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County Offices
Newland
Lincoln
LN1 1YL

12 July 2013

**Audit Committee**

A meeting of the Audit Committee will be held on **Monday, 22 July 2013 at 1.15 pm 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), J W Beaver, N I Jackson, S M Tweedale, W S Webb and P Wood

**Voting Added Member**

Mr P D Finch

**AUDIT COMMITTEE AGENDA**
**MONDAY, 22 JULY 2013**

Democratic Services Officer Contact Details

| | |
|---|---|
| Name: | **Rachel Wilson** |
| Direct Dial | **01522 552107** |
| E Mail Address | rachel.wilson@lincolnshire.gov.uk |

**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**
**24 JUNE 2013**

**PRESENT: COUNCILLOR MRS SUSAN RAWLINS (CHAIRMAN)**

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

Also In attendance – Mr P D Finch (Independent Added Person)

Councillor M Jones attended the meeting as an observer

Officers in attendance:-

David Forbes (Assistant Director Finance and Resources), Stephanie Kent (Audit Manager), Lucy Pledge (Head of Audit and Risk Management), David Powell (Head of Emergency Planning), Tony Crawley (KPMG), Mike Wood (KPMG), Julie Castledine (Principal Auditor) and Derek McKim (Business Continuity Manager)

1 APOLOGIES FOR ABSENCE

There were no apologies for absence.

2 DECLARATIONS OF MEMBERS' INTEREST

It was requested that the following interests were noted:

Councillor W S Webb – Governor of Holbeach University Academy

Mrs P D Finch – Co-opted member of the Priory Academy Audit Committee

3 MINUTES OF THE MEETING HELD ON 22 APRIL 2013

RESOLVED

That the minutes of the Audit Committee held on 22 April 2013 be confirmed and signed by the Chairman as a correct record.

4 COMBINED BUSINESS CONTINUITY MANAGEMENT AND EMERGENCY RESPONSE AND RECOVERY ASSURANCE REPORT

Consideration was given to a report which provided the Audit Committee with an insight on the assurances received from the Council's critical services and support services with regards to Business Continuity Management and Emergency Response and Recovery.

The Committee was informed that the overall business continuity assurances had come from heads of service and were challenged through the Business Continuity Team. During the last year the Business Continuity Team had tested all of the Council's critical services, and the general opinion was that there was a medium to high level of assurance with them. The resilience of the Communication and Property Services had also been assessed as they provided essential support to critical services.

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:

- The business continuity management response assessment of External Command and Control was listed as unknown as an internal response by the Corporate Incident Management Team had not yet been obtained;
- The Authority's ability to work with partner organisations had been tested through various situations and exercises such as exercise Georgiana, but there was still a degree of internal training required as people changed posts;
- The Environmental Scrutiny Committee would receive a full report into the summer floods of 2012;
- Solutions to ICT concerns were in development and a report was scheduled to be brought to the next meeting of the Audit Committee;
- Work was ongoing on the FDSS project, and it was very clear that there would be a requirement for the successful contract to provide ICT resilience;
- The Council remained highly dependent on ICT. Since the ICT outage in late 2010, significant improvements had been made with ICT Disaster Recovery and the resilience of the ICT service. The key risk was still the lack of a secondary data centre, but options were being investigated;
- A lot of technical work had been carried out on the Cross Keys Bridge at Sutton Bridge in the past year. Contingency plans were also in place in relation to staff. Desk top exercises had been undertaken with the service area. It was acknowledged that this could be a suitable area for a future 'live' exercise;

RESOLVED

That the current status with combined assurance report be noted.

5 <u>SUMMARY OF SCHOOL AUDIT WORK 2012/13</u>

The Committee received a report which provided information in relation to the work which had been completed in schools by Internal Audit during 2012/13.

It was reported that audit visits were undertaken on a five year cycle and during 2012/13 a number of interim 'healthchecks' had also been completed. These visits focused on key areas such as budget setting, budget monitoring and medium term financial planning. Schools were also asked to make a self-assessment of the controls within their financial processes and to follow up the implementation of previous audit recommendations.

The issues which were identified during the course of the audits and 'healthcheck' visits were the same as the findings from the work carried out in 2011/12. It was planned to highlight these key themes and the controls expected through a 'top tips' article in the Schools' Bulletin in the autumn.

The Committee was informed that following changes to school funding arrangements in April 2013 the authority was no longer able to undertake a programme of 'healthcheck' visits to maintained schools. However, this service was being offered to schools for a fee and there was some interest. The internal audit service was being marketed to Academies, whilst they were not legally obliged to have an internal audit service, they needed to have arrangements in place for independent checking of financial controls, systems, transactions and risks.

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

- Approximately 70 maintained schools were visited per year;
- There was only one school which was given 'no' assurance, but officers have been back and the school had started to implement changes;
- The government had introduced additional mechanisms designed to strengthen and improve the accountability of academies for financial controls. This included the introduction of Audit Committees for large and multi-academy trusts;
- The authority was aware of the schools which needed more robust processes;
- The authority would continue to provide healthchecks to those schools that requested them, and Internal Audit had a working relationship with Children's Services;
- Schools' Forum was very important in terms of providing advice on school funding and finances. Money had previously been made available to improve audit services in schools, but due to changes in funding this was no longer available;
- Schools were showing an interest in buying in these services;
- Head teachers could be appointed with no financial training, and were very reliant on school administrators;
- School governors were offered a significant amount of training, but it was important to ensure that this training was taken up by those who needed it;
- The results of school audit visits were available to Ofsted

RESOLVED

That the information presented within the report be noted.

6 COUNTER FRAUD ANNUAL REPORT 2012/13

Consideration was given to a report which provides information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviewed the delivery of the 2012/13 counter fraud work plan.

The Committee was informed that that the Counter Fraud Annual Report provided an overview of the proactive and investigation work completed over the year.

It was reported that during the 2012/13 year, 14 potential fraud referrals were received, which was a slight drop on previous years. The total estimated value of fraud associated with live cases was £689,675. The misuse of service user finances was the most common area of fraud for this year, although it was the lowest in value, but it had been a common theme over the past four years. The other most common types of fraud experienced included abuse of position, misuse of assets, procurement fraud and timesheet abuse.

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:

- A fraud awareness campaign would be run in the coming year;
- The whistle blowing mechanism was being well used;
- The whistleblowing arrangements were not actively promoted to service users, but key practitioners were made aware of the Council's whistleblowing process. Some referrals and requests for advice had been received from social workers. Contact points were highlighted to people in case they had concerns;
- Officers clarified how fraud occurred through blue badge misuse, and it was also noted that this was more of a problem in bigger cities;
- The financial regulations and scheme of delegation which were set out in the Constitution were reviewed regularly;
- From an external audit point of view, an assessment of progress against the National Fraud Indicators needed to be carried out, and Lincolnshire was currently assessed as 'green';
- A number of scripts had been developed which could analyse large quantities of data and identify unusual spending trends in creditor payments – this approach would be used in other areas over the next few years;
- Procurement was still one of the highest fraud risk area in local government;
- A new system in Adult Social Care would be able to interrogate financial and service user information;
- Over the last few years, the Counter Fraud team had been strengthened;

RESOLVED

That the overall effectiveness of the Council's arrangements to counter fraud and corruption, and the progress made to implement policy be noted.

7 INTERNAL AUDIT ANNUAL REPORT - 2013

The Committee received a report which provided the opinion of the Head of Internal Audit on the adequacy of the Council's governance and control environment and delivery of the Internal Audit Plan for 2012/13.

Whilst there was satisfaction that the overall standard of internal control for the financial year ending 31 March 20132 was 'performing adequately', the work did identify some areas of improvement. These areas of improvement were in Adult Care around referrals, assessment process, case management and recording and risk assessment; Performance and Governance – maintaining ICT resilience; and in Resources and Community Safety around the management of fuel stock to Fire and Rescue. It was recommended that these areas were included in the Annual Governance Statement.

The Committee was 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:

- There was disappointment that some of the actions regarding the Fire and Rescue fuel use did not seem to have been implemented. It would be reported back to the Committee at a later date how the actions were being implemented;
- It was queried whether the outstanding recommendations in relation to the Coroner's Office would affect the service being provided;
- Internal Audits were carried out by an in-house team from the Corporate Audit and Risk Management section. External Audit was provided from outside the Council by KPMG who were appointed by the Audit Commission. Internal Audit also provided a service to a number of Lincolnshire District Councils and to Newark and Sherwood District Council;
- An action plan would be put together following the publication of the Annual Governance Statement which would set out the key milestones and deadlines for the areas for improvement which had been identified;

RESOLVED

1. That the content of the Internal Audit Annual Report be noted;
2. That further information be provided to the Committee in relation to the issues highlighted with the Fire and Rescue fuel use and the Coroner's office;

8 WORK PLAN

Consideration was given to a report which provided the Committee with information on agreed actions and its work plan up to November 2013.

The Committee was reminded that there would be training taking place in the morning of 22 July 2013 prior to the meeting, in relation to consideration of the Council's financial statements.

It was also clarified that the meeting in September would be held on the 23rd of the month.

The following changes to the work plan were put forward;

- Internal/External Audit Protocol – move to 23 September 2013 meeting
- Annual Audit Letter – 11 November 2013

RESOLVED

1. That the progress of agreed actions as set out in appendix A to the report be noted;
2. That the work plan set out in Appendix B of the report be noted subject to the above changes.

The meeting closed at 11.37 am

**Regulatory and Other Committee**

| Open Report on behalf of Glen Garrod, Executive Director of Adult Social Services |
|---|

| | |
|---|---|
| Report to: | **Audit Committee** |
| Date: | **22 July 2013** |
| Subject: | **Assurance Status Report - Adult Care** |

**Summary:**

The aim of this report is to provide the Audit Committee with an insight on the assurances accross all critical services and key risks in Adult Care

**Recommendation(s):**

That the Committee:

1. notes the current status of the Adult Care assurance regime and make recommendations on any further scrutiny required; and
2. provide feedback on any changes it may wish for future reports of this type.

**Background**

The first Adult Care combined assurance report was presented to the Committee in November 2012. The Committee requested that they be presented with an update on the assurances in place across the Adult Care critical activities – this is the purpose of this report.

Internal Audit have co-ordinated the assurance information available from management, our corporate functions / third parties and Internal Audit with the overall assurance opinion being determined by Glen Garrod (DASS).

The combined assurance gives an overview of assurance provided across the whole Council – not just those from Internal Audit – making it possible to identify where assurances are present, their source, and where there are potential assurance 'unknowns or gaps'.

Internal Audit have triangulated information to help ensure that it 'stacks up' and applied some constructive challenge on the assurance opinions being given **but** as accountability rests with management it is senior managers views that have determined the overall assurance status. This is in line with a control environment that promotes a culture where we:

- take what we have been told on trust
- encourages accountability with those responsible for managing the service
- provide some independent challenge / insight where appropriate.

Directorates work well with Internal Audit, highlighting areas for review where independent challenge adds value and complements internal and external reviews.

Attached in Appendix A is the detailed report for consideration by the Committee.

**Conclusion**

The scale and pace of change in Adult Care is pronounced and unlikely to change in the medium term. Notwithstanding the transformation required their primary purpose is to work with the most vulnerable adults in our communities, to help them achieve more, stay at home and keep them safe from abuse. Adult Care understand the value of working together with the people who need their advice and support, their families, their wider community, statutory partners and organisations providing support. The resources Adult Care have including their people and money will be directed to achieving this. The 5 priorities for 2013/14 are:

1. A balanced budget out-turn
2. Improved performance
3. Integration with Health
4. Established plans for the delivery of key elements of Adult Care transformation
5. A set of quality indicators

The overall position for Adult Care has improved since October. However, continued vigilance is required to ensure momentum is maintained.

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**Consultation**

**a) Policy Proofing Actions Required**

N/A

**Appendices**

| These are listed below and attached at the back of the report | |
|---|---|
| Appendix A | Combined Assurance Status Report - Adult Care |

**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 Glen Garrod, who can be contacted on 01522-550808 or glen.garrod@lincolnshire.gov.uk.

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# Combined Assurance

## *Status Report*
## *Adult Care*


**Date: July 2013**

Lincolnshire
COUNTY COUNCIL

# Contents




**Contact Details**

Glen Garrod, Director of Adult Social Services
Tel: 01522-550808
Orchard House, Orchard Street, Lincoln LN1 1BA

# Introduction

This is an updated combined assurance report following the development of the combined assurance map first reported in October 2012.

We have again worked with management to show what assurances the Council currently has on the areas of the business that matter most – highlighting where there may be potential assurance 'unknowns or gaps'.

We gathered and analysed assurance information in a control environment that:

- takes what we have been told on trust, and
- encourages accountability with those responsible for managing the service.

Our aim is to give Senior Management and the Audit Committee an insight on assurances across all critical activities and key risks, making recommendations where we believe assurance needs to be stronger.

## Scope

We gathered information on our:

- **critical systems** – those areas identified by senior management as having a significant impact on the successful delivery of our priorities or whose failure could result in significant damage to our reputation, financial loss or impact on people.
- **due diligence activities** – those that support the running of the Council and ensure compliance with policies.
- **key risks** – found on our strategic risk register or associated with major new business strategy / change.
- **key projects** –supporting corporate priorities / activities.

## Methodology

We have developed a combined assurance model which shows assurances across the entire Council, not just those from Internal Audit. We leverage assurance information from your 'business as usual' operations. Using the '3 lines of defence' concept:


Our approach includes a critical review or assessment on the level of confidence the Board can have on its service delivery arrangements, management of risks, operation of controls and performance.

We did this by:

- Speaking to senior and operational managers who have the day to day responsibility for managing and controlling their service activities.
- Working with corporate functions and using other third party inspections to provide information on performance, successful delivery and organisational learning.
- Using the outcome of Internal Audit work to provide independent insight and assurance opinions.
- We used a Red (low), Amber (medium) and Green (high) rating to help us assess the level of assurance confidence in place.
- The overall assurance opinion is based on the assessment and judgement of senior management. Internal audit has helped co-ordinate these and provided some challenge **but** as accountability rests with the Senior Manager we used their overall assurance opinion.


# Key Messages

The scale and pace of change in Adult Care is pronounced and unlikely to change in the medium term. Notwithstanding the transformation required our primary purpose is to work with the most vulnerable adults in our communities, to help them achieve more, stay at home and keep them safe from abuse. We understand the value of working together with the people who need our advice and support, their families, their wider community, statutory partners and organisations providing support. The resources we have including our people and money will be directed to achieving this.' Our 5 priorities for 2013/14 are:

1. A balanced budget out-turn
2. Improved performance
3. Integration with Health
4. Established plans for the delivery of key elements of Adult Care transformation
5. A set of quality indicators

We have also strengthened our programme management arrangements to help ensure all developments and changes are successfully managed.

Safeguarding Adults is being placed on a similar statutory footing to that which exists for Children. The work to safeguard vulnerable adults is evolving quickly and is expected to be given more policy direction once the Care and Support Bill becomes enacted (currently before Parliament). The pre-existing Safeguarding Adult Board is chaired by an independent person and has commenced a programme to strengthen its assurance and governance framework.

The overall position for Adult Care has improved since October as can be seen from the two figures below. However, continued vigilance is required to ensure momentum is maintained.

**Figure 1 - October 2012**

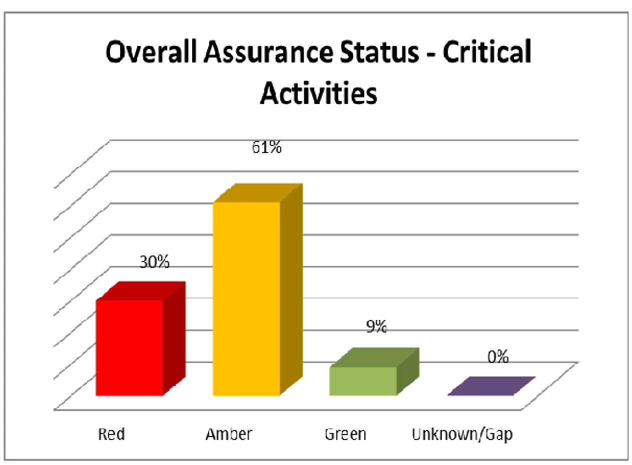
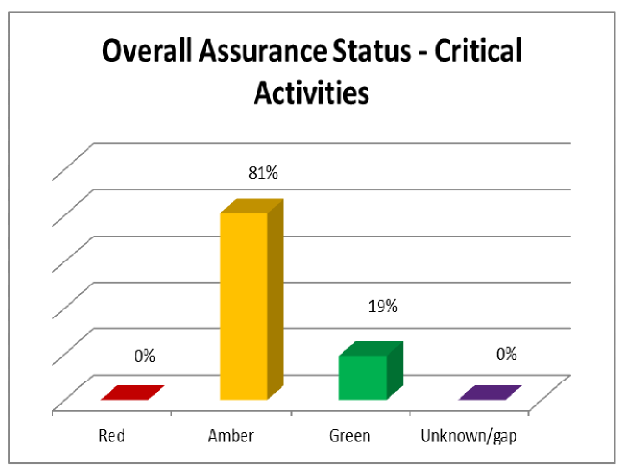



**Figure 2 - July 2013**



# Key Messages

**What our customers say?**

Overall customer feedback is positive with people surveyed by Touchstone stating they were confident in the work we do (80%) and that they felt their needs were met (80%). Many customers were overall very pleased with the service and the help that they have been offered from Adult Care. A review of touchstone is currently underway, with the intention to extend the sample size to include people who have been receiving services over a longer period of time.

Adult Care have also recently commissioned Age UK to undertake a regular independent face to face survey to gather information about people's experience of adult care.

Complaints are reported to Adult Scrutiny Committee on a quarterly basis as part of a report of customer satisfaction. The total number of complaints received in 2012/13 was 252, which is a significant decrease compared to 2011/12 where 396 were received. The highest number of complaints concern disagreement with policy or decision. Adult Care have introduced a mandatory feedback that identifies lessons learned and action taken as a result of complaints

**Moving forward**

Adult Care continues to face a substantial change programme grouped here into 3 headings. Each has relevance to the 5 priorities identified.

1. A Transformation Programme for all major projects. This programme has developed a new blueprint for the department which is currently under discussion as part of health and social care reform.
2. Integration with Health – reflecting the national policy context for Adult Care with NHS partners in Lincolnshire.
3. Adult Care performance and quality improvement.

Several developments are taking place to enhance the safeguarding work for adults (examples are):

- A dedicated training plan for improving practice across all agencies is being organised for 2013/14 and 2014/15.
- Improved assurance and governance framework.
- The introduction of joint policy and procedures based upon best practice elsewhere
- Increased resources to support the work of the Safeguarding Adult Board

# Critical Systems

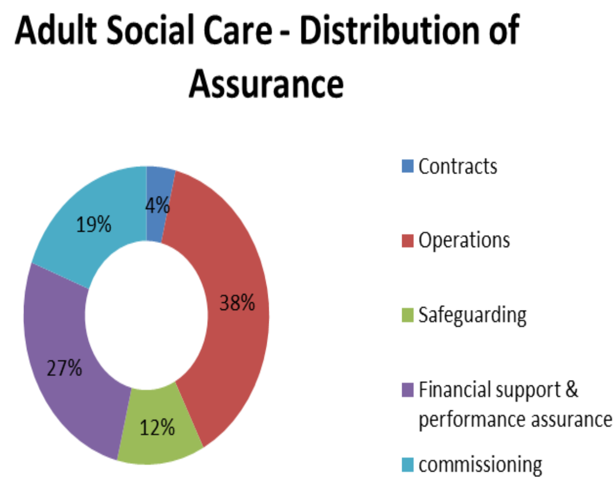
The current social care system is not meeting the needs of practitioners or management and is inflexible to the changing needs of social care. A corporate programme, CMPP, has begun the procurement of a replacement care management system for adults, childrens and public health. The requirements for a new system have been specified and adults are working closely with the corporate programme to redefine the customer journey.

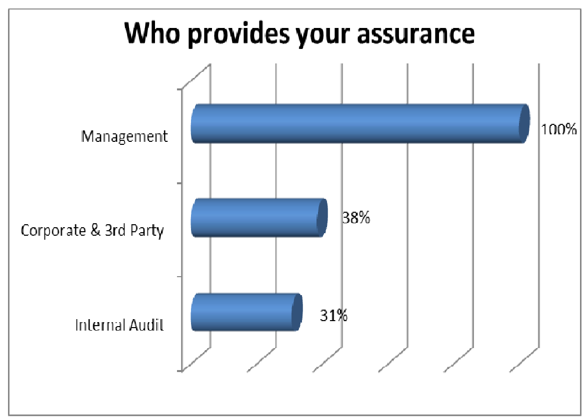
A specialist financial system for Adult Social Care is currently provided by the Abacus application. The system was upgraded in December 2012 to enable faster processing of direct payments and more robust financial information. The upgrade has been successful. Activity is now monitored regularly by the Departmental Performance Board (DPB).

Whilst improvements to systems/software helps, ASC recognises that data quality is itself in need of both improvement and regular checks. Recording practice is a key area of focus across adult care, with the development of Operational Scorecards for key service areas which include data quality analysis. This provides a regular opportunity to assess improvements to data quality and identify problem areas. A suite of reports have also been created for managers and supervisors to generate exception reports on missing or incorrect data.

Performance continues to improve in a number of critical areas including:

- 100% of people who are eligible for a personal budget now receive one
- Annual review activity for 2013/13 exceeded 80% compared to the 11/12 outturn of 48%. Performance to the end of May 2013 is ahead of target
- Improvements in brokering of homecare with 96.5% of home support provided within 7 days
- Our in-house reablement service continues to improve outcomes for people, increasing the proportion of people successfully reabled from 34.5% in 2011/12 to 48.6% in May 2013.



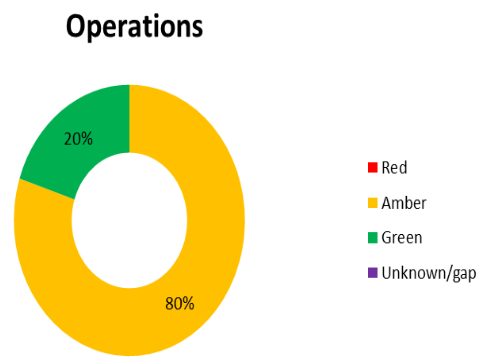

Our assurance arrangements are working effectively. Management have provided assurance on all of the critical systems and key risks. They have provided a realistic picture to enable Board oversight and monitoring of improvement action and change.

The Service works well with the Council's Corporate Functions and Internal Audit who provide independent challenge and insight. Recommended improvements resulting from Internal Audit work are monitored and tracked through the Audit Committee.

The pace of implementation of recommendations which would result in improved assurances has been affected by transformation programmes.

# Operations

The service remains under pressure due to increased activity and the implementation of the personalisation agenda, however, the risks and challenges have been identified by management and are being addressed.




**Older People / Physical Disability**
Improvements have continued across these teams. Key areas of performance improvement include:

- 100% of eligible service users are now being offered and/or receiving a personal budget
- Review rates have increased from below 50% in 2011/12 to over 81% in 2012/13

Staffing structures and teams have continued to be monitored. It is recognised that it is an ongoing process to reshape the service to continue to meet customer demands. We are also introducing measures to improve the quality of care management. Recent changes include the introduction of quality standards for Practitioners, case file audits, and obtaining face to face service user feedback through joint working with Age UK.

Discussions continue to take place regarding the future delivery arrangements of the Lincolnshire Assessment and Reablement Service (LARS). The Integrated Pathway project in the East of the County is proving to be successful and we plan to roll this out across the County by Winter this year. Performance is measured in terms of service user outcomes on leaving reablement. Improvements have been made to the numbers of people requiring no further services, or being readmitted to hospital.

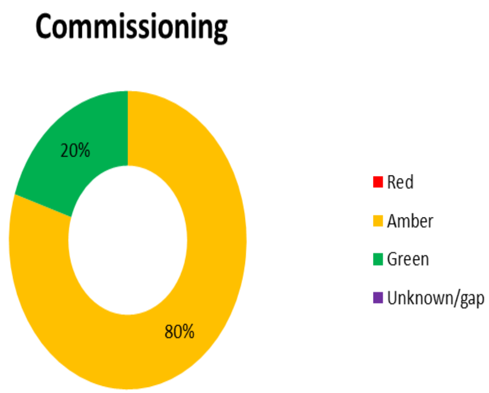
**Learning Disability**

An Assistant Director has now been appointed and will be responsible for the learning disability and mental health services. This will be on an integrated basis with NHS Commissioners across Lincolnshire.

Performance has continued to improve across the service. Over 90% of LD reassessments were undertaken by the end of 2012/13 – this is the highest rate that the team have ever achieved. The LD overspend is also reducing. Monthly meetings take place with finance colleagues to continually monitor the situation.

The team continues to work well with service users being transitioned from Children's service. Practitioners work with service users and their families early to make the transition as smooth as possible. Further work is required to ensure that the team are aware of all transition cases – it is anticipated that further improvements will be made once the new care management system is introduced.

The assurance status has improved since the last report as anticipated, and there are no longer any 'red' areas on the map. Further work is required to ensure this trend continues.




## Commissioning

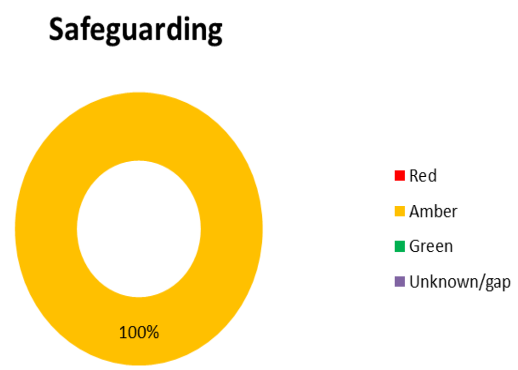
Significant work has been undertaken within Adult Care to reprofile commissioning processes and activity within the department. This has resulted in a renewed approach to commissioning through the Policy and Development Team, taking a more organised approach to strategy development through a dedicated Policy Team that feeds into a Service Development Team who translate strategy into services. Project Management methodology is used. This ordered approach has seen activity managed more effectively.

We have been working closely with colleagues around developing and implementing the Commissioning Council Programme, and are trialling a number of documents and approaches on behalf of the Programme within the directorate commissioning activity.

We continue to develop relationships with the market and have taken a number of co-productive and partnership approaches to service development to build on the ongoing provider forums and relationship management.

The current assurance status demonstrates the level of change within how we undertake our commissioning function, even if it does not successfully demonstrate progress. However, progress has been made and the systems that are in place and are being developed – alongside the corporate programme – will result in increased assurance in the future.

We work closely with colleagues in Procurement Lincs to ensure the supply of services from independent providers is secure and operating at an appropriate level of quality. The quality assurance function of Adult Care has also been strengthened to facilitate this and further improvements to quality assurance are expected by Autumn 2013.

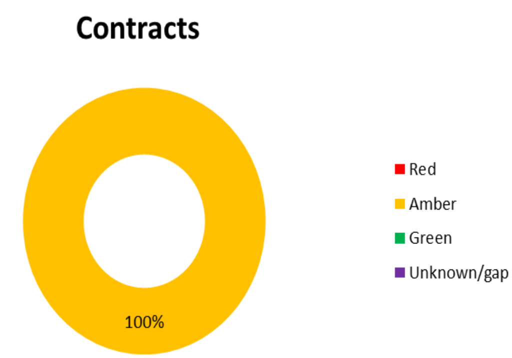



## Safeguarding

We have appointed a new Independent Chair of the Adult Safeguarding Board.

The Chair has agreed a plan with the Director to strengthen business support and performance management, which will be progressed through 2013. In addition, substantial funds have been allocated to workforce development to enhance practices in 2013/14 and 2014/15.

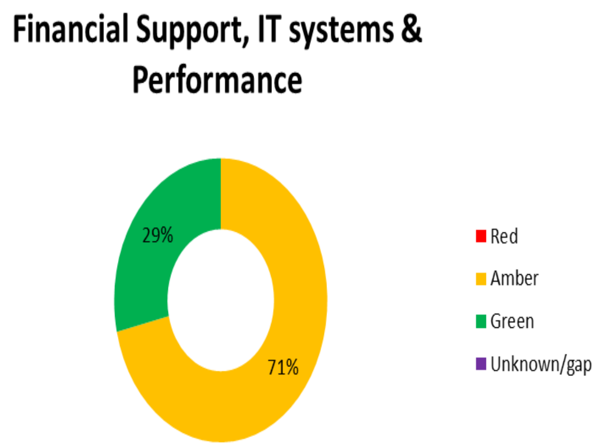
## Contracts




Procurement Lincs manages the Contracting function on behalf of Adult Care. It has been very active in driving forward improvements in contract management and relationships with the independent and third sector. Good progress has been made in a number of key areas including:

- Implementation and acceptance by the majority of providers on the Residential Care Framework
- Pro-active work to support the development of the Firefly (electronic contract management system) with the majority (97% plus) of contracts placed on the Firefly Contracts Register
- Further development of Firefly is under way to include central storage of intelligence and contract and quality compliance data
- Contract Management Framework went live in July 2013 and further development work is on-going to ensure continuous improvement of Contract & Quality monitoring of Adult Care providers.
- Significant work has been undertaken to strengthen contract compliance in ASC. Contract officers have worked with the Quality Assurance and Safeguarding teams to develop a robust Contract Management protocol which sets out roles and responsibilities for staff involved in contract management/monitoring. Standard operating procedures support the process. ASC Contract officers are going through a comprehensive training programme which should be complete by the end of August.
- Positive engagement with the Third Sector, Voluntary & Community Groups to encourage greater inclusion of Small to Medium sized Enterprises(SME's), Social Enterprises and local voluntary organisations. This could open up further best value care services in the community and provide guidance and support for future contracting opportunities in Lincolnshire

# Financial Support, IT systems and Performance




The Performance Framework is overseen and reported on monthly to the Departmental Performance Board which includes the Portfolio Holder and, reported on quarterly to Adult Scrutiny Committee. The report has been refreshed for 2013/14 to focus on the critical success factors for Adult Care. It covers 7 key areas, prevention, reablement, personalisation, operational, organisational, customer feedback, carers, interface with health and safeguarding.
We continue to make progress with personalisation, with 100% of people eligible for a personal budget receiving one. The number of people choosing to manage their own care through a direct payment continues to increase.

Direct Payments continue to take longer to process than the target set, however, improvements have been made and there is no longer a significant backlog.

Pressure remains on the number of admissions to residential care for older people and indications early in the year suggest that there will be a budget pressure as a result.

Our reablement service continues to show improved outcomes for people, of particular note are the outcomes from the pilot in the East of the County, where currently over 50% of people are successfully reabled.

The service has an £12.712m savings programme this year, followed by savings targets of £12.754m in 2014/15. The savings are reported monthly to the Departmental Performance Board. The dedicated Programme Unit for Adult Care oversees all key projects to ensure they are tracked, monitored and any savings validated.

Overall the service is projecting a balanced budget for 13/14, this is dependent on the use of Department of Health funding. However there is a level of uncertainty beyond 2015/16 as a result of the Chancellor of the Exchequer's Spending Review which was published on 26th June 2013 . That announcement detailed additional funding for social care and health services of £3.8bn over the next two years to assist in preparing for the effects of the Dilnot Report and the care and support Bill along with future integration of social care and health. It is not clear at this time how much of this funding will come to the Council directly. Work continues on the transformation programme to fundamentally reconfigure the services over the coming years. This is a Strategic Risk for the Council and is being managed accordingly.

## Suggested Next Steps:

Adult Care has already begun a journey of change - since 2010. The justification for this requirement for change to our historic ways of working has been due to rising consumer expectations, national policy, demographic changes, and local finance to name but a few. The timeline for the particular set of changes detailed in this report cover the period 2013-2015. In simple terms, much has been done but there is much yet to achieve. In conjunction with these changes Adult Care has become much less able to determine its own destiny as it becomes more closely aligned to the NHS and, interdependent with other parts of the County Council – notably but not exclusively Public Health.

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 require fundamental change. The scale of the proposals should not be under-estimated and yet the level of organisational learning for such change is not strong, partners are not in a stable environment and money is tight. However, there is always a good reason for not doing anything and failure to thrive has its own consequences. We know that substantial change must come and we are better masters of our own destiny.

To help make difficult choices, and yet the optimal ones, a set of decision-making criteria is recommended. These criteria, or principles, are stated here because they should influence the mind of the reader before knowledge about the detail and the different options are understood.

The five principles set out for the Adult Care Directorate Change Programme are that:

1. Any development will maintain or improve the customer experience
2. In developing new ways of working, reducing transaction and operating costs will be central
3. Appropriate services will be integrated with those commissioned by the NHS
4. Technology will be exploited to increase productivity and improve the customer's experience, whether the service is directly provided by the council or by a third party supplier
5. Developments will reflect the strategic commissioning council ethos and Lincolnshire centric solutions

Adult Care expects to spend within budget in 2013/14 though this is partly dependent upon use of Department of Health (DoH) transfer funding of £7M. For 2014/15 there is an estimated pressure of £10m - £12m. This pressure may be partially offset by the news that there should be additional DoH investment of £200m (Lincolnshire £2.8m) in 2014/15 'to ensure that closer integration between health and social care can start immediately, as an upfront investment in new systems and ways of working that will benefit both services'. Adult Care's budget pressure in 2014/15 results largely due to the savings target of £12.811m currently set for the service coupled with the demographic pressures being experienced.

Future years' budgets are heavily impacted by the additional cost implications of 'Dilnot' and the Care & Support Bill. Current estimates are that additional costs of £8.75m will be incurred in 2016/17, with increases of £22.4m by 2019/20, and £37m by 2025/26. The increase results from a mix of the ‘cap’ on service user contributions, changes to means testing arrangements, impacts on self-funders, and the impact of demography and in particular increasing life expectancy.

The Spending Review announced by the Chancellor on 26 June highlighted investment from the DoH of £3.8bn in 2015/16 to improve adult social care and join with health services. Our estimations are that Lincolnshire should receive approximately £53m of this funding. The funding includes the current DoH allocation of £12m and is expected to address a range of funding pressures upon Adult Care. More detail will be available in a DoH consultation document expected in Autumn 2013.

What is clear is that Adult Care has two funding streams: the County Council and DoH funding which can no longer be considered as either 'one-off' or, free-to-use. Given the scale of increase to DoH funding for Adult Care (as indicated in the Chancellors statement on 26 June) the Council can expect a level of interest from NHS colleagues in this fund that previously did not exist and confirms the NHS in Lincolnshire as a strategic partner of the Council. This is a national phenomenon.

