropriate assessment of risks. This will result in a sustainable, medium term financial plan and an updated financial strategy to support it.	Initial FBR workshops with the Executive from late June to 31st August 2014. 30th September 2014 – capital workshop and Executive consider overall options and proposals for consultation. 1st October 2014 to 31st January 2015 – consultation on priorities and budgets with the scrutiny committees public, service users, partners and outside bodies. 28th February 2015 – finalisation and approval of budget and medium term financial plan.
Future Delivery of Support Services			
Our contract to deliver back office support functions comes to an end in March 2015. The Future Delivery of Support Services Programme	Chief Information and Commissioning Officer	A new financial and HR system will be implemented from 1st April 2015 – this will mean new support processes and different ways of working. The	1st April 2015

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
(FDSSP) was set up in review how the support services would be delivered with new contract arrangements being put in place in preparation for 1st April 2015.		successful delivery of this programme is vital as it impacts on all areas of Council business. Project governance and assurance arrangements have been put in place to achieve this. Key milestones are approximately each quarter with system design to be complete at the end of July, system build at the end of October, system testing by end of December and migration, user testing and training by the end of March 2015.	
Safeguarding Children			
The action we take to promote the welfare of children and protect them from harm - is everyone's responsibility. Everyone who comes into contact with children and families has a role to play. Safeguarding and promoting the welfare of children includes: protecting children from maltreatment; preventing impairment of children's health or development; ensuring that children grow up in circumstances consistent with the provision of safe and effective care; and taking action to enable all children to have the best outcomes. In order to strengthen our safeguarding arrangements the Service is working in partnership with other agencies to implement a consistent risk assessment framework called Signs of Safety.	Director of Children Services	The Signs of Safety approach has been agreed for implementation across the whole of Children's Services. We plan to work with our Consultant Trainer for 5 years to ensure we embed this approach in all aspects of Children's Services practice. Children's Services offer multi agency briefings which have been well attended and have received excellent feedback, and the Project Manager delivers briefings and overviews to partners to raise awareness of the changes taking place. The Police are currently running a pilot in two of the area frontlline officer	On-going – monitored through performance management / quality assurance framework 31st October 2014

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
Signs of Safety is an innovative strengths-based, safety-organised approach to child protection casework. The partnership is also exploring opportunities to better share information to further assist in safeguarding children.		teams, this will be reviewed in October 2014. Children's Services have a plan for 2-day training sessions to staff, which began in July 2013; monthly Practice Leader (PL) sessions for our front-line managers and Independent Chairs; and targeted training sessions on specific aspects of the Signs of Safety approach. This learning should all be cascaded and shared within teams, and Signs of Safety is a standing agenda item on all team meetings . There is a monthly Steering Group made up of Senior Managers and chaired by our lead Assistant Director, that provides the strategic direction for the project and ensures its knowledge of the approach is kept up to date through bi-monthly practice based Steering Group meetings. LCC plan to work with our Consultant Trainer for 5 years to ensure we embed this approach in all aspects of Children's Services practice. The Project Manager is working with the Practice Leads and consultant to embed in key priority areas including Strategy Discussions, Assessments,	On-going – monitored through performance management / quality assurance framework

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2014/15	Implementation Date
		Plans and Child Protection meetings. In addition, there are regular communications circulated to staff.	
Ensuring all children have access to a good education			
The Council continues to have a duty to promote educational excellence for all children and young people and be ambitious in tackling underperformance. This includes: taking decisive action in relation to poorly performing schools, developing robust school improvement strategies, promoting high standards in education by supporting effective school to school collaboration and undertaking specified responsibilities in relation to staffing and governance of maintained schools. The Council is currently reviewing how it can best deliver these duties in a changing education landscape.	Director of Children Services	Design and Task Group to be established with Head Teacher representation Design and Task Group to establish memorandum of understanding and develop governance arrangements Mechanism for engaging with Governing Bodies and Academy Sponsors confirmed and delivered Early Implementers to be established Review of early implementers and roll out programme for all schools to be engaged in improvement partnership	30th September 2014 31st December 2014 1st April 2015 30th Sept 2015 1st April 2016 –30th Sept 2016
Organisational Learning around the Libraries Judicial Review.			
A judicial review was lodged against the Council around the lawfulness of the Council's decision making process to redesign Library Services in Lincolnshire. The High Court quashed the decision - the Council will identify any learning which would help strengthen its governance arrangements.	Chief Executive & Chairman of the Audit Committee	An Internal Audit has been commissioned to provide some independent insight / review on the facts surrounding the decision making process and any lessons that can be learnt for the future.	30th November 2014

Conclusion

We are satisfied that plans are in place that will address the areas identified above and will monitor their implementation and operation as part of performance management. The Audit Committee will help provide us with independent assurance during the year.

Signed

…………………………… Date ……/…../…...	**…………………………… Date ……/…../…...**	**…………………………… Date ……/…../…...**
Director – Finance & Public Protection	**Chief Executive**	**Leader of the Council**

Appendix A - Officer Remuneration split between staff employed in Schools and All Other Parts of the County Council.

SCHOOLS	2012-13 Number of Staff		2013-14 Number of Staff	
Pay Band	Remuneration received (excl those receiving termination payments)	Staff who received termination payments	Remuneration received (excl those receiving termination payments)	Staff who received termination payments
£150,000- £154,999	0	0	0	0
£145,000- £149,999	0	0	0	0
£140,000- £144,999	0	0	0	0
£135,000- £139,999	0	0	0	0
£130,000- £134,999	0	0	0	0
£125,000- £129,999	0	0	0	0
£120,000- £124,999	0	0	0	0
£115,000- £119,999	0	0	0	0
£110,000- £114,999	0	0	0	0
£105,000- £109,999	0	0	0	0
£100,000- £104,999	0	0	0	0
£95,000- £99,999	0	0	1	0
£90,000- £94,999	2	0	0	0
£85,000- £89,999	3	2	3	0
£80,000- £84,999	1	0	1	0
£75,000- £79,999	3	0	4	0
£70,000- £74,999	5	1	7	1
£65,000- £69,999	7	1	6	0
£60,000- £64,999	20	0	27	0
£55,000- £59,999	55	1	48	0
£50,000- £54,999	62	1	59	0
Total	**158**	**6**	**156**	**1**