The Internal Audit Plan for 2013 / 14 includes the following activity:

- Customer Finance and Direct Payments Team
- Brokerage
- Organisational Learning and Follow up
- Quality Assurance
- Performance and Productivity Management
- Reablement
- Review of a key project
- Review of the Transformation Programme
- Proactive support on governance, risk and internal control
- Care Management Partnership Programme

# Strategic Risks

The significance of the issues facing Adult Care is reflected in the Council's Strategic Risk Register. The risk rating reflects a natural disposition to caution given the nature of the people being served and the scale of the budget pressures. Outlined below is

**Safeguarding Adults**
LCC needs to update our Information technology to ensure that we systematically capture our approach to quality and safeguarding so that we are assured that information flows in a seamless way. This need should be met as a result of the investment expected for IT in the next 2 years, combined with the enhancement of a current contract management system.

**Market Supply to Meet Eligible Needs**
In the last 12 months ASC has sought to examine and better understand the Adult Social Care Market across the County. We have published our Market Position Statement to share our understanding of the market with providers, and to highlight areas of pressure and demand. We have developed substantial mapping systems that allow us to view the market position interactively, and we continue to grow this facility, finding ways to share the resources more widely. We continue to work with providers to fill gaps in provision and guide development and change, doing this through provider forums, and by building and maintain relationships.

It is important that we engage at a strategic level with the independent and third sector and we have now established a productive relationship with Lincolnshire Care Association, the body representing the majority of care providers in Lincolnshire, we also have a good dialogue with Community Lincs. We have been asked by both organisations to address their annual conferences which is a good opportunity for the Council to strengthen engagement across the whole sector.

Comparatively speaking the residential care sector is more stable – notably as a result of having agreed 3 year funding. Attention has now been concentrated on future funding and quality for the home care sector and is a priority in the coming months.

## Council's highest rated Strategic Risks for this area of the business

**Safeguarding Adults**

**Market supply to meet eligible needs**

**Funding and maintaining financial resilience**

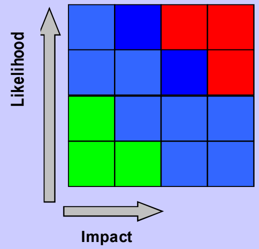
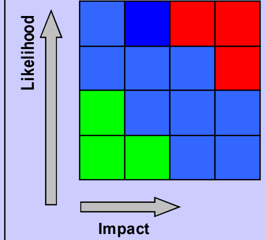
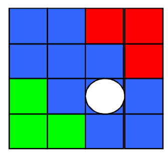
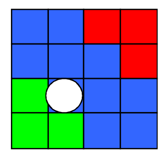
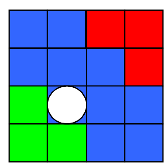
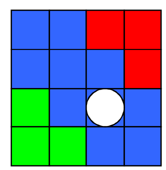
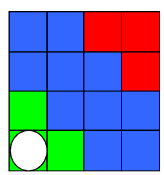
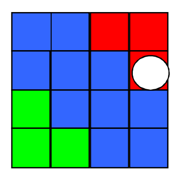
**Integration with Health**

**Funding and Maintaining Financial Resilience**
Adult Care produced a balanced budget at the end of 2012/13 and expects to do so again at the end of this financial year.
A dedicated Programme Unit has been established within Adult Care to ensure projects receive the necessary support to succeed.

Financial reports are provided to the Departmental Performance Board and to the Adult Scrutiny Committee regularly. Each responsible budget holder is held to account for their areas of spend routinely through 1-1 meetings.

**Integration with Health**
At both a national and local level integration between Adult Care and the NHS in Lincolnshire has become a priority. We are at the early stages in planning and can expect further discussions in due course.

Page 24

| Strategic Risks - Assurance Map as at 31st March 2013 | OWNER | RISK APPETITE |  CURRENT RISK SCORE |  TARGET RISK SCORE | DIRECTION OF TRAVEL | Management Assurance Status (Full & Substantial = 'Green', Limited = 'Amber', No = 'Red') | Corporate Functions & Third Party | Internal Audit | OVERALL ASSURANCE STATUS | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | RAG Rating for level of assurance Red (R)/Amber (A)/Green (G) | | | |
| **Promoting Community Wellbeing & Resilience** | | | | | | | | | | |
| Safeguard adults | Glen Garrod | **Cautious**<br>**(Regulatory standing & legal compliance** - recognised may need to change the ways things are done but will be tightly controlled**)** |  |  | Improving | A | A | A | A | Direction of travel improving but limited assurance. Still some work to do with developing suitable controls.<br>Sources of future IA Assurance (2013-14):<br>~ Quality Assurance<br>~ Case Management & Referrals |
| Adults adequacy of market supply to meet eligible needs | Glen Garrod | **Cautious**<br>**(Regulatory standing & legal compliance** - recognised may need to change the ways things are done but will be tightly controlled**)** |  |  | Improving | A | G | A | A | Limited assurance as still work to do with developing controls<br>Sources of future IA Assurance:<br>~ Brokerage |
| ASC not able to live within budget / Not balancing the service requirements to match available budget | Glen Garrod | **Cautious**<br>**(Regulatory standing & legal compliance** - recognised may need to change the ways things are done but will be tightly controlled**)** |  |  | Improving | A | A | A | A | The direction of travel is improving at the moment for this risk. The balance of budgets have been achieved and therefore this has moved to a 1,1.<br>Sources of future IA Assurance:<br>~ Transformation Programme |
| Integration with Health | Glen Garrod | Details to be confirmed | | | | | | | | |

Lincolnshire COUNTY COUNCIL
*Working for a better future*

**Regulatory and Other Committee**

| Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety |
|---|

| | |
|---|---|
| Report to: | **Audit Committee** |
| Date: | **22 July 2013** |
| Subject: | **Corporate Audit Progress Report to 30 June 2013** |

**Summary:**

This report provides an update on progress made against the Audit Plan 2013/14.

**Recommendation(s):**

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

**Background**

This report provides an update on the progress made against the Audit Plan 2012/13. 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
- Detail of progress made against the audit plan

**Conclusion**

The report shows we have made good progress in this first quarter, completing 17.8% of the planned work for 2013/14 and closing down audit work carried over from the previous year.

All on-going work carried forward into this financial year has been completed and the results are included within our report. The reports for four of those audits are currently being finalised with management and will be brought to the next committee – indicative assurance opinions are noted for information.

The Committee should note the outcomes of the audit work undertaken and identify any action required.

**Consultation**

**a) Policy Proofing Actions Required**

N/A

**Appendices**

| These are listed below and attached at the back of the report | |
|---|---|
| Appendix A | Corporate 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.

# Internal Audit Progress Report

**Date: 22 July 2013**

## Contents




Contact Details:
Lucy Pledge CMIIA
Head of Audit & Risk Management

Audit LINCOLNSHIRE

County Offices, Newland, Lincoln, LN1 1YG
☎:01522 553692 lucy.pledge@lincolnshire.gov.uk

## Introduction

1. The purpose of this report is to:

   - Advise of progress being made with the Audit Plan 2013/14
   - Provide details of the audit work during the period
   - Provide details of the current position with agreed management actions in respect of previously issued reports
   - Raise any other matters that may be relevant to the Audit Committee role

## Key Messages

2. We have made good progress against the internal audit plan, despite experiencing some staffing issues and have so far completed 17.8% of the planned work for the year. Further information on our performance targets can be found in paragraph 10.

3. Audit and Due Diligence – update:

   We have completed 22 school audits and finalised 16 County Council audits since our last progress report, 5 of which have resulted in limited assurance. A further 19 County Council audits are in progress, the majority of which have had the draft report issued and are awaiting the final report to be concluded. Other significant work in this period includes our key control testing on the general ledger, bank reconciliation, Pensions Fund / Administration and non-current assets.

   Since the beginning of April we have had an auditor off sick. Originally we expected this to be short term, but we now expect it to be longer term. This has impacted on the completion of the plan in the first quarter as the auditor concerned works almost exclusively on LCC audits. We have arrangements in place to cover this shortfall over the rest of the year.

   It was decided to undertake more testing in completing the 2012/13 audit of Adult Services Case Management, Referrals and Contact Management, this too has impacted on the completion of the plan.

## Internal Audit work completed from 1 April 2013 to 30 June 2013

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

| Full Assurance | Substantial Assurance | Limited Assurance | No Assurance |
|---|---|---|---|
| ▪ Registrars | ▪ Business Centres | ▪ Child Protection Plans | |

| Full Assurance | Substantial Assurance | Limited Assurance | No Assurance |
|---|---|---|---|
| ▪ Battle of Britain Memorial – establishment visit<br>▪ Lincoln Registrars – establishment visit<br>▪ Financial systems – key control testing | ▪ Teal Park Project<br>▪ Early Intervention<br>▪ Out of County Provision<br>▪ Grantham Relief Road Project<br>▪ Energy from Waste Project<br>▪ Gainsborough Old Hall establishment visit | ▪ Adult Services Project Risk Management<br>▪ Coroners<br>▪ Fire & Rescue Fuel Management<br>▪ Fire & Rescue Partnership Management | |

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. Definitions levels are shown in Appendix 1.

5. We are reporting five limited assurance audits in this quarter.

6. Progress with the implementation of agreed management action on recommendations for audits resulting in ‘No’ or ‘Limited’ assurance is followed up and reported in Appendix 2.

7. In the audits given Full and Substantial Assurance, we confirmed that the Council has sound processes in place:

**Registrars**

Our review identified that there are very effective arrangements in place within the Registrars’ Service to ensure that a comprehensive and high quality registration and celebratory service is offered.

There are appropriate and effective systems in place which ensure legislation and Good Practice guidance relating to registrations and ceremonies are complied with.

Management gain assurance on systems and processes in place via regular reviews, external inspections and regular monitoring of key performance indicators Commitment to providing excellent customer service is clearly demonstrated by the re-awarding of the government’s national standards via the Customer Service Excellence Accreditation in November 2012 with 100% compliance.

**Business Centres**

Our review identified that there are effective arrangements in place at Business Centres to ensure that businesses are provided with an infrastructure that can support them in continuing and expanding their businesses and assist them in creating and safeguarding jobs.

The purpose and aims of the Business Centres, including the services they offer and the charges made are clearly documented.

Tenancies are only granted on receipt of appropriate documentation. Charges made to tenants, including those for additional services, are fully supported, documented and invoiced with tenants' arrears being dealt with in a timely manner.

**Teal Park Project**

The aim of the project was to develop a business accommodation site in Lincoln and this has been achieved. The decision to proceed with the project and amend budget estimates during the project had been presented to senior management and members and approved by committee.

We found that projected budget costs for the project were circa 22 million against a budget of 22.5 million. The Council had worked with Mouchel and other partners in delivering the project and there are records of minuted monthly meetings and highlight reports recorded on the info hub.

**Early Intervention**

Effective arrangements are in place to meet the objectives of Early Support Care Co-ordination (ESCO).

ESCO in Lincolnshire County Council is based on national Early Support principles, approach and materials. A key working scheme is provided that co-ordinates all the services that the child and family receive through a parent driven family support plan. A single family support plan is used, which identifies the child's current needs, how these will be met, and the professionals who will be helping the family. Drop in clinics are available at children's centres around the county enabling families to access professional advice to help them navigate and co-ordinate the services available.

**Out of County Provision**

We found that out of county placements are being made in line with the SEN Code of Practice and there is evidence in all cases reviewed, that alternative in-county educational provision has been considered in the first instance. Review of key documents within the process found that they have been authorised appropriately and payments to providers have been made accurately and promptly. We also found that there is very effective communication between the

Additional Needs Service and the Commissioning Team which helps to ensure the placement process is carried out efficiently and legally.

**Grantham Relief Road Project**

Project Management is strong with clearly defined roles for both the Council and South Kesteven District Council. Three main groups meet regularly to consider the project. Minutes of meetings do not always assign timescales to agreed actions and actions are not routinely followed up at subsequent meetings. The project structure is clearly defined in the Project Initiation Document, originally produced in February 2012.

A Project Risk Register has been produced and project risk is regularly discussed at Project Team meetings. The Project Risk Register requires updating.

**Energy from Waste Project**

The project started on site in April 2011 and remains on target for opening at the end of 2013.

Project Management is strong with clearly defined roles for the Council, including the proactive involvement of the Executive Director of Communities and a dedicated Project Team. A Project Risk Register has been produced and is regularly updated. Project risk is discussed at each Contract Meeting.

Payments to Energy from Waste are controlled via a series of agreed project Milestones that were agreed at the start of the contract. The Milestones are discussed at each Contract Meeting and payment is not released until it has been confirmed that all elements have been completed.

**Battle of Britain Memorial Visitor Centre – Establishment Visit**

The financial management arrangements at this establishment were robust and processes were found to be operating well.

Managers and staff have a good understanding of financial procedures and we found a high level of compliance in all areas. We found evidence of good practice - income was tightly controlled and the budget management arrangements were effective.

**Gainsborough Old Hall – Establishment Visit**

Overall the Gainsborough Old Hall team manage their finances well although we did find scope to improve current procedures for budget and income monitoring.

The District Manager regularly monitors the budget – however, the new e-purchasing system introduced multiple authorisers for Gainsborough Old Hall which could impact on the manager's ability to effectively control the budget.

Income is monitored against targets but there is no pattern or trend analysis which could be used to identify potential fraud, error or other anomalies.

**Lincoln Registrars – Establishment Visit**

We found that Lincoln Registration Office generally manages its finances well. Managers and staff have a good understanding of financial procedures – consequently we found a high level of compliance and numerous examples of good practice.

There are particularly robust controls around preparation and monitoring of budgets, with evidence of regular review, projections and clear reporting to management. Income received is also well documented from the point of receipt through to banking

## Audits in Progress

8. The following audits are currently in progress:

***Fieldwork in progress:***

Public Health Assurance Map
Adult Services Assurance Map
Adult Services Case Management System – On-going
Adult Services Proactive Support – On-going
Adult Services Customer Finance Team
Youth Offending – Under 18s single remand order
Children's Services - Access Databases
Business Support – Direct Payments
Castle Revealed Project
Child Poverty Strategy
Financial Systems – key control testing

***Fieldwork complete, draft report being produced:***

Trading Standards
Performance Management
Programme Management (council's priority activities)

***Final Report being concluded:***

Indicative Assurance – Limited

- ICT Disaster Recovery
- Adult Services Case Management, Referrals and Contact Management
- Pensions Administration

Indicative Assurance – Substantial

- Mobile Computing

Indicative Assurance – Full

- Capital Programme
- 

## Other Significant Work

9. Other work undertaken during the period includes:

**School Audits**

Since 1 April 2013 we have undertaken 22 school audits as part of our on-going audit of schools.

**Academy Audits**

We have signed up 8 Academies to take our audit services and have visited many of them during this first quarter. We have been developing our audit programme during this period. We have found that we have had to give additional support and guidance to many of the Academies we have visited as they have taken on financial responsibilities that previously they did not have. Through the year we will continue to try and increase the number of Academies taking our service.

**Financial Systems – Key Control Testing**

Each quarter we complete a programme of due diligence tests on the Council's fundamental financial systems. This work programme confirms:

- systems are operating as expected
- the effectiveness of the key controls within these systems, incorporating a range of fraud tests

Each year the Council's External Auditors place reliance on aspects of our work covering the key financial systems – some of this reliance comes from our quarterly testing. Our quarter 3 and year end testing programme covered the following areas:

- cash (bank reconciliation)
- non current assets (capital programme, asset register, valuation and physical verification of assets and disposal)
- general ledger (journals, suspense accounts, trial balance and system access rights)
- pensions admin / pensions fund

Our sample testing confirmed that key controls in the above areas were operating as expected and we were able to provide full assurance.

We will continue our due diligence quarterly key control testing throughout the year incorporating more analytical review and fraud tests to complement the key control / compliance work.

## Performance Information

10. Our current performance against targets is shown below:

| Performance Indicator | Target | Actual 30/06/13 |
|---|---|---|
| Percentage of plan completed | 100% | 17.8% |
| Percentage of recommendations agreed. | 100% | 100% |
| Percentage of recommendations implemented. | 100% or escalated | Annual Report |
| Timescales | Draft report issued within 10 working days of completing audit.<br>Final report issued within 5 working days of closure meeting / receipt of management responses.<br>Period taken to complete audit – by exception | 100%<br>100% |
| Client Feedback on Audit (average) | Good to excellent | Good to excellent |

## Other Matters of Interest

*Nothing to report*

# 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.<br><br>The risk of the activity not achieving its objectives or outcomes is low.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>As a guide there are medium and a few high risk / priority actions arising from the review.<br><br>Our work did not identify system failures that could result in any of the following:<br>- damage to the Council's reputation<br>- material financial loss<br>- adverse impact on members of the public<br>- 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.<br><br>Our work identified system failures that could result in any of the following:<br>- damage to the Council's reputation<br>- material financial loss<br>- adverse impact on members of the public<br>- failure to comply with legal requirements<br><br>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.<br><br>As a guide there are a large number of medium and high risks / priority actions arising from the review. |

[1] The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

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

## Child Protection Plans – Limited Assurance

### Introduction and Scope

We have completed a risk based internal audit of Child Protection Plans within Lincolnshire County Council. This is part of the agreed plan of work for 2012/13

The purpose of this audit was to provide assurance that there are effective arrangements in place to meet the key objectives of Child Protection Plans. These have been identified as:-
.

- to ensure the child is safe and prevent them from suffering further harm
- to promote the child's welfare, health and development, and
- provided it is in the best interests of the child, to support the family and wider family members to safeguard and promote the welfare of their child.

The audit focused on 3 key areas:-

- Child Protection Plans, including compliance with regulations and policies and procedures
- Core Group arrangements, and
- communication with parents and child.

Assurance was to be provided that legislative and procedural guidance was being followed and that this could be evidenced on the electronic Integrated Children's System (ICS).

### Executive Summary

**Assurance Opinion: Limited**

Our review identified effective arrangements in place to initiate and manage Child Protection Plans. The concern is however that information is not always clearly evidenced on the child's central record in ICS. Information was found to be either insufficiently detailed, or in some cases omitted.

Inputting full and accurate details into ICS is essential to ensure the service holds a complete and up to date record in one central location. It is also considered a fundamental part of ensuring that the duty to safeguard and promote the welfare of children is met.

There are 2 key areas where it is considered improvements could be made, these being:-

- Including within the Child Protection Plan an overall Contingency Plan which briefly details what should happen next should agreed actions not be completed and/or circumstances change.

- Clearly evidencing in Core Group meeting minutes that Child Protection Plans have been reviewed in the meetings. As Plans are only updated in ICS after review conferences, there should be a clear link to the location of any updated paper copy versions of the Plan.

It is hoped that further work can be undertaken with the ICS administrators to identify if improvements can be made to the system to simplify how and where this information can be recorded in future.

It is acknowledged that the paper versions of the Child Protection Plans clearly record the required information to ensure adherence to legislation and to the Authority's policies, this information is not however always transferred into the electronic version of the Plan in ICS.

Review/end dates for specific actions and frequency of contact by professionals with the child/family members were often not input to ICS, despite being detailed on the paper version of the Plan.

The paper versions detailed the date of the Review Conference and the first Core Group meeting, but did not detail how often the Plans would be reviewed. It is acknowledged that the Plans are reviewed at the Core Group Meetings, and there was clear evidence that these meetings had been held regularly within timescales set out within the Child Protection guidance.

Members of the Core Group could not be clearly identified in ICS. Core Group meeting minutes, if input into ICS, had to be reviewed to identify who had attended. Members were however clearly identified on the paper versions of Child Protection Plans but again this information had not been transferred into ICS. The membership of Core Groups was considered to be appropriate.

Core Group meetings had been held regularly with all members in regular attendance and therefore contributing to the progress of the Child Protection Plans. There were delays however in Social Workers inputting the minutes from these meetings into ICS, workloads and time constraints were acknowledged as reasons for these delays. Issue of meeting minutes to Core Group members could not be identified from ICS. We were advised that timescales for inputting Core Group meeting minutes into ICS or issuing to Core Group members have not been specified.

We found that the Child Protection Plan process has a number of areas of good practice including:-

- Detailed procedures exist for the formulating of Child Protection Plans which include clear reference to current legislation.

- Child Protection Plans clearly detail the concerns which resulted in a child requiring a Plan, the child's identified needs and what actions should be taken forward and how.
- The initial Child Protection Conference has clearly determined the category of Significant Harm, and the child's name/details placed on the central list of Children with a Child Protection Plan,
- Lead Social Workers are nominated who are suitably qualified and experienced. They are also fully aware of their roles and responsibilities.
- Initial Core Group meetings occur within 10 working days of the initial Child Protection conference.
- Parents and child are made fully aware of the name of the Lead Social Worker and the Core Group members. There is regular contact with the parent and/or child to ensure that they are kept fully informed of the process. They are also advised of the complaints procedure or how to raise any concerns/issues.
- Parents and child are involved in the formulation of and receive a copy of the Child Protection Plan and are made fully aware of their responsibilities and those of others.

Detailed findings, recommendations and agreed actions are shown in the attached Action Plan which once implemented will further strengthen current arrangements relating to Child Protection Plans.

Finally audit would like to acknowledge and thank all staff who provided assistance during the course of this review.

**Management Response**

The audit found Lincolnshire has effective arrangements in place to initiate and manage Child Protection Plans; the children identified as requiring protection are clearly and appropriately responded to with timely and focused interventions that address their immediate protection and other safeguarding needs. Areas of good practice have been identified in regards to existing child protection procedures and processes, quality of the Child protection plans, suitability of the lead Social Workers and involvement of parents and children.

The audit however raised some concerns that information was not always clearly evidenced on the child's central record in ICS; the information was found to be either insufficiently detailed, or in some cases omitted.

It has been recognised by the Local Authority that improvements in regards to the use of the ICS system are required, and currently Lincolnshire has commenced a tendering process to identify a more suitable system of recording.

Lincolnshire has an understanding of their strengths and weaknesses in regards to recording Child Protection and whilst changes are planned immediate solutions have been identified and are being implemented. Our Performance and Assurance team are exploring how to enable better recording in regards to Child Protection by using current recording system and additional support has been provided to front line practitioners from business support, and they help with indexing the documents, typing. This is intended to help in ensuring full and accurate recording in child's record in ICS.

Lincolnshire take the duty to safeguard and promote the welfare of children seriously and agree with the recommendations that are shown in the attached Action Plan, which once implemented will further strengthen current arrangements relating to Child Protection Plans.

| **Management Actions** | **No.** | **All to be completed by:** |
|---|---|---|
| High Priority | 2 | 31 July 2013 |
| Medium Priority | 3 | 31 July 2013 |

## Adult Services Project Risk Management – Limited Assurance

### Introduction and Scope

Adult Services have a portfolio of Performance Improvement Projects that have been designed to improve services and make financial savings. Management recently reviewed their project portfolio and there are currently twelve active projects.

Projects are logged on the Council's project management system Infohub. The system allows for the creation and maintenance of risk registers for each project.

Audit were tasked with looking at the Risk Management procedures in place for a sample of these projects as effective risk management is key to successful project delivery.

The objective of the audit was to provide assurance that appropriate risk management procedures are in place and being followed, ultimately ensuring that there are no surprises that could contribute to the failure of a project. We focussed on the following projects:

- Externalisation of In-house Day Services
- Abacus SDS Module
- LARS in year savings (Over-stayers)

**Assurance Opinion – Limited Assurance**

We found that the application of risk management procedures varied across the three process improvement projects reviewed, in terms of:

- Depth and relevance of the risks being highlighted – some key risks had not been included within the risk registers. Two out of the three registers were lacking in detail;
- Inclusion of relevant mitigating controls – existing or developing controls had not always been identified for each risk. Again, the two registers noted above were lacking in these details
- Identification of risk / action owners – these details were not always recorded on the risk registers

Management are of the opinion that this area is not limited assurance and that the priorities associated to the recommendations in the action plan are not high. They consider that risk management should be scalable to the size of the project, and that the two projects referred to above were small in size and in relation to the degree of risk involved. Our opinion is that the detail recorded in the risk registers is not sufficient, even for small scale projects. Risk management should be seen as key to the successful delivery of all projects.

During our discussions, Project Managers demonstrated a good knowledge of the risk management process and recording/reporting requirements. They reported that risk registers were lacking in detail due to the time it takes to input this information into Infohub.

The broader use of Infohub (the Council's online system for the management and monitoring of projects) was discussed with Project Managers during our review. They reported that it was not always kept fully up to date with all project details/documents due to insufficient staff resources. Keeping Infohub up to date is important to maintain a visible and consistent approach to project management across the Authority. Management would like it recognised that the DASS is fully behind the effective use of Infohub and an imminent structure change will see the establishment of a Programme Management Office to support and manage the programme of transformation across the entire directorate

Our review has highlighted some areas where improvements can be made. Project Managers reported that risks are considered, although not always formally documented.

Full completion of the Risk Register will ensure that all project staff are aware of the controls in place and also the actions required to mitigate the risks. It will also give assurance to management that full consideration has been given to the issues that could affect project delivery, and contribute to decision making processes.

We identified the following points of good practice during the audit:

- The service has recently introduced changes and improvements to the governance of process improvement projects. The Risk Management procedures now in place are largely appropriate but could be improved upon
- Risk registers were in place for each of the three projects reviewed, which were regularly reviewed, updated and reported on
- Senior Management are kept informed of key risks relating to the performance improvement projects at their monthly Departmental Performance Board meetings
- Project Managers felt that they had sufficient risk management knowledge and experience

**Management Response**

Management would like to emphasise the importance of this type of work within the directorate as it responds to the unprecedented challenge to transform the Adult Social Care service offer.

The DASS is fully behind the effective use of Infohub and an imminent directorate structure change will see the establishment of a Programme Management Office to support and manage the programme of transformation across the entire directorate.

Management are fully committed to effective risk and issue management. There is commitment to putting resources in to make it work and to ensure that appropriate actions are completed.

The help, support and advice received from the Internal Audit Team is appreciated and their feedback has been taken on board.

| **Management Actions** | **No.** | **All to be completed by:** |
|---|---|---|
| High Priority | 2 | 31 July 2013 |
| Medium Priority | 1 | 31 July 2013 |

## Coroners – Limited Assurance

### Introduction and Scope

In September 2012, at the request of management, we performed an audit review of the ordering & payments system in use by the Coroners' Service.

In November 2012 we also carried out a pre-planned health check of the Coroners' Service.

The Health check considered:-

- The Management structure
- Financial Management
- Risk Management
- Business continuity planning
- Staffing
- Working Assets (specifically the assets at Spilsby)
- ICT systems (specifically IRIS)
- Partnership working and stakeholder engagement (internal customers)
- Operational delivery arrangements (modernisation in particular)

The outcomes of these two reviews are combined in this report.

## Executive Summary

**Assurance Opinion: limited assurance**

Our review of the orders and payments systems identified that:

- For the majority of payments examined either no order had been raised, or where there was an order it had been raised retrospectively for confirmation purposes.
- Invoices did not consistently show evidence of authorisation.
- Greater use could be made of framework orders.

The health check indicates that the service is generally operating satisfactorily although we consider that improvements to processes are required in the following areas:

- Risk Management
- Business Continuity
- Planning for future modernisation.

| | |
|---|---|
| **Direction of Travel** | Improving<br>The direction of travel is positive. Controls within the orders & payments process are improving.<br>Weaknesses identified in the health check are being addressed. |

**Orders & Payments**

For the majority of payments examined we found that either no order had been raised, or where there was an order it had been raised retrospectively. These practices increase the risk of errors occurring within the Orders & Payments process.

The use of framework orders is increasing but they are not used in all areas of the service. Management should therefore endeavour to maximise the use of framework orders and minimise the use of confirmation orders

In order to achieve better value for money and continuity of service,-

- ✓ Mortuary Services are subject to formal contracts.
- ✓ Contracts were being arranged in respect of body removal.

We found however that specialist suppliers are engaged without evidence of quotes, orders or any other evidence of agreeing or discussing a price. Management, working in conjunction with Procurement Lincolnshire, should continue to identify areas where better value for money could be obtained from suppliers.

We established that invoices from suppliers did not consistently show evidence of authorisation to be paid. A rubber stamp was introduced around August 2012 to help ensure that each payment has an authorising signature, although since its introduction the rubber stamp had not been constantly used.

We also identified other matters that require management attention:-

- Invoices are taking more than 28 days to process.
- Some suppliers are routinely submitting invoices that did not have invoice dates.
- Some suppliers are sending in invoices covering a supply period of two or three months. (sometimes spanning a financial year end).

**Health check**

We completed the Health check questionnaire with Marian Connell (Business Services Manager) and Donna Sharp (County Services Manager, Registration, Celebratory and Coroners Services). The health check indicates that the service is generally operating satisfactorily although improvements are required in the following areas:-

- Local finance guidance notes should be updated

- A SLA should be developed to cover property issues at Spilsby
- The risk register should be reviewed and updated
- The business continuity plan should be reviewed and updated (using the process in place in the registration service as a model)
- Management should decide how to manage modernisation and future planning; there is an Improvement Plan for the Registration & Coroner's Service that could be used as a basis to manage changes although it will need to be brought up-to-date.

**Management Response**

The request for this audit was taken as a proactive approach for an independent audit of processes and procedures within the Coroners Service.

This report reflects a snapshot in time (September/October 2012), and an improvement plan was already in place to improve both the financial management and procedural aspects of the service provided. In addition this audit proved reassurance that the development/improvement plan was correct and that there were no additional areas for consideration.

The relationship between HM Coroners as independent Judicial Officers and the local authority is delicate, yet at all times there is a strong commitment from the council to provide the necessary and appropriate resources for the Coroners.

The improvements are a work in progress as they require the support of HM Coroners to progress some of these work areas.

An initial email report was provided by Audit in December 2012 with the formal report received in February 2013. A final meeting to discuss the report was held in May 2013. Significant work has been completed during this time to respond to the recommendations in this report.

| **Management Actions** | **No.** | **All to be completed by:** |
|---|---|---|
| High Priority | 4 | 1 September 2013 |
| Medium Priority | 5 | 1 September 2013 |

## Fire & Rescue Fuel Management - Limited Assurance

**Introduction and Scope**
We have reviewed the process used by Fire and Rescue for distributing and monitoring diesel fuel from tanks held on site at fire stations.

The aim of the review is to give management independent assurance that there are procedures in place to manage the fuel stock and distribution process and that staff are complying with agreed policies.

The 2012/13 service budget for fuel is £287,300.

In 2012 an investigation identified mis- use of fuel. Our work seeks to confirm system improvements have been made to prevent this from happening again.

**Executive Summary**

**Assurance Opinion Limited**

We found that,

- There were 72 outstanding queries where tally sheets and vehicle log books could not be reconciled
- Fuel recording documentation used on site showed that original records had been changed and overwritten, including dates and amounts of fuel used.
- The current system relies on manual updating and copying of records and is more open to error or misuse.

In our opinion the current manual paper based system used by the service for recording and managing fuel usage does not provide assurance that fraudulent activity will be prevented.

Management are aware of the issues and plans are being discussed to replace the current paper based system with a more modern computer based system, which will record all fuel usage electronically. In our opinion this will help management to control fuel usage as the system can be interrogated and reported from and will not rely on officers completing records.

While the new system is being agreed and approved management should introduce temporary measures which will strengthen the current process and provide more assurance that stocks are controlled and recorded accurately, including

- Issuing guidance to all relevant staff
- Documenting a reconciliation process for station officers
- Scanning original documents where possible,
- Guidance on DIP readings and how to record on tally sheets
- Investigating and clearing all outstanding discrepancies

The current system used by the service is reliant on staff updating paper records for fuel used and journeys taken. Information is then copied onto another paper record and posted or delivered to Headquarters. In addition to differences not being followed up and sheets being amended this has resulted in delays in getting the information and not all records being supplied.

The process requires stations to regularly check fuel tank amounts using a dip test. The results of tests are added to fuel tally sheet records. Whilst this provides a fuel total reading our testing proved that the dips tests are not accurate.

Management are looking into purchasing a system which uses individual electronic keys to record fuel usage straight onto a system. A similar system is already in use by the Highways department for their vehicles. The service was looking at having detailed plans for a new system by March 2013, but in the meantime management should introduce some interim measures to resolve the key issues with the current system.

**Management Response**

The report contained no surprises but it is useful to get external clarity on the system tested. This report will support evidence and add substance to budget managers on the need for an updated system. The current process is outdated and a new system should make savings in staff time by reducing the amount of manual checking and filing of information.

| **Management Actions** | **No.** | **All to be completed by:** |
|---|---|---|
| High Priority | 3 | 31 March 2013 |
| Medium Priority | 2 | 30 June 2013 |

All recommendations have been implemented.

## Fire & Rescue Partnership Management – Limited Assurance

We have undertaken an Internal Audit review to provide independent assurance that systems and processes are in place to manage Fire and Rescues Partnerships and Projects. We sought to confirm that:

- There are procedures in place to manage, monitor and report on partnership and project objectives.
- There are clear aims and objectives in place
- There is effective governance in place.

The audit concentrated on central records and files held by the partnership and project manager and on reports and governance of the programme board. There are currently 20 formal partnerships and 12 projects being managed by the service.

### Executive Summary

**Combined Assurance Opinion - Limited assurance**

We found that there are clear aims and objectives in place for partnerships and projects but some procedures to manage, monitor and report on partnership and project objectives could be operated more effectively.

The service has a process to monitor **partnership** performance through a system of annual health checks and Service Level Agreement (SLA) reviews. The health check consists of a discussion with the partner(s) and a series of questions, which provide a mechanism for scoring and evaluating the success of the partnership.

We found that not all partnerships had been through this system, therefore management could not gain assurance that all partnerships were operating satisfactorily.

The service plan has a target that all partnerships will be reviewed by March 2013. Testing confirmed that this target is unlikely to be met.

Partnership performance is not reported separately from overall service performance, so we were unable to confirm what part partnerships were playing in delivering against overall service performance. We were also unable to check individual partnership performance against measures listed in SLA's.

Performance and progress of **projects** is reported through highlight reports to a programme board.

We reviewed a sample of project documents and programme board reports.
In our opinion some of the reports contained insufficient detail for management to gain an effective overview of how projects were progressing.

Some highlight reports to the programme board contained limited budget information which is a crucial indicator and performance measure of project success.

From the sample tested highlight reports did not all contain timescales and originally agreed start and finish dates for project completion. We could not gain assurance that management had an effective overview of project progress against deadlines, budgets and overall delivery.