OTHER SERVICES	2012-13 Number of Staff		2013-14 Number of Staff	
Pay Band	Remuneration received (excl those receiving termination payments)	Staff who received termination payments	Remuneration received (excl those receiving termination payments)	Staff who received termination payments
£150,000- £154,999	0	0	0	0
£145,000- £149,999	0	0	0	0
£140,000- £144,999	0	0	0	0
£135,000- £139,999	0	0	0	0
£130,000- £134,999	0	0	0	0
£125,000- £129,999	1	0	0	0
£120,000- £124,999	0	0	1	0
£115,000- £119,999	0	0	0	0
£110,000- £114,999	0	1	0	1
£105,000- £109,999	0	0	2	1
£100,000- £104,999	0	0	1	1
£95,000- £ 99,999	0	0	1	0
£90,000- £94,999	1	1	1	1
£85,000- £89,999	4	1	3	1
£80,000- £84,999	4	1	5	0
£75,000- £79,999	3	0	2	1
£70,000- £74,999	3	1	3	0
£65,000- £69,999	17	0	29	3
£60,000- £64,999	27	0	19	0
£55,000- £59,999	40	0	31	3
£50,000- £54,999	44	5	41	1
Total	**144**	**10**	**139**	**13**

STATEMENT OF ACCOUNTS GLOSSARY OF TERMS

Academy Schools
Academy schools are directly funded by central government (the Department for Education) and are independent of local Council control.

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.

Accounting Policies
The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its Financial Statements.

Accruals
Sums included in the final accounts to recognise revenue and capital income and expenditure attributable to the accounting period, but for which payment has not been received or made by 31 March.

Acquired Operations
Operations comprise services and division of service as defined in SERCOP. Acquired operations are those operations of the local Council that are acquired in the period.

Amortisation
The term used to describe the charge made for the cost of using intangible fixed assets. The charge for the year will represent the amount of economic benefits consumed (e.g. wear and tear).

Appropriation
The transfer of sums to and from reserves, provisions and balances.

Assets
An item having value to the Council in monetary terms, categorised as:

- Current assets are assets that are intended to be sold within the normal operating cycle; the assets are held primarily for the purpose of trading or the Council expects to realise the assets within 12 months after the reporting date.
- Non–current assets are assets that do not meet the definition of a current asset and can be tangible (e.g. school buildings) or intangible (e.g. computer software licences).

Audit of Accounts
An independent examination of the Council's financial affairs.

Balances
The total revenue reserves required to provide a working balance during the financial year, for example in periods when expenditure exceeds income.

Balance Sheet
Shows all balances including reserves, long-term debt, fixed and net current assets, together with summarised information on the fixed assets held.

Borrowing costs
Are interest and other costs that an entity incurs in connection with the borrowing of funds.

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

Capital Adjustment Account
Capital reserve largely consisting of resources applied to capital financing and not available to the Council to support new investment.

Capital Charges
This is a general term used for the notional charges made to service expenditure accounts for the use of fixed assets. The term covers depreciation and impairment charges (included in gross expenditure).

Capital Grants Unapplied Account
Grants that have been recognised as income in the Comprehensive Income and Expenditure Statement but where the expenditure has not yet been incurred.

Capital Expenditure
Expenditure on assets which have a long term value. Includes the purchase of land, purchase or cost of construction of buildings and the acquisition of plant, equipment and vehicles.

Capital Financing Costs
These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

Capital Financing Requirement

Statutory requirement to ensure that over the medium term the net borrowing by the Council will only be for capital purposes.

Capital Receipts
Proceeds received from the sale of property and other fixed assets.

Carrying Amount
The amount of an asset that is recognised on the Balance Sheet after all costs have been charged for the accounting period (e.g. accumulated depreciation and impairment losses).

Cash equivalents
Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (e.g. bank balances).

Cash Flow Statement
This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes

CIPFA
The Chartered Institute of Public Finance and Accountancy.

Comprehensive Income and Expenditure Statement (CI&ES)
This statement reports the net cost of all the services which the Council is responsible for, and demonstrates how that cost has been financed.

Contingent Liability
Potential costs that the Council may incur in the future because of something that happened in the past, but there is no certainty that a cost will occur.

Contingent Asset
Is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council.

Corporate Democratic Core
The corporate and democratic management costs are the costs of activities which Local Authorities undertake specifically because they are elected multi-purpose Authorities. They cover corporate policy making, representing local interests, services to elected members as local representatives and duties arising from public accountability.

Creditors
Amounts owed by the Council for work done, goods received or services rendered but for which payment has not been made at 31 March.

Debtors
Sums of money owed to the Council but unpaid at 31 March.

Defined Benefit Scheme
Also known as a final salary scheme. Pension scheme arrangement where the benefits payable to the members are determined by the scheme rules. In most cases there is a compulsory member’s contribution but over and above this all costs of meeting the quoted benefits are the responsibility of the employer.

Depreciation
The allocation of the cost of the useful economic life of the Council's non-current assets for the accounting period through general wear and tear, consumption or obsolescence.

Depreciated replacement cost (DRC)
Is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

Discontinued Operations
Operations comprise services and division of service as defined in SERCOP. Discontinued operations are those operations of the Council that are discontinued in the period. Responsibilities that are transferred from one part of the public sector to another are not discontinued operations.

Donated assets
These are assets which are transferred to the Council at nil value or acquired at less than fair value.

Earmarked Reserves
Those elements of total Lincolnshire County Council reserves which are retained for specific purposes.

Employee benefits
Are all forms of consideration (both monetary and in-kind) given by the Council in exchange for service rendered by employees.

Exceptional Items

Events which are material in terms of the County's overall expenditure and are not expected to recur frequently or regularly.

Fair Value
The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length deal.

Finance Costs

Reflects the element of annual payment for PFI or Leased assets which is in relation to interest payable on the loan liability.

Financial Assets
A right to future economic benefits controlled by the Council.

Financial Instrument
A contract that gives rise to a financial asset of one entity and a financial liability of another entity; for example, at its simplest, a contractual right to receive money (debtor) and a contractual obligation to pay money (creditor).