In our opinion the role of the programme board could be enhanced through clearer reports on projects, including a project overview report which details budget reporting, timescales and quality measures.

Service orders set out how project and partnership management should be conducted. We could not verify that actual practice matched the service orders. There is a risk that an inconsistent approach can be applied, which could effect successful delivery.

| | |
|---|---|
| **Direction of Travel** | Improving<br><br>In our view the direction of travel is improving because;<br><br>• The project and partnership manager is planning to adapt the project register, to include some budget and timescale information. This should increase the clarity on project progress to the programme board.<br>• Project file documentation is improving now the project manager is back in post after a recent secondment.<br>• This also applies to Partnership health check documentation. Reviews were being bought up to date during the audit. Officers were planning to introduce a system to ensure actions are captured and followed up. |

Our review also found that:

There had been a lack of resource in partnership management as officers had been on long term sick and seconded to other roles. The section is now fully staffed.

Where the service records a low score for a partnership through the health check process, reasons should be listed and followed up to address the issues. At the time of the audit this was not in place. Officers stated that would be introduced and this is supported by a finding on the action plan.

Partnership SLA's detail a mix of quality measures and performance indicators which the partnership aims to support. As partnership performance is not reported separately from overall service performance we were unable to confirm what part partnerships were playing in delivering against overall service performance.

It was stated that there is a system for project managers to contact the services financial support officer prior to programme board meetings. We could not confirm this was happening and the lack of budget information on some highlight reports supported this opinion.

We also found the following points of good practice,

We reviewed the main project currently being managed by the service, future control. We found that,

1. There is detailed project documentation to support the project, including,
2. Risk registers are in place which are regularly reviewed and presented to the relevant boards.
3. Highlight reports, detailing progress, budgets and issues.
4. Detailed budget reports,
5. Project plans, which are presented to boards.
6. Communication plan,
7. There is a governance structure in place and progress is reported to a future control board and the services general programme board.

Testing also showed that,

- There is a detailed up to date partnership register in place,
- Due to a lack of resource the system for monitoring partnerships had not been kept completely up to date. However the system is a good way of measuring overall satisfaction with partnership working.
- There are regular programme board meetings and attendance is good.
- There is an up to date project register.

The services management and delivery of projects could be enhanced through a review of processes and project documentation across all projects. Reports to the programme board should include transparent reporting of budget costs and delivery against agreed timescales.

The attached action plan seeks to support the service across the project and partnership management process.

We would like to thank the time and effort of Chris Rushton, Partnership and Project manager, in carrying out the audit review.

**Management Response**

A useful piece of work, offering up a number of improvement areas, which will be reviewed and implemented where appropriate.

Agreed actions will be presented to the services senior management board for final agreement and approval.

| Management Actions | No | All to be completed by: |
|---|---|---|
| High Priority | 4 | 31 August 2013 |
| Medium Priority | 3 | 31 August 2013 |

# Appendix 3 - Outstanding recommendations as at 30th June 2013

| Audit Area | Date | Assurance | Number of Recs | Implem'd | Overdue | | | Not Due Date |
|---|---|---|---|---|---|---|---|---|
| | | | | | H | M | L | |
| **Performance & Governance** | | | | | | | | |
| ICT Service Management | July 2012 | Limited | 8 | 5 | 1 | 2 | | |
| ICT Data Management | Sept 2012 | Limited | 6 | 5 | | 1 | | |
| ICT Asset Management | Aug 2012 | Limited | 6 | 4 | | 2 | | |
| ICT Software Licensing | Sept 2012 | Limited | 3 | 0 | 2 | | | 1 |
| Councillor Big Society Fund | Sept 2012 | Limited | 6 | 5 | 1 | | | |
| **Resources & Community Safety** | | | | | | | | |
| Safer Communities | July 2012 | Limited | 9 | 7 | 1 | 1 | | |

## Appendix 4 – Internal Audit Plan & Schedule 2013/14

| Area | Indicative Scope | Days | Planned Start Date | Actual Start Date | Final Report Issued | Status/Assurance Level Given |
|---|---|---|---|---|---|---|
| **Public Health** | | | | | | |
| **Critical Service Areas** | | | | | | We are currently working on establishing the Assurance Map for Public Health. When that is complete we will be able to identify the areas that will be audited. |
| Critical service allocation | Audit of critical services to be determined after the assurance map has been produced | **35** | | | | |
| **Due Diligence** | | | | | | |
| Due Dilligence allocation | To review the level of compliance with the Council's key financial procedures across service areas within the Directorate | **10** | | | | |
| **Key Projects** | | | | | | |
| Key Project allocation | To audit a key project during the year. | **10** | | | | |
| **Key Risks** | | | | | | |
| Strategic and Emerging risks | To audit risks within the strategic risk register any significant emerging risks arising in the year. | **30** | | | | |
| **Other relevant Areas** | | | | | | |
| Combined Assurance | Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report. | **15** | | | | |
| **Non-Audit** | | | | | | |
| Advice & Liaison | | **10** | | | | |
| | | | | | | |
| **Total for Public Health** | | **110** | | | | |
| | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Adult Services** | | | | | | |
| **Critical Service Areas** | | | | | | |
| Customer Finance & Direct Payments Team | Review of the newly formed team for carrying out financial assessments of clients and making direct payments to clients. | **100** | June 2013 | June 2013 | | Fieldwork commenced |
| Brokerage | Review of end to end process of the Brokerage team for the purchase and monitoring of packages of care. | | Sept 2013 | | | |
| Organisational learning and follow up | Review progress made to implement recommendations from the 2012 Internal Management Review / audit reviews. | | Jan 2014 | | | |
| Quality Assurance | Review the effectiveness of the service-quality assurance regime – developed to ensure that ASC operates to best practice standards / policy and procedures. | | Jan 2014 | | | |
| Performance Management | Review of data quality, trend analysis and reporting arrangements, and the actions being taken to address issues. | | Oct 2013 | | | |
| Reablement Service | Review to gain assurance that the performance of the service continues to improve and that outcomes for service users are achieved. | | Nov 2013 | | | |
| **Key Projects** | | | | | | |
| Transformation Programme | Review of the programme/project management arrangements for this key ASC programme, considering the design and application of the governance structure. | **45** | Sept 2013 | | | |
| Proactive Support | To provide proactive advice and support on | | April 2013 | April 2013 | | On-going |

| | | | | | | |
|---|---|---|---|---|---|---|
| | governance, managing key risks and effective internal control. | | | | | |
| **ICT** | | | | | | |
| Case Management System | To provide proactive advice and support to this project, ensuring that key risks and controls are being considered. | **15** | April 2013 | April 2013 | | On-going |
| **Key Risks** | | | | | | |
| Strategic and Emerging risks | To audit risks within the strategic risk register any significant emerging risks arising in the year. | **35** | | | | Audit areas to be identified at half year review |
| **Other relevant Areas** | | | | | | |
| Combined Assurance | Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report. | **10** | July 2013 | July 2103 | | |
| **Non-Audit** | | | | | | |
| Advice & Liaison | | **10** | | | | |
| | | | | | | |
| **Total for Adult Services** | | **215** | | | | |
| | | | | | | |
| **Children's Services** | | | | | | |
| **Critical Service Areas** | | | | | | |
| **Birth to Five** | | | | | | |
| Supported Childcare Allocations | To provide assurance that in allocating supported childcare, families are properly assessed and meet the eligibility criteria. | **75** | July 2013 | July 2013 | | Scoping |
| **Commissioning** | | | | | | |
| Child Poverty Strategy | To ensure the authority's Child Poverty Strategy is supported by a robust action plan which will ensure national targets for | | June 2013 | June 2013 | | Audit in progress |

| | | | | | | |
|---|---|---|---|---|---|---|
| | eliminating child poverty are achieved. | | | | | |
| ***Performance Assurance Services*** | | | | | | |
| Lincolnshire Safeguarding Children's Board | To review the arrangements Performance Assurance are developing to strengthen the assurance received from the LSCB. | | | | | Children's Services have requested removal from the plan |
| ***Property & Technology Management Services*** | | | | | | |
| Legal Changes to Schools | To provide assurance that statutory procedures are complied with when changes are made to schools' status – such as change in provision, expansion, closure etc. | | Dec 2103 | | | |
| Police Notification of Domestic Violence | To provide assurance on arrangements to assess and record police referrals. | | Dec 2013 | | | |
| **Key Projects** | | | | | | |
| Families Working Together | To review the FWT project to provide assurance that effective mechanisms are in place to:<br>• Identify 'troubled' families<br>• Assess family needs<br>• Assess, evidence & record achievement of specified results<br>• Claim available funding | **10** | Sept 2013 | | | |
| **ICT** | | | | | | |
| Integrated Children's System ICS | Review of system management, user and administrative access, input and output controls, user training and guidance. | **15** | Dec 2013 | | | |
| Access Databases | Review of system maintenance, user and administrative access, input and output controls, user guidance. | **15** | June 2013 | June 2013 | | Audit in progress |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Key Risks** | | | | | | |
| Strategic and Emerging risks | To audit risks within the strategic risk register any significant emerging risks arising in the year. | **15** | | | | Audit areas to be identified at half year review |
| **Other relevant Areas** | | | | | | |
| Combined Assurance | Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report. | **285** | Oct 2013 | | | |
| Schools | Periodic audits of maintained schools. | | April 2013 | April 2013 | | 22 schools completed in Q1 |
| **Non-Audit** | | | | | | |
| Advice & Liaison | | **10** | | | | |
| | | | | | | |
| **Total for Children's Services** | | **425** | | | | |
| | | | | | | |
| **Communities** | | | | | | |
| **Critical Service Areas** | | | | | | |
| ***Environment, Planning & Customer Services*** | | | | | | |
| 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 Evidence Pack. | ***70*** | July 2013 | July 2013 | | |
| Flood Management | Review of the development and delivery of the Flood Risk Management Strategy. | | Nov 2013 | | | |
| Customer Service Centre | To review the arrangements for responding to customer queries, delivering advice and information on council services and forwarding service requests. | | Dec 2013 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| ***Highways & Transport*** | | | | | | |
| Civil parking enforcement | Review of the arrangements for the management and monitoring of the contract for the provision of parking enforcement services. | | Oct 2013 | | | |
| Adult Services Transport | Review of the impact of personal budgets to give assurance that they have been adequately managed and arrangements put in place. | | Jan 2013 | | | |
| **Key Projects** | | | | | | |
| Spalding Western Relief Road | To provide assurance that appropriate arrangements are in place for the governance, management and monitoring of the design stage to ensure planning permission is achieved. | **20** | Jan 2014 | | | |
| Castle Revealed | To provide assurance that appropriate arrangements have been put in place to manage the project works and finances and they are being properly applied. | | May 2013 | May 2103 | | Audit in progress |
| **Key Risks** | | | | | | |
| Strategic and Emerging risks | To audit risks within the strategic risk register any significant emerging risks arising in the year. | **15** | | | | Audit areas to be identified at half year review |
| **Other relevant Areas** | | | | | | |
| Combined Assurance | Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report. | **10** | Oct 2103 | | | |
| **Non-Audit** | | | | | | |
| Advice & Liaison | | **10** | | | | |
| | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total for Communities** | | **125** | | | | |
| | | | | | | |
| **Resource & Community Safety** | | | | | | |
| **Critical Service Areas** | | | | | | |
| ***Fire & Rescue*** | | | | | | |
| Fleet Provision | To review the provision and maintenance of the fleet, including the safeguards in place to prevent reoccurrence of the AssetCo risk. | **70** | Jan 2014 | | | |
| ***Safer Communities*** | | | | | | |
| YOS – under 18s single remand order | To review the Authority's response to the Legal Aid and Punishment of Offenders Act 2012 – scope to cover: process, finance and links to Children's Services – Looked After Children | | June 2013 | June 2013 | | Audit in progress |
| Trading Standards | Assessment of resourcing, task prioritisation and impact on timescales. | | May 2013 | May 2013 | | Draft report |
| ***Procurement Lincolnshire*** | | | | | | |
| Category Management | Review the effectiveness of category management model and development of supply market intelligence to delivery client needs and sustainable outcomes. | | August 2013 | | | |
| ***Business Support*** | | | | | | |
| Direct Payments | Review of process, compliance and support arrangements in light of change of responsibilities – system is significant to the support in ASC and has had past limited assurance from Audit. | | May 2013 | May 2013 | | Audit in progress |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Due Diligence** | | | | | | |
| **Resources** | | | | | | |
| Creditors | To ensure that the financial control environment in these systems are robust and operating effectively.<br><br>The reviews will assess whether income and expenditure budgets are regularly monitored, appropriately controlled and reported. | **260** | Aug 2013 | | | |
| Debtors | | | Sept 2013 | | | |
| Procurement Card | | | Nov 2013 | | | |
| Pensions Administration | | | Dec 2013 | | | |
| Budget Management | | | Jan 2014 | | | |
| Pensions Fund | | | Feb 2014 | | | |
| Income | | | Sept 2013 | | | |
| Key financial systems – transaction testing | Throughout the year test key controls and transactions feeding into the Council's accounts in liaison with External Audit | | April 2013<br><br>July 2013 | May 2013 | | Full Assurance<br><br>On-going |
| Financial and Contract Regulations – establishment visits | To review the level of compliance with the Council's key financial procedures across selected service areas | | Jan 2014 | | | |
| Risk Management | To provide assurance on the risk management strategy, structure and operations within the organisation. | | Oct 2013 | | | |
| **ICT Applications** | | | | | | |
| SAP | | **15** | | | | |
| **Key Projects** | | | | | | |
| FDSS | | **10** | | | | |
| **Emerging Risks** | | | | | | |
| Emerging risk contingency | To audit any strategic risks and significant emerging risks arising in the year. | **20** | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Other relevant Areas** | | | | | | |
| Combined Assurance | Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report. | **10** | | | | |
| **Non-Audit** | | | | | | |
| Advice & Liaison | | **10** | | | | |
| | | | | | | |
| **Total for Resources & Community Safety** | | **395** | | | | |
| | | | | | | |
| **Performance & Governance** | | | | | | |
| **Critical Service Areas** | | | | | | |
| People Management | Review the effectiveness of the People Strategy launched in 2012 and the strands underpinning delivery of the Council's people management arrangements | **20** | Sept 2013 | | | |
| **Due Diligence Activities** | | | | | | |
| Corporate Governance | To review the effectiveness of the Council's governance arrangements, including compliance with new standards regime | **20** | Nov 2013 | | | |
| Gifts, Hospitality and Register of Interests | To assess the level of compliance with the Council policy for managing gifts and hospitality and controlling potential conflicts of interest. | | Dec 2013 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **ICT** | | | | | | |
| | Work is underway to finalise ICT assurance map and status report – this will inform the choice of audits in this section of the plan.<br><br>Scheduling of individual ICT audits will be agreed when the assurance map is finalised. | **85** | | | | |
| **Key Projects** | | | | | | |
| Broadband in Lincolnshire | To provide assurance on delivery and compliance with the grant conditions. | **10** | Feb 2014 | | | |
| **Strategic / Emerging Risks** | | | | | | |
| Strategic risk | To seek assurance on the key controls linked to strategic risks which sit within the directorate, e.g. Becoming a Commissioning Council | **15** | | | | |
| Emerging risk contingency | To audit any significant emerging risks arising in the year. | | | | | |
| **Other relevant Areas** | | | | | | |
| Combined Assurance | Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the combined Assurance Annual Status Report. | **10** | | | | |
| **Non-Audit** | | | | | | |
| Advice & Liaison | | **10** | | | | |
| | | | | | | |
| **Total for Performance & Governance** | | **170** | | | | |
| **Grand Total** | | **1440** | | | | |

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Regulatory and Other Committee

| Open Report on behalf of Pete Moore, Executive Director Resources & Community Safety |
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| | |
|---|---|
| Report to: | **Audit Committee** |
| Date: | **22 July 2013** |
| Subject: | **External Audit Progress Report** |


**Summary:**

The report at Appendix A provides the Committee with an update including:

Work performed during the interim audit stage - County Council and Pension Fund audits.

Work planned for the next quarter.


**Recommendation(s):**

The committee considers the progress report and identify any further information that might be required.

**Background**

Part of the Committee's terms of reference is to receive reports from external audit on their work.

**Conclusion**

The report summarises for the Committee all aspects of the external audit planned work.

**Consultation**

**a) Policy Proofing Actions Required**

n/a

**Appendices**

| These are listed below and attached at the back of the report | |
|---|---|
| Appendix A | External Audit Progress Report - Lincolnshire County Council |

**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 Mike Wood, who can be contacted on 01629 538837 or m-wood@audit-commission.gov.uk.

KPMG

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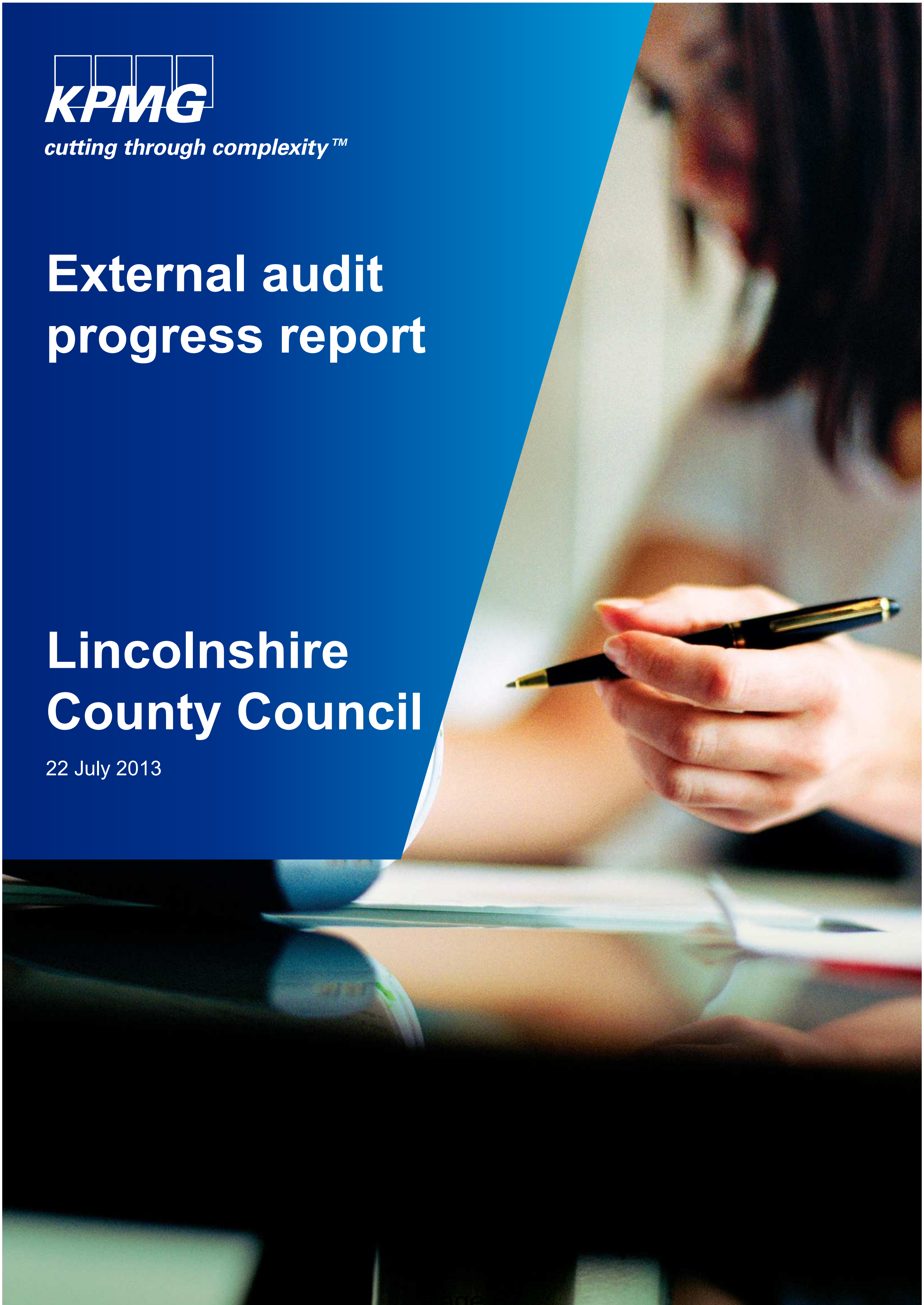
# External audit progress report

# Lincolnshire County Council

22 July 2013



# Executive summary
## Headlines

| | |
|---|---|
| Summary of work performed during the interim audit stage - County Council and Pension Fund audits | We have<br>• Agreed a joint working protocol with Internal Audit aimed at ensuring the efficient delivery of the audit and avoiding undue duplication of coverage.<br>• Completed our interim audit, focussing on significant accounts and processes to assess the financial control environment for the year ended 31 March 2013.<br>• We have not identified any significant issues that require comment in our ISA 260 report in September 2013.<br>• Started the initial work to support our VFM conclusion including holding regular discussions with key officers and undertaking a risk assessment.<br>• We have met with finance staff throughout the year and have taken part in local training sessions with key staff involved in the accounts closedown process and members of the Audit Committee.<br>• Completed most of our detailed planning for both the County Council and Pension Fund final accounts visit. |
| Summary of work planned for the next quarter | Our work over the next quarter will focus on:<br>• Performing our final audit fieldwork where we undertake substantive audit work, forming our opinion on the financial statements of the County Council and the Pension Fund and concluding on our VFM opinion.<br>• Drafting our ISA 260 reports which set out the overall findings from our financial statements audits. These will be presented to the Audit Committee on 23 September 2013. |
| Actions | We ask the Members of the Audit Committee to note:<br>• That there have been no significant audit findings from our interim audit.<br>• The timing of the reports on our work on the financial statements. |
| Contacts | Tony Crawley<br>*Director/Engagement Lead*<br>Tel: 0116 256 6067<br>tony.crawley@kpmg.co.uk |
| | Mike Wood<br>*Manager*<br>Tel: 0115 945 4482<br>mike.wood@kpmg.co.uk |

Lincolnshire COUNTY COUNCIL *Working for a better future*

**Regulatory and Other Committee**

| **Open Report on behalf of Pete Moore, Executive Director Resources and Community Safety** |
|---|

| | |
|---|---|
| Report to: | **Audit Committee** |
| Date: | **22 July 2013** |
| Subject: | **Draft Statement of Accounts 2012/13** |

**Summary:**

The draft Statement of Accounts for Lincolnshire County Council for the financial year 2012/13 is attached to this report (APPENDIX A). Members of the Audit Committee are asked to scrutinise and comment on the draft Statement of Accounts. The final Statement of Accounts for 2012/13 will be presented to the Audit Committee in September for approval.

**Recommendation(s):**

Members of the Audit Committee are asked to scrutinise and comment on the draft Statement of Accounts, within the framework set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and other statutory guidance.

## Background

1.1 The County Council prepares its annual Statement of Accounts in line with the proper accounting practices required by section 21(2) of the Local Government Act 2003 and set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice (SeRCoP).

1.2 In addition to this guidance the County Council's accounts are prepared using the accounting policies set out at note one on pages 18 to 35 of the accounts. The accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are reflected in the Statement of Accounts. These policies are reviewed annually to ensure they remain current and were reported to this committee at its meeting on 22 April 2013.

1.3 Councillors have little discretion to influence the content of the statements as they are prepared using the above guidance, however Councillors do have a responsibility for the corporate governance of the Council and this includes robust scrutiny of the Council's financial accounts and financial position. Therefore, Members of the Audit Committee are asked to scrutinise and comment on the Statement of Accounts.

1.4 Councillors may wish to initially focus on the Explanatory Foreword (pages 3 to 11). This attempts to provide a straight forward overview of the Council's financial health and performance and highlights the significant areas of financial activity during the year.

1.5 Councillors should note that separate reporting takes place on expenditure incurred over 2012/13 relative to the approved budget. This review of financial performance has been to Executive on 2 July and will be considered by the VfM Scrutiny Committee on 30 July. Recommendations arising in terms of the treatment and use of over and underspendings will be considered by full Council on 13 September.

**Conclusion**

2.1 The Committee's scrutiny and comments will be reflected in the final Statement of Accounts which will come back to this Committee in September.

2.2 The statements are subject to external audit and the Council's External Auditor (KPMG) will give an opinion on whether the accounts give a 'true and fair' view. The results of the external audit will be reported back to the Audit Committee in September. The Audit Committee will then be asked to approve the final Statement of Accounts for 2012/13.

2.3 The accounts and supporting information are available for inspection by the public during the period 8 July 2013 to 2 August 2013 inclusive.

**Consultation**

**a) Policy Proofing Actions Required**

N/A

**Appendices**

| | |
|---|---|
| These are listed below and attached at the back of the report | |
| Appendix A | Draft Statement of Accounts 2012/13 |

**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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# Lincolnshire County Council
# Statement of Accounts 2012-13

## Explanatory Foreword

### Introduction to the Accounts

The Statement of Accounts for the year 2012-13 is set out on pages 13 to 17.

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 2012 to 31 March 2013. It is based on the information contained in the Statement of Accounts and the Council's Financial Performance Report for 2012-13.

**Movement in Reserves Statement for the period 1 April 2012 to 31 March 2013**

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 2012 to 31 March 2013**

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 2013**

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 2012 to 31 March 2013**

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 - Resources and Community Safety.

**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 2012-13 by the Executive Director - Resources and Community Safety

### Review of the Year

The Council set its spending plans for 2012-13 against a backdrop of considerable national economic uncertainty, significantly reduced Government grant funding; the rising demand for services such as adults care and delivery of the second year of savings from the Council's core offer review of services. In setting the budget for 2012-13, the Council's aim was to set a balanced and deliverable budget that would effectively address spending pressures whilst protecting frontline services wherever possible, and deliver a continued freeze in Council Tax for the second year running.

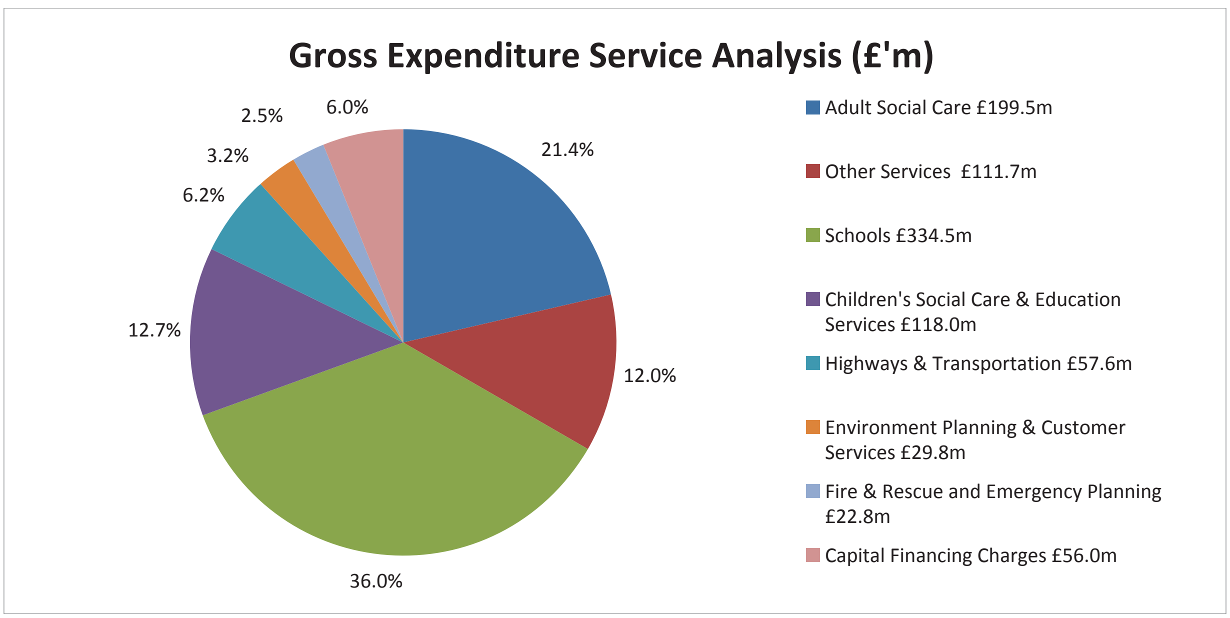
Annual Revenue Spending

The Council spent £929.9m in 2012-13 in providing public services, or £1,295 for every person in Lincolnshire.

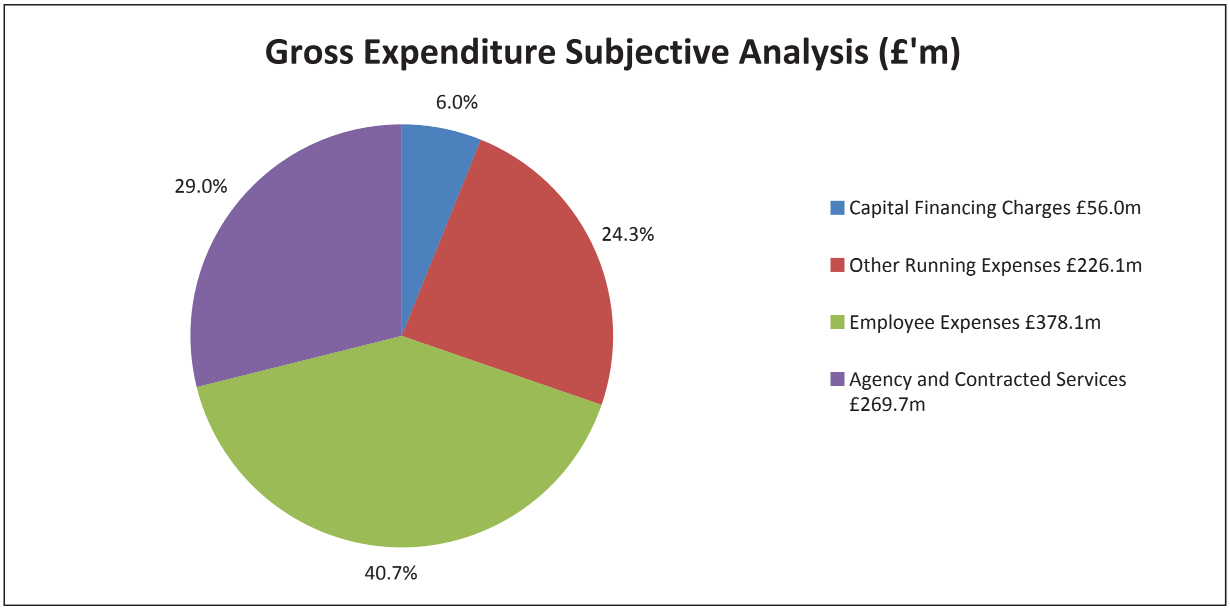
The Council faced pressures due to increased costs. Some of these were accommodated within existing budgets but some external pressures have added to the Council's costs. These include: increasing population (in particular, the impact on the Council's adult care budgets of increasing numbers of older people), the effect of a bad winter on the cost of winter maintenance for keeping the highways safe and clear and other service price increases (such as the annual increase in landfill tax).

However, the Council has been able to secure substantial cash efficiency savings in 2012-13. Although final figures were not yet available when this report was prepared, the general level of expenditure indicates the majority of the targeted savings have been achieved.

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: Public Health, Economy & Culture, Fire & Rescue, Community Safety, Finance & Resources and Performance & Governance.

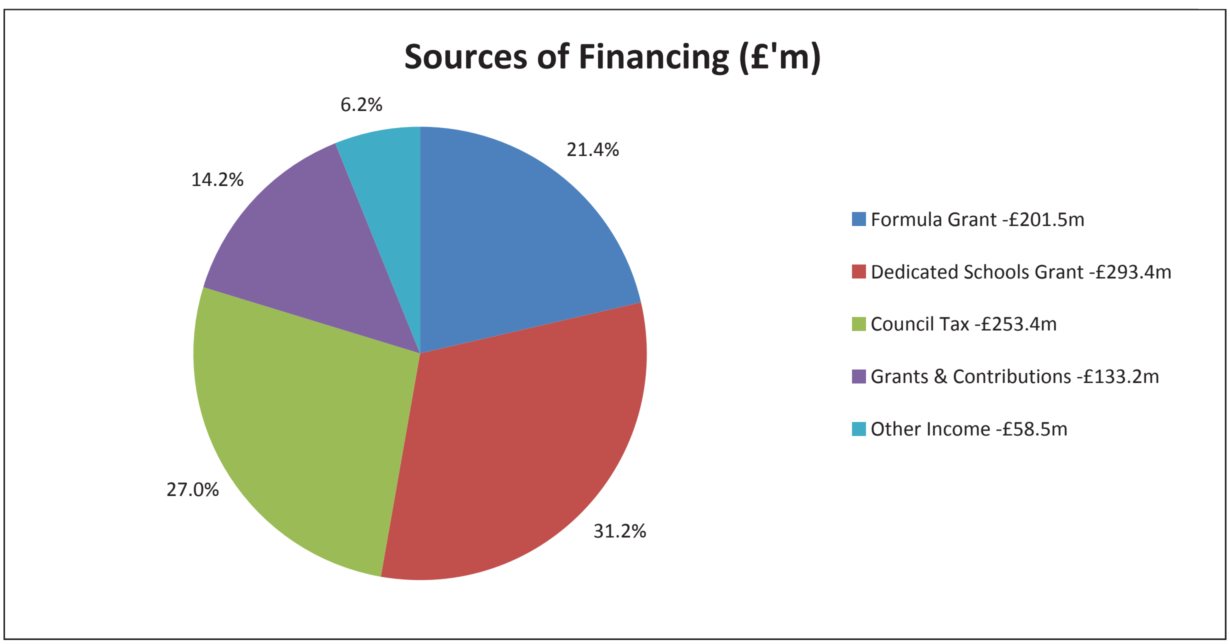



The distribution of expenditure by type differs significantly between different services. For example, salaries and wages comprises 67.4% of expenditure for schools. For services other than schools, salaries and wages comprises 28.3% of expenditure and contract payments comprises 45.9% of total expenditure. 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 79).

Annual income

The Council's revenue spending was funded by:




Government grants, the Council's main source of income; have been reduced substantially in increments from 2011-12 and these reductions are expected to continue into the foreseeable future. The Council received £201.5m formula grant for 2012-13 (including £6.3m for the 2011-12 Council Tax Freeze Grant). This represented a 7.6% reduction in formula grant from that received for 2011-12.

In addition to formula grant, the Council also receives specific government grants. The most significant of these was £293.4m of Dedicated Schools Grant which is used for funding education in Lincolnshire.

The Council's other main source of income – Council Tax – is set by the Council. In 2012-13 the Council chose not to increase Council Tax as it aims "to keep the level of Council Tax one of the lowest in the country". On the condition that Council Tax was not increased, central government provided a Freeze Grant equivalent to a 2.5% increase in Council Tax (£6.3m).

Revenue budget outturn 2012-13.

The revenue budget outturn for 2012-13 is summarised below:

- Total service revenue spending, excluding schools, was under spent by £7.465m or 1.9%.
- There was an underspend of £22.384m on other budgets, mainly reflecting a large underspend on capital financing charges during the year.
- Schools were underspent by £26.090m or 8.1% of the schools budget.

The table below shows the outturn of expenditure in 2012-13 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 | 41.529 | 41.766 | 0.237 | 0.6% |
| Education Services | 38.579 | 37.037 | -1.542 | -4.0% |
| Adult Social Care | 133.999 | 132.803 | -1.196 | -0.9% |
| Public Health | 17.707 | 17.146 | -0.561 | -3.2% |
| Highways & Transportation | 48.615 | 49.966 | 1.351 | 2.8% |
| Environment Planning & Customer Services | 28.698 | 28.249 | -0.449 | -1.6% |
| Economy & Culture | 13.625 | 13.516 | -0.109 | -0.8% |
| Fire & Rescue | 20.356 | 20.125 | -0.231 | -1.1% |
| Community Safety | 18.800 | 16.937 | -1.863 | -9.9% |
| Finance & Resources | 16.909 | 14.850 | -2.059 | -12.2% |
| Performance & Governance | 22.875 | 21.832 | -1.043 | -4.6% |
| Total Service Budget | 401.692 | 394.227 | -7.465 | -1.9% |
| Other Budgets | 69.966 | 47.582 | -22.384 | -32.0% |
| Schools Budgets | 29.087 | 2.997 | -26.090 | -89.7% |
| **Revnue Budget Outturn** | **500.745** | **444.806** | **-55.939** | **-11.2%** |

Significant variances include:

- Highways and Transportation (£1.351m overspend). Winter maintenance overspend £2.0m due to the bad winter weather and need for the Council to grit the roads more often and purchase more salt than in an average year. This overspend was offset by minor underspends in other areas of the service.

- Finance and Resources (£2.059m underspend). This was primarily due to: the two shared services (Legal & Procurement) underspending by £1.581m collectively, and corporate property which underspent by £0.280m due to reduced accommodation costs.

- Schools Budgets (£26.090m underspend). Schools budgets are ring-fenced and carried into the next financial year for schools. This underspend represents a significant reduction on previously years underspend.

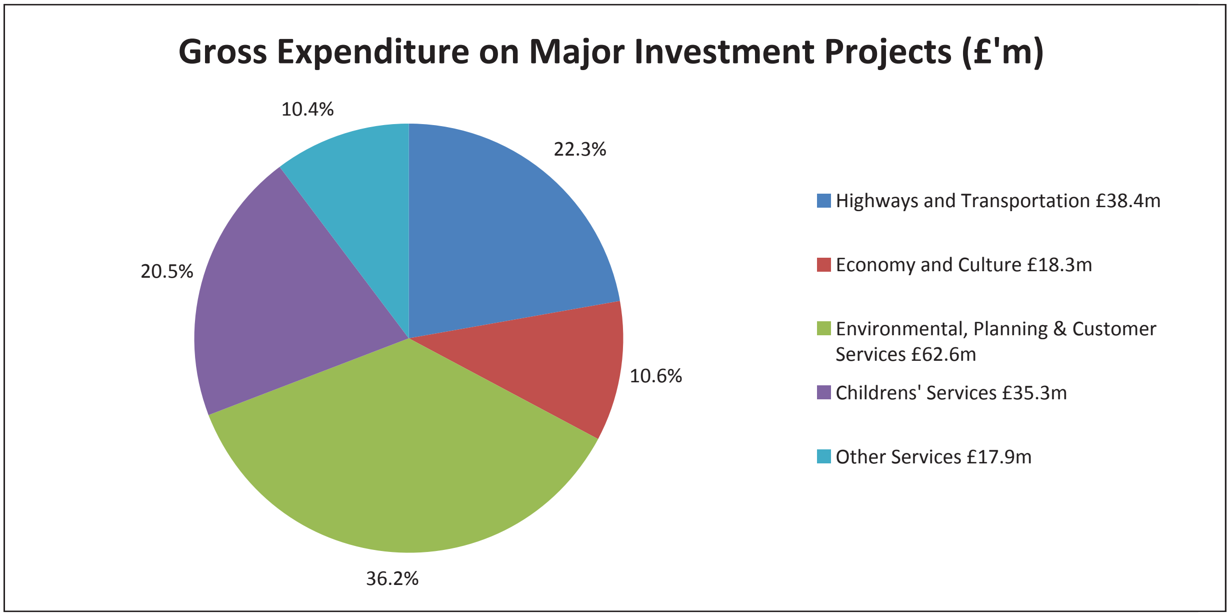
- Other Budgets (£22.384m underspend). Capital Financing Charges were underspent by £19.111m due to use of internal borrowing and slippage in the capital programme. At the end of the year, £3.879m of the Council's contingency remained unused.

Further information on revenue budget spending and outturns can be found in the Review of Financial Performance 2012-13, which is available on the Council's website.
(http://www.lincolnshire.gov.uk/local-democracy/how-the-council-works/finances/budgets-and-financial-strategy/).

Investment in major projects

The Council spent £172.563m on the County's assets, in particular on roads, the Energy from Waste plant, and schools. The net capital spend was £119.891m and there was an underspending of £15.047m or 11.2%. Explanations of the variances can be found in the Council's Review of Financial Performance Report for 2012-13.

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




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

In 2012-13 expenditure was incurred on the following schemes:

• Maintenance of roads, bridges, safety fencing, street lighting, signs and lines, and traffic signals;
• On-going development of the Energy from Waste scheme, which will divert waste from landfill;
• 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 programme including: Skegness Academy and University Academy Holbeach; and
• Purchase of fire fleet vehicles previously leased to the Council, and purchases on the rolling programme of replacements for fire vehicles and associated equipment.

The Council has received grant from central government 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. £83.9m of funding of the capital programme came from borrowing, comprising of £71.9m from the use of temporary internal borrowing and a further £12.0m of external borrowing.

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 2012-13 was 6.39%. 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. In 2011-12 the Council put in place a four year programme of savings originally worth £125m (locally termed "Core Offer") to reinvest in services to meet unavoidable cost pressures and the expected reductions in government support. In addition to these savings further funding pressures have arisen due to changes in funding mechanism for local Government up to 2014-15, with further uncertainty about future funding from 2015-16.

The "Core Offer" has ensured the Council is well placed to withstand the immediate uncertainty surrounding local Government funding in 2013-14. However, future challenges remain and additional resources or further savings will need to be identified to deliver a balanced budget in later years. It is therefore expected that the Council will have to undertake a second fundamental review of its service priorities and related spending needs prior to setting a 2015-16 budget.

To meet some of these financial pressures, at the end of 2011-12 the Council established a Financial Volatility Reserve to help smooth the effects of funding changes to Local Government. It is now proposed to transfer a further £20.3m into this reserve at the end of 2012-13, as part of the allocation of the carry forward as it is planned, within the Council's budget set in February 2013; that this reserve will then be used for one off contributions to the revenue budget in 2013-14 (£11.2m) and 2014-15 (£12.0m), plus provide a further safety net for future funding uncertainties facing the Council. This will provide the Council with the time to develop a sustainable budget 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 2013 as proposed in this report would be £15.9m or 3.5% of the 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 for 2013-14 places additional funding pressures on the Council when compared to 2012-13. A strategy of making further modest budget reductions, allied with the use of earmarked reserves, has been used to produce balanced budgets for the next two years. Thereafter, a further fundamental review of service priorities and related spending will be undertaken during 2013-14, 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. 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.

In relation to the 2013-14 budgets funding pressures will continue to exist in a number of service areas. The key pressures include:

(i) Adult Social Care – on-going demographic factors continue to place increasing pressure on service demand. These relate in particular to younger people with Learning Disabilities moving into adulthood, and Older People with high intensity homecare needs. Additional base budget funding has been allocated to the service next year in part recognition of these issues. A fundamental review of service provision is presently underway with the outcome due to be implemented from April 2014 onwards. Work is also on-going to ensure the Council maximises the amount of social care funding available from NHS sources.

(ii) Council Tax Support Schemes – new local schemes are to be established by all the District Councils from April 2013. The Council is, in effect, responsible for around 75% of the financial liability arising from these schemes. Whilst a great deal of work has been undertaken with the Districts to establish financially robust arrangements, there remains financial risks to the Council from their operation. The Council maintains a financial volatility reserve to mitigate the risks in this regard.

(iii) Public Health – the Council inherits a new range of functions from NHS Lincolnshire on 1 April 2013 for which a new ring-fenced grant of £27.5m will be received next year. The need to establish new contractual arrangements with providers presents a risk to the Council, as does the demand led nature of certain services (e.g. prescription costs).

(iv) Children's Services – this service has been impacted by significant grant reductions relating to early intervention and support services for Academies. These grant reductions impact on certain corporate services in addition to school and other support services delivered by the Directorate. Some action has been taken in 2013-14 to produce additional savings, but further savings will be required within the Directorate and corporately as part of the impending further review of service priorities to establish robust budgets from April 2015 onwards.

The Council's Pension Fund liability

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 £545.371m to £641.730m.

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. More information on the Council's pensions liabilities is contained in Note 54 Defined Benefit Pension Schemes.

Conversion of Schools into Academies

In 2012-13 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 £75.335m and income in this area by £77.229m. 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 Council (i.e. Community and Voluntary Controlled Schools), the school's land and buildings are leased to the Academy Trust. During 2012-13, four secondary, twenty-three primary and one special school assets have been leased to Academy School Trustees on 125 year leases. The 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 £60.102m being removed from the value of the Council's assets held on Balance Sheet as at 31 March 2013. A further £0.647m has been removed from the Council's Balance Sheet for all Academy Schools equipment which was previously held by the Council.

During 2012-13, the Council incurred £21.284m of capital expenditure on schools which have become Academies. The Council has received funding through Framework Academy Grants from central government for the majority of this spend.

The Property, Plant and Equipment line of the Balance Sheet includes valuations of £18.624m for five schools which are due to become Academies by the end of June 2013. On conversion to Academy status, these assets will be transferred to the school on a 125 year lease and the assets will be written out of the Council's Balance Sheet.

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 (http://www.lincolnshire.gov.uk/local-democracy/how-the-council-works/key-plans-and-strategies/performance/lcc-annual-report/85079.article).

## 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 - Resources and Community Safety Responsibilities

The Executive Director - Resources and Community Safety 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 - Resources and Community Safety 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 - Resources and Community Safety 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 2013 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 2012 to 31 March 2013

*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 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 | | (51,585) | - | - | - | (51,585) | - | (51,585) |
| Other Comprehensive Income and Expenditure | | - | - | - | - | - | (41,460) | (41,460) |
| Other Recognisable Gains | | | 330 | | | 330 | | 330 |
| **Total Comprehensive Income and Expenditure** | | (51,585) | 330 | - | - | (51,255) | (41,460) | (92,715) |
| Adjustments between accounting basis & funding basis under regulations | 9 | 61,678 | - | - | 12,382 | 74,060 | (74,060) | - |
| **Net (Increase)/Decrease before Transfers to Earmarked Reserves** | | 10,093 | 330 | - | 12,382 | 22,805 | (115,520) | (92,715) |
| Transfers to/from Earmarked Reserves | 10 | (10,094) | 8,517 | - | 1,577 | - | - | - |
| **(Increase)/Decrease in Year 2012-13** | | (1) | 8,847 | | 13,959 | 22,805 | (115,520) | (92,715) |
| **Balance as at 31 March 2013 Carried Forward** | | **15,899** | **141,696** | **-** | **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.

## Lincolnshire County Council: Movement in Reserves Statement for the period 1 April 2011 to 31 March 2012

| | 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) (*2) | Total Council Reserves |
|---|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance as at 01 April 2011** | | **16,645** | **109,257** | **0** | **37,648** | 163,550 | **422,833** | 586,383 |
| Movement in Reserves during 2011-12 | | | | | | | | |
| Surplus/(Deficit) on the provision of services | | (46,289) | 0 | - | - | (46,289) | - | (46,289) |
| Other Comprehensive Income and Expenditure | | - | - | - | | 0 | (38,405) | (38,405) |
| Other Recognisable Gains | | | 1,591 | | | 1,591 | | 1,591 |
| **Total Comprehensive Income and Expenditure** | | **(46,289)** | **1,591** | **0** | **0** | **(44,698)** | **(38,405)** | **(83,103)** |
| Adjustments between accounting basis & funding basis under regulations | 9 | 67,545 | - | 0 | 4,635 | 72,180 | (72,180) | 0 |
| **Net (Increase)/Decrease before Transfers to Earmarked Reserves** | | **21,256** | **1,591** | **0** | **4,635** | **27,482** | **(110,585)** | **(83,103)** |
| Transfers to/from Earmarked Reserves | 10 | (22,001) | 22,001 | - | - | 0 | - | 0 |
| **(Increase)/Decrease in Year 2011-12** | | **(745)** | **23,592** | **0** | **4,635** | **27,482** | **(110,585)** | **(83,103)** |
| **Balance as at 31 March 2012 Carried Forward** | | **15,900** | **132,849** | **0** | **42,283** | **191,032** | **312,248** | **503,280** |

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

# Lincolnshire County Council: Comprehensive Income and Expenditure Statement for the period 1 April 2012 to 31 March 2013

*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.*

| *Restated Year ended 31 March 2012 | | | | | Year ended 31 March 2013 | | |
|---|---|---|---|---|---|---|---|
| **Gross Expenditure £'000** | **Income £'000** | **Net Expenditure £'000** | | **Note** | **Gross Expenditure £'000** | **Income £'000** | **Net Expenditure £'000** |
| | | | **Cost of Services** | | | | |
| 576,914 | (475,319) | 101,595 | Education Services | (5) | 469,271 | (382,979) | 86,292 |
| 60,576 | (11,170) | 49,406 | Children's Social Care | | 62,797 | (12,646) | 50,151 |
| 234,013 | (71,559) | 162,454 | Adult Social Care | | 236,607 | (71,994) | 164,613 |
| 97,832 | (7,691) | 90,141 | Highways, Roads and Transport Services | | 95,422 | (10,745) | 84,677 |
| 22,835 | (3,076) | 19,759 | Cultural and Related Services | | 23,668 | (2,694) | 20,974 |
| 31,728 | (1,590) | 30,138 | Environmental and Regulatory Services | | 32,015 | (2,095) | 29,920 |
| 14,809 | (15,344) | (535) | Planning Services | | 14,858 | (5,156) | 9,702 |
| 28,489 | (3,131) | 25,358 | Fire and Rescue Services | | 29,217 | (2,985) | 26,232 |
| 384 | (61) | 323 | Housing Services - Travellers Sites | | 346 | (83) | 263 |
| 4,249 | (1,246) | 3,003 | Central Services to the Public | | 4,212 | (1,390) | 2,822 |
| 3,807 | (108) | 3,699 | Corporate and Democratic Core | | 3,732 | (178) | 3,554 |
| (6,354) | 0 | (6,354) | Non Distributed Costs | | (11,984) | 0 | (11,984) |
| **1,069,282** | **(590,295)** | **478,987** | **Cost of Services (excluding Acquired and Discontinued Operations)** | **(8)** | **960,161** | **(492,945)** | **467,216** |
| | | 0 | Surplus or Deficit on Acquired and Discontinued Operations | (33) | 302 | (274) | 28 |
| **1,069,282** | **(590,295)** | **478,987** | **Cost of Services** | | **960,463** | **(493,219)** | **467,244** |
| | | 88,081 | Other Operating Expenditure | (11) | | | 85,714 |
| | | 14,871 | Financing and Investment Income and Expenditure | (12) | | | 22,091 |
| | | (535,650) | Taxation and Non-Specific Grant Income | (13,46(a & d)) | | | (523,464) |
| | | **46,289** | **(Surplus)/Deficit on Provision of Services** | | | | **51,585** |
| | | (52,141) | (Surplus)/Deficit on Revaluation of Non-Current Assets | (28) | | | (56,360) |
| | | | Impairment losses on Non-Current Assets charged to Revaluation Reserve | | | | 0 |
| | | | (Surplus)/Deficit on Revaluation of Available for Sale Financial Assets | | | | 0 |
| | | 90,546 | Actuarial (Gains)/Losses on Pension Assets / Liabilities | (28, 54) | | | 97,820 |
| | | (1,591) | Other Recognisable (Gains)/ Losses | | | | (330) |
| | | **36,814** | **Other Comprehensive Income and Expenditure** | | | | **41,130** |
| | | **83,103** | **Total Comprehensive Income and Expenditure** | | | | **92,715** |

The presentation of the Service Expenditure Analysis has changed from the 2011-12 Statement of Accounts.

- Changes within Children's And Education Services:
- Within Children's Social Care a new 'Commissioning and Social Work' service division has been created. Last year's Service Expenditure Analysis included this within Children's Social Care 'Service Strategy' service division.
- Services to Young People' has been renamed 'Services to Young People and Other Community Learners'.
- Other School Related Education Functions' has been renamed 'Other Strategic Functions

# Lincolnshire County Council: Balance Sheet as at 31 March 2013

*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 2012 £'000 | | Note | 31 March 2013 £'000 |
|---:|---|:---:|---:|
| 1,251,784 | Property, Plant and Equipment | (14) | 1,267,991 |
| 35,022 | Heritage Assets | (15) | 36,356 |
| 62,390 | Investment Properties | (16) | 72,620 |
| 3,242 | Intangible Assets | (17) | 7,204 |
| 214 | Long Term Investments (including Net Pension Assets) | (18) | 214 |
| 6,248 | Long Term Debtors | (21) | 6,316 |
| **1,358,900** | **Long Term Assets** | | **1,390,701** |
| 237,296 | Short Term Investments | (18) | 193,081 |
| 2,239 | Assets Held for Sale | (23) | 3,660 |
| 820 | Inventories | (19) | 799 |
| 0 | Intangible Current Assets - LATS | (44) | 0 |
| 39,737 | Short Term Debtors | (21) | 48,133 |
| **280,092** | **Current Assets** | | **245,673** |
| (6,161) | Cash and Cash Equivalents | (22) | (8,356) |
| (582) | Short Term Borrowing | (18) | (413) |
| 0 | Intangible Current Liabilities - LATS | (44) | 0 |
| (102,355) | Short Term Creditors | (24) | (91,414) |
| (4,771) | Provisions | (26) | (3,784) |
| **(113,869)** | **Current Liabilities** | | **(103,967)** |
| (4,623) | Long Term Creditors | 18,24 | (5,477) |
| (4,359) | Provisions | (26) | (4,944) |
| (446,272) | Long Term Borrowing | (18) | (454,787) |
| (566,591) | Other Long Term Liabilities | (25) | (656,635) |
| **(1,021,845)** | **Long Term Liabilities** | | **(1,121,843)** |
| **503,278** | **Net Assets** | | **410,564** |
| 191,032 | Usable Reserves | (27) | 213,836 |
| 312,246 | Unusable Reserves | (28) | 196,728 |
| **503,278** | **Total Reserves** | | **410,564** |

# Lincolnshire County Council: Cashflow Statement as at 31 March 2013

*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 2012 £'000 | Direct Method | Note | 31 March 2013 £'000 |
|---|---|---|---|
| (38,766) | Operating Activities | **29** | (37,385) |
| 27,755 | Investing Activities | **30** | 43,612 |
| 9,153 | Financing Activities | **31** | (4,032) |
| **(1,858)** | **Net (Increase)/Decrease in cash and cash equivalents** | | **2,195** |
| (8,019) | Cash and cash equivalents as at 1 April | | (6,161) |
| (6,161) | Cash and cash equivalents as at 31 March | | (8,356) |

# Note 1. Statement of Accounting Policies

## 1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year 2012-13 and the position at the year-end 31 March 2013. 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 2012-13 and Service Reporting Code of Practice 2012-13, 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 minimis 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.
- 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; 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; and
- Other market value and existing use value assets (including economic regeneration units): land and buildings.

**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, that 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.

**Community Infrastructure Levy (CIL)**

Community Infrastructure Levy is a levy, as directed by the Planning Act 2008, charged on new developments over 100 m sq. The Council had no CIL in place in 2012-13.

**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 £1k for individual revenue items and £5k 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 £1k for individual revenue items and £5k 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;
- 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:**

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:**

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:**

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 services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012-13 (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 |
| Central support team | estimated time |
| 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 |
| Personnel services | 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 Income

The collection of Council Tax is in substance an agency arrangement with the seven Lincolnshire District Councils (billing Authorities) collecting Council Tax on behalf of the Council.

The Council Tax 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) 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 when the obligation to pay these benefits arises. 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.

**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.

- **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 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 the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- 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; 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.

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 budget 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 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 2012-13 accounts, the Council is required to disclose the following changes to Accounting Standards which will have an impact on the Council's accounts in 2013-14.

IAS 19 Retirement Benefits (Classification, Recognition, Measurement and Disclosure Requirements).

IAS 19 is changing 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 profit and loss, 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 the Council will be required to adopt these changes retrospectively for the year 2012-13 when this standard is adopted in the 2013-14 accounts.

The effect of this change has been estimated by the actuary as an increase of £6.627m on the income statement. This relates solely to the Local Government Pension Scheme, there is no impact on the Fire-fighters' Pension as this scheme is unfunded.

There are also changes to the components reported in the Comprehensive Income and Expenditure Statement for IAS 19. The new components will be used for reporting in the 2013-14 accounts with the 2012-13 figures being restated using these components too.

The following changes to Accounting Standards and the Code of Practice have been considered and are not expected to impact on the County Council's accounts in 2013-14:

• IAS 1 Presentation of Financial Statements;

• IAS 19 Retirement Benefits - Recognition of termination benefits;

• Clarifications for the recognition criteria for assets under construction or intangible assets for PFI schemes under construction;

• IAS 12 Income Taxes - Group Accounts; and

• IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Liabilities).

## 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 Support

- 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

-The 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 in Grantham, converted to Academy status. A lease has been agreed between the Council and the Academy to reflect the effects of the conversion. This lease is accounted for in accordance with the Council's Accounting Policies on Leases.

Classification of Leases

-The 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 Relationships

- The Council is one of seven Local Authority members of Eastern Shires Purchasing Organisation (ESPO). The relationship between the Council and ESPO has been assessed to be a jointly controlled entity. ESPO has not been consolidated into the Council's accounts as the relationship is not deemed to be material for the 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 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 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 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 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 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 Council's Balance Sheet as at 31 March 2013 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 (Valuations and Asset Lives) | - Land and building assets carrying value and remaining useful life are assessed by the Council's Valuers. These valuations include an assessment of the condition and use of assets. Changes in local government funding and current 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 2012-13 was £75.855m (2011-12 £59.423m) and the gross book value of these assets was £1,720.155m (2011-12 £1,646.852m). 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 Council. |
| Pensions | - The 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 2012-13 the Council's actuaries advised that the net pension liability had increased by £96.359m (£87.485m increase in 2011-12). 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 £9.038m (£6.744m 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 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 2012-13, 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 2012-13 on the Comprehensive Income and Expenditure Statement is:

| | Reduction to Gross Expenditure £'000 | Reduction to Income £'000 | Effect on Net Expenditure £'000 |
|---|---|---|---|
| Primary Schools | (24,382) | 24,995 | 613 |
| Secondary Schools | (50,774) | 52,050 | 1,276 |
| Special Schools | (179) | 184 | 5 |
| **Total Effect on Comprehensive Income & Expenditure Statement** | **(75,335)** | **77,229** | **1,894** |

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 on these schools, where the assets of a school becoming an Academy were owned by the Council (i.e. Community and Voluntary Controlled Schools), the school's land and buildings are leased to the Academy Trust.

During 2012-13, four secondary, twenty three primary and one special school assets have been leased to Academy School Trustees on 125 year leases.

The 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 £86.077m being removed from the value of Council's

assets held on Balance Sheet as at 31 March 2013. A further £0.647m has been removed from the Council's Balance Sheet for all Academy schools equipment which was previously held by the Council.

In 2011-12 a similar reduction occurred due to schools becoming Academies. The effect on the CI&ES was to reduce gross expenditure by £71.478m and income by £73.882m, giving a net effect of £2.404m. The effect on the Council's Balance Sheet as at 31 March 2012 was a reduction of £75.454m due to assets being leased to Academies Trusts and removal of schools equipment from the Balance Sheet of £0.600m.

## Note 6. Material items of income and expenditure

The 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. Material items over £10m have been reviewed, no items have been identified which are not reported on the face of the Comprehensive Income and Expenditure Statement or in the supporting notes.

## 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 - Resources and Community Safety) 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 (28 June 2013) 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 2013 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 2013 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.

The Financial Statements and notes have not been adjusted for the following events which took place after 31 March 2013. The note below provides information that is relevant to an understanding of the Council's financial position but do not relate to conditions at that date.

Schools becoming Academies

The Property, Plant and Equipment line of the Balance Sheet includes valuations of £18.624m for five schools which are due to become Academies by the end of June 2013. On conversion to Academy status, these assets will be transferred to the school on a 125 year lease and the assets will be written out of the Council's Balance Sheet.

## 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:

| 2011-12 Gross Expenditure £'000 | 2011-12 Income £'000 | 2011-12 Restated* Net Expenditure £'000 | | 2012-13 Gross Expenditure £'000 | 2012-13 Income £'000 | 2012-13 Net Expenditure £'000 |
|---|---|---|---|---|---|---|
| | | | **CHILDREN'S AND EDUCATION SERVICES - EDUCATION SERVICES** | | | |
| 38,801 | (17,784) | 21,017 | Early Years | 40,651 | (30,657) | 9,994 |
| 244,957 | (236,651) | 8,306 | Primary Schools | 217,606 | (176,520) | 41,086 |
| 219,395 | (169,596) | 49,799 | Secondary Schools | 131,703 | (124,300) | 7,403 |
| 41,000 | (39,203) | 1,797 | Special Schools | 42,597 | (36,513) | 6,084 |
| 14,139 | (5,985) | 8,154 | Services to Young People and Other Community Learners | 15,510 | (5,180) | 10,330 |
| 18,622 | (6,100) | 12,522 | Other Strategic Functions | 21,204 | (9,809) | 11,395 |
| **576,914** | **(475,319)** | **101,595** | **TOTAL** | **469,271** | **(382,979)** | **86,292** |
| | | | **CHILDREN'S AND EDUCATION SERVICES - CHILDREN'S SOCIAL CARE** | | | |
| 1,360 | (116) | 1,244 | Service Strategy | 1,620 | (60) | 1,560 |
| 17,279 | (2,264) | 15,015 | Commissioning and Social Work | 15,650 | (2,258) | 13,392 |
| 19,785 | (1,038) | 18,747 | Children Looked After | 20,911 | (1,044) | 19,867 |
| 10,487 | (2,875) | 7,612 | Family Support Services | 14,056 | (4,600) | 9,456 |
| 5,429 | (3,654) | 1,775 | Youth Justice | 4,524 | (3,579) | 945 |
| 487 | (157) | 330 | Children's & Young People's Safety | 413 | (173) | 240 |
| 649 | (825) | (176) | Asylum Seekers | 525 | (545) | (20) |
| 5,100 | (241) | 4,859 | Other Children's and Families' Services | 5,098 | (387) | 4,711 |
| **60,576** | **(11,170)** | **49,406** | **TOTAL** | **62,797** | **(12,646)** | **50,151** |
| | | | **ADULT SOCIAL CARE** | | | |
| 2,138 | (27) | 2,111 | Service Strategy | 1,460 | (13) | 1,447 |
| 130,652 | (39,197) | 91,455 | Older People (Aged 65 or Over) Including Older Mentally Ill | 131,575 | (40,445) | 91,130 |
| 18,390 | (2,460) | 15,930 | Adults Aged Under 65 with a Physical Disability or Sensory Impairment | 18,993 | (3,235) | 15,758 |
| 58,993 | (24,261) | 34,732 | Adults Aged Under 65 with Learning Disabilities | 61,263 | (19,616) | 41,647 |
| 14,617 | (4,621) | 9,996 | Adults Aged Under 65 with Mental Health Needs | 13,770 | (5,627) | 8,143 |
| 9,223 | (993) | 8,230 | Other Adult Services | 9,546 | (3,058) | 6,488 |
| **234,013** | **(71,559)** | **162,454** | **TOTAL** | **236,607** | **(71,994)** | **164,613** |
| | | | **HIGHWAYS AND TRANSPORT SERVICES** | | | |
| 9,011 | (1,470) | 7,541 | Transport Planning, Policy & Strategy | 7,567 | (1,450) | 6,117 |
| 17,453 | (1,007) | 16,446 | Structural Maintenance | 11,140 | (741) | 10,399 |
| 25,618 | (48) | 25,570 | Capital Charges Relating to Construction Projects | 29,055 | (3,075) | 25,980 |
| 10,904 | (851) | 10,053 | Environment, Safety & Routine Maintenance | 10,776 | (994) | 9,782 |
| 5,764 | (413) | 5,351 | Street Lighting (including energy costs) | 5,637 | (564) | 5,073 |
| 5,861 | (195) | 5,666 | Winter Service | 7,634 | (198) | 7,436 |
| 6,296 | (1,913) | 4,383 | Traffic Management and Road Safety | 5,711 | (1,766) | 3,945 |
| 16,925 | (1,794) | 15,131 | Public Transport | 17,902 | (1,957) | 15,945 |
| **97,832** | **(7,691)** | **90,141** | **TOTAL** | **95,422** | **(10,745)** | **84,677** |
| | | | **CULTURAL AND RELATED SERVICES** | | | |
| 7,223 | (1,749) | 5,474 | Culture and Heritage | 6,513 | (1,382) | 5,131 |
| 1,703 | (107) | 1,596 | Recreation and Sport | 1,612 | (103) | 1,509 |
| 472 | (21) | 451 | Open Spaces | 892 | (26) | 866 |
| 953 | (256) | 697 | Tourism | 1,295 | (392) | 903 |
| 12,484 | (943) | 11,541 | Library Services | 13,356 | (791) | 12,565 |
| **22,835** | **(3,076)** | **19,759** | **TOTAL** | **23,668** | **(2,694)** | **20,974** |
| | | | **ENVIRONMENTAL AND REGULATORY SERVICES** | | | |
| 1 | 0 | 1 | Coast Protection | 0 | 0 | 0 |
| 3,132 | (140) | 2,992 | Community Safety (Crime Reduction) | 2,828 | (137) | 2,691 |
| 250 | (5) | 245 | Flood Defence and Land Drainage | 912 | (215) | 697 |
| 4,576 | (835) | 3,741 | Regulatory Services | 3,263 | (828) | 2,435 |
| 18,777 | (420) | 18,357 | Waste Disposal | 19,999 | (202) | 19,797 |
| 139 | (131) | 8 | Trade Waste | 119 | (115) | 4 |
| 4,817 | (43) | 4,774 | Recycling | 4,867 | (597) | 4,270 |
| 36 | (16) | 20 | Waste Minimisation | 27 | (1) | 26 |
| **31,728** | **(1,590)** | **30,138** | **TOTAL** | **32,015** | **(2,095)** | **29,920** |
| | | | **PLANNING SERVICES** | | | |
| 945 | (312) | 633 | Development Control | 901 | (345) | 556 |
| 534 | (78) | 456 | Planning Policy | 612 | (32) | 580 |
| 2,853 | (497) | 2,356 | Environmental Initiatives | 1,434 | (467) | 967 |
| 593 | (60) | 533 | Economic Research | 578 | (8) | 570 |
| 2,657 | (1,018) | 1,639 | Business Support | 3,383 | (1,025) | 2,358 |
| 5,318 | (12,924) | (7,606) | Economic Development | 5,379 | (2,506) | 2,873 |
| 1,909 | (455) | 1,454 | Community Development | 2,571 | (773) | 1,798 |
| **14,809** | **(15,344)** | **(535)** | **TOTAL** | **14,858** | **(5,156)** | **9,702** |

| 2011-12 Gross Expenditure £'000 | 2011-12 Income £'000 | 2011-12 Restated * Net Expenditure £'000 | | 2012-13 Gross Expenditure £'000 | 2012-13 Income £'000 | 2012-13 Net Expenditure £'000 |
|---|---|---|---|---|---|---|
| | | | **FIRE & RESCUE SERVICES** | | | |
| 2,206 | (523) | 1,683 | Community Safety | 1,475 | (376) | 1,099 |
| 26,283 | (2,608) | 23,675 | Fire Fighting and Rescue Operations | 27,742 | (2,609) | 25,133 |
| **28,489** | **(3,131)** | **25,358** | **TOTAL** | **29,217** | **(2,985)** | **26,232** |
| | | | **HOUSING SERVICES** | | | |
| 384 | (61) | 323 | Other Council Property: Travellers' Sites | 346 | (83) | 263 |
| **384** | **(61)** | **323** | **TOTAL** | **346** | **(83)** | **263** |
| | | | **CENTRAL SERVICES TO THE PUBLIC** | | | |
| 2,336 | (1,093) | 1,243 | Registration of Births, Deaths and Marriages | 1,930 | (1,187) | 743 |
| 10 | 0 | 10 | Elections | 18 | 0 | 18 |
| 639 | (133) | 506 | Emergency Planning | 837 | (164) | 673 |
| 1,264 | (20) | 1,244 | Coroners' Court Services | 1,427 | (39) | 1,388 |
| **4,249** | **(1,246)** | **3,003** | **TOTAL** | **4,212** | **(1,390)** | **2,822** |
| | | | **CORPORATE & DEMOCRATIC CORE** | | | |
| 2,489 | (7) | 2,482 | Democratic Representation and Management | 2,342 | (32) | 2,310 |
| 1,318 | (101) | 1,217 | Corporate Management | 1,390 | (146) | 1,244 |
| **3,807** | **(108)** | **3,699** | **TOTAL** | **3,732** | **(178)** | **3,554** |
| | | | **NON DISTRIBUTED COSTS** | | | |
| (6,354) | 0 | (6,354) | Non distributed costs | (11,984) | 0 | (11,984) |
| 0 | 0 | 0 | Exceptional Items | 0 | 0 | 0 |
| **(6,354)** | **0** | **(6,354)** | **TOTAL** | **(11,984)** | **0** | **(11,984)** |
| **1,069,282** | **(590,295)** | **478,987** | **COST OF SERVICES (EXCLUDING ACQUIRED AND DISCONTINUED OPERATION)** | **960,161** | **(492,945)** | **467,216** |

The presentation of the Service Expenditure Analysis has changed from the 2011-12 Statement of Accounts.