Financial Liability
An obligation to transfer economic benefits controlled by the Council.

Foundation Schools
Schools run by their own governing body, which employs the staff and sets the administrations criteria. Land and buildings are usually owned by the governing body or a charitable foundation.

General Fund
The main revenue fund of the Council. Income from the council tax precept and government grants is paid into the fund, from which the costs of providing services are met.

Going Concern
The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

Government Grants
Payments by central government towards Council expenditure. They are receivable in respect of both revenue and capital expenditure.

Grants and Contributions
Assistance in the form of transfers of resources to the Council in return for past or future compliance with certain conditions relating to the operation of activities.

Heritage Assets
Assets that are held by the Council which are of historic nature including buildings and collections.

Impairment
A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet, due to damage, obsolescence or a general decrease in market value.

Intangible Asset
Is an asset without physical substance examples include: computer software and licences.

International Accounting Standard (IAS)
Regulations outlining the method of accounting for activities, IASs are currently being replaced with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board.

International Financial Reporting Standards (IFRS)
Regulations outlining the method of accounting for activities, issued by the International Accounting Standards Board.

Inventories
Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

Landfill Allowance Trading Scheme (LATS)

Cap and trade scheme aimed at reducing the level of waste taken to landfill and encouraging alternative refuse processes.

Leases
A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment, the right to use an asset for an agreed period of time.

- Finance Lease – a lease whereby all the risks and rewards of ownership of an asset are with the lessee. In substance the asset belongs to the lessee.
- Operating Lease – a lease where the risks and rewards, and therefore ownership, of the asset remains with the lessor.

Lessee
The person or organisation that is using or occupying an asset under lease (tenant).

Lessor
The person or organisation that owns an asset under lease (landlord).

Liabilities
A present obligation to transfer economic benefits. Current liabilities are payable within one year.

Liquid Resources
Cash and current asset investments that can be easily converted to known amounts of cash without penalty, or can be 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 and services which together constitute a single project), where the project life falls into more than one accounting period.

Long Term Debtors
Sums of money due to the Council originally repayable within a period in excess of twelve months but where payment is not due until future years.

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Minimum Revenue Provision (MRP)
A minimum amount, set by law, which the Council must charge to the income & expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).

Net Book Value
The value of fixed assets included on the Balance Sheet, being the historical cost or a current revaluation less the cumulative amounts provided for depreciation.

Net Debt
The Council’s borrowings less liquid resources.

Non Distributed Costs
These are overhead costs from which no user now benefits. They include the costs associated with unused assets and certain pension costs.

Off Balance Sheet
Accounting category not shown or recorded on a Balance Sheet, such as an operating lease or a deferred or contingent asset or liability which is shown only when it becomes ‘actual.’

Pension fund accounts
This covers accounting and reporting by pension funds to all fund participants as a group rather than being concerned with determination of the cost of retirement benefits in the Financial Statements of employers.

Precept
The amount levied by one Authority which is collected by another e.g. Lincolnshire County Council is the precepting Authority and the District Councils are the collecting Authorities. Water Authorities also precept on the Council for land drainage purposes.

Previous Year Adjustments
These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.

Principal
The amount of repayment to a lender which relates to the reduction in the loan, rather than the interest paid on the loan.

Private Finance Initiative (PFI)
A government initiative that enables Authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

Projected Unit Method
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:
- the benefits for pensioners and deferred pensioners and their dependants, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

Property, Plant & Equipment
Are tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.
- Land and buildings.
- Vehicles, plant, furniture and equipment.
- Infrastructure assets that form part of the economic or social framework of the area and whose function is not transferable (e.g. highways, bridges and footpaths).
- Community assets are assets that the Council intends to hold in perpetuity, that have no determinable useful life and may have restrictions on their disposal (e.g. nature reserves, country & coastal parks and picnic sites).
- Surplus assets are non-current assets held by the Council but not directly occupied, used or consumed in the delivery of services.
- Investment properties are properties (land or buildings) held to earn rentals or for capital appreciation or both.
- Assets under construction are non-current assets which include expenditure capitalised for work in progress in respect of activities to develop, expand or enhance items of property, plant and equipment, intangible assets and exploration assets.
- Non-current assets held for sale and discontinued operations. These are non-current assets that are either going to be sold or disposed of within the next twelve months.

Provision
This is an amount which is put aside to cover future liabilities or losses which are considered to be certain or very likely to occur, but the amounts and timing are uncertain.

Prudential Indicators

Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that Councils' capital investment plans are affordable, prudent and sustainable. They are outlined in the CIPFA Prudential Code of Practice. The code was introduced in 2004, to underpin the system of capital finance in local government. All Councils must adhere to this.

There are 11 prudential indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A Council may also choose to use additional voluntary indicators.

Public Works Loan Board (PWLB)
A central government agency, which provides loans for one year and above to Authorities at favourable rates which are only slightly higher than the Government can borrow itself.

Recognition
The process upon which assets are deemed to belong to the Council either by purchase, construction or other forms of acquisition.

Related party

These are parties which are considered to be related if one party has the ability to control the other party, or exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related party transactions are transfers of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the Council or the Government of which it forms part.

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 Revaluation Reserve and Capital Adjustment Account cannot be used to meet current expenditure.

Retirement Benefits
- Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.
- Actuarial basis is the estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the Financial Statements of an organisation.
- Actuarial gains and losses for a defined benefit pension scheme are the changes in actuarial deficits or surpluses 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.
- Current service cost is the increase in the present value of a defined benefit obligation resulting from employee service in the current period.
- Defined benefit plans are post-employment benefit plans other than defined contribution plans.
- Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
- Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.
- Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Retrospective application

This is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Revaluation Gain
The increase to the fair value of an asset following a valuation.

Revaluation Reserve

This reserve contains revaluation gains on assets recognised since 1 April 2007 only, the date of its formal implementation.

Revenue Contributions
This refers to the financing of capital expenditure directly from revenue rather than from loans or other sources.

Revenue Expenditure
The day to day expenditure of the Council on such items as employees and equipment.