- Changes within Children's And Education Services:
- Within Children's Social Care a new 'Commissioning and Social Work' service division has been created. Last year's Service Expenditure Analysis included this within Children's Social Care 'Service Strategy' service division.
- Services to Young People' has been renamed 'Services to Young People and Other Community Learners'.
- Other School Related Education Functions' has been renamed 'Other Strategic Functions

## 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 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.

| 2011-12 | | | | | 2012-13 | | | |
|---|---|---|---|---|---|---|---|---|
| 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 |
| | | | | **Adjustments primarily involving the Capital Adjustment Account:** | | | | |
| | | | | **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:** | | | | |
| (59,125) | 0 | 0 | 59,125 | Charges for depreciation and impairment of non-current assets | (75,802) | 0 | 0 | 75,802 |
| (19,934) | 0 | 0 | 19,934 | Revaluation losses on Property Plant and Equipment | (14,846) | 0 | 0 | 14,846 |
| (77) | 0 | 0 | 77 | Revaluation losses on Heritage Assets | 0 | 0 | 0 | 0 |
| (710) | 0 | 0 | 710 | Revaluation losses on Held for Sale Assets | (402) | 0 | 0 | 402 |
| 16,482 | 0 | 0 | (16,482) | Movements in the market value of Investment Properties | 12,957 | 0 | 0 | (12,957) |
| (2,188) | 0 | 0 | 2,188 | Amortisation of intangible assets | (2,491) | 0 | 0 | 2,491 |
| 33,623 | 0 | 0 | (33,623) | Capital grants and contributions applied | 29,296 | 0 | 0 | (29,296) |
| 0 | 0 | 0 | 0 | Movement in the Donated Assets Account | 1,063 | 0 | 0 | (1,063) |
| (22,327) | 0 | 0 | 22,327 | Revenue expenditure funded from capital under statute (net of Grants and Contributions) | (6,074) | 0 | 0 | 6,074 |
| (90,215) | 0 | 0 | 90,215 | Amounts of Property, Plant & Equipment written off on disposal or sale as part of the gain/loss on disposal to the CI&ES | (86,122) | 0 | 0 | 86,122 |
| (590) | 0 | 0 | 590 | Amounts of assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the CI&ES | (656) | 0 | 0 | 656 |
| (5,289) | 0 | 0 | 5,289 | Amounts of investment properties written off on disposal or sale as part of the gain/loss on disposal to the CI&ES | (3,521) | 0 | 0 | 3,521 |

| 2011-12 | | | | | 2012-13 | | | |
|---|---|---|---|---|---|---|---|---|
| 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:** | | | | |
| 24,678 | 0 | 0 | (24,678) | Statutory provision for the financing of capital investment | 29,682 | 0 | 0 | (29,682) |
| 13,939 | 0 | 0 | (13,939) | Capital expenditure charged against the General Fund | 17,255 | 0 | 0 | (17,255) |
| | | | | **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | |
| 31,146 | 0 | (31,146) | 0 | Capital grants and contributions unapplied credited to the CI&ES | 28,207 | 0 | (28,207) | 0 |
| 0 | 0 | 26,511 | (26,511) | Application of grants to capital financing transferred to the Capital Adjustment Account | 0 | 0 | 15,825 | (15,825) |
| | | | | **Adjustments primarily involving the Capital Receipts Reserve:** | | | | |
| 9,424 | (9,424) | 0 | 0 | Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&ES | 6,049 | (6,049) | 0 | 0 |
| 0 | 9,424 | 0 | (9,424) | Use of the Capital Receipts Reserve to finance new capital expenditure | 0 | 6,049 | 0 | (6,049) |
| 0 | 0 | 0 | 0 | Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | Transfer from Deferred Capital Receipts Reserve upon receipt of cash | 0 | 0 | 0 | 0 |
| | | | | **Adjustments primarily involving the Deferred Capital Receipts Reserve** | | | | |
| 0 | 0 | 0 | 0 | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&ES | 0 | 0 | 0 | 0 |

| 2011-12 | | | | | 2012-13 | | | |
|---|---|---|---|---|---|---|---|---|
| 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 |
| | | | | **Adjustment primarily involving the Financial Instruments Adjustment Account:** | | | | |
| 30 | 0 | 0 | (30) | Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements | 15 | 0 | 0 | (15) |
| | | | | **Adjustments primarily involving the Pensions Reserve:** | | | | |
| (39,609) | 0 | 0 | 39,609 | Reversal of items relating to retirement benefits debited or credited to the CI&ES (see Note 52) | (34,573) | 0 | 0 | 34,573 |
| 42,670 | 0 | 0 | (42,670) | Employer's pensions contributions and direct payments to pensioners payable in the year | 36,034 | 0 | 0 | (36,034) |
| | | | | **Adjustments primarily involving the Collection Fund Adjustment Account:** | | | | |
| (292) | 0 | 0 | 292 | Amount by which council tax income credited to the CI&ES is different from council tax income calculated for the year in accordance with statutory requirements | 290 | 0 | 0 | (290) |
| | | | | **Adjustment primarily involving the Accumulated Absences Account:** | | | | |
| 819 | 0 | 0 | (819) | 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 | 1,961 | 0 | 0 | (1,961) |
| **(67,545)** | **0** | **(4,635)** | **72,180** | **Total Adjustments** | **(61,678)** | **0** | **(12,382)** | **74,060** |

## 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 2012-13.

| Balance at 01 April 2011 £'000 | Additions in Year £'000 | Used in Year £'000 | Balance at 31 March 2012 £'000 | | Balance at 01 April 2012 £'000 | Additions in Year £'000 | Used in Year £'000 | Balance at 31 March 2013 £'000 |
|---|---|---|---|---|---|---|---|---|
| 21,909 | 36,988 | (12,192) | 46,705 | **Balances from dedicated schools budget including those held by schools under a scheme of delegation** | 46,705 | 27,371 | (36,158) | 37,918 |
| | | | | **Other Earmarked Reserves:** | | | | |
| 560 | 2,232 | (560) | 2,232 | Other Services | 2,232 | 3,965 | (2,232) | 3,965 |
| 16 | 0 | (16) | 0 | Children's Fund | 0 | 0 | 0 | 0 |
| 1,053 | 0 | 0 | 1,053 | Adverse Weather | 1,053 | 1,000 | (1,053) | 1,000 |
| 438 | 0 | (438) | 0 | Other Economic Regeneration | 0 | 0 | 0 | 0 |
| 2,023 | 1,000 | 0 | 3,023 | Insurance | 3,023 | 1,035 | 0 | 4,058 |
| 185 | 0 | (71) | 114 | Invest to Save | 114 | 0 | 0 | 114 |
| 687 | 256 | 0 | 943 | School's Sickness Insurance Scheme | 943 | 0 | (266) | 677 |
| 145 | 0 | (6) | 139 | Purchase of Museums Exhibits | 139 | 10 | 0 | 149 |
| 25,445 | 0 | (13,700) | 11,745 | Waste Disposal | 11,745 | 0 | (11,745) | 0 |
| 49 | 0 | (49) | 0 | Carbon Management | 0 | 0 | 0 | 0 |
| 3,364 | 0 | (2,801) | 563 | Development - Economic Development Reserve | 563 | 0 | (30) | 533 |
| 0 | 126 | 0 | 126 | Development - Migrant Workers Reserve | 126 | 0 | (61) | 65 |
| 0 | 771 | 0 | 771 | Development - SCS Reserve | 771 | 143 | (359) | 555 |
| 194 | 0 | (194) | 0 | Landfill Allowance Credits' | 0 | 0 | 0 | 0 |
| 6,430 | 161 | (1,279) | 5,312 | Health and Well Being | 5,312 | 54 | (1,382) | 3,984 |
| 350 | 832 | (350) | 832 | Legal Services | 832 | 851 | (543) | 1,140 |
| 0 | 0 | 0 | 0 | Procurement | 0 | 730 | 0 | 730 |
| 322 | 35 | (154) | 203 | Salix Carbon Management | 203 | 219 | (128) | 294 |
| 1,643 | 0 | (475) | 1,168 | Safer Communities Development Fund | 1,168 | 315 | (150) | 1,333 |
| 685 | 0 | 0 | 685 | Community Safety Development Fund | 685 | 140 | 0 | 825 |
| 0 | 0 | 0 | 0 | Co-Responder Services Reserve | 0 | 0 | 150 | 150 |
| 0 | 0 | 0 | 0 | Financial Volatility Reserve - Budget Shortfall | 0 | 23,200 | 0 | 23,200 |
| 0 | 4,356 | 0 | 4,356 | Financial volatility | 4,356 | 12,448 | (1,256) | 15,548 |
| 50 | 0 | 0 | 50 | Teal Park | 50 | 0 | 0 | 50 |
| 0 | 400 | 0 | 400 | Youth Service | 400 | 0 | 0 | 400 |
| 0 | 171 | 0 | 171 | Corby Glen/South Lincolnshire Sports fund | 171 | 0 | 0 | 171 |
| 0 | 9,000 | 0 | 9,000 | Fire Fleet | 9,000 | 0 | (9,000) | 0 |
| 0 | 2,000 | 0 | 2,000 | Roads Maintenance | 2,000 | 0 | (2,000) | 0 |
| 0 | 500 | 0 | 500 | Support Services contract | 500 | 4,000 | (307) | 4,193 |
| 0 | 0 | 0 | 0 | Civil Parking Enforcement Reserve (New Reserve) | 0 | 156 | 0 | 156 |
| 0 | 0 | 0 | 0 | Youth Offending Service Reserve (New Reserve) | 0 | 363 | 0 | 363 |
| 0 | 0 | 0 | 0 | Domestic Homicide Reviews Reserve (New Reserve) | 0 | 50 | 0 | 50 |
| 0 | 3,634 | 0 | 3,634 | Temporary Service Reserve | 3,634 | 1,099 | (1,831) | 2,902 |
| | | | | **Revenue Grants and Contributions Unapplied Reserves** | | | | |
| 7,320 | 0 | (274) | 7,046 | Growth Points - Lincoln | 7,046 | 0 | (906) | 6,140 |
| 5,289 | 0 | (1,500) | 3,789 | Growth Points - Grantham | 3,789 | 0 | (1,631) | 2,158 |
| 16,863 | 1,952 | (16,456) | 2,359 | Children Services | 2,359 | 2,069 | (460) | 3,968 |
| 6,844 | 360 | (6,469) | 735 | Highways and Transport | 735 | 163 | (45) | 853 |
| 900 | 7,015 | (900) | 7,015 | Adult Social Care | 7,015 | 3,721 | (1,596) | 9,140 |
| 0 | 9,801 | 0 | 9,801 | Growing Places | 9,801 | 4 | (10) | 9,795 |
| 6,493 | 1,430 | (1,545) | 6,378 | Other Grants and Contributions | 6,378 | 2,592 | (3,852) | 5,118 |
| **109,257** | **83,020** | **(59,429)** | **132,848** | **Total** | **132,848** | **85,698** | **(76,851)** | **141,695** |

The balance held by schools under the scheme of delegation, represents the net underspending of school budget shares in 2012-13. 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 2012-13 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 2013-14.

The reserve for the **Children's Fund** (CF) represents the amount of interest that has accrued in relation to grant income paid in advance by the Children and Young Person's Unit (CYPU). This fund ceased at the end of 2011-12.

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 **Other Economic Regeneration** was established to provide match funding for projects attracting objective 2 grant. This reserve has now ceased..

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 **Carbon Management** reserve is to provide funding for non Salix carbon management projects.

The **Development** reserve will be used to fund one off service developments and improvements.

The **Landfill Allowance 'Credits'** reserve was set up to meet future liabilities of the Landfill Allowance Trading Scheme (LAT's). LAT's ended on the 31 March 2013.

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 2012-13. The Legal Services Management Board will agree on what proportion of the surplus should be distributed to the shared service partners in 2013-14.

The **Procurement Reserve** represents Procurement Lincolnshire's underspend at the end of 2012-13. The underspend relates to both Council money and partners money. This amount will be carried into 2013-14 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 2013-14 and 2014-15.

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 reserve** was used for key road maintenance schemes including that relating to drought damage to the highways during 2012-13.

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 **Temporary Service** reserve will be used to fund a number of service projects to be undertaken in 2013-14.

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:

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| 1,108 | - Precepts paid to non-principal authorities and levies | 1,062 |
| 86,263 | - Gain or Loss on the disposal of non-current assets | 84,250 |
| 710 | - Revaluation losses on assets held for sale | 402 |
| **88,081** | **TOTAL** | **85,714** |

## 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:

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| 20,298 | - Interest payable and similar charges | 19,713 |
| 14,052 | - Pensions Interest Cost and Expected Return on Pensions Assets | 18,818 |
| (2,291) | - Interest receivable and similar income | (2,302) |
| (17,188) | - Income, expenditure and changes in the fair values of investment properties | (14,138) |
| **14,871** | **TOTAL** | **22,091** |

## 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:

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| (251,648) | Council tax income | (253,680) |
| (161,438) | Contribution from National Non-Domestic Rates | (197,680) |
| | Non-ringfenced government grants | |
| (49,901) | - Revenue Support Grant | (3,832) |
| (6,293) | - Council Tax freeze Grant | (6,332) |
| (1,601) | - Local Services Support Grant | (2,000) |
| (906) | - New Homes Bonus Grant | (1,374) |
| (64,769) | - Capital grants and contributions | (58,566) |
| **(536,556)** | **TOTAL** | **(523,464)** |

## Note 14. Property, Plant and Equipment.

a) Movement on Non-Current Assets

| Movement in Property, Plant & Equipment<br>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 01 April 2012 | 683,778 | 32,859 | 420,068 | 563 | 30,709 | 83,806 | **1,251,783** | 30,735 |

| Movement in Property, Plant & Equipment As at 31 March 2012 | Land & Buildings £'000 | Vehicles, Plant, Furniture & Equipment £'000 | Infra-structure £'000 | Restated Community Assets (*1) '£'000 | Surplus Assets £'000 | Assets Under Construction £'000 | Total (*1) £'000 | PFI Assets Included in Property, Plant & Equipment £'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | |
| At 1 April 2011 | 792,805 | 173,589 | 568,683 | 688 | 31,042 | 55,646 | **1,622,453** | 32,741 |
| Additions | 14,000 | 7,138 | 37,796 | 0 | 8 | 49,947 | **108,889** | 52 |
| Revaluation Increase to RR | 48,460 | 0 | 0 | 0 | 423 | 0 | **48,883** | 0 |
| Revaluation Decrease to RR | (6,047) | 0 | 0 | 0 | (297) | 0 | **(6,344)** | 0 |
| Revaluation Increase/(Decrease) to SDPS | (19,466) | 0 | 0 | 0 | (314) | 0 | **(19,780)** | 0 |
| Derecognition - Disposals | (79,400) | (2,252) | 0 | (124) | (8,091) | 0 | **(89,867)** | 0 |
| Derecognition to RR | (1,159) | 0 | 0 | 0 | 0 | 0 | **(1,159)** | (2) |
| Derecognition to SDPS | (10,639) | 0 | 0 | 0 | 0 | 0 | **(10,639)** | (24) |
| Reclassified to/from Heritage Property | 0 | 0 | 0 | 0 | 0 | (152) | **(152)** | 0 |
| Reclassified to/from Held for Sale | (1,858) | 0 | 0 | 0 | (739) | 0 | **(2,597)** | 0 |
| Reclassified to/from Investment Property | 0 | 0 | 0 | 0 | (14) | (1) | **(15)** | 0 |
| Reclassifications - Other | (5,821) | 4,727 | 7,743 | 0 | 12,165 | (21,634) | **(2,820)** | 0 |
| **At 31 March 2012** | **730,875** | **183,202** | **614,222** | **564** | **34,183** | **83,806** | **1,646,852** | **32,767** |
| **Depreciation and Impairment** | | | | | | | | |
| At 1 April 2011 | (44,886) | (137,540) | (167,360) | 0 | (3,471) | 0 | **(353,257)** | (1,500) |
| Depreciation Charge for 2011-12 | (17,628) | (14,425) | (26,794) | 0 | (576) | 0 | **(59,423)** | (533) |
| Depreciation written out on upward revaluation | 4,880 | 0 | 0 | 0 | 114 | 0 | **4,994** | 0 |
| Depreciation written out on downward revaluation | 2,716 | 0 | 0 | 0 | 30 | 0 | **2,746** | 0 |
| Depreciation written out to the SDPS | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Derecognition - Disposals | 5,642 | 1,622 | 0 | 0 | 2,009 | 0 | **9,273** | 0 |
| Derecognition to RR | 58 | 0 | 0 | 0 | 0 | 0 | **58** | 0 |
| Derecognition - SDPS | 541 | 0 | 0 | 0 | 0 | 0 | **541** | 1 |
| Reclassifications to Asset Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Reclassifications to/from Investment Property | 0 | 0 | 0 | 0 | 2 | 0 | **2** | 0 |
| Reclassifications - Other | 1,578 | 0 | 0 | 0 | (1,582) | 0 | **(4)** | 0 |
| **At 31 March 2012** | **(47,099)** | **(150,343)** | **(194,154)** | **0** | **(3,474)** | **0** | **(395,070)** | **(2,032)** |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2012** | **683,776** | **32,859** | **420,068** | **564** | **30,709** | **83,806** | **1,251,782** | **30,735** |
| At 1 April 2011 | 747,920 | 36,049 | 401,322 | 688 | 27,570 | 55,647 | **1,269,196** | 31,241 |

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 |
| 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** | |
| IT Equipment | 4 |
| Furniture and Equipment | 5 |
| Vehicles | 3 to 18 |

c) Capital Commitments

At 31 March 2013, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013-14 and future years budgeted to cost £50.6m.

| | Detail | Gross £'000 |
|---|---|---|
| **Children's Services** | | |
| University Academy Holbeach | Major extensions/rebuildings | 5,700 |
| Ruskin Academy Grantham | Major extensions/rebuildings | 9,800 |
| Skegness Academy | Major extensions/rebuildings | 1,300 |
| Lincoln Carlton Boulevard New Primary School | Construction of New Primary School | 3,000 |
| Deepings Academy | Construct New 6th Form Block | 1,200 |
| Gainsborough Queen Elizabeth High School | Construct New 8 Classroom Block and New Sports Hall | 1,300 |
| **Communities** | | |
| Boston Waste Transfer | Construct a Waste Tranfer Station to send waste to the new energy from waste facility | 1,000 |
| Energy from Waste Facility | Construct an energy from waste facility in North Hykeham | 23,000 |
| St. Botolph's Footbridge | Replace Footbridge | 0.800 |
| **Fire & Rescue** | | |
| Aerial Appliances | To provide 2 new Aerial Ladder Platforms (special fire engines) | 1,100 |
| Fire Engines | To provide 23 new Fire Appliances | 3,200 |

d) Valuations

The 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 1st April.

The significant assumptions applied in estimating the fair values are:

- Existing Use Value (EUV) has been used where there was sufficient evidence of market transactions for that use (e.g. office accommodation).

- 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).

The following table shows a breakdown of fixed asset values, and the year in which they were last valued.

| **Non-Current Assets carried at current cost** | **Land and Buildings £'000** | **Surplus Assets £'000** |
|---|---|---|
| Valued at fair value as at: | | |
| 1 April 2012 | 169,867 | 5,013 |
| 1 April 2011 | 115,274 | 1,141 |
| 1 April 2010 | 123,323 | 10,282 |
| 1 April 2009 | 117,776 | 3,519 |
| 1 April 2008 | 116,823 | 2,994 |
| **Total Cost of Valuation** | **643,063** | **22,949** |

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** | **2011-12 £'000** | **2012-13 £'000** |
|---|---|---|
| Vehicles, Plant, Furniture and Equipment | 32,859 | 21,884 |
| Infrastructure | 420,068 | 448,333 |
| Community Assets | 563 | 22 |
| Assets Under Construction | 83,806 | 131,741 |
| **Total Cost of Valuation** | **537,296** | **601,980** |

## 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 2012 | 4,599 | 2,696 | 27,727 | 35,022 |
| Additions - In House construction/Improvement | 10 | 4 | | 14 |
| Revaluations recognised in the Revaluation Reserve | (4) | | | (4) |
| Revaluations recognised in the CI&ES | | | | 0 |
| Disposals | | | | 0 |
| Reclassifications | | 1,324 | | 1,324 |
| **At 31 March 2013** | **4,605** | **4,024** | **27,727** | **36,356** |

| | Windmills | Other Historic Buildings | Collections | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation** | | | | |
| At 1 April 2011 | 4,367 | 2,566 | 24,224 | 31,157 |
| Additions - In House construction/Improvement | 52 | 57 | 0 | 109 |
| Revaluations recognised in the Revaluation Reserve | 215 | | 3,580 | 3,795 |
| Revaluations recognised in the CI&ES | | | (77) | (77) |
| Disposals | (114) | | | (114) |
| Reclassifications | 79 | 73 | | 152 |
| **At 31 March 2012** | **4,599** | **2,696** | **27,727** | **35,022** |

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).
- 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 2012-13. 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 2012-13.

f) Heritage Assets Five Year Summary of Transactions

The Local Authority Accounting 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 available from 2010-11 onwards. This is set out in the tables below. It is intended that such information will be built up over the next two years, to complete a five year analysis by 2014-15.

| | 2010-11 Total Heritage Assets | 2011-12 Total Heritage Assets | 2012-13 Total Heritage Assets |
|---|---|---|---|
| | £000 | £000 | £000 |
| Balance at Start of the Year | 26,935 | 31,157 | 35,022 |
| Cost of Acquisitions | 315 | 109 | 14 |
| Donated Assets | 0 | 0 | 0 |
| Revaluations | 3,907 | 0 | (4) |
| Carrying Amount of Disposals/Proceeds | 0 | (114) | 0 |
| Impairment | 0 | 3,718 | 0 |
| Reclassifications | 0 | 152 | 1,324 |
| **Total at Year End** | **31,157** | **35,022** | **36,356** |

## 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 | 2011-12<br>£'000 | 2012-13<br>£'000 |
|---|---|---|
| Rental Income from Investment Property | (1,777) | (1,940) |
| Direct Operating Expenses arising from Investment Property | 1,098 | 805 |
| **Net (Income)/Expenditure** | **(679)** | **(1,135)** |

| Other General Fund Properties | 2011-12<br>£'000 | 2012-13<br>£'000 |
|---|---|---|
| Rental Income from Investment Property | (43) | (65) |
| Direct Operating Expenses arising from Investment Property | 16 | 18 |
| **Net (Income)/Expenditure** | **(27)** | **(47)** |

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<br>£'000 | Other General Fund Properties<br>£'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** |

| | County Farm Estates £'000 | Other General Fund Properties £'000 |
|---|---|---|
| Balance at 1 April 2011 | 50,246 | 662 |
| Additions - Acquisitions (Purchase and Construction) | | |
| Additions - Subsequent expenditure | 235 | 0 |
| Disposals | (5,288) | 0 |
| Net Gains/(Losses) from fair value adjustments | 16,582 | (60) |
| Transfers to/from Property, Plant and Equipment | 1 | 12 |
| **Balance at 31 March 2012** | **61,776** | **614** |

| | | |
|---|---|---|
| **Nature of asset holding** | | |
| Owned | 61,728 | 614 |
| Leased | 48 | 0 |
| **Balance at 31 March 2012** | **61,776** | **614** |

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 2012 | | | | |
| - Gross carrying amount | 9,616 | 3,895 | 41 | 13,552 |
| - Accumulated amortisation | (6,746) | (3,522) | (41) | (10,309) |
| **Net carrying amount at 1 April 2012** | **2,870** | **373** | **0** | **3,243** |
| Additions: | | | | |
| - Purchases | 1,073 | 2 | 0 | 1,075 |
| Asset classified as held for sale | 0 | 0 | 0 | 0 |
| Other disposals | (3) | 0 | 0 | (3) |
| Amortisation for the period | (2,281) | (210) | 0 | (2,491) |
| Other changes - reclassifications | 5,351 | 29 | 0 | 5,380 |
| **Net carrying amount at 31 March 2013** | **7,010** | **194** | **0** | **7,204** |
| Comprising: | | | | |
| - Gross carrying amounts | 16,037 | 3,926 | 41 | 20,004 |
| - Accumulated amortisation | (9,027) | (3,732) | (41) | (12,800) |
| **Balance Sheet amount at 31 March 2013** | **7,010** | **194** | **0** | **7,204** |

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 | 3 | 7 |
| - Software Licenses | 4 | 7 |
| - Other Intangibles | 4 | 4 |

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £2.490m (£2.187m in 2011-12) charged to revenue in 2012-13 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 2013, the Council has capitalised material items of software (with a value over £1m).

| Detail | Gross £'000 |
|---|---|
| Electronic Records and Data Management System | 4,254 |
| Virtual Learning Environment for Schools | 2,464 |

d. Capital Commitments

At 1 April 2013, the Council has entered into a number of contracts for the purchase of intangible assets for 1 April 2013 to 31 March 2014 and for future years budgeted to cost £28.300m. The major commitments are:

| Detail | Gross £'000 |
|---|---|
| Superfast Broadband - A programme to trigger the installation of digital infrastructure in communities and businesses | 28,300 |

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 2012 | 31 March 2013 | 31 March 2012 | 31 March 2013 |
| | £'000 | £'000 | £'000 | £'000 |
| **Borrowings** | | | | |
| Financial Liabilities At Amortised Cost | 446,272 | 454,787 | 582 | 413 |
| Financial Liabilities at Fair Value Through Profit and Loss | 0 | 0 | 0 | 0 |
| **Total Borrowings** | **446,272** | **454,787** | **582** | **413** |
| **PFI & Finance Lease Liabilities** | | | | |
| PFI and Finance Lease Liabilities | 21,220 | 14,905 | 0 | 0 |
| **Total PFI & Finance Lease Liabilities** | **21,220** | **14,905** | **0** | **0** |
| **Creditors** | | | | |
| Financial Liabilities at Amortised Cost | 0 | 0 | 10,443 | 7,487 |
| Financial Liabilities Carried at Contract Amount | 4,623 | 5,477 | 86,447 | 78,541 |
| **Total Creditors** | **4,623** | **5,477** | **96,890** | **86,028** |
| **Investments** | | | | |
| Loans and Receivables | 200 | 200 | 159,546 | 157,056 |
| Available for Sale Financial Assets (*1) | 0 | 0 | 77,750 | 36,025 |
| 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** | **214** | **237,296** | **193,081** |
| **Debtors** | | | | |
| Loans and Receivables | 6,248 | 6,316 | 0 | 0 |
| Financial Assets Carried at Contract Amount | 0 | 0 | 23,486 | 31,744 |
| **Total Debtors** | **6,248** | **6,316** | **23,486** | **31,744** |

(*1) The Available for Sale Financial Assets for 31 March 2013 are investments held in Stable Net Asset Value Money Market Funds.

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 its 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. 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.

The interest received or incurred in relation to the financial instruments held by the Council is shown in the following table:

| | 2011-12 £'000 | 2012-13 £'000 |
|---|---|---|
| Financial Liabilities At Amortised Cost (*2) | 20,377 | 19,922 |
| Financial Liabilities at Fair Value Through Profit and Loss | 0 | 0 |
| **Total Interest Expense** | **20,377** | **19,922** |
| Total Fee Expense | 1 | 5 |
| **Total Expense in Surplus or Deficit on the Provision of Services** | **20,378** | **19,927** |
| Loans and Receivables at Amortised Cost (*3) | (1,784) | (1,950) |
| Available for Sale Financial Assets | (516) | (360) |
| Unquoted Equity Investments At Cost | 0 | 0 |
| Financial Assets at Fair Value Through Profit and Loss | 0 | 0 |
| **Total Interest Income** | **(2,300)** | **(2,310)** |
| **Total Fee Income** | 0 | 0 |
| **Interest Received** | **(2,300)** | **(2,310)** |

(*2) The 2011-12 figure has been restated to include interest paid on finance leases and PFI agreements.
(*3) The 2011-12 balance has been restated to include interest received from instalment agreements.

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 2013 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 2012 | | 31 March 2013 | |
|---|---|---|---|---|
| | Carrying Amount £'000 | Fair Value £'000 | Carrying Amount £'000 | Fair Value £'000 |
| PWLB Debt (Long Term > 12 Months) | 436,207 | 453,732 | 454,765 | 486,714 |
| Non PWLB Debt (Long Term > 12 Months) | 10,065 | 9,010 | 10,022 | 9,410 |
| PWLB Debt (Short Term < 12 Months) | 6,531 | 6,802 | 3,537 | 3,797 |
| Non PWLB Debt (Short Term < 12 Months) | 625 | 624 | 456 | 455 |
| Long-Term Creditors | 4,623 | 4,623 | 5,477 | 5,477 |
| **Total Financial Liabilities at Amortised Cost** | **458,051** | **474,791** | **474,257** | **505,853** |

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 2012 to 31 March 2013, highlights the reduction or increase in market rates over this period.

| Loans and Receivables | 31 March 2012 Carrying Amount £'000 | 31 March 2012 Fair Value £'000 | 31 March 2013 Carrying Amount £'000 | 31 March 2013 Fair Value £'000 |
|---|---|---|---|---|
| Loans and Receivables (Long Term > 12 Months) | 200 | 200 | 200 | 200 |
| Loans and Receivables (Short Term < 12 Months) | 159,220 | 159,220 | 156,145 | 156,145 |
| Long-Term Debtors | 6,248 | 6,418 | 6,316 | 6,574 |
| **Financial Assets at Amortised Cost** | **165,668** | **165,838** | **162,661** | **162,919** |

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.

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:
  - maximum and minimum exposures to fixed and variable rates;
  - maximum and minimum exposures to the maturity structure of its debt;
  - 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-<br>Money Market Fund: AAA<br>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 2012 | | Amount at 31 March 2013 | |
|---|---|---|---|---|
| **Deposits With Banks and Financial Institutions** | **£'000** | **%** | **£'000** | **%** |
| AAA Rated Counterparties | 77,750 | 32.78% | 36,025 | 18.73% |
| AA Rated Counterparties | 79,220 | 33.40% | 66,145 | 34.38% |
| A Rated Counterparties | 80,000 | 33.73% | 80,000 | 41.58% |
| Other Counterparties (*4) | 214 | 0.09% | 10,214 | 5.31% |
| **Total Investments** | **237,184** | **100.00%** | **192,384** | **100.00%** |

(*4) 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 and all the total outstanding investments at the reporting date still meet this minimum investment criteria.

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 2013 can be analysed by age as follows:

| **Analysis of Debts by Age** | Amount at 31 March 2012 | | Amount at 31 March 2013 | |
|---|---|---|---|---|
| | **£'000** | **%** | **£'000** | **%** |
| Less than 3 months | 2,802 | 39.13% | 1,800 | 28.26% |
| 3 to 6 months | 864 | 12.07% | 966 | 15.17% |
| 6 months to 1 year | 1,133 | 15.83% | 1,567 | 24.60% |
| More then 1 year | 2,360 | 32.97% | 2,036 | 31.97% |
| **Total Outstanding Debt** | **7,159** | **100.00%** | **6,369** | **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 2012 £'000** | **31 March 2013 £'000** |
|---|---|---|
| Less than one year | 11,025 | 7,900 |
| Between one and two years | 3,593 | 11,565 |
| Between two and five years | 48,607 | 52,624 |
| Between five and ten years | 91,295 | 84,264 |
| Between ten and fifteen years | 40,010 | 42,941 |
| Between fifteen and twenty-five years | 40,218 | 45,845 |
| Between twenty-five and thirty-five years | 34,439 | 29,439 |
| Between thirty-five and forty-five years | 138,110 | 146,109 |
| Maturing in more than forty-five years | 50,000 | 42,000 |
| **Total** | **457,297** | **462,687** |

| **Investments Outstanding - Financial Assets** | **31 March 2012 £'000** | **31 March 2013 £'000** |
|---|---|---|
| Less than one year | 237,296 | 193,081 |
| Between one and two years | 0 | 0 |
| Between two and three years | 0 | 0 |
| Maturing in more than three years | 214 | 214 |
| **Total** | **237,510** | **193,295** |

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.

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 £1.601m 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 2013 £'000** |
|---|---|
| Increase in interest payable on variable rate borrowings | (4) |
| Increase in interest receivable on variable rate investments | 1,605 |
| **Impact on Income and Expenditure Account** | **1,601** |

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 2013 £'000** | **Fair Value at 1% Higher £'000** | **Fair Value at 1% Lower £'000** |
|---|---|---|---|
| County Council | 497,468 | 438,574 | 573,019 |
| Schools | 2,432 | 2,296 | 2,582 |
| **Long Term Fixed Borrowing:** | **499,900** | **440,870** | **575,601** |

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. Fair values have been calculated using the same methodology and assumptions as outlined on page 63 Fair Value of Assets and Liabilities Carried at Amortised Cost.

**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 2013:

| | Balance outstanding at 1 April 2012 £'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 2013 £'000 |
|---|---|---|---|---|---|---|
| Highways and Transportation | 820 | 2,399 | (2,420) | 0 | 0 | 799 |
| **Total Inventories** | **820** | **2,399** | **(2,420)** | **0** | **0** | **799** |

The Highways and Transportation stock comprises salt stores for winter maintenance.

The Council's accounting policies on inventories includes a de-minimus of £100k for inventories.

## Note 20. Construction Contracts.

The Council does not undertake construction contracts.

## Note 21. Debtors.

The Council held the following debtors at 31 March 2013:

| 31 March 2012 £'000 | Amounts falling due in one year: | 31 March 2013 £'000 |
|---|---|---|
| 10,298 | Central government bodies | 13,964 |
| 3,354 | Other local authorities | 4,373 |
| 3,766 | NHS bodies | 3,303 |
| 0 | Public corporations and trading funds | 0 |
| 7,754 | Bodies external to general government | 11,602 |
| 9,817 | Council tax agency arrangements | 10,002 |
| 4,748 | Payments in advance | 4,889 |
| **39,737** | **Total Short Term Debtors** | **48,133** |

| 31 March 2012 £'000 | Amounts falling due after one year: | 31 March 2013 £'000 |
|---|---|---|
| 1,719 | Central government bodies | 2,248 |
| 530 | Other local authorities | 460 |
| 6 | NHS bodies | 10 |
| 3,993 | Bodies external to general government | 3,598 |
| **6,248** | **Total Long Term Debtors** | **6,316** |

All figures included in the table above are shown net of impairment for doubtful debt.

The Council Tax 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.

## Note 22. Cash and Cash Equivalents.

The Council balance of cash and cash equivalents is made up of the following elements:

| 31 March 2012 £'000 | | 31 March 2013 £'000 |
|---|---|---|
| (6,161) | Cash & Cash Equivalents held by the County Council | (8,356) |
| **(6,161)** | | **(8,356)** |

## Note 23. Assets Held for Sale.

The Council held the following assets for sale at 31 March 2013:

| | Current | | Non-Current | |
|---|---|---|---|---|
| | 2011-12 £'000 | 2012-13 £'000 | 2011-12 £'000 | 2012-13 £'000 |
| Balance outstanding at 1 April | 1,177 | 2,239 | 0 | 0 |
| Assets newly classified as held for sale: | | | | |
| - Property, Plant and Equipment | 2,739 | 2,985 | 0 | 0 |
| - Intangible Assets | 0 | 0 | 0 | 0 |
| - Other assets/liabilities in disposal groups | 0 | 0 | 0 | 0 |
| Revaluation Increase to RR | 135 | | | |
| Revaluation Decrease to RR | (739) | (328) | 0 | 0 |
| Revaluation Increase/(Decrease) to SDPS | (714) | (402) | | |
| 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 | (359) | (834) | 0 | 0 |
| Transfers from non-current to current | | | | |
| **Balance Outstanding at 31 March** | **2,239** | **3,660** | **0** | **0** |

## Note 24. Creditors.

The Council had the following creditors at 31 March 2013:

| 31 March 2012 £'000 | Amounts falling due in one year: | 31 March 2013 £'000 |
|---|---|---|
| (20,515) | Central government bodies | (17,008) |
| (3,090) | Other local authorities | (3,191) |
| (3,572) | NHS bodies | (409) |
| (74) | Public corporations and trading funds | (2) |
| (49,491) | Other entities and individuals | (53,874) |
| (5,434) | Council tax agency arrangements | (5,328) |
| (6,962) | Receipts in advance | (2,577) |
| (13,217) | Employee benefits accrual | (9,025) |
| **(102,355)** | **Total Short Term Creditors** | **(91,414)** |

| 31 March 2012 £'000 | Amounts falling due after one year: | 31 March 2013 £'000 |
|---|---|---|
| (1,815) | Central government bodies | (1,815) |
| (2) | Other local authorities | (725) |
| (2,806) | Other entities and individuals | (2,937) |
| **(4,623)** | **Total Long Term Creditors** | **(5,477)** |

The Council Tax 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.

## Note 25. Other Long Term Liabilities

The Council had the following long term liabilities at 31 March 2013:

| 31 March 2012 £'000 | | 31 March 2013 £'000 |
|---|---|---|
| (21,220) | Outstanding Liabilities on PFI and Finance Leases | (14,905) |
| (545,371) | Pension Reserve | (641,730) |
| **(566,591)** | | **(656,635)** |

## Note 26. Provisions.

The Council made the following provisions during 2012-13:

| Summary of Provisions | Balance at 1 April 2012 £'000 | Additional Provisions made in 2012-13 £'000 | Amounts Used in 2012-13 £'000 | Unused amounts reversed in 2012-13 £'000 | Unwinding of discounting in 2012-13 £'000 | Balance at 31 March 2013 £'000 |
|---|---|---|---|---|---|---|
| Social Services - Section 117 | (307) | 0 | 0 | 0 | 0 | (307) |
| Waste Disposal Claims | (832) | (29) | 28 | 29 | 0 | (804) |
| Insurance Claims | (6,284) | (378) | 0 | 0 | (139) | (6,801) |
| Carbon Reduction Scheme | (931) | (452) | 649 | 136 | 0 | (598) |
| Property Dilapidation Costs | (220) | 0 | 220 | 0 | 0 | 0 |
| Voluntary Aided Schools VAT | (99) | 0 | 99 | 0 | 0 | 0 |
| Onerous Contracts Property Leases | (457) | 0 | 239 | 0 | 0 | (218) |
| **TOTAL** | **(9,130)** | **(859)** | **1,235** | **165** | **(139)** | **(8,728)** |

| Short Term Provisions | Balance at 1 April 2012 £'000 | Additional Provisions made in 2012-13 £'000 | Amounts Used in 2012-13 £'000 | Unused amounts reversed in 2012-13 £'000 | Unwinding of discounting in 2012-13 £'000 | Balance at 31 March 2013 £'000 |
|---|---|---|---|---|---|---|
| Waste Disposal Claims | (25) | (29) | 28 | 0 | 0 | (26) |
| Insurance Claims | (3,039) | 97 | 0 | 0 | 0 | (2,942) |
| Carbon Reduction Scheme | (931) | (452) | 649 | 136 | 0 | (598) |
| Property Dilapidation Costs | (220) | 0 | 220 | 0 | 0 | 0 |
| Voluntary Aided Schools VAT | (99) | 0 | 99 | 0 | 0 | 0 |
| Onerous Contracts Property Leases | (457) | 0 | 239 | 0 | 0 | (218) |
| **TOTAL** | **(4,771)** | **(384)** | **1,235** | **136** | **0** | **(3,784)** |

| Long Term Provisions | Balance at 1 April 2012 £'000 | Additional Provisions made in 2012-13 £'000 | Amounts Used in 2012-13 £'000 | Unused amounts reversed in 2012-13 £'000 | Unwinding of discounting in 2012-13 £'000 | Balance at 31 March 2013 £'000 |
|---|---|---|---|---|---|---|
| Social Services - Section 117 | (307) | 0 | 0 | 0 | 0 | (307) |
| Waste Disposal Claims | (807) | 0 | 0 | 29 | 0 | (778) |
| Insurance Claims | (3,245) | (475) | 0 | 0 | (139) | (3,859) |
| **TOTAL** | **(4,359)** | **(475)** | **0** | **29** | **(139)** | **(4,944)** |

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.

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 | Maximum for all such claims |
| | £'000 | £'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 2012-13 has been collated, the details of the amount will not be available until 2013-14.

**Property Dilapidation** costs - moving out of various premises - utilised in year

The **Voluntary Aided Schools VAT** provision related to an investigation by HM Revenue and Customs into the reclaiming of VAT by Voluntary Aided schools relating to capital expenditure. Notification was subsequently received confirming that the provision is no longer required.

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 2012 £'000 | Balance at 31 March 2013 £'000 |
|---|---|---|
| Capital Grants Unapplied | (42,283) | (56,241) |
| Usable Capital Receipts | 0 | 0 |
| Earmarked Reserves | (132,849) | (141,695) |
| General Fund | (15,900) | (15,900) |
| **Total** | **(191,032)** | **(213,836)** |

Please refer to the Movement on 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.

## Note 28. Unusable Reserves.

| Balance at 31 March 2012 £'000 | | Note | Balance at 31 March 2013 £'000 |
|---|---|---|---|
| (240,194) | Revaluation Reserve | (28a) | (272,346) |
| (621,730) | Capital Adjustment Account | (28b) | (568,151) |
| (16) | Financial Instruments Adjustment Account | (28c) | (31) |
| 545,371 | Pension Reserve | (28d) | 641,730 |
| (4,383) | Collection Fund Adjustment Account | (28e) | (4,674) |
| 8,705 | Accumulated Absences Account | (28 f) | 6,744 |
| **(312,247)** | **Total** | | **(196,728)** |

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.

| 2011-12 Restated (*1) £'000 | | 2012-13 £'000 | 2012-13 £'000 |
|---|---|---|---|
| **(210,557)** | **Balance at 1 April** | | **(240,194)** |
| (58,455) | Upward revaluation of assets | (78,087) | |
| 6,314 | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | 21,727 | |
| (52,141) | Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | (56,360) | |
| 4,131 | Difference between fair value depreciation and historical cost depreciation | 6,335 | |
| 18,373 | Accumulated gains on assets sold or scrapped | 17,873 | |
| 22,504 | Amount written off to the Capital Adjustment Account | 24,208 | |
| **(240,194)** | **Balance at 31 March** | | **(272,346)** |

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.

| Restated (*1) 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| **(675,025)** | **Balance at 1 April** | **(621,730)** |
| | **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:** | |
| 59,125 | - Charges for depreciation and impairment of non-current assets | 75,802 |
| 20,721 | - Revaluation losses on Property, Plant and Equipment | 15,248 |
| 2,188 | - Amortisation of intangible assets | 2,491 |
| 22,327 | - Revenue expenditure funded from capital under statute (net of Grants and Contributions) | 6,074 |
| 96,095 | - 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 | 90,299 |
| (22,504) | Adjusting amounts written out of the Revaluation Reserve | (24,208) |
| **177,952** | Net written out amount of the cost of non-current assets consumed in the year | **165,706** |
| | **Capital financing applied in the year:** | |
| (9,424) | - Use of the Capital Receipts Reserve to finance new capital expenditure | (6,049) |
| (33,623) | - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (29,296) |
| (26,511) | - Application of grants to capital financing from the Capital Grants Unapplied Account | (15,825) |
| (24,678) | - Statutory provision for the financing of capital investment charged against the General Fund | (29,682) |
| (13,939) | - Capital expenditure charged against the General Fund | (17,255) |
| **(108,175)** | | **(98,107)** |
| (16,482) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | (12,957) |
| 0 | Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement | (1,063) |
| **(16,482)** | | **(14,020)** |
| **(621,730)** | **Balance at 31 March** | **(568,151)** |

c. Financial Instruments 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.

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| **14** | **Balance at 1 April** | **(16)** |
| 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 |
| (45) | 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 | (30) |
| **(16)** | **Balance at 31 March** | **(31)** |

d. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require 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.

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| **457,886** | **Balance at 1 April** | **545,371** |
| 90,546 | Actuarial gains or losses on pensions assets and liabilities | 97,820 |
| 39,609 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CI&ES | 34,573 |
| (42,670) | Employer's pensions contributions and direct payments to pensioners payable in the year | (36,034) |
| **545,371** | **Balance at 31 March** | **641,730** |

e. Collection Fund Adjustment Account

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

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| **(4,675)** | **Balance at 1 April** | **(4,383)** |
| 292 | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (291) |
| **(4,383)** | **Balance at 31 March** | **(4,674)** |

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.

| 2011-12 £'000 | | 2012-13 £'000 | 2012-13 £'000 |
|---|---|---|---|
| **9,524** | **Balance at 1 April** | | **8,705** |
| (9,524) | Settlement or cancellation of accrual made at the end of the preceding year | (8,705) | |
| 8,705 | Amounts accrued at the end of the current year | 6,744 | |
| (819) | 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 | | (1,961) |
| **8,705** | **Balance at 31 March** | | **6,744** |

## Note 29. Operating Activities.

The cashflows from operating activities include the following items:

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| | Taxation | |
| (251,939) | - Council Tax | (253,390) |
| (161,438) | - National Non-Domestic Rates | (197,680) |
| (544,616) | Grants | (444,485) |
| (132,484) | Sale of Goods and Rendering of Services | (68,216) |
| (2,475) | Interest Received | (1,717) |
| 0 | Other Receipts from Operating Activities | 0 |
| **(1,092,952)** | **Cash Inflows generated from Operating Activities** | **(965,488)** |
| 374,709 | Cash paid to and on behalf of employees | 297,687 |
| 574,876 | Cash paid to Suppliers of Goods and Services | 539,115 |
| 20,363 | Interest Paid | 19,739 |
| 84,238 | Other Payments for Operating Activities | 71,562 |
| **1,054,186** | **Cash Outflows generated from Operating Activities** | **928,103** |
| **(38,766)** | **Net Cash Flows from Operating Activities** | **(37,385)** |

## Note 30. Investing Activities.

The cashflows from investing activities include the following items:

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| 108,250 | Purchase of Property, Plant & Equipment, Investment Property and Intangible Assets | 146,921 |
| 1,103,775 | Purchase of Short-term and Long-term investments | 972,068 |
| 1,113 | Other Payments for Investing Activities | 823 |
| (9,424) | Proceeds from the sale of Property, Plant & Equipment, Investment Property and Intangible Assets | (6,049) |
| (1,113,667) | Proceeds from Short-term and Long-term investments | (1,016,868) |
| (62,292) | Other Receipts from Investing Activities | (53,283) |
| **27,755** | **Net Cash Flows from Investing Activities** | **43,612** |

## Note 31. Financing Activities.

The cashflows from financing activities include the following items:

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| (82) | Cash Receipts of Short- and Long-Term Borrowing | (12,100) |
| 0 | Other Receipts from Financing Activities | 0 |
| 2,512 | Cash Payments for the Reduction of the Outstanding Liability relating to finance leases and on-Balance Sheet PFI Contracts | 1,318 |
| 6,723 | Repayments of Short- and Long-Term Borrowing | 6,750 |
| 0 | Other Payments for Financing Activities | 0 |
| **9,153** | **Net Cash Flows from Financing Activities** | **(4,032)** |

## 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 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 Social 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 |
| TPA Recovery | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **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) |

| Service Analysis 2011-12 | 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 | 25,613 | 8,536 | 11,621 | 45,770 | (4,930) | (271) | (5,201) | 40,569 |
| Education Services | 35,117 | 8,591 | 43,455 | 87,163 | (28,423) | (2,188) | (30,611) | 56,552 |
| Adult Social Care | 35,856 | 134,710 | 26,614 | 197,180 | (33,577) | (34,467) | (68,044) | 129,136 |
| Public Health | 2,303 | 17,099 | 3,182 | 22,584 | (1,910) | (309) | (2,219) | 20,365 |
| Highways & Transportation | 11,195 | 42,882 | 7,610 | 61,687 | (4,197) | (2,611) | (6,808) | 54,879 |
| Environment Planning & Customer Services | 6,069 | 20,902 | 2,514 | 29,485 | (964) | (380) | (1,344) | 28,141 |
| Economy & Culture | 10,958 | 1,752 | 10,201 | 22,911 | (15,856) | (2,364) | (18,220) | 4,691 |
| Fire & Rescue | 18,013 | 34 | 6,850 | 24,897 | (2,222) | (553) | (2,775) | 22,122 |
| Community Safety | 11,717 | 27 | 6,094 | 17,838 | (2,344) | (1,120) | (3,464) | 14,374 |
| Finance & Resources | 3,562 | 5,575 | 15,973 | 25,110 | (2,299) | (5,437) | (7,736) | 17,374 |
| Performance & Governance | 7,246 | 10,346 | 6,612 | 24,204 | (364) | (171) | (535) | 23,669 |
| **TOTAL SERVICE BUDGETS** | **167,649** | **250,454** | **140,726** | **558,829** | **(97,086)** | **(49,871)** | **(146,957)** | **411,872** |
| **OTHER BUDGETS** | | | | | | | | |
| Capital Financing Charges | 0 | 0 | 53,285 | 53,285 | 0 | (2,291) | (2,291) | 50,994 |
| Contingency | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Council Tax Freeze Grant | 0 | 0 | 0 | 0 | (6,293) | 0 | (6,293) | (6,293) |
| Other Budgets | 4,078 | (751) | 3,202 | 6,529 | (2,267) | 0 | (2,267) | 4,262 |
| TPA Recovery | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **TOTAL OTHER BUDGETS** | **4,078** | **(751)** | **56,487** | **59,814** | **(8,560)** | **(2,291)** | **(10,851)** | **48,963** |
| **SCHOOLS BUDGETS** | | | | | | | | |
| Delegated School Budgets | 271,600 | 1,116 | 77,966 | 350,682 | (37,472) | (6,923) | (44,395) | 306,287 |
| Central Services within the DSB | 6,595 | 21,699 | 13,296 | 41,590 | (3,888) | (172) | (4,060) | 37,531 |
| Dedicated Schools Grant | 0 | 0 | 0 | 0 | (362,630) | 0 | (362,630) | (362,630) |
| **TOTAL SCHOOLS BUDGETS** | **278,195** | **22,815** | **91,262** | **392,272** | **(403,990)** | **(7,095)** | **(411,085)** | **(18,812)** |
| **TOTAL EXPENDITURE** | **449,922** | **272,518** | **288,475** | **1,010,916** | **(509,636)** | **(59,257)** | **(568,893)** | **442,023** |
| **INCOME** | | | | | | | | |
| Formula Grant | 0 | 0 | 0 | 0 | (211,339) | 0 | (211,339) | (211,339) |
| Council Tax | 0 | 0 | 0 | 0 | 0 | (251,939) | (251,939) | (251,939) |
| **TOTAL INCOME** | **0** | **0** | **0** | **0** | **(211,339)** | **(251,939)** | **(463,278)** | **(463,278)** |
| **Use/(Contribution) to Reserves** | | | | 1,010,916 | | | (1,032,171) | (21,255) |

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.

**Early Intervention Grant -** This is the early intervention grant income which replaced a number of specific grants such as Sure Start and this income is ringfenced.

**Adult Social 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 LPCT for specific work or projects and fees and charges for services.

*Learning Disabilities* This is a joint funded service in conjunction with LPCT 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.

**Finance & Resources** provide the following functions for the Authority: Legal, Audit, Procurement, Corporate Property and Treasury & Financial Strategy.

**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.

| | **2011-12 £'000** | **2012-13 £'000** |
|---|---|---|
| Net Expenditure in the Directorate analysis (Use of Reserves) | (21,256) | (10,093) |
| 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) | 128,751 | 112,976 |
| Less: amounts reported to management in the analysis not included in the Comprehensive Income and Expenditure Account (Note 32c) | 371,492 | 364,361 |
| **Net Cost of Services in the Comprehensive Income and Expenditure Statement** | **478,987** | **467,244** |

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 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) |
| Specific Grants and Contributions | (628,103) | | 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 | 18,818 | 18,818 |
| **TOTAL Expenditure** | **929,927** | **135,089** | **(104,553)** | **960,463** | **66,472** | **1,026,935** |
| **Surplus/ Deficit on the Provision of Services** | **(10,093)** | **112,976** | **364,361** | **467,244** | **(415,659)** | **51,585** |

| Reconciliation to Subjective Analysis 2011-12 | 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) | (59,257) | (35,909) | 2,291 | (92,875) | 0 | (92,875) |
| Income from Council Tax | (251,939) | 0 | 251,939 | 0 | (251,647) | (251,647) |
| Government Grants and Contributions | (720,975) | (2,307) | 219,234 | (504,048) | (219,234) | (723,282) |
| Interest and Investment Income Receivable | 0 | 0 | 1,819 | 1,819 | (20,593) | (18,774) |
| **TOTAL Income** | **(1,032,171)** | **(38,216)** | **475,283** | **(595,104)** | **(491,474)** | **(1,086,578)** |
| Employee Expenses | 449,922 | 29,545 | (42,670) | 436,797 | 0 | 436,797 |
| Agency and Contract Expenditure | 272,518 | 0 | 0 | 272,518 | 0 | 272,518 |
| Other Running Expenses | 288,475 | (46) | (58,937) | 229,492 | 21 | 229,513 |
| Support Service Recharges | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation, Amortisation and Impairment | 0 | 137,467 | 0 | 137,467 | (64,769) | 72,698 |
| Interest Payable and Similar Charges | 0 | 0 | (2,184) | (2,184) | 21,391 | 19,207 |
| Precepts and Levies | 0 | 0 | 0 | 0 | 1,108 | 1,108 |
| Gain or Loss on Disposal of Non-Current Assets | 0 | 0 | 0 | 0 | 86,973 | 86,973 |
| Pension Interest Cost | 0 | 0 | 0 | 0 | 14,052 | 14,052 |
| **TOTAL Expenditure** | **1,010,915** | **166,966** | **(103,791)** | **1,074,090** | **58,776** | **1,132,866** |
| **Surplus/ Deficit on the Provision of Services** | **(21,256)** | **128,750** | **371,492** | **478,986** | **(432,698)** | **46,288** |

## 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 2013 | | |
|---|---|---|---|
| | Gross Expenditure £'000 | Income £'000 | Net Expenditure £'000 |
| Civil Parking Enforcement | 302 | (274) | 28 |
| **Surplus or Deficit on Acquired and Discontinued Operations** | **302** | **(274)** | **28** |

Civil Parking Enforcement

Lincolnshire County Council (LCC) was granted Civil Parking Enforcement powers by Central Government on 30 November 2012. The powers were transferred to the Council from Lincolnshire Police. The powers are derived from the Traffic Management Act 2004 and cover all on street parking locations in Lincolnshire. At the same time and as part of the same process, the District Councils were granted civil enforcement powers in their off street car parks. The Council has no financial responsibilities in these District Council car park operations.

The Council and the District Councils work together in a partnership to deliver Civil Parking Enforcement services in Lincolnshire. All District Councils have agreed to contribute to any operational deficit costs incurred by the Council, up to a limit of £87,000 per annum as the total of all District Council contributions.

The Council has entered into a contract for on street parking enforcement with APCOA Parking (UK) Ltd and has an agreement with Nottinghamshire County Council to process Penalty Charge Notices and related administrative services. West Lindsey District Council, North Kesteven District Council and South Kesteven District Council have decided to use these enforcement and ticket processing services for their off street car parks. All other District Councils have made their own separate arrangements for enforcement and administration in their off street car parks.

The above Council contracts and agreements have a duration of four years.

The Council agreed to fund the set up costs for on street civil parking enforcement from its own resources with £177,000 revenue funding and £23,000 capital funding being provided in 2012-13. All future funding is expected to be sourced through Penalty Charge Notice income. Current financial projections for Civil Parking Enforcement have been prepared on a break even basis.

Public Health

The Health and Social Care Act 2012 received royal assent in March 2012. The Act will reform the current NHS structures and responsibilities, with a number of Public Health 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 will become responsible for commissioning services for many of these policy areas which will be funded by a specific government grant of £27.5m for 2013-14, which will be reflected in the 2013-14 accounts.

## Note 34. Trading Activities.

The Council has no trading activities to report for 2012-13.

## 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 Primary Care Trusts.
The Council paid £5.534m (£5.142m in 2011-12) acting as an agent of the Primary Care Trusts in order to simplify the payment arrangements to the homes. The total amount paid is recovered from the Primary Care Trusts.

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 2012-13 the Council paid £0.015m acting as an agent for West Lindsey District Council. £0.010m was recovered.

c. NHS Procurement

From 1 April 2013 Public Health services that were historically the responsibility of NHS Lincolnshire transferred to become the responsibility of the Council. 2012-13 was classed as a transition year and during this time, staff were based in Council buildings, however they were still employed by NHS until 1 April 2013.

During this transition year NHS staff purchased goods using the Council's purchasing system and using the accounts for the Council. However, these purchases were NHS purchases and did not relate to the Council's expenditure. The expenditure for these purchases was fully recovered from NHS Lincolnshire.

During 2012-13 the Council paid £0.175m whilst acting as an agent for the NHS. This amount was fully 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 Primary Care Trusts established a pooled budget Partnership Arrangement for the provision of Learning Disability services.

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| 51,711 | Gross Partnership Expenditure | 55,176 |
| (47,263) | Gross Partnership Income | (48,580) |
| **4,448** | **Surplus(-)/Deficit** | **6,596** |
| **25,583** | **Contribution from Lincolnshire County Council** | **29,335** |

The Overspend for 2012-13 is £6.596m. This overspend occurred due to a number of reasons. These included the

Demographic pressures resulting from increased life expectancy of both Service Users and carers (large number of elderly carers to LD clients, whom are currently providing informal care, which when it breaks down increases service provision costs), the increasing needs of Service Users, and the additional cost borne as transition cases transfer from Children's Services.

The general economic climate has also seen an increase in people accessing services (whom have been assessed for services but in previous years have chosen not to access those services). The Legislative changes around Ordinary Residence also lead to additional cost pressures.

b. Integrated Community Equipment Service (ICES)

In 2004/05 Lincolnshire County Council and Lincolnshire Primary Care Trust established a pooled budget Partnership Arrangement for the provision of the Integrated Community Equipment Service.

From 1 November 2013 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

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| 1,736 | Gross Partnership Expenditure | 3,791 |
| (1,730) | Gross Partnership Income | (3,791) |
| **6** | **Surplus(-)/Deficit** | **0** |
| **871** | **Contribution from Lincolnshire County Council** | **1,940** |

This is a 50:50 shared responsibility budget between the Council and the Primary Care Trust and any overspend is shared.

c. Mental Health

In 2002/03 Lincolnshire County Council and Lincolnshire Partnership NHS Foundation Trust established a pooled budget Partnership Arrangement for the provision of Mental Health Services. This pooled budget arrangement ended in March 2012

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| 41,400 | Gross Partnership Expenditure | 0 |
| (41,400) | Gross Partnership Income | 0 |
| **0** | **Surplus(-)/Deficit** | **0** |
| **7,092** | **Contribution from Lincolnshire County Council** | **0** |

The pooled budget arrangement for Mental Health Services between the Council and LPFT ended on 31st March 2012. The arrangement moved to a contractual basis for 2012-13 and is not a pooled budget for 2012-13.

d. Substance Misuse

Lincolnshire Primary Care Trust 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. The budget for substance misuse is termed a virtual pooled fund arrangement but is not operated under Section 75 of the National Health Service Act 2006.

The 2011-12 figures are restated. The Gross Partnership Expenditure and Income figures used for the 2011-12 Financial Statements did not fully reflect the total pooled budget.

The 2012-13 Gross Partnership Expenditure and Income shows an increase of £1.986m when compared to the 2011-12 totals. This is because the 2012-13 totals include the expenditure relating to alcohol services for the first time.

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| 4,948 | Gross Partnership Expenditure | 6,934 |
| (4,948) | Gross Partnership Income | (6,934) |
| **0** | **Surplus(-)/Deficit** | **0** |
| **194** | **Contribution from Lincolnshire County Council** | **(147)** |

There is a risk sharing agreement in place between the parties interested in the DAAT budget. The agreement states that under or overspending on the DAAT budget will be shared between these parties at year end. The Council's share of the risk is 51%.

Lincolnshire received a refund of £0.380m in 2012-13. No refund was made in 2011-12 which accounts for the movement in Lincolnshire's contribution from 2011-12 to 2012-13.

e. Child & Adolescent Mental Health Services

In 2012-13 Lincolnshire County Council and Lincolnshire Primary Care Trusts established a pooled budget Partnership Arrangement for the provision of Child & Adolescent Mental Health Service.

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| 0 | Gross Partnership Expenditure | 1,001 |
| 0 | Gross Partnership Income | (1,001) |
| **0** | **Surplus(-)/Deficit** | **0** |
| **0** | **Contribution from Lincolnshire County Council** | **495** |

## Note 38. Members Allowances

The Council paid the following amounts to Members of the Council during the year:

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| | Members Allowances: | |
| 632 | Basic Allowances | 629 |
| 365 | Special Responsibility Allowances | 356 |
| 997 | | 985 |
| 114 | Expenses | 102 |
| **1,111** | **TOTAL** | **1,087** |

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:

| 2011-12 Number of Staff | | | 2012-13 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** |
| | | **TOTAL** | | |
| 0 | 1 | £150,000- £154,999 | 0 | 0 |
| 0 | 1 | £145,000- £149,999 | 0 | 0 |
| 0 | 0 | £140,000- £144,999 | 0 | 0 |
| 0 | 4 | £135,000- £139,999 | 0 | 0 |
| 0 | 0 | £130,000- £134,999 | 0 | 0 |
| 1 | 0 | £125,000- £129,999 | 1 | 0 |
| 0 | 1 | £120,000- £124,999 | 0 | 0 |
| 0 | 3 | £115,000- £119,999 | 0 | 0 |
| 0 | 0 | £110,000- £114,999 | 0 | 1 |
| 0 | 5 | £105,000- £109,999 | 0 | 0 |
| 0 | 2 | £100,000- £104,999 | 0 | 0 |
| 2 | 3 | £95,000- £ 99,999 | 0 | 0 |
| 4 | 2 | £90,000- £94,999 | 3 | 1 |
| 8 | 6 | £85,000- £89,999 | 7 | 3 |
| 10 | 6 | £80,000- £84,999 | 5 | 1 |
| 3 | 6 | £75,000- £79,999 | 6 | 0 |
| 21 | 13 | £70,000- £74,999 | 8 | 2 |
| 31 | 16 | £65,000- £69,999 | 24 | 1 |
| 47 | 16 | £60,000- £64,999 | 47 | 0 |
| 115 | 26 | £55,000- £59,999 | 95 | 1 |
| 138 | 21 | £50,000- £54,999 | 106 | 6 |
| **380** | **132** | **Total** | **302** | **16** |

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** £ | **Other Emoluments** £ | **Total** £ |
|---|---|---|---|---|---|
| Senior Officers with a salary over £150,000 | | | | | |
| **Tony McArdle** - Chief Executive | 2012-13 | 173,226 | 32,740 | 696 | 206,662 |
| | *2011-12* | *173,226* | *32,740* | *1,412* | *207,378* |
| Senior Officers with a salary over £50,000 and less than £150,000 | | | | | |
| Director of Adult Social Services(*) | 2012-13 | 91,059 | 17,210 | 0 | 108,269 |
| | *2011-12* | *0* | *0* | *0* | *0* |
| Executive Director - Adults & Children's | 2012-13 | 120,981 | 22,734 | 0 | 143,715 |
| | *2011-12* | *135,400* | *25,417* | *581* | *161,398* |
| Executive Director - Resources & Community Safety | 2012-13 | 125,983 | 23,957 | 980 | 150,920 |
| | *2011-12* | *125,983* | *23,957* | *595* | *150,535* |
| Executive Director - Communities | 2012-13 | 126,678 | 23,811 | 0 | 150,489 |
| | *2011-12* | *125,983* | *23,811* | *1,528* | *151,322* |
| Executive Director - Performance & Governance | 2012-13 | 125,983 | 23,811 | 1,194 | 150,988 |
| | *2011-12* | *133,983* | *25,323* | *943* | *160,249* |
| Chief Fire Officer | 2012-13 | 111,100 | 23,664 | 123 | 134,887 |
| | *2011-12* | *108,173* | *20,320* | *0* | *128,493* |

| **Job Title** | **Year** | **Salary** £ | **Employer's Pension Contribution** £ | **Other Emoluments** £ | **Total** £ |
|---|---|---|---|---|---|
| Head teachers with a salary over £150,000 | | | | | |
| **Adrian Reed -** Executive Head Teacher (**) | 2012-13 | 77,465 | 10,923 | 0 | 88,388 |
| | *2011-12* | *185,950* | *26,219* | *0* | *212,169* |

(*) Director of Adult Social Services was appointed from 1 February 2013. (Assistant Director prior to this date). Therefore salary less than other equivalent Senior Officers.

(**) Adrian Reed is the Executive Head Teacher for Boston Haven High, Boston Staniland and Boston Carlton Road Schools which converted to Academy status from 1 September 2012 therefore only 5 months salary is included above.

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 | |
|---|---|---|---|---|---|---|---|---|
| | 2011-12 | 2012-13 | 2011-12 | 2012-13 | 2011-12 | 2012-13 | 2011-12 £ | 2012-13 £ |
| **£0 - £20,000** | 454 | 103 | 305 | 78 | 759 | 181 | £6,069,038 | £1,443,821 |
| **£20,001 - £40,000** | 87 | 28 | 141 | 32 | 228 | 60 | £6,421,668 | £1,648,122 |
| **£40,001 - £60,000** | 27 | 9 | 73 | 6 | 100 | 15 | £4,854,793 | £739,301 |
| **£60,001 - £80,000** | 12 | 7 | 17 | 1 | 29 | 8 | £1,935,540 | £540,958 |
| **£80,001 - £100,000** | 8 | 2 | 7 | 0 | 15 | 2 | £1,267,452 | £180,659 |
| **£100,001 - £150,000** | 3 | 0 | 6 | 0 | 9 | 0 | £1,074,773 | £0 |
| **Total** | **591** | **149** | **549** | **117** | **1,140** | **266** | **£21,623,264** | **£4,552,861** |

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 indentified.

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.

As a result of the central government cuts, the Council has been through a process of reshaping services during the past two financial years. In 2012-13 the Council has incurred liabilities of £4.604m (£23.281m in 2011-12) in relation to termination benefits:

- £3.931m for redundancy payments (£5.523m in 2011-12); and
- £0.673m for pension strain (£1.197m in 2011-12).

Further information on termination benefits can be found in Note 40 on Exit Packages, Note 55 Contingent Liabilities provides details of the Community Supported Living review underway at the end of 2011-12, and Note 41 on Retirement Benefits details the effect termination benefits have had on pensions in 2012-13.

## Note 42. External Audit Costs.

The Council incurred the following fees in relation to external audit and inspection work:

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| 219 | Fees payable to the Council's external auditors with regard to external audit services carried out by the appointed auditor for the year | 131 |
| 0 | Fees payable to the Council's external auditors in respect of statutory inspections | 0 |
| 4 | Fees payable to the Council's external auditors for the certification of grant claims and returns for the year | 7 |
| 0 | Fees payable in respect of other services provided by the Council's external auditors during the year | 30 |
| **223** | **Total** | **168** |

## 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.

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| 1,205 | Other Advertising | 1,357 |
| 486 | Staff Advertising | 601 |
| 201 | County News | 185 |
| 136 | Other Publicity | 174 |
| 29 | Lincolnshire Show | 29 |
| 9 | Public Relations | 13 |
| **2,066** | | **2,359** |

Other Advertising includes promotional advertising and merchandise (£0.686m) and Highways statutory notices (£0.275m).

## Note 44. Landfill Allowances Trading Scheme (LATS).

The Financial year 2012-13 is the final year of the scheme and therefore a £nil value per tonne has been applied to all transactions in respect of allowances.

The Council had a total of 111,506 landfill allowances available for the year. The estimated liability (tonnes landfilled) for the year is 96,323. As previously stated remaining allowances (15,183) have no value and have therefore been written off.