Revenue Expenditure Funded from Capital under Statute (REFCUS)
Expenditure which may be funded from capital, but which does not result in fixed assets owned by the Council. These costs are included in the net cost of services shown in the Income and Expenditure Account.

Revenue Support Grant (RSG)
Grant paid by central government to Local Authorities in aid of service provision.

Service Reporting Code of Practice (SERCOP)
Details standard definitions of service and total cost which enables spending comparisons to be made with other Local Authorities.

Short-term employee benefits
These are employee benefits (other than termination benefits) that fall due wholly within 12 months after the end of the period in which the employees render the related service.

Specific Grant
A grant awarded to a Council for a specific purpose or service that can not be spent on anything else.

Straight Line basis
The method of calculating depreciation via charging the same amount each year over the life of the assets.

Termination Benefits
Employee benefits paid upon termination of employment such as redundancy.

Treasury Management
The utilisation of cash flows through investments and loans.

Trust Funds

Funds administered by the Council for such purposes as prizes, charities and specific projects or on behalf of minors.

Useful Life
The period with which an asset is expected to be useful to the Council in its current state.

Value Added Tax (VAT)
VAT is an indirect tax levied on most business supplies of goods and services.

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Public Protection

Report to:	**Audit Committee**
Date:	**22 September 2014**
Subject:	**Draft Audit Committee Annual Report**

Summary:

This report seeks to show how the Audit Committee has discharged its terms of reference and has postively contributed to how well the Council has been run.

Recommendation(s):

That the Committee considers the contents of its draft Annual Report, and:

1. confirm that it adequately reflects the work done;

2. identify any changes to the draft report;

3. approves the Chairman to approve the final version and present the Audit Commitee Annual report to the Council.

Background

Audit Committee Role and Remit

1 The Audit Committee is a key element of the Councils governance and assurance framework. It provides 'insight' and 'comfort' (assurance) to the Council over its governance, risk and internal control environment. It plays a vital 'watchdog' role – ensuring transparency and demonstrating accountability.

"If management is about running the business – governance is about seeing that it is run properly"[1]

How has the annual report been prepared?

2 We set up a small working group – comprising of:

[1] Robert Tricker. An expert in Corporate Governance.

- Councillor Paul Wood – Audit Committee member
- Councillor Neville Jackson – Audit Committee member
- Mr Peter David Finch – independent added member of the Audit Committee
- Lucy Pledge – Audit and Risk Manager

The group reviewed other examples of Audit Committee annual reports and discussed the content of the report.

3 The draft Audit Committee Annual report (Appendix A) is presented to the Committee to discuss / agree whether it adequately reflects the work undertaken in the last year – specifically:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority

4 A number of workshops have been held in 2014. All designed to help improve the effectiveness of the Committee. The outcome from these has helped inform the work plan for 2014/15.

5 CIPFA's Better Governance Forum issued a briefing note on producing an Audit Committee Annual Report and assessing the Committee's performance. This is attached in Appendix B for information.

Conclusion

6 The Audit Committee has worked well with Officers to maintain effective governance arrangements. It has provided independent insight and challenge on the Councils strategic risks and key activities. This has in our view improved – decision making – accountability and transparency.

7 The Committees terms of reference has been adequately discharged in all areas – except reviewing the effectiveness of the Council's Standards regime. This activity has been included in the 2014/15 work plan.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Audit Committee Annual Report
Appendix B	CIPFA Better Governance Forum - Audit Committee Annual Report briefing June 2014

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522 553692 or lucy.pledge@lincolnshire.gov.uk.

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Audit Committee Annual Report

August 2014

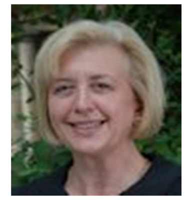
"Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management."

(Guidance from CIPFA the leading professional accountancy body for public services)

CONTENTS

FOREWORD

Councillor Mrs Susan Rawlins
Chairman of the Audit Committee



This is my first Annual Report as Chairman of the Audit Committee. It shows the Committee's work and achievements over the 12 month period to July 2014.

We have a wide range of activities that we have to do as a Committee – all designed to help provide comfort that the Council is being run well.

In summary, the Committee plays a vital 'watchdog' role – promoting and ensuring good governance and demonstrating accountability.

The status and independence of the Committee allow us to challenge how things are done and confirm appropriate processes are in place. Where we identify shortcomings, we act swiftly to ensure that they are rectified. This should give confidence to the Council, and the people of Lincolnshire, that the Council's overall governance arrangements and financial stewardship can be relied upon.

Audit Committee meetings are open to members of the public and I would encourage all to come along and see our work in action.

As Chairman of the Committee I have always seen training and development as a key priority for myself and the other members of the Committee to undertake our roles effectively. The Committee continues to have a full and extensive programme of training and this year has been no exception.

Finally, I should like to thank my Vice Chairman, other members of the Committee and officers for their contribution to its work.

MEMBERSHIP 2014/15

Chair – Cllr Mrs Susan Rawlins
Conservative Member for Welton Rural
Cllr Mrs Rawlins was elected in 2009 and has been Chair of the Audit Committee since June 2013 when she replaced Cllr B Young . Cllr Rawlins also sits on the Pensions Committee.

Vice Chair – Cllr Mrs Elizabeth Sneath
Conservative Member for Spalding Elloe.
Cllr Mrs Sneath was elected in 2013 and also sits on the Economic Scrutiny Committee.

Councillor Stuart Tweedale
Conservative Member for Ruskington and Cranwell
Cllr Tweedale was elected in 2013 and also sits on the Children and Young People Scrutiny Committee and the Lincolnshire Health and Wellbeing Board.

Councillor William Webb
Conservative Member for Holbeach Rural
Cllr Webb has served continuously since 2001 and also sits on the Planning and Regulation Committee

Councillor Neville Jackson
Labour Member for Lincoln Park
Cllr Jackson has served continuously since 1997 and sits on the Pensions Committee and the Value for Money Scrutiny Committee

Councillor Miss Felicity Ransome
UK Independence Party Member for Boston Coastal
Cllr Ransome was elected in 2013.

Councillor Paul Wood
Lincolnshire Independents Member for Hough
Cllr Wood was elected in 2013 and also sits on the Economic Scrutiny Committee and the Value for Money Scrutiny Committee.