## Note 45. Dedicated Schools Grant.

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund Academy schools in the Council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School 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 2012-13 are as follows:

| **Schools Budget Funded by Dedicated Schools Grant** | **Central Expenditure £'000** | **Individual Schools Budget £'000** | **Total £'000** |
|---|---|---|---|
| Final DSG for 2012-13 before Academy recoupment | 0 | 0 | 466,790 |
| Academy Figure Recouped for 2012-13 | 0 | 0 | (173,422) |
| Total DSG after Academy Recoupment for 2012-13 | 0 | 0 | 293,367 |
| Brought Forward from 2011-12 | 0 | 0 | 25,945 |
| Carry forward to 2013-14 agreed in advance | 0 | 0 | 0 |
| Agreed Initial Budgeted Distribution in 2012-13 | 47,503 | 271,810 | 319,313 |
| In Year Adjustments | (52) | (202) | (254) |
| **Final Budget Distribution for 2012-13** | **47,451** | **271,608** | **319,059** |
| less Actual central expenditure | (43,260) | 0 | (43,260) |
| less Actual ISB deployed to schools | 0 | (259,167) | (259,167) |
| **Total actual expenditure in 2012-13** | **(43,260)** | **(259,167)** | **(302,427)** |
| **Local Authority Contribution 2012-13** | **7** | **49** | **56** |
| **Carry forward to 2013-14** | **4,198** | **12,490** | **16,688** |

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 2012-13; for grants & contributions where the conditions have been met, or no conditions existed:
a)

| 2011-12 £'000 | Credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement | 2012-13 £'000 |
|---|---|---|
| 161,438 | Contribution from National Non-Domestic Rates | 197,680 |
| 6,293 | Council Tax Freeze Grant | 6,332 |
| 49,901 | Revenue Support Grant | 3,832 |
| 1,602 | Local Services Support Grant | 2,000 |
| 906 | New Homes Bonus Grant | 1,374 |
| | Capital Grants and Contributions | |
| 25,067 | DFT Asset Protection Grant | 24,038 |
| 13,095 | DfE Capital Maintenance Grant | 9,650 |
| 9,352 | DfE Basic Need Grant | 6,233 |
| 4,523 | DFT Integrated Transport Grant | 4,136 |
| 1,099 | ERDF Grant | 2,717 |
| 2,320 | Devolved Formula Grant | 1,875 |
| 1,745 | ASC Social Care Capital Grant | 1,778 |
| 0 | Heritage Lottery Fund | 1,709 |
| 1,139 | CLG Fire Capital Grant | 1,138 |
| 2,357 | Other Capital Grants and Contributions | 1,092 |
| 0 | 2 Year Old Entitlement Grant | 887 |
| 0 | 16-19 Demographic Growth Capital Grant | 500 |
| 394 | DfE Short Breaks for Disabled Children Grant | 394 |
| 154 | DfE Secure Unit Grant | 378 |
| 0 | Arts Council | 302 |
| 0 | Sustrans Grant | 260 |
| 0 | Environment Agency Flood Grant | 181 |
| 0 | Local Sustainable Transport Fund | 127 |
| 0 | S106 Agreements | 108 |
| 1,523 | Partnership for Schools: Food Technology Grant | 0 |
| 570 | EMDA Grant | 0 |
| 426 | Extra Care Housing (PCT LD Grant) | 0 |
| 258 | Museums, Libraries & Archives | 0 |
| 235 | DEFRA Flood and Water Risk | 0 |
| 224 | Targeted Capital Fund Kitchen Grant | 0 |
| 148 | YPLA 16-18 Learner Responsive Grant | 0 |
| 140 | DfE Environmental Improvements Grant | 0 |
| **284,909** | **Total** | **268,721** |

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.

b)

| 2011-12 £'000 | Credited to Revenue Service Accounts in the Comprehensive Income and Expenditure Statement | 2012-13 £'000 |
|---|---|---|
| 362,630 | Dedicated Schools Grant | 293,367 |
| 24,330 | Early Intervention Grant Income | 26,506 |
| 0 | Final Business Case Approval Funding | 18,530 |
| 16,863 | Other Revenue Grants | 13,854 |
| 0 | YPLA (EFA) 16-19 Funding | 10,199 |
| 4,449 | Pupil Premium | 7,563 |
| 5,755 | LD Health Reform Grant | 5,931 |
| 0 | SEN & Teacher's Pay Grant (EFA) | 2,935 |
| 314 | Young People Learning Agency 16-18 Learner Responsive Funding (YPLA) | 659 |
| 32,265 | DfE Framework Academies Grants | 0 |
| 21,620 | Sixth Form Funding | 0 |
| 9,801 | Department for Communities and Local Government - Growing Places Fund (DCLG) | 0 |
| 1,104 | East Midland Development Agency (SRP Grant) | 0 |
| 400 | Social Care Reform Grant | 0 |
| 8 | Department For Education Devolved Formula Grant | 0 |
| (2) | Learner Support Fund | 0 |
| (36) | General Sure Start | 0 |
| **479,501** | **Total** | **379,544** |

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:

c)

| 2011-12 £'000 | Capital Grants and Contributions Receipts in Advance | 2012-13 £'000 |
|---|---|---|
| 45 | Salix Energy Conservation Grant | 0 |
| 6 | Other | 0 |
| **51** | **Total** | **0** |

| 2011-12 £'000 | Revenue Grants and Contributions Receipts in Advance | 2012-13 £'000 |
|---|---|---|
| 110 | Adult Safeguarding Grant | 359 |
| 69 | Leaving Care Grant | 83 |
| 215 | Pupil Premium | 46 |
| 0 | Grant for AHL Museums & Schools Programme | 40 |
| 248 | Other Revenue Receipts in Advance | 32 |
| 20 | Adult Social Care Efficiency Programme Grant | 20 |
| 257 | Department of Health Warm Homes | 0 |
| 18 | Learning Skills Council Adult Learning Grant | 0 |
| **937** | **Total** | **580** |

d)

| 2011-12 £'000 | Donated Assets Receipts in Kind | 2012-13 £'000 |
|---|---|---|
| 0 | Fire - New Dimensions Assets Transfer | 1,063 |
| **0** | **Total** | **1,063** |

## 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 general revenue grants from Central Government (including: formula grant and contributions from NNDR), these are 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 2012-13 are set out in Note 13 Taxation and Non Specific Grant Income and Note 46 Grant Income.

Capital grants of £58.566m have also been received by the Council in 2012-13, 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 2012-13 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. Also, 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.

Three 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.

During 2012-13 the following have been declared:

Councillors

- Twenty Councillors have disclosed that they have control or significant influence over a private organisation;
- Three Councillors have provided services to the Council to the value of £0.028m;
- Five Councillors are members of voluntary organisations which received grants to the value of £0.009m;
- 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 a Non-Executive for Lincolnshire Home Improvement Agency;
- One Councillor is the Chairman and on the Board of Urban Challenge;
- One Councillor is 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. Lincolnshire.

Senior Officers

- One Chief Officer is on the Board of Lincolnshire Economic Action Partnership;
- One Chief Officer is a member of the Chief Officers Group of ESPO; and
- The Director of Public Health is a jointly funded position and is shared with NHS Lincolnshire. On the 1 April 2013 Public Health will become the responsibility of the Council and the shared arrangement with NHS Lincolnshire will cease.

c. Other Public Bodies

The Council has entered into Pooled Budget arrangements with NHS Lincolnshire for Learning Disabilities and Integrated Community Equipment, and Lincolnshire (foundation) Partnership Trust for Mental Health Services.

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 £1.024m was recharged from the County Council to the pension fund for scheme administration and management. The pension fund earned a total for interest of £0.046m 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 £175.9m 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 2012-13 expenditure is provided in the Explanatory Foreword, with details of the asset acquired.

| 2011-12 £'000 | | 2012-13 £'000 |
|---|---|---|
| **469,331** | **Opening Capital Financing Requirement** | **492,754** |
| | Capital Investment: | |
| 109,000 | Property, Plant and Equipment | 147,198 |
| 235 | Investment Property | 130 |
| 1,263 | Intangible Assets | 1,075 |
| 54,630 | Revenue Expenditure Funded from Capital Under Statute (REFCUS) | 27,513 |
| | Sources of Finance: | |
| (9,424) | Capital Receipts | (6,049) |
| (60,133) | Government Grants and Contributions | (46,185) |
| (33,531) | Government Grants and Contributions funding REFCUS | (22,113) |
| | Sums set aside from Revenue: | |
| (13,939) | Direct Revenue Contributions | (17,255) |
| (24,678) | Minimum Revenue Provision/Loans fund principal | (29,682) |
| **492,754** | **Closing Capital Financing Requirement** | **547,386** |
| **23,423** | **Movement in Year:** | **54,632** |
| | **Explanation of movement in year:** | |
| 0 | Increase in underlying need to borrow (supported by government financial assistance) | 0 |
| 22,823 | Increase in underlying need to borrow (unsupported by government financial assistance) | 54,170 |
| 600 | Assets acquired under finance leases | 462 |
| 0 | Assets acquired under PFI/PPP contracts | 0 |
| **23,423** | **Increase/(Decrease) in Capital Financing Requirement** | **54,632** |

# 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:

Voluntary Controlled Schools are held as long term leases. The buildings element of the lease is classed as a finance lease and has been included in the Balance Sheet.

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 £0.973m (£1.240m in 2011-12) were made during the year. £0.228m was charged to the Comprehensive Income and Expenditure Statement as interest payable and £0.745m 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 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 at 31 March 2013** | **15,404** | **887** |
| Valuation at 01 April 2011 | 14,648 | 6,671 |
| Additions | 468 | 606 |
| Revaluations | 3,224 | 0 |
| Depreciation | (455) | (1,938) |
| Disposals | (1,162) | 0 |
| Derecognition | (416) | 0 |
| Reclassifications | 62 | 0 |
| **Net Book value as at 31 March 2012** | **16,369** | **5,339** |

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: | 2011-12 | | 2012-13 | |
|---|---|---|---|---|
| | Minimum Lease Payments | Finance Lease Liabilities | Minimum Lease Payments | Finance Lease Liabilities |
| | £'000 | £'000 | £'000 | £'000 |
| Not later than one year | 1 | 13 | 6 | 13 |
| Between one year and not later than five years | 3 | 51 | 26 | 51 |
| Later than five years | 95 | 366 | 213 | 353 |
| **Total Committed Liabilities as at 31 March** | **99** | **430** | **245** | **417** |

| Vehicles, Plant & Equipment: | 2011-12 | | 2012-13 | |
|---|---|---|---|---|
| | Minimum Lease Payments | Finance Lease Liabilities | Minimum Lease Payments | Finance Lease Liabilities |
| | £'000 | £'000 | £'000 | £'000 |
| Not later than one year | 1,225 | 448 | 367 | 98 |
| Between one year and not later than five years | 2,433 | 973 | 334 | 99 |
| Later than five years | 3,087 | 744 | 0 | 0 |
| **Total Committed Liabilities as at 31 March** | **6,745** | **2,165** | **701** | **197** |

The Council sub-lets County Farm holdings held under finance leases. At 31 March 2013 the minimum payments expected to be received under non-cancellable sub-leases was £0.306m.

**i) 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 2012-13 amounted to £1.928m (£2.347m in 2011-12). This includes £1.280m 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 £1.993m in 2012-13 (£1.594m in 2011-12).

As at 31 March 2013, the Council is committed to making payments of £18.233m under operating leases, comprising the following elements:

| | 2011-12 | 2012-13 |
|---|---|---|
| | £'000 | £'000 |
| Not later than one year | 3,289 | 3,415 |
| Between one year and not later than five years | 8,104 | 7,412 |
| Later than five years | 7,612 | 7,406 |
| **Total Committed Liabilities as at 31 March** | **19,005** | **18,233** |

**b. Lincolnshire County Council as Lessor**

**i) Finance Leases**

The Council has granted a small number of long-term leases for office accommodation, Adult Social Care properties and Children's Services properties to charities and other Local Authorities, which are accounted for as finance leases. There are no significant lease payments and no debtors accrued.

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 £1.941m in 2012-13 (£1.804m in 2011-12). The Council also received rental income from other properties; where the value of the lease is material, the income amounted to £1.049m in 2012-13 (£1.151m in 2011-12).

The future minimum lease payments receivable under non-cancellable leases in future years are:

| | 2011-12<br>£'000 | 2012-13<br>£'000 |
|---|---|---|
| Not later than one year | 603 | 566 |
| Between one year and not later than five years | 1,269 | 1,297 |
| Later than five years | 1,796 | 1,670 |
| **Total future minimum lease payments receivable as at 31 March** | **3,668** | **3,533** |

# 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 2012-13. 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 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** |

| | Land & Buildings £'000 | Furniture & Equipment £'000 |
|---|---|---|
| Valuation at 1 April 2011 | 31,021 | 220 |
| Additions | 38 | 14 |
| Revaluations | 0 | 0 |
| Depreciation | (455) | (77) |
| Disposals | 0 | 0 |
| Reclassifications | 0 | 0 |
| De-recognition | (26) | 0 |
| **Net Book Value at 31 March 2012** | **30,578** | **157** |

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 2012-13:

| | PFI Lease Liability 2011-12 £'000 | PFI Lease Liability 2012-13 £'000 |
|---|---|---|
| Liability as at 1 April | 15,166 | 14,505 |
| Principal Repayments | (661) | (567) |
| **Liability as at 31 March** | **14,505** | **13,938** |

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 2013-14 | 694 | 981 | 1,654 | **3,329** |
| Payable between 2014-15 and 2017-18 | 2,473 | 3,446 | 7,426 | **13,345** |
| Payable between 2018-19 and 2022-23 | 4,017 | 3,196 | 10,252 | **17,465** |
| Payable between 2023-24 and 2027-28 | 4,081 | 1,780 | 11,452 | **17,313** |
| Payable between 2028-29 and 2032-33 | 2,672 | 320 | 8,512 | **11,504** |
| **Total Committed Liabilities as at 31 March 2013** | **13,937** | **9,723** | **39,296** | **62,956** |

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 2012-13 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 2012-13 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 2012-13 the Council paid £16.153m 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 2012-13. 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 £3.749m in 2012-13 and have an ongoing liability to the Council.

## 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 need 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 £25,896m into the Lincolnshire Pension Fund in 2012-13, based on 18.9% of scheme employees' pensionable pay.

Under the Council's early retirement policy, additional contributions of £0.673m 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 £1.925m. Further information can be found on pages 117 to 145 and in the Council's Pension Fund Annual Report which is available on request.

ii. Fire-fighters' (Uniformed) Pension Scheme (FPS)

In 2012-13 the Council paid employer's contributions of £4.1m 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 £0.8m was paid in respect of ill health retirements and £0.24m in respect of injury benefits. Further information on the Lincolnshire Fire and Rescue Pension fund can be found on page 146 to page 148.

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:

a. Recognition in the Comprehensive Income and Expenditure Statement

| Comprehensive Income and Expenditure Statement | 2011-12 Local Government Pension Scheme £'000 | 2011-12 Fire-fighters' Pension Scheme £'000 | 2012-13 Local Government Pension Scheme £'000 | 2012-13 Fire-fighters' Pension Scheme £'000 |
|---|---|---|---|---|
| *Cost of Services* | | | | |
| - Current Service Cost | 28,779 | 3,900 | 26,688 | 4,000 |
| - Past Service Cost / (Gain) | 0 | 1,500 | 6 | 0 |
| - Past Service Cost / (Gain) Injury Benefits | 0 | 0 | 0 | 0 |
| - Losses / (Gains) on Curtailments and Settlements | (8,622) | 0 | (14,939) | 0 |
| *Financing and Investment Income and Expenditure* | | | | |
| - Interest | 58,051 | 7,300 | 54,712 | 6,800 |
| - Expected Return on Employer Assets | (51,299) | 0 | (42,694) | 0 |
| **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **26,909** | **12,700** | **23,773** | **10,800** |
| *Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement* | | | | |
| - Actuarial gains and losses | 87,946 | 2,600 | 79,620 | 18,200 |
| **Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | **114,855** | **15,300** | **103,393** | **29,000** |

| Movement in Reserves Statement | 2011-12 Local Government Pension Scheme £'000 | 2011-12 Fire-fighters' Pension Scheme £'000 | 2012-13 Local Government Pension Scheme £'000 | 2012-13 Fire-fighters' Pension Scheme £'000 |
|---|---|---|---|---|
| - Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (26,909) | (12,700) | (23,773) | (10,800) |

| Actual amount charged against the General Fund Balance for pensions in the year: | 2011-12 Local Government Pension Scheme £'000 | 2011-12 Fire-fighters' Pension Scheme £'000 | 2012-13 Local Government Pension Scheme £'000 | 2012-13 Fire-fighters' Pension Scheme £'000 |
|---|---|---|---|---|
| - Employer's Contributions payable to the Pension Scheme | 38,770 | 3,900 | 31,634 | 4,400 |

The above figures are based on the current version of IAS 19. Changes to IAS 19 come into effect in the financial year 2013-14, when the changes are taken into account it will increase the income statement by £6.6m on the Local Government scheme. There will be no impact on the Fire-fighters' scheme because it is unfunded.

b. Assets and Liabilities in relation to post-employment benefits (Reconciliation of the present value of the scheme liabilities - defined benefit obligation).

| | 2011-12 Local Government Pension Scheme £'000 | 2011-12 Fire-fighters' Pension Scheme £'000 | 2012-13 Local Government Pension Scheme £'000 | 2012-13 Fire-fighters' Pension Scheme £'000 |
|---|---|---|---|---|
| Opening Defined Benefit Obligation (1 April) | **1,078,590** | **132,200** | **1,157,489** | **143,600** |
| - Current Service Cost | 28,779 | 3,900 | 26,688 | 4,000 |
| - Interest Cost | 58,051 | 7,300 | 54,712 | 6,800 |
| - Contributions by Members | 9,746 | 900 | 8,737 | 1,000 |
| - Actuarial Losses / (Gains) | 46,814 | 2,600 | 137,376 | 18,200 |
| - Past Service Cost / (Gain) | 0 | 1,500 | 6 | 0 |
| - Past Service Cost / (Gain) Injury Benefits | 0 | 0 | 0 | 0 |
| - Losses / (Gains) on Curtailments | 6,446 | 0 | 1,049 | 0 |
| - Unfunded Benefits Paid | (5,433) | 0 | (5,668) | 0 |
| - Benefits Paid | (36,308) | 0 | (36,042) | 0 |
| - Liabilities Extinguished on Settlement | (29,196) | 0 | (27,322) | 0 |
| - Pensions and Lump Sum Expenditure | 0 | (4,800) | 0 | (5,400) |
| - Transfers in from/out to other Authorities | 0 | 0 | 0 | 0 |
| **Closing Defined Benefit Obligation (31 March)** | **1,157,489** | **143,600** | **1,317,025** | **168,200** |

c. Reconciliation of fair value of employer assets.

| | 2011-12 Local Government Pension Scheme £'000 | 2011-12 Fire-fighters' Pension Scheme £'000 | 2012-13 Local Government Pension Scheme £'000 | 2012-13 Fire-fighters' Pension Scheme £'000 |
|---|---|---|---|---|
| Opening Fair Value of Employer Assets (1 April) | **752,904** | **0** | **755,718** | **0** |
| - Expected Return on Assets | 51,299 | 0 | 42,694 | 0 |
| - Contributions by Members | 9,746 | 900 | 8,737 | 1,000 |
| - Contributions by the Employer | 33,337 | 3,900 | 25,966 | 4,400 |
| - Contributions in respect of Unfunded Benefits | 5,433 | 0 | 5,668 | 0 |
| - Actuarial Gains / (Losses) | (41,132) | 0 | 57,756 | 0 |
| - Unfunded Benefits Paid | (5,433) | 0 | (5,668) | 0 |
| - Benefits Paid | (36,308) | 0 | (36,042) | 0 |
| - Assets Distributed on Settlement | (14,128) | 0 | (11,334) | 0 |
| - Transfers in from/out to other Authorities | 0 | 0 | 0 | 0 |
| - Pensions and Lump Sum Expenditure | 0 | (4,800) | 0 | (5,400) |
| **Closing Fair Value of Employer Assets (31 March)** | **755,718** | **0** | **843,495** | **0** |

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.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The estimated return on scheme assets in the year was 13.5% (2012-13).

d. Pension Fund Assets and Liabilities (Scheme History)

The table below shows the estimated assets and liabilities for retirement benefits attributable to the Council as at 01 April 2012.

| | 2008-09 £'000 | 2009-10 £'000 | 2010-11 £'000 | 2011-12 £'000 | 2012-13 £'000 |
|---|---|---|---|---|---|
| Present Value of Liabilities: | | | | | |
| - Local Government Pension Scheme | (771,449) | (1,255,124) | (1,078,590) | (1,157,489) | (1,317,025) |
| Fair Value of assets in the Local Government Pension Scheme | 481,488 | 648,334 | 752,904 | 755,718 | 843,495 |
| Surplus/(deficit) in the schemes | | | | | |
| - Local Government Pension Scheme | (289,961) | (606,790) | (325,686) | (401,771) | (473,530) |
| - Fire-fighters' Pension Scheme | (99,300) | (141,000) | (132,200) | (143,600) | (168,200) |
| **Total Surplus/(deficit) in the schemes** | **(389,261)** | **(747,790)** | **(457,886)** | **(545,371)** | **(641,730)** |

The liabilities show the underlying commitments that the Council has to pay retirement benefits in the future. The total liability of £641.730m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet.

The liability comprises of approximately £29.1m of LPGS unfunded benefits and £71m of Teachers unfunded benefits.

Statutory arrangements for funding the LGPS deficit mean that the financial position of the Council remains relatively healthy. Under the LGPS regulations, the contribution rates for 2012-13 were set at 18.9% of employees pensionable pay/over time, to meet in full the estimated liabilities of the fund. The triennial LGPS actuarial valuation at 2012-13 following an improvement in world equity markets, identified that assets held at that date were sufficient to cover 64% of accrued liabilities.

In assessing liabilities for retirement benefits at 31 March 2013 for the 2012-13 Statement of Accounts, the actuary assumed a discount rate of 1.7% real (4.5% actual) a rate based on the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities is to be used.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 2012-13 are £26.6 million. Expected contributions for the Fire-fighters' scheme in the year to 31 March 2013 are £4.9 million.

e. 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 Hymans 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

The principal assumptions used by the actuary have been:

| | 2011-12 Local Government Pension Scheme % | 2011-12 Fire-fighters' Pension Scheme % | 2012-13 Local Government Pension Scheme % | 2012-13 Fire-fighters' Pension Scheme % |
|---|---|---|---|---|
| Price Increases | 3.3 | 3.3 | 3.6 | 3.6 |
| Salary Increases (*1) | 4.8 | 3.5 | 5.1 | 3.8 |
| Pension Increases (CPI) | 2.5 | 2.5 | 2.8 | 2.8 |
| Discount Rate | 4.8 | 4.8 | 4.5 | 4.5 |
| 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 expected returns on the assets in the Council LGPS Fund and the allocation of investments valued at fair value. The Fire-fighters' scheme is an unfunded scheme and as a result has no assets.

| Asset Class | 2011-12 £'000 | 2011-12 % | 2012-13 £'000 | 2012-13 % |
|---|---|---|---|---|
| Equities | 559,232 | 74.0 | 649,491 | 77.0 |
| Bonds | 98,243 | 13.0 | 109,654 | 13.0 |
| Property | 90,686 | 12.0 | 84,350 | 10.0 |
| Cash | 7,557 | 1.0 | 0 | 0.0 |
| **Total** | **755,718** | **100** | **843,495** | **100** |

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 | 21.2 | 23.4 | 28.1 | 31 |
| Future Pensioners | 23.7 | 25.7 | 29.7 | 32.5 |

The discretionary Benefits arrangements have no assets to cover its liabilities.

f. Actuarial Gains and Losses (Scheme History)

The actuarial gains and losses, identified as movements on the Pension Reserve in 2012-13, can be analysed into the following categories, measured as a percentage of assets or liabilities as at 01 April 2012.

| **Local Government Pension Scheme** | **2008-09 %** | **2009-10 %** | **2010-11 %** | **2011-12 %** | **2012-13 %** |
|---|---|---|---|---|---|
| Difference between the expected and actual return on assets | -31.81% | 17.41% | 5.42% | -5.44% | 6.85% |
| Experience Gains / Losses on Liabilities | 0.00% | -0.12% | -2.33% | -4.04% | -10.43% |

| **Fire-fighters' Pension Scheme** | **2008-09 %** | **2009-10 %** | **2010-11 %** | **2011-12 %** | **2012-13 %** |
|---|---|---|---|---|---|
| Experience Gains / Losses on Liabilities | 9.30% | -24.60% | 0.60% | -1.80% | -10.80% |

g. Projected Pension expense for the year to 31 March 2014

| **Year Ended:** | **31 March 2014** | | **31 March 2014** |
|---|---|---|---|
| | **Local Government Pension Scheme** | | **Fire-fighters' Pension Scheme** |
| | **£'000** | **%** | **£'000** |
| Projected Current Service Cost* | 32,033 | 24.3% | 5,000 |
| Interest on Obligation | 59,180 | 44.8% | 7,600 |
| Expected Return on Plan assets** | (37,842) | -28.7% | 0 |
| Past Service Costs | 0 | 0.0% | 0 |
| Losses / (Gains) on Curtailments and Settlements | 0 | 0.0% | 0 |
| **Total** | **53,371** | **40.4%** | **12,600** |

Employer's contributions for the year to 31 March 2014 for the LGPS will be approximately £24.9 million and for net cash flow on the Fire-fighters' scheme is £4.3m

* The service cost figures include an allowance for administration expenses of 0.4% of payroll

** The Expected Return on Employer Assets is based on the discount rate, as per the forthcoming revised version of IAS19.

h. Sensitivity Analysis

| **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 | 10.0% | 126,271 | 10.0% | 16,500 |
| 1 year increase in member life expectancy | 3.0% | 39,511 | 3.0% | 5,000 |
| 0.5% increase in the Salary Increase Rate | 3.0% | 36,081 | 2.0% | 3,100 |
| 0.5% increase in the Pension Increase Rate | 7.0% | 88,524 | 9.0% | 13,700 |

## Note 55. Contingent Liabilities.

At 31 March 2013 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 the Scheme of Arrangement has been invoked with a 15% clawback of claim payments being requested (the Council's liability is £155,637). However it is unclear if this is a one off request, or if MMI can come back over the period of its liabilities, continually requesting money to ensure assets exceed liabilities.

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.

Any liability is likely to be in the range of nil to £0.360m.

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 £0.175k.

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 uses, amounting to a possible overcharge by the Council of £2.200m over eight years.

g. Land and Compensation Claims

Claims for land compensation in relation to the A1073 Spalding to Eye Road Improvement Scheme 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 is the potential for the costs associated with land purchase and compensation claims to amount £4.614m.

## Note 56. Contingent Assets.

There are no Contingent Assets to report.

## 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 Statement 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 2012-13 and no group relationships have been identified to be consolidated into the 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 31st March and the latest (unaudited) accounts are for the year ended 31 March 2013.

These showed net assets of £90546m in 2012-13 (£8.499m in 2011-12) and a surplus of £1.046m in 2012-13 (a surplus of £1.101m in 2011-12).

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 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 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 Statements 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 50 trust funds related to specific services, principally Education and Social Services. 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 2012 £'000 | Income £'000 | Expenditure £'000 | Balance at 31 March 2013 £'000 |
|---|---|---|---|---|
| Education Trusts | (238) | (15) | 9 | (244) |
| Children's Social Care Trusts | (265) | (1) | 245 | (21) |
| Adult Social Care Trusts | (232) | (192) | 0 | (424) |
| Other Trusts | (103) | (1) | 0 | (104) |
| **Total** | **(838)** | **(209)** | **254** | **(793)** |

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's Pension Fund

Pension Fund Account - For the year ended 31 March 2013.

| | See Note | 2011-12 £000 | 2012-13 £000 |
|---|---|---|---|
| **Contributions and Benefits** | | | |
| Contributions Receivable | 8 | 78,564 | 74,559 |
| Transfers in | 9 | 8,231 | 5,674 |
| | | **86,795** | **80,233** |
| Benefits Payable | 10 | 77,744 | 73,235 |
| Leavers | 11 | 5,666 | 6,900 |
| Administrative expenses | 12 | 997 | 1,167 |
| | | **84,407** | **81,302** |
| **Net additions from dealings with fund members** | | **2,388** | **(1,069)** |
| **Returns on Investments** | | | |
| Investment Income | 13 | 21,806 | 25,002 |
| Profit (Loss) on Forward Deals & Currency Deals | 17 | (3,275) | (1,426) |
| Change in Market Value of Investments | 15 | 831 | 141,590 |
| Investment management expenses | 12 | (4,012) | (5,092) |
| **Net returns on investments** | | **15,350** | **160,074** |
| Net increase in the Fund during the year | | 17,738 | 159,005 |
| Opening net assets of the Fund | | 1,318,302 | 1,336,040 |
| **Closing net assets of the Fund** | | **1,336,040** | **1,495,045** |
| **Net Assets statement as at 31 March 2013** | | | |
| **Investments** | 15 | | |
| Equities | | 779,938 | 842,804 |
| Pooled Investments: | | | |
| Property | | 152,538 | 155,117 |
| Private Equity | | 90,949 | 95,595 |
| Fixed Interest | | 143,166 | 155,540 |
| Index Linked Bonds | | 26,895 | 29,525 |
| Equities | | 0 | 74,037 |
| Alternatives | | 96,798 | 113,613 |
| Cash Deposits | | 28,409 | 14,696 |
| Other Investment Balances | 18 | 3,279 | 5,242 |
| | | **1,321,972** | **1,486,169** |
| **Current Assets and Liabilities** | | | |
| Cash Balances | | 5,752 | 3,954 |
| Debtors | 19 | 7,617 | 7,035 |
| Long Term Debtors | 19 | 3,410 | 2,558 |
| Creditors | 19 | (2,711) | (4,671) |
| | | **14,068** | **8,876** |
| **Net Assets of the Fund at 31st March** | | **1,336,040** | **1,495,045** |

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 the Council.

The following information is a summary only, and further detail can be found in the Lincolnshire County Council Pension Fund Annual Report 2012-13 (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 171 employer organisations in the Fund including the Council (a list of scheduled employers is shown in Note 28) and the membership numbers are shown below:

| | 31 March 2012 | 31 March 2013 |
|---|---|---|
| Number of employers with active members | 138 | 171 |
| Number of employees in the scheme: | | |
| Lincolnshire County Council | 11,424 | 10,399 |
| Other employers | 7,963 | 9,081 |
| **Total** | **19,387** | **19,480** |
| Number of pensioners: | | |
| Lincolnshire County Council | 9,343 | 9,837 |
| Other employers | 5,793 | 6,142 |
| **Total** | **15,136** | **15,979** |
| Number of deferred pensioners: | | |
| Lincolnshire County Council | 17,286 | 18,065 |
| Other employers | 7,015 | 7,565 |
| **Total** | **24,301** | **25,630** |

**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 2010, and employer contribution rates were set ranging from 11.9% to 30.5% of pensionable pay.

**Benefits**

Pensions benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

| | **Service pre 1 April 2008** | **Service post 31 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.<br><br>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.<br><br>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 01 April 2011.

**LGPS 2014**

The new LGPS 2014 comes into effect from April 2014. The table below shows the key benefit changes between the current scheme and the new scheme.

| | **Service pre 1 April 2014** | **Service post 31 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. |
| Lump Sum | No automatic lump sum.<br><br>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.<br><br>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. |
| 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 pensions 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.

**Fund account - expense items**

**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 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
- 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 fund or within the 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 comprise 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 31 March 2013 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 2010 indicated that the Fund's assets were £1,203.4m and covered 76% of the Funds liabilities. This compared with assets of £1,145.5m at the valuation as at 31 March 2007, which covered 86% of the Fund's liabilities. The main actuarial assumptions for the 2010 valuation were as follows:

| | Nominal per annum % | Real per annum % |
|---|---|---|
| Investment Return | | |
| - Equities | 6.1 | 2.8 |
| - Bonds | 4.5 | 1.2 |
| Rate of Pensionable pay inflation | 5.3 | 2.0 |
| Rate of Price inflation | 3.3 | |

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 2010 were effective from April 2011. 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 20 years.

The next actuarial valuation will be undertaken as at 31 March 2013. 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 2013 for IAS19 purposes' referred to in the note can be obtained from the Pensions and Treasury Management section at the Council.

**Pension Fund Accounts Reporting Requirement**

**Introduction**

CIPFA's Code of Practice on Local Authority Accounting 2012-13 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 March 2012 £m | 31 March 2013 £m |
|---|---|---|
| Present value of Promised retirement benefits | 1,942 | 2,266 |

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £1,213m in respect of employee members, £374m in respect of deferred pensioners and £679m 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 | 31 March 2012 % p.a. | 31 March 2013 % p.a. |
|---|---|---|
| Inflation/Pension Increase rate | 2.5% | 2.8% |
| Salary Increase Rate* | 4.8% | 5.1% |
| Discount Rate | 4.8% | 4.5% |

* 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 | 21.2 years | 23.4 years |
| Future Pensioners* | 23.7 years | 25.7 years |

*Future pensioners are assumed to be aged 45 at the last formal valuation date.

This assumption is the same as at 31 March 2012

**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 2013 for IAS19 purposes' dated 29 April 2013. The covering report identifies the appropriate reliance's and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston AFA
14 May 2013
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 31 March 2013 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:<br>1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £226m.<br>2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £41m.<br>3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £166m.<br>4) a one-year increase in assumed life expectancy would increase the liability by approximately £68m. |
| 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 £95.6m. There is a risk that these may be over- or understated in the accounts. |

## 7 Pension Fund Investments 2012-13

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 Council.

| Fund manager | 31 March 2012 £m | % | 31 March 2013 £m | % |
|---|---|---|---|---|
| **EXTERNALLY MANAGED** | | | | |
| Invesco | 271 | 21 | 318 | 21 |
| Neptune | 75 | 6 | 72 | 5 |
| Schroders | 85 | 6 | 79 | 5 |
| Threadneedle | 93 | 7 | 81 | 5 |
| Morgan Stanley (Global Brands) | 0 | 0 | 74 | 5 |
| Morgan Stanley (Alternatives) | 107 | 8 | 117 | 8 |
| Morgan Stanley (Private Equity) | 93 | 7 | 99 | 7 |
| Blackrock | 88 | 7 | 97 | 7 |
| Goodhart | 82 | 6 | 88 | 6 |
| **INTERNALLY MANAGED** | | | | |
| Pooled Investments: | | | | |
| Property | 153 | 11 | 157 | 11 |
| UK Equity | 273 | 21 | 299 | 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** | |
| 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 £21,083m 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 of £23,756m which represented 112.7% of the value of securities on loan.