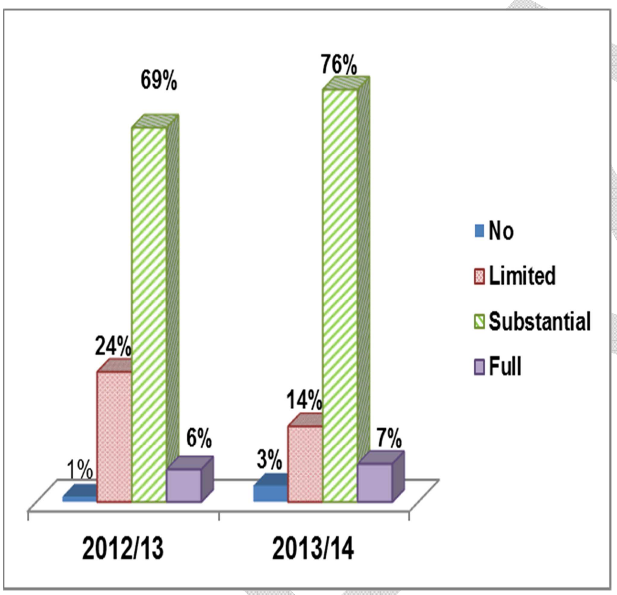
Independent Added Person: Peter David Finch

REVIEW OF THE YEAR

Governance and Internal Control

One of the key ways we obtain assurance on the Council's control environment is through the work undertaken by Internal Audit. We receive copies of all reports on work completed. The graph below shows assurance opinions provided by Internal Audit for 2013/14. Although Internal Audit looks at different activities each year, the assurances given provide an insight on the Councils' control environment. The graph shows a **increase** of positive assurance by ***8***% compared with previous year figures.

Service Areas - Assurance Levels



Key:
Full assurance – process operating effectively - no significant issues
Substantial assurance – some minor improvements required with medium / low risk issues to be addressed
Limited assurance – process not operating effectively with some medium / high risk issues to be addressed
No assurance – a number of high risk process failures identified to ensure service or system objectives are achieved

We have the ability to respond proactively to unforeseen events and escalate areas we have identified as a concern to the Executive and / or full Council. We have not needed to do this in the last year.

We play a key role in the development and approval of the Annual Governance Statement. The information included in this statement is reviewed and challenged by us to ensure that it reflects the current status of the Council's governance and control environment before it is presented to full Council. Areas for improvement identified within the Annual Governance Statement for 2014 include:

- Maintaining Good Governance
- Integration of Health and Social Care
- Responding to the Care & Support Bill
- Capacity to deliver
- Future Delivery of Support Services
- Safeguarding Children
- Ensuring all children have access to a good education
- Organisational Learning around the Libraries Judicial Review

Risk Management

Good risk management is part of the way the Council works. It is about taking measured risks when making decisions or where we need to encourage innovation in times of major change. This will put the Council in a stronger position to deliver its commissioning strategies and provide excellent services.

The Audit Committee is responsible for reviewing how effective the risk management procedures are, overseeing the update of the Council's Strategic Risk Register and ensuring that key risks are being well managed.

A recent Internal Audit has identified some opportunities to improve our risk management arrangements – particularly around reports to decision makers and decisions being made with full understanding of the risks involved.

Internal Audit

The Council's Internal Audit service is provided by an in-house team (Audit Lincolnshire). The performance of Internal Audit is reviewed through an annual assessment and benchmarking exercise.

Performance indicators have been set and these are reviewed on a quarterly basis. They delivered **98%** of the revised 2013/14 plan. Feedback on the service remains 'good to excellent'.

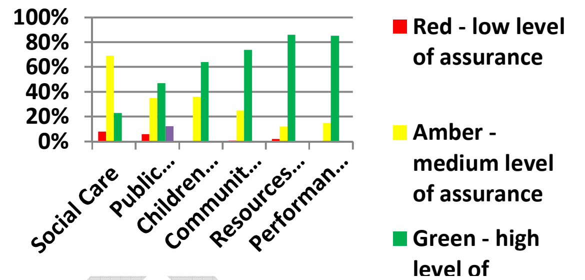
New Public Sector Internal Audit Standards were introduced from 1st April 2013. Audit Lincolnshire operate in conformance to these standards.

The Head of Audit provides us with an annual report each year summarising the outcome of internal audit work and giving an opinion on the Council's control environment. We review this report.

Implementation of agreed Internal Audit recommendations is tracked during the year. This ensures that audit recommendations are being implemented by management.

Over the past year management have implemented **86%** of the recommendations made by Internal Audit due by 31st March 2014. The Committee will continue to work with Internal Audit to improve implementation of recommendations and, where necessary, request explanations from Directors and Senior Manager on issues and actions being taken.

Working with Internal Audit each Director provided the Committee with a 'Combined Assurance – Status Report' showing the level assurances present across all critical activities, key risks and major projects in their service areas. Overall a good level of assurance was provided – see graph below:



All this work seeks to give assurance to the Council that its governance framework and assurance arrangements are fit for the future and working well.

External Audit

The Council's External Auditors are KPMG, who attend most of our meetings. They audit and provide an opinion on the Council's financial statements.

They also assess how well the Council manages its resources and provide value for money to the people of Lincolnshire.

Counter Fraud

Progress and delivery of counter fraud work is monitored through the Audit Committee with an Annual Report produced to provide information on the overall effectiveness of the Council's Counter Fraud arrangements.

We are dedicated to promoting a strong culture to prevent and detect fraud.

Our Counter Fraud policy and annual work plan for 2013/14 was designed to reduce the Council's exposure to the risk of fraud.

The Council recovered **£450k** from fraud and losses in 2013/14**.**

Financial Reporting

We reviewed the Council's financial statements for 2012/13 in June and September 2013. We asked questions on the content and format of the statements.

At the same time as we consider the financial statements we receive an Annual Governance report from the External Auditors on the work they carried out during the 2011/13 to discharge their statutory audit.

External Audit issued an unqualified audit opinion on the financial statements and the Council's arrangements for securing economy, efficiency and effectiveness of its use of resources.

We reviewed the financial statements for 2013/14 in June 2014. By asking questions (supported by an independent advisor) we help ensure the integrity of the Council's financial statements prior to audit / publication.

We have also asked officers to improve the explanatory forward to the financial statements to help the public understand the Council's management of public funds.

IMPACT & EFFECTIVENESS

Our work has resulted in promoting strong governance and internal control arrangements in the Council.

Relationships with senior managers and internal audit remain constructive and supportive even when difficult issues have been raised by the Committee.

Directors and Senior Management regularly attend the Committee to explain issues and actions to help the Committee to gain assurances around key risks. All this helps improve accountability.

Members of the Committee attended workshops and training sessions to help support their role and improve the effectiveness of the Committee. We undertook a self-assessment of the Committee effectiveness in March 2014.

We have discharged our role as set out in our terms of reference (with the exception of the review of the Council's standards regime).

We support the Audit Lincolnshire partnership formed between the County and City of Lincoln Internal Audit services. Making sure that the Council maintains an effective Internal Audit Service.

The work on risk management also acknowledges how we are striving to support the Council as it responds to transforming its services to meet the challenges of the future. There is a greater understanding throughout the Council of assessment and management of strategic risks.

As already mentioned the Council's External Auditor attends meetings. This annual report has been shared with them.

LOOKING AHEAD

In 2014/15 the Committee aims to continue to build on its role and will:

- Review the Council's risk management strategy and continue make good risk management integral to the way the Council conducts its business and makes informed decisions.
- Review the organisational learning arising from the Libraries Judicial Review – identifying any opportunities to improve our governance framework.
- Ensure that Council's governance framework remains fit for purpose. Maintaining good governance in complex environments and in times of significant change can sometimes be difficult. The Councils governance arrangements will need adapting to respond to the changing organisational environment.
- Understand the assurance framework through these times of change and associated with the Commissioning Strategies. Particularly the impact on the assurance framework resulting from these changes, for example, senior management review, fundamental budget review and the impact on the 1st and 2nd lines of assurance (management / corporate functions).
- Seek assurance that significant issues identified in the Annual Governance Statement are being addressed by management.
- Review the Committees terms of reference
- Review our work plan and identify ways we can work with other organisations in the Lincolnshire Audit Committee Forum.
- Continue with our training programme to help with the Committee effectiveness
- Produce the Council's annual governance statement for 2015.
- Support the development of the Lincolnshire Fraud Partnership Bid – accessing the £16.6 million set aside by the Government.
- Review of the effectiveness of the Council's standards regime, including how well the Council:
  - Has dealt with complaints
  - Promoted and maintained standards
  - Obtained assurance over the completeness and accuracy of the register of interests
- Review how the Audit Committee can seek assurance from other Scrutiny Committees.
- Seek assurances over the implementation of the new financial system (Agresso).
- Revisit the assurance over the Councils Business Continuity and IT Disaster Recovery plans.

APPENDIX 1 - Role of the Audit Committee – Terms of Reference

7.05 Audit Committee

There will be an Audit Committee consisting of eight members. Seven of the members will be Non-Executive Councillors and 1 member shall be an independent person who is not a Councillor or Officer of the Council.

Role:

- To fulfil the role of an Audit Committee in respect of the work of the Council

Functions:

Audit Activity

- to consider the Head of Internal Audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements
- to consider summaries of specific internal audit reports of significance or as requested
- to consider reports dealing with the management and performance of internal audit
- to consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
- to consider the external auditor's annual letter, relevant reports, and the report to those charged with governance
- to consider specific reports as agreed with the external auditor
- to comment on the scope and depth of external audit work and to ensure it gives value for money
- to liaise with the Audit Commission over the appointment of the Council's external auditor

Regulatory Framework

- to maintain an overview of the Council's Constitution.
- to review any issues referred to it by the Chief Executive, Director, or any Council body
- to monitor the effective development and operation of risk management and corporate governance in the Council
- to monitor Council policies on confidential reporting code, anti-fraud and

anti-corruption policy and Council's complaint process

- to oversee the production of the Council's Annual Governance Statement and to recommend its adoption
- to consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice
- to consider the council's compliance with its own and other published standards and controls

Accounts

- to review the annual statement of accounts. Specifically to 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
- to consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts
- duty to approve the authority's statement of accounts, income and expenditure and balance sheet

Standards

- promoting and maintaining high ethical standards by Councillors and non-elected members;
- assisting the Councillors and non-elected members to observe the Members' Code of Conduct;
- advising the Council on the adoption or revision of the Members' Code of Conduct;
- monitoring the operation of the Members' Code of Conduct;
- advising, training or arranging to train Councillors and non-elected members on matters relating to the Members' Code of Conduct;
- determining complaints of breaches of the Code of Conduct for Members referred for hearing by the Monitoring Officer ;

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CIPFA The Chartered Institute of Public Finance & Accountancy

Audit Committee Annual Reports

Briefing from the CIPFA Better Governance Forum

13 June 2014

Current CIPFA Guidance

CIPFA's Position Statement[1] states that audit committees should report regularly on their work and at least annually report an assessment of their performance. Further guidance on holding the audit committee to account is provided in *Audit Committees, Practical Guidance for Local Authorities and Police*[2]*.* The aspects to consider include:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority.

Preparing an Annual Report

An annual report can form part of the way in which the committee provides an account to its stakeholders. In preparing an annual report consideration should be given to the principal audience and primary purpose. Is it an assurance report to the governing body or is it a public document aiming to explain the work of the committee to a wider group of stakeholders? Although both are acceptable the different audiences are likely to influence the style and content of the document.

Examples of content:

- Explanation of the role of the committee.
- Statement of any guidance that has been adopted or compliance with any statutory requirements.
- Outline of the work of the committee in the year including:
    - how the terms of reference have been met
    - how the committee has added value/outcomes.

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[1] CIPFA 2013 http://www.cipfa.org/services/networks/better-governance-forum/corporate-governance-documentation/cipfa-position-statement-on-audit-committees

[2] CIPFA 2013 http://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-2013-edition-book

- Members of the committee and relevant background, attendance record.
- Training or development activity to support the committee members.
- Results of any performance assessment or evaluation, eg self-assessment, external review.
- Forward look, identifying forthcoming challenges the committee anticipates or planned changes to its composition etc.