Income received from stock lending activities, before costs, was £223,334 for the year ending 31 March 2013 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

## 8 Contributions Receivable

Contributions receivable are analysed below:

| | 2011-12 £000 | 2012-13 £000 |
|---|---|---|
| **Employers** | | |
| Normal | 46,735 | 46,033 |
| Deficit Funding | 8,413 | 9,370 |
| Additional - Augmentation | 5,292 | 1,588 |
| | | |
| **Members** | | |
| Normal | 17,918 | 17,387 |
| Additional years | 206 | 181 |
| | **78,564** | **74,559** |

These contributions are analysed by type of Member Body as follows:

| | 2011-12 £000 | 2012-13 £000 |
|---|---|---|
| Lincolnshire County Council | 43,817 | 35,464 |
| Scheduled Bodies | 31,534 | 33,404 |
| Admitted Bodies | 3,213 | 5,691 |
| | **78,564** | **74,559** |

## 9 Transfers In

During the year individual transfers in from other schemes amounted to £5.7m (£8.231m in 2011-12 ).

There were no material outstanding transfers due to or from the Pension Fund as at 31 March 2013.

## 10 Benefits Payable

| | 2011-12 £000 | 2012-13 £000 |
|---|---|---|
| Pensions | 52,619 | 57,730 |
| Commutations & Lump Sum Retirement Benefits | 23,877 | 13,455 |
| Lump Sum Death Benefits | 1,248 | 2,050 |
| | **77,744** | **73,235** |

These benefits are analysed by type of Member Body as follows:

| | 2011-12 £000 | 2012-13 £000 |
|---|---|---|
| Lincolnshire County Council | 45,987 | 40,589 |
| Scheduled Bodies | 29,550 | 30,519 |
| Admitted Bodies | 2,207 | 2,127 |
| | **77,744** | **73,235** |

## 11 Payments to and on account leavers

| | 2011-12 £000 | 2012-13 £000 |
|---|---|---|
| Individual transfers to other schemes | 5,662 | 6,894 |
| Refunds to members leaving service | 4 | 6 |
| | **5,666** | **6,900** |

## 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 £24,885 and is included within the administrative expenses below.

| | 2011-12 £000 | 2012-13 £000 |
|---|---|---|
| Benefit Administration Expenses | 947 | 1,123 |
| Actuarial & other Professional Charges | 50 | 44 |
| **Administrative expenses** | **997** | **1,167** |
| | | |
| Investment, Management & Custody | 3,906 | 4,921 |
| Performance Measurement and Other advisory charges | 106 | 171 |
| **Investment Management expenses** | **4,012** | **5,092** |

## 13 Investment Income

| | | 2011-12 £000 | 2012-13 £000 |
|---|---|---|---|
| Equities | | 20,959 | 23,673 |
| Pooled Investments: | | | |
| | Property | 616 | 955 |
| | Private Equity | (10) | 54 |
| | Alternatives | (116) | 0 |
| Cash deposits | | 124 | 47 |
| Stock Lending | | 233 | 273 |
| | | **21,806** | **25,002** |

## 14 Taxes on Income

| | 2011-12 £000 | 2012-13 £000 |
|---|---|---|
| Withholding tax - Equities | 823 | 1,188 |
| | **823** | **1,188** |

## 15 Investments

| | Value at 31 March 2012 £000 | Purchases at Cost £000 | Sales Proceeds £000 | Change in Market Value £000 | Value at 31 March 2013 £000 |
|---|---|---|---|---|---|
| Equities | 779,938 | 247,249 | 285,247 | 100,865 | 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 | 10,374 | 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 | 28,090 | 22,480 | 11,204 | 113,613 |
| | **1,290,284** | **364,601** | **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** |

| | Value at 31 March 2011 £000 | Purchases at Cost £000 | Sales Proceeds £000 | Change in Market Value £000 | Value at 31 March 2012 £000 |
|---|---|---|---|---|---|
| Equities | 781,950 | 272,076 | 255,361 | (18,727) | 779,938 |
| Pooled Investments: | | | | | |
| Property | 145,272 | 4,940 | 2,032 | 4,358 | 152,538 |
| Private Equity | 95,206 | 9,518 | 17,434 | 3,659 | 90,949 |
| Fixed Interest | 136,352 | 4,286 | 4,286 | 6,814 | 143,166 |
| Index Linked Bonds | 23,621 | 0 | 0 | 3,274 | 26,895 |
| Alternatives | 92,064 | 31,324 | 28,043 | 1,453 | 96,798 |
| | **1,274,465** | **322,144** | **307,156** | **831** | **1,290,284** |
| Cash Deposits | 20,190 | | | | 28,409 |
| Other Investment Balances | 969 | | | | 3,279 |
| Current Assets & Liabilities | 22,678 | | | | 14,068 |
| | **1,318,302** | **322,144** | **307,156** | **831** | **1,336,040** |

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly
Transaction costs incurred during the year amounted to £504,194 (£498,793 in 2011-12).

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 March 2012 £000 | % | 31 March 2013 £000 | % |
|---|---|---|---|---|
| **Equities** | | | | |
| UK Quoted | 294,868 | 22 | 319,114 | 22 |
| Overseas Quoted | 485,070 | 37 | 523,690 | 35 |
| **Total Equities** | **779,938** | **59** | **842,804** | **57** |
| **Pooled Investments:** | | | | |
| Property | 124,819 | 10 | 127,499 | 9 |
| Private Equity | 2,061 | 0 | 2,032 | 0 |
| Fixed Interest | 60,918 | 5 | 67,577 | 5 |
| Index Linked Bonds | 26,895 | 2 | 29,525 | 2 |
| Equities | 0 | 0 | 74,037 | 5 |
| Alternatives | 96,798 | 7 | 113,613 | 8 |
| **Total UK Pooled** | **311,491** | **24** | **414,283** | **29** |
| Property | 27,719 | 2 | 27,618 | 2 |
| Private Equity | 88,888 | 7 | 93,564 | 6 |
| Fixed Interest | 82,248 | 6 | 87,962 | 6 |
| **Total Overseas Pooled** | **198,855** | **15** | **209,144** | **14** |
| **Total Pooled Investments** | **510,346** | **39** | **623,427** | **43** |
| **Cash** | | | | |
| Short Term Loans/External Deposits | 28,409 | 2 | 14,696 | 1 |
| **Total** | **1,318,693** | **100** | **1,480,927** | **100** |

An analysis of the type of pooled investment vehicles is given below:

| | | 2011-12 £000 | 2012-13 £000 |
|---|---|---|---|
| Property | | | |
| | Unit Trusts | 100,953 | 97,359 |
| | Other managed funds (LLP's) | 51,585 | 57,758 |
| Private Equity | | | |
| | Other managed funds (LLP's) | 90,949 | 95,595 |
| Fixed Interest | | | |
| | Other managed funds | 143,166 | 155,540 |
| Index linked gilts | | | |
| | Other managed funds | 26,895 | 29,525 |
| Equities | | | |
| | Other Managed funds | 0 | 74,037 |
| Alternatives | | | |
| | Other managed funds | 96,798 | 113,613 |
| **Total Pooled Vehicles** | | **510,346** | **623,427** |

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 three investments that fall into this category as follows:

| **Investment** | **2011-12** Value (£000) | **2011-12** % of net assets | **2012-13** Value (£000) | **2012-13** % of net assets |
|---|---|---|---|---|
| Goodhart Absolute Return Bond Fund | 82,248 | 6.2 | 87,962 | 5.9 |
| Morgan Stanley Alternative Investments | 96,798 | 7.2 | 113,613 | 7.9 |
| Morgan Stanley Global Brands | 0 | 0 | 74,037 | 5.0 |

## 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 |
|---|---|---|---|---|---|---|
| Over one month | | | | | | |
| | GBP | 14,480 | CHF | (21,300) | 0 | (382) |
| | GBP | 48,343 | EUR | (59,100) | 0 | (1,702) |
| | GBP | 95,075 | JPY | (13,206,000) | 2,435 | 0 |
| | GBP | 145,464 | USD | (236,823) | 0 | (6,832) |
| | GBP | 0 | HKD | (19,580) | 0 | (2) |
| Over one month | CHF | 19,800 | GBP | (13,500) | 312 | 0 |
| | EUR | 53,600 | GBP | (42,865) | 1,413 | 0 |
| | JPY | 12,154,197 | GBP | (84,433) | 0 | (1,827) |
| | USD | 220,620 | GBP | (137,896) | 5,818 | 0 |
| **Total** | | | | | **9,978** | **(10,745)** |
| **Net forward currency contracts at 31 March 2013** | | | | | | **(767)** |
| **Prior year comparative** | | | | | | |
| **Open forward currency contracts at 31 March 2012** | | | | | **6,804** | **(6,926)** |
| **Net forward currency contracts at 31 March 2012** | | | | | | **(122)** |

## 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 £0.8m (loss of £0.1m in 2011-12) from the Fund's two Currency Overlay Managers.

## 18 Other Investment Balances

| | | 2011-12 £000 | 2012-13 £000 |
|---|---|---|---|
| Dividends Receivable | | 2,833 | 2,868 |
| Recoverable Tax | | 634 | 691 |
| Outstanding Foreign Exchange | | (122) | (767) |
| Unsettled Trades | Purchases | (1,256) | 0 |
| | Sales | 1,190 | 2,450 |
| | | **3,279** | **5,242** |

## 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 £3,488m for contributions due from employers (2011-12 £3,773m). 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 as below:

| | 2011-12<br>£000 | 2012-13<br>£000 |
|---|---|---|
| **Debtors** | | |
| Central Government Bodies | 878 | 1,341 |
| Other Local Authorities | 5,951 | 4,503 |
| NHS Bodies | 0 | 0 |
| Public Corporations and Trading Funds | 200 | 46 |
| Other Entities and individuals | 588 | 1,144 |
| | **7,617** | **7,034** |
| **Long Term Debtors** | | |
| Central Government Bodies | 3,410 | 2,558 |
| Other Local Authorities | 0 | 0 |
| NHS Bodies | 0 | 0 |
| Public Corporations and Trading Funds | 0 | 0 |
| Other Entities and individuals | 0 | 0 |
| | **3,410** | **2,558** |
| **Creditors** | | |
| Central Government Bodies | (1,164) | (1,153) |
| Other Local Authorities | (200) | (256) |
| NHS Bodies | 0 | 0 |
| Public Corporations and Trading Funds | (1,308) | (3,118) |
| Other Entities and individuals | (39) | (144) |
| | **(2,711)** | **(4,671)** |

## 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 £38,672m.

## 21 Contingent Assets

Three 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 recognised an impairment loss of £400,000 for possible non-payment of a cessation value where the employer was not backed by a guarantee.

## 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 £8,285m (£8,523m in 2011-12) and member contributions of £1,020m (£1,081m in 2011-12) 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 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 £793,497 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 Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2009-10, the 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 will be made in 2013 . As with the tax claim detailed in the paragraph above, the Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2011-12, the 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. As with the tax claim detailed in the paragraphs above, the 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 Council successfully lodged a claim with the Austrian Tax Authorities for the recovery of withholding 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. No Members of the Pensions Committee currently receive pension benefits from the Fund. Committee members P Watson, P Przyszlak, M Leaning 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 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 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 £4.014m and interest of £46.3k was earned over the year.

Lincolnshire County Council paid contributions of £26.5m 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 Council's main accounts in 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.

| | 2011-12 | | | 2012-13 | | |
|---|---|---|---|---|---|---|
| | **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 | 779,938 | | | 842,804 | | |
| Pooled Investments: | | | | | | |
| Property | 152,538 | | | 155,116 | | |
| Private Equity | 90,949 | | | 95,595 | | |
| Fixed Interest | 143,166 | | | 155,540 | | |
| Indexed Linked Bonds | 26,895 | | | 29,525 | | |
| Equities | - | | | 74,037 | | |
| Alternatives | 96,798 | | | 113,613 | | |
| Cash | | 34,161 | | | 18,651 | |
| Other Investment Balances | 11,461 | | | 15,987 | | |
| Debtors | | 11,027 | | | 9,593 | |
| | **1,301,745** | **45,188** | **-** | **1,482,217** | **28,244** | **-** |
| **Financial Liabilities** | | | | | | |
| Other Investment Balances | (8,182) | | | (10,745) | | |
| Creditors | | | (2,711) | | | (4,671) |
| | **(8,182)** | **-** | **(2,711)** | **(10,745)** | **-** | **(4,671)** |
| | **1,293,563** | **45,188** | **(2,711)** | **1,471,472** | **28,244** | **(4,671)** |

**Net gains and losses on financial instruments**

| | 2011-12 £000 | 2012-13 £000 |
|---|---|---|
| **Financial Assets** | | |
| Fair value through profit & loss | 831 | 141,590 |
| Loans and receivables | | |
| Financial liabilities measured at amortised cost | | |
| **Financial Liabilities** | | |
| Fair value through profit & loss | (122) | (767) |
| Loans and receivables | | |
| Financial liabilities measured at amortised cost | | |
| | **709** | **140,823** |

**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 31 March 2013.

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 31 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** |

| Values at 31 March 2012 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Fair value through profit & loss | 961,460 | 152,538 | 187,747 | 1,301,745 |
| Loans and receivables | 45,188 | | | 45,188 |
| Financial liabilities measured at amortised cost | | | | - |
| **Total Financial Assets** | **1,006,648** | **152,538** | **187,747** | **1,346,933** |
| | | | | |
| **Financial Liabilities** | | | | |
| Fair value through profit & loss | | (8,182) | | (8,182) |
| Loans and receivables | | | | - |
| Financial liabilities measured at amortised cost | (2,711) | | | (2,711) |
| **Total Financial Liabilities** | **(2,711)** | **(8,182)** | **-** | **(10,893)** |
| | | | | |
| **Net Financial Assets** | **1,003,937** | **144,356** | **187,747** | **1,336,040** |

## 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 | 15.2% |
| Overseas Equities | 12.7% |
| UK Bonds | 5.8% |
| UK Index Linked | 7.0% |
| Overseas Bonds | 7.2% |
| 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 March 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 | 67,587 | 5.8 | 71,507 | 63,667 |
| UK Index Linked | 29,525 | 7.0 | 31,592 | 27,458 |
| Overseas Bonds | 87,962 | 7.2 | 94,295 | 81,629 |
| Private Equity | 95,596 | 14.6 | 109,553 | 81,639 |
| 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** | **1,486,179** | | **1,659,082** | **1,313,276** |

| Asset Type | Value at 31 March 2012 £000 | Percentage Change % | Value on Increase £000 | Value on Decrease £000 |
|---|---|---|---|---|
| Cash deposits | 28,409 | 0.0 | 28,409 | 28,409 |
| UK Equities | 294,868 | 14.7 | 338,214 | 251,522 |
| Overseas Equities | 485,070 | 14.6 | 555,890 | 414,250 |
| UK Bonds | 60,918 | 5.5 | 64,268 | 57,568 |
| UK Index Linked | 26,895 | 6.4 | 28,616 | 25,174 |
| Overseas Bonds | 82,248 | 7.7 | 88,581 | 75,915 |
| Private Equity | 90,949 | 14.6 | 104,228 | 77,670 |
| Alternative Investments | 96,798 | 10.0 | 106,478 | 87,118 |
| Property | 152,538 | 5.8 | 161,385 | 143,691 |
| Dividends Accrued | 2,833 | 0.0 | 2,833 | 2,833 |
| Recoverable Tax | 634 | 0.0 | 634 | 634 |
| Outstanding FX | (122) | 0.0 | (122) | (122) |
| Unsettled Purchases | (1,256) | 0.0 | (1,256) | (1,256) |
| Unsettled Sales | 1,190 | 0.0 | 1,190 | 1,190 |
| **Total assets available to pay benefits** | **1,321,972** | | **1,479,348** | **1,164,596** |

**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 2012 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 March 2012 £000 | 31 March 2013 £000 |
|---|---|---|
| Cash deposits | 28,409 | 14,696 |
| Cash balances | 5,752 | 3,954 |
| Pooled Fixed Interest Securities | 170,061 | 185,065 |
| **Total** | **204,222** | **203,715** |

**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 March 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)** |

| Asset Type | Value at 31 March 2012 £000 | Change in Year +1% £000 | Change in Year -1% £000 |
|---|---|---|---|
| Cash deposits | 28,409 | 284 | (284) |
| Cash balances | 5,752 | 58 | (58) |
| Pooled Fixed Interest Securities | 170,061 | 1,701 | (1,701) |
| **Total** | **204,222** | **2,042** | **(2,042)** |

**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 2013 and 31 March 2012.

| Currency Exposure - Asset Type | 31 March 2012 £000 | 31 March 2013 £000 |
|---|---|---|
| Overseas Equities (quoted) | 485,070 | 523,690 |
| **Pooled Investments:** | | |
| Overseas Property | 27,719 | 27,618 |
| Overseas Private Equity | 88,888 | 93,564 |
| Overseas Fixed Interest | 82,248 | 87,962 |
| **Total** | **683,925** | **732,834** |

**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 WM's 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 March 2013 £000 | Change in Year +10% £000 | Change in Year -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** |

| Currency Exposure - Asset Type | Value at 31 March 2012 £000 | Change in Year +10% £000 | Change in Year -10% £000 |
|---|---|---|---|
| Overseas Equities (quoted) | 485,070 | 533,577 | 436,563 |
| **Pooled Investments:** | | | |
| Overseas Property | 27,719 | 30,491 | 24,947 |
| Overseas Private Equity | 88,888 | 97,777 | 79,999 |
| Overseas Fixed Interest | 82,248 | 90,473 | 74,023 |
| **Total** | **683,925** | **752,318** | **615,533** |

**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 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 31st March 2013 , these assets totalled £1,466.2m, with a further £14.7m 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 $18.8 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**
Aubourn & Haddington TC
Bourne TC
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
Metheringham PC
Nettleham PC
North Hykeham TC
Skegness TC
Skellingthorpe PC
Sleaford TC
Stamford TC
Sudbrooke PC
Washingborough PC
Woodhall Spa PC

**Further Education Establishments**
Bishop Grosseteste College
Boston College
Grantham College
Lincoln College
Stamford College

**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
Cordeaux Academy
Ellison Boulters Academy
Ermine Primary
Fosse Way
Gainsborough Benjamin Adlard
Gainsborough Parish Church
Giles Academy
Grantham Kings School
Grantham Walton Girls
Gypsey Bridge Academy
Harrowby C of E Infants
Hartsholme Academy
Heighington Millfield Academy
Hillcrest EY Academy
Hogsthorpe Primary Academy
Horncastle QE Grammar
Huttoft Primary Academy
Ingoldmells Academy
John Spendluffe Tech. College
Kesteven & Sleaford High
Kesteven and Grantham Academy
Kidgate Primary Academy
Lincoln Castle Academy
Lincoln Christs Hospital School
Lincoln Westgate Academy
Ling Moor Academy
Little Gonerby C of E
Long Bennington C of E
Mablethorpe Primary Academy
Manor Leas Infant School
Market Rasen De Aston School
Mercer's Wood Academy
Mount Street Academy
National C of E Juniors
Nettleham Infants Academy
North Kesteven School
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 St Georges Academy
Sleaford William Alvey
Spalding Grammar
Spilsby King Edward Academy
St John's Primary Academy
Stamford Malcolm Sargent
Stamford Queen Eleanor
Stamford St Gilberts
The Deepings Academy
The Phoenix School
Thomas Cowley Academy
Tower Road Academy
Trent Valley Academy
University Academy Holbeach
Washingborough Academy
Welton C of E St Mary
Welton William Farr CE
West Grantham Federation
White's Wood Academy
William Lovell Academy
Witham St Hughs Academy
Woodhall Spa Academy

**Other Scheduled Bodies**
Compass Point
Lincolnshire Police Authority
Lincolnshire Probation Service

**Admitted Bodies**
Acis Group
ACPOA
Active Nation
Adults Supporting Adult
Boston Mayflower
CfBT
Edwards & Blake
G4S
Heritage Trust for Lincs
Lincoln Arts Trust
Lincoln BIG
Lincs HIA
Lincs Sports Partnership
May Gurney
Mouchel Connextions
National Child Minding Assoc.
New Linx Housing
Rentokil Initial
Sports & Leisure Management

## 29 Exchange Rates Applied

The exchange rates used at 31 March 2013 per £1 sterling were:

| | |
|---|---|
| Australian Dollar | 1.4565 |
| Brazilian Real | 3.0617 |
| Canadian Dollar | 1.5427 |
| Swiss Franc | 1.4379 |
| Danish Krone | 8.8154 |
| Euro | 1.1825 |
| Hong Kong Dollar | 11.7872 |
| Indonesian Rupiah | 14,755.5377 |
| Israeli Shekel | 5.5184 |
| Japanese Yen | 142.7647 |
| Korean Won | 1,689.4274 |
| Norwegian Krone | 8.8564 |
| New Zealand Dollar | 1.8120 |
| Swedish Krona | 9.8730 |
| Singapore Dollar | 1.8838 |
| Thai Baht | 44.4678 |
| Taiwan Dollar | 45.4055 |
| US Dollar | 1.5184 |

## Lincolnshire Fire & Rescue Pensions Fund for the year ended 31 March 2013

| 2011-12 £'000 | Fund Account | Note | 2012-13 £'000 |
|---|---|---|---|
| | **Contributions Receivable** | | |
| | From employer: | | |
| (1,600) | Contributions in relation to pensionable pay | 4 | (1,591) |
| (148) | Early Retirements - Ill Health | 4 | (229) |
| | From members | | |
| (929) | Fire-fighters' contributions | 4 | (969) |
| 0 | From CLG ( commutations special income) | | 0 |
| | **Transfers in:** | | |
| 0 | Individual transfers from other schemes from Local Authorities | 7 | (5) |
| (2) | Individual transfers from other schemes other than Local Authorities | 7 | (23) |
| | **Benefits payable:** | | |
| 3,870 | Pensions | 5 | 4,128 |
| 957 | Commutations and lump sum retirement benefits | 5 | 835 |
| | **Payments to and on account of leavers:** | | |
| 0 | Individual transfer out to other schemes | 7 | 0 |
| 0 | Refunds of contributions | 7 | 1 |
| **2,148** | **Sub Total Net amount payable for the year before top up grant receivable** | | **2,147** |
| (2,148) | Top up grant receivable from sponsoring department | 6 | (2,147) |
| **0** | **net amount payable/receivable** | | **0** |

| 31 March 2012 £'000 | Net Asset Statement as at: | 31 March 2013 £'000 |
|---|---|---|
| | **Current Assets** | |
| 328 | Pensions paid in Advance | 346 |
| 0 | Amounts due from LCC | 0 |
| 548 | Pensions top up grant due | 740 |
| **876** | **Total Current Assets** | **1,086** |
| | **Current Liabilities** | |
| (876) | Amounts payable to LCC | (1,086) |
| 0 | Pension payable to central government | 0 |
| **(876)** | **Total Current Liabilities** | **(1,086)** |
| **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 2012-13 the contribution rates for the 2006 scheme were a minimum of 22% of pensionable pay (11% employers and tiered contribution of 11% to 13% based employees' pensionable pay banding) and the contribution rates for the 1992 scheme were 29.8% of pensionable pay (21.3% employers and tiered contribution of 8.5% to 9.7% based on employees' pensionable pay banding). Contribution tiers for part time and retained Fire-fighters' 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

# Annual Governance Statement for Lincolnshire County Council 2013

The Council's Annual Governance Statement will be scrutinised by the Audit Committee on 22 July and will be published in the audited Statement of Accounts document which will be published by the end of September 2013.

## Appendix A - Officer Remuneration split between staff employed in Schools and All Other Parts of the County Council.

| SCHOOLS | 2011-12 Number of Staff | | 2012-13 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 | 1 | 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 | 1 | 0 | 0 |
| £100,000- £104,999 | 0 | 1 | 0 | 0 |
| £95,000- £99,999 | 2 | 0 | 0 | 0 |
| £90,000- £94,999 | 2 | 0 | 2 | 0 |
| £85,000- £89,999 | 4 | 3 | 5 | 2 |
| £80,000- £84,999 | 6 | 1 | 1 | 0 |
| £75,000- £79,999 | 2 | 1 | 4 | 0 |
| £70,000- £74,999 | 15 | 2 | 6 | 1 |
| £65,000- £69,999 | 13 | 0 | 8 | 1 |
| £60,000- £64,999 | 25 | 1 | 20 | 0 |
| £55,000- £59,999 | 78 | 0 | 56 | 1 |
| £50,000- £54,999 | 97 | 2 | 63 | 1 |
| **Total** | **244** | **13** | **165** | **6** |

| OTHER SERVICES | 2011-12 Number of Staff | | 2012-13 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 |
| £145,000- £149,999 | 0 | 1 | 0 | 0 |
| £140,000- £144,999 | 0 | 0 | 0 | 0 |
| £135,000- £139,999 | 0 | 4 | 0 | 0 |
| £130,000- £134,999 | 0 | 0 | 0 | 0 |
| £125,000- £129,999 | 1 | 0 | 2 | 0 |
| £120,000- £124,999 | 0 | 1 | 0 | 0 |
| £115,000- £119,999 | 0 | 3 | 0 | 0 |
| £110,000- £114,999 | 0 | 0 | 0 | 1 |
| £105,000- £109,999 | 0 | 4 | 1 | 0 |
| £100,000- £104,999 | 0 | 1 | 0 | 0 |
| £95,000- £ 99,999 | 0 | 3 | 0 | 0 |
| £90,000- £94,999 | 2 | 2 | 1 | 1 |
| £85,000- £89,999 | 4 | 3 | 4 | 1 |
| £80,000- £84,999 | 4 | 5 | 4 | 1 |
| £75,000- £79,999 | 1 | 5 | 3 | 0 |
| £70,000- £74,999 | 6 | 11 | 3 | 1 |
| £65,000- £69,999 | 18 | 16 | 17 | 0 |
| £60,000- £64,999 | 22 | 15 | 27 | 0 |
| £55,000- £59,999 | 37 | 26 | 40 | 0 |
| £50,000- £54,999 | 41 | 19 | 44 | 5 |
| **Total** | **136** | **119** | **146** | **10** |

# 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. works of art, windmills 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 fixed asset restatement 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 Resources & Community Safety** |
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|---|---|
| Report to: | **Audit Committee** |
| Date: | **22 July 2013** |
| Subject: | **Review of Governance Framework & Development of Annual Governance Statement 2013** |

**Summary:**

A 'good' governance statement is an open and honest self-assessment of the organisation's performance across all of its activities, with a clear statement of the actions being taken or required to address any areas of concern.

The Council has responstibility for conducting, at least annually, a review of the effectiveness of its governance framework. Undertaking this review helps us test and gain confidence that our governance framework is operating as intended and that we are:

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

As the Committee charged with governance the Audit Committee plays a key role in the development and approval of the Council's Annual Governance Statement. This report seeks the views of the Committee and whether the areas of concern identified adequately reflect the Council's governance and assurance framework for 2013.

**Recommendation(s):**

That the Committee agree the governance issues to be included in the Annual Governance Statement 2013 - subject to any changes if they may wish to make.

## 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.

**What is the Governance Framework?**

3 Each local authority operates through a governance framework which brings together an underlying set of legislative requirements, governance principles and management processes. It ensures that the Councils business is conducted in a legal and proper way – ensuring that public money is properly used economically, efficiently and effectively.

4 In December 2012, CIPFA[1] issued a revised 'Delivering Good Governance in a Local Government Framework' with associated guidance. These set out best practice to be followed for developing and maintaining a local code of governance – including the publication of an annual governance statement.

5 It defines six core principals by which Council's can test out their governance arrangements – these are:

- Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust accountability

6.1 CIPFA has not changed the Framework from the original 2006 publication - however the guidance has been updated to reflect:

- Changes to structures resulting from the way local government operates and undertake service provision – partnerships, collaboration, commissioning, shared services including shared management teams and chief executives
- New roles and greater flexibility through the Localism Act and other legalisation
- Increasing transparency of data
- Responsibilities for public health
- Governance requirements to support the role of the Chief Financial Officer and Head of Internal Audit

[1] The Chartered Institute of Public Finance and Accountancy

6.2 It gives greater flexibility in demonstrating compliance but gives greater emphasis on:

- Scrutiny
- Fraud
- Maintaining standards
- Governance of risk

**Annual Review of our Governance Framework**

7 The annual review and development of the Annual Governance Statement is undertaken by the Governance Group in consultation with the Executive Directors. The Council's Governance Group comprising of:

- Chairman and Vice Chairman of the Audit Committee
- Executive Director – Performance and Governance (Monitoring Officer)
- Assistant Director – Finance & Property (Section 151 Officer )
- Head of Internal Audit and Risk Management

8 The sources of information used to develop the Governance Statement include:

- The assurance arrangements of the Council, particularly each Directors Combined Assurance Status reports.
- Head of Internal Audit annual audit opinion (Annual Report 2013)
- Council's Strategic Risk Register and risk management arrangements
- External Audit Annual Audit Letter
- Ombudsman investigations
- Complaints and lessons learnt

9 The Council has well established governance arrangements in place that work effectively. We are currently benchmarking these to the revised CIPFA best practice Framework and will report the outcome of this work to the September committee.

10 The benchmarking review will:

- The extent we comply with principles and the requirements of good governance set out in the Framework
- Identify systems, processes and documentation that provide evidence of compliance
- Identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified

This will inform the update of our local code of governance.

*Governance Issues*

11 As a result of our annual review we have identified the following areas where further work is required to improve systems or monitor how the key risks facing the Council are being managed. These are:

- Maintaining Good Governance

- Workforce and Management Capacity
- Public Health
- Adult Care – change of pace and scale
- Adult Care – safeguarding vulnerable adults
- Safeguarding Children
- Education and Skills
- Maintaining Financial Resilience
- Procurement and Contract Management
- Becoming a Commissioning Organisation
- Maintaining ICT Resilience

12 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. They also represent some of the key areas that will help us deliver our Business Plan.
Appendix 1 provides more information and planned actions on the above areas.

13 Our governance framework and annual review covers all activities of the Council including Fire and Rescue and Pensions.

**Conclusion**

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

Officers have identified a number of governance issues to be included in the Annual Governance Statement. The Audit Committee is asked to independently review and approve these for 'realism'.
Further work is in progress to benchmark the Council's governance arrangements against best practice – this may lead to some changes to our local code of governance. Our local code of governance and the final Annual Governance Statement will be presented to the Committee in September for approval.

**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 2013 (to follow) |

**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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# Agenda Item 9

Lincolnshire COUNTY COUNCIL
*Working for a better future*

**Regulatory and Other Committee**

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| **Open Report on behalf of Pete Moore, Executive Director Resources and Community Safety** |

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|---|---|
| Report to: | **Audit Committee** |
| Date: | **22 July 2013** |
| Subject: | **Work Plan** |


**Summary:**

This Report provides the Committee with information on progress on agreed actions and its work plan up to November 2013.


**Recommendation(s):**

1. Review the progress of agreed actions in Appendix A, and

2. Review the work plan set out in Appendix B and identify any changes.

**Background**

1.1 An agreed action plan has been pulled together to help the Committee keep track of actions agreed during meetings or workshops (see Appendix A).

1.2 The work plan is based on the core activities of the Committee as set out in its terms of reference and best practice (see Appendix B).

**Conclusion**

2.1 The work plan helps the Committee monitor its work programme and keep track of areas it requires further work and/or assurance.

**Consultation**

**Policy Proofing Actions Required**

Not applicable

**Appendices**

| These are listed below and attached at the back of the report | |
|---|---|
| Appendix A | Agreed Actions |
| Appendix B | Work Plan to November 2013 |

**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 – Action Plan

| Agreed Action | Person Responsible | Target Date | Outcome / Progress |
|---|---|---|---|
| Briefing papers occasionally for Programme Centre :<br>• Risk Management<br>• Key projects and support areas | - | - | Keep on work plan as reminder |
| ICT Assurance and follow up | Judith Hetherington Smith | September 2013 | |
| External & Internal Audit<br>Protocol developed that clarifies expectations and makes the best use of the combined Audit resource | Lucy Pledge | September 2013 | |
| Fire & Rescue Fuel Audit | Dave Ramscar | July 2013 | We confirm that recommended actions have been implemented<br><br>• Regular checks on fuel stocks against journey logs. Queries about the logs to go to LFR's Management Board.<br>• Standardised and improved record keeping.<br>• Regular reminders to staff to log journeys and produce receipts.<br>• Audits by Lincolnshire County Council's internal audit department. |
| Schools update | Julie Castledine | tbc | |
| Assurance Sutton Bridge continuity arrangements | Derek McKim | September 2013 | |
| Assurance Flooding responsibilities:<br>• Working with partner organisation<br>• Feedback from the Flooding 2012 investigations | David Powell | tbc | |

| Completed Actions | | | |
|---|---|---|---|
| Additional data re ASC be brought to future meeting | Glen Garrod | July 2013 | Completed |

## Audit Committee – Work Plan Appendix B

| | | Training am Meeting pm | 0930 Pre Meeting | 0930 Pre Meeting |
|---|---|---|---|---|
| **22nd April 2013** | **24th June 2013** | **22nd July 2013** | **23rd September 2013** | **11th November 2013** |
| 1. Internal Audit Progress Report | 1. Business Continuity Assurance Report | 1. Internal Audit Progress Report | 1. Progress of Counter Fraud Plan | 1. Internal Audit Progress Report |
| 2. External Audit Progress Report | 2. Schools Financial Control Environment | 2. External Audit Progress Report | 2. Whistleblowing Annual Report | 2. Analysis of outstanding high recommendations |
| 3. Risk Management Update | 3. Counter Fraud Annual Report | 3. Draft Statement of Accounts 2013/13 | 3. Financial Statement Approval | 3. Half yearly Programme on Risk Management |
| 4.Counter Fraud Update | 4. Internal Audit Annual Report | 4. Adult Social Care Update | 4. Statement of Accounts LCC | 4. Programme on Risk Management |
| 5. Internal Audit Plan 2013/14 | | 5. Review of Governance Framework & Development of Annual Governance Statement 2013 | 5. External Audit Annual Governance Report LCC Statement of Accounts | 5. Annual Audit Letter |
| 6. Counter Fraud Annual Plan 2013/14 | | | 6. LCC Pension Fund Accounts 2012/13 | 6. Private meeting with External Audit |
| 7. International Audit Standards – Response to management processes questions | | | 7. Financial Procedures<br>• Audit & Inspection<br>• Risk Management | |
| 8. External Audit Plan | | | 9. Annual Review of the system of Internal Audit including:<br>• Internal Audit Charter<br>• External & Internal Protocol | |
| 9.Statement of Accounts 2012/13 | | | 9. ICT Assurance and follow up | |