Pitfalls to Avoid

Some annual reports reproduce their terms of reference or other documentation. While helpful to the user who wants to know more about the committee, this approach does tend to make the report lengthier and less focused on the issues that have arisen during the year. It is perhaps better to include internet links to terms of reference, agendas and minutes. Other pitfalls to avoid include:

- a lengthy narrative of the business of the committee but with little identification of the value added by the committee or the outcomes of its work
- adopting a generic template that varies little year on year, giving limited detail about the year just passed.

The Better Governance Forum is keen to promote sharing of annual reports. If you are happy to share your organisation's annual report with other Forum members please email a copy to Diana.melville@cipfa.org and we will include it on our website. You can view copies on our website here: http://www.cipfa.org/services/networks/better-governance-forum/corporate-governance-documentation/audit-committee-annual-reports

Agenda Item 9

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Public Protection

Report to:	**Audit Committee**
Date:	**22 September 2014**
Subject:	**Work Plan**

Summary:

This report provides the Committee with information the core assurance activites currently scheduled for the 2014/15 work plan.

Recommendation(s):

1. Review and amend the Audit Committee's work plan ensuring it contains the assurances necessary to approve the Annual Governance Statement 2015.

2. Consider the action plan designed to improve the effectiveness of the Committee and approve the way forward / dleivery of the actions.

Background

1. The work plan has been pulled together based on the core assurance activities of the Committee as set out in its terms of reference; best practice and the outcome of the recent workshops (see Appendix A).

2. There was also number of actions identified at the workshops where the Committee felt there were opportunities to improve. We have started to record these in the attached action plan – Appendix B.

3. Appendix C provides a check list to help the Committee to monitor its work plan against its terms of reference.

Conclusion

4. The work plan helps the Committee ensure that the Committee effectively delivers its terms of reference and keep track of areas where it requires further work and/or assurance.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Work Plan to March 2015
Appendix B	Action plan
Appendix C	Terms of Reference

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522 553692 or lucy.pledge@lincolnshire.gov.uk.

Appendix A

Audit Committee Work Plan – 2014/15		
22nd September 2014	**Assurances Required / Being Sought**	**Relevancy – Terms of Reference**
Core Business		
• Internal Audit Progress Report	Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment. Ensure management action is taken to improve controls / manage risks identified. Encouraging ownership of the internal control framework by appropriate managers Confirm appropriate progress being made on the delivery of the audit plan and performance targets	To consider reports dealing with the management and performance of internal audit To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
• External Audit Governance Report on the Audit of the Council's Financial Statements and their assessment of the Council's arrangements to secure Value for Money in its use of resources	Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements. Ensure any issues / risks identified are being effectively managed.	To consider the external auditor's annual letter, relevant reports and the report to those charged with governance. To consider specific reports as agreed with the external auditor. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts
• Approval of the Council's Annual Governance Statement 2014	Confirm that the final Annual Governance Statement accurately reflects the Committees understanding of how the Council is run and any comments made on the draft have been acted upon.	To oversee the production of the Council's Annual Governance Statement and to recommend its adoption To consider the Council's compliance with its own and other published standardards and controls.

Audit Committee Work Plan – 2014/15		
• Approval of the Council's Statement of Accounts for 2013/14	Consider the outcome of the External Audit and the appropriateness of management responses. Ensure that the explanatory forewords to their accounts help the public understand the authority's financial management of public funds.	To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit hat need to be brought to the attention of the Council Duty to approve the authority's statement of accounts, income and expenditure and balance sheet.
• Review of draft Annual Report on the work of the Audit Committee	Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.	
24th November 2014	**Assurances Required / Being Sought**	**Relevancy – Terms of Reference**
Core Business		
Counter Fraud Progress Report	Confirm that the Council's counter fraud activity is targeted and effective. Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan. Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk	To monitor Council policies on confidential reporting code, anti-fraud and anti-corruption policy and the Council's compalints process.[1]
Risk Management – Update of Financial Procedure	Gain assurance that the Council is effectively managing its key.	To monitor the effective development and operation of risk management and corporate governance in the Council
Other Assurance		
Invite Executive Directors to a meeting to look in more depth at their assurance arrangements – seeking assurance that: • We are maintaining good governance during	Gain understanding of the impact of change on the Council's governance, risk and control arrangements. Seeking assurance that they continue to work well.	To review any issues referred to it by the Chief Executive, Director or any council body To consider the Council's compliance with its own

Audit Committee Work Plan – 2014/15		
times of change. • Understand the assurance framework through times of change and associated with the Commissioning Strategies. Particularly the impact on the assurance framework resulting from these changes, for example, senior management review, fundamental budget review and the impact on the 1st and 2nd lines of assurance (management / corporate functions).		and other published standardards and controls.
Review of Council's standards regime	Gain assurance that officers and members promote and maintain high standards expected in public life.	Promoting and maintaining high ethical standards by Councillors and non-elected members Assisting the Councillors and non-elected members to observe the Members' Code of Conduct Advising the Council on the adoption or revision of the Members' Code of Conduct Monitoring the operation of the Members' Code of Conduct; Advising, training or arranging to train Councillors and non-elected members on matters relating to the Members' Code of Conduct; Determining complaints of breaches of the Code of Conduct for Members referred for hearing by the Monitoring Officer
26th January 2015	**Assurances Required / Being Sought**	**Relevancy – Terms of Reference**
Core Business		
• Internal Audit Progress Report	Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment. Ensure management action is taken to improve controls / manage risks identified	To consider reports dealing with the management and performance of internal audit To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale

Audit Committee Work Plan – 2014/15		
	encouraging ownership of the internal control framework by appropriate managers Encouraging ownership of the internal control framework by appropriate managers Confirm appropriate progress being made on the delivery of the audit plan and performance targets	
• External Audit Progress Report and Plan	Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed. Note: Further assurance needed around impact / risks associated with early close down.	To comment on the scope and depth of external audit work and to ensure it gives value for money
• Update on action re Annual Governance Statement 2014	Gain assurance that management have progressed the agreed actions associated with the significant issues / key risks identified in the Annual Governance Statement.	To oversee the production of the Council's Annual Governance Statement and to recommend its adoption To consider the Council's arrangments for corporate governance and agreeing necessary actions to ensure compliance with best practice
• Review of Accounting Policies	Seek assurance that the Council has appropriate accounting policies in place to ensure that items are treated correctly in the accounts.	To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit hat need to be brought to the attention of the Council
Other Assurance		
• Combined Assurance Status Reports	Understand the level of assurances being provided on the Council's critical systems, key risks and projects and how they link to the Committees role and remit and the Annual Governance Statement.	To consider the Council's arrangments for corporate governance and agreeing necessary actions to ensure compliance with best practice

Audit Committee Work Plan – 2014/15		
March 2015	**Assurances Required / Being Sought**	**Relevancy – Terms of Reference**
Core Business		
• Draft Internal Audit Plan 2015/16	That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion. Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year. Ensure that the Internal Audit Resource has sufficiently capacity and capability to deliver the plan. Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.	To consider reports dealing with the management and performance of internal audit
• Draft Counter Fraud Plan 2015/16	Gain assurance that the Council has effective arrangements in plane to fight fraud locally. Ensure that counter fraud resources are targeted to the Council's key fraud risks.	To monitor Council policies on confidential reporting code, anti-fraud and anti-corruption policy and the Council's compalints process.
• International Audit Standards on the risks associated with the impact of potential fraud and error on the Financial Statements	Seek assurance that the statements made against the standard accurately reflect the Council's counter fraud arrangements.	To monitor Council policies on confidential reporting code, anti-fraud and anti-corruption policy and the Council's complaints process.
• Risk Management Progress Report	Gain assurance that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept. That there has been on big surprises for the Council where it suffered significant financial loss or reputational damage.	To monitor the effective development and operation of risk management and corporate governance in the Council

Audit Committee Work Plan – 2014/15			
• External Audit Grant Certification Report	Seek assurances that claims and returns have been managed appropriately and that there are no significant errors that would result in loss of funding.		
• External Audit Progress Report	Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed. Note: Further assurance needed around impact / risks associated with early close down.	To comment on the scope and depth of external audit work and to ensure it gives value for money	
Other Assurance			

Appendix B

Audit Committee Action Plan – 2014/15			
Action	**Terms of Reference Outcome**	**Key Delivery Activities**	**Who by and When**
Understanding the role and remit of the VfM Scrutiny Committee and being clear about what and how the Audit Committee will seek assurance from it.			
Clarify who should attend the Audit Committee and expectations on the information being presented.			
Undertake a skills and knowledge survey to review and establish any training and development needs as a whole Committee.			

Action	Terms of Reference Outcome	Key Delivery Activities	Who by and When
Reviewing and encouraging transparency in partnership decision making. Understand and seek assurance over the governance and risks associated with our key partners. Facilitate risk management training and awareness for members and staff. To clarify the understanding of the level of risk the Council is prepared to accept across its key activities / business units.			

Action	Terms of Reference Outcome	Key Delivery Activities	Who by and When
Ensure that the 'independent' member is provided with same information as elected members			
How the Committee meets its terms of reference re: • Overview of the constitution • Monitoring the Council's complaint process			
Review of the Committee's Terms of Reference in light of revised CIPFA guidance			

Other areas that the Committee may wish to consider including within its work plan are:

- Compliance with the transparency code
- Outcome of whistleblowing commission

Audit Committee Work Plan for 2014/15 – Terms of Reference **Appendix C**

Terms of Reference of the Audit Committee	23 June 2014	21 July 2014	22 Sept 2014	24 Nov 2014	26 Jan 2015	30 Mar 2015	22 June 2015	20 July 2015	21 Sept 2015	23 Nov 2015
Audit Activity:										
To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's Corporate Governance arrangements.		✓								
To consider reports dealing with the management and performance of internal audit	✓		✓		✓		✓		✓	
To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale	✓		✓		✓		✓		✓	
To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.			✓							
To consider specific reports as agreed with the external auditor.										
To comment on the scope and depth of external audit work and to ensure it gives value for money **N/A**										

Audit Committee Work Plan for 2014/15 – Continued

Terms of Reference of the Audit Committee	23 June 2014	21 July 2014	22 Sept 2014	24 Nov 2014	26 Jan 2015	30 Mar 2015	22 June 2015	20 July 2015	21 Sept 2015	23 Nov 2015
To liaisse with the Audit Commission over the appointment of the Council's external auditor. **N/A**										
Regulatory Framework										
To maintain an overview of the Council's constitution.										
To review any issues referred to it by the Chief Executive, Director or any council body										
To monitor the effective development and operation of risk management and corporate governance in the Council	✓					✓			✓	
To monitor Council policies on confidential reporting code, anti-fraud and anti-corruption policy and the Council's compalints process.[1]			✓				✓			
To oversee the production of the Council's Annual Governance Statement and to recommend its adoption		✓	✓		✓			✓	✓	
To consider the Council's arrangments for corporate governance and agreeing necessary actions to ensure compliance with best practice		✓								
To consider the Council's compliance with its own and other published standardards and controls.										
Accounts										

[1] Whistleblowing and Counter Fraud only

Terms of Reference of the Audit Committee	23 June 2014	21 July 2014	22 Sept 2014	24 Nov 2014	26 Jan 2015	30 Mar 2015	22 June 2015	20 July 2015	21 Sept 2015	23 Nov 2015
To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit hat need to be brought to the attention of the Council		✓	✓		✓					
To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts			✓							
Duty to approve the authority's statement of accounts, income and expenditure and balance sheet.			✓							
Standards										
Promoting and maintaining high ethical standards by Councillors and non-elected members;										
Assisting the Councillors and non-elected members to observe the Members' Code of Conduct;										
Advising the Council on the adoption or revision of the Members' Code of Conduct:										
Monitoring the operation of the Members' Code of Conduct;										
Advising, training or arranging to train Councillors and non-elected members on matters relating to the Members' Code of Conduct;										
Determining complaints of breaches of the Code of Conduct for Members referred for hearing by the Monitoring Officer										

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