County Offices
Newland
Lincoln
LN1 1YL

20 March 2015

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 30 March 2015 at 10.00 am in Committee Room One, County Offices, Newland, Lincoln LN1 1YL** for the transaction of the business set out on the attached Agenda.

Yours sincerely

Tony McArdle
Chief Executive

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

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

Voting Added Member

Mr P D Finch, Independent Added Person

AUDIT COMMITTEE AGENDA
MONDAY, 30 MARCH 2015

Democratic Services Officer Contact Details

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

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

Contact details set out above.

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Lincolnshire COUNTY COUNCIL
Working for a better future

AUDIT COMMITTEE
26 JANUARY 2015

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

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

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

Councillors: C J T H Brewis, M J Hill OBE, Mrs M J Overton MBE, S L W Palmer, Mrs J M Renshaw, R A Renshaw, L Wootten and C N Worth attended the meeting as observers

Officers in attendance:-

Stuart Carlton (Assistant Director Children's Early Help), Tony Crawley (KPMG), David Forbes (County Finance Officer), Glen Garrod (Director of Adult Care), David Hair (Team Leader - Scrutiny and Member Support), Judith Hetherington Smith (Chief Information and Commissioning Officer), Dr Tony Hill (Executive Director of Community Wellbeing and Public Health), Pete Moore (Executive Director of Finance and Public Protection), Mike Norman (KPMG), Lucy Pledge (Audit and Risk Manager), Richard Wills (Executive Director for Environment and Economy) and Rachel Wilson (Democratic Services Officer)

35 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Miss F E E Ransome.

36 DECLARATIONS OF MEMBERS' INTERESTS

Councillor S Tweedale requested that it be noted that in his capacity as Executive Support Councillor for Libraries, Heritage, Culture, Registration and Coroners Service he had not been part of the decision making process for the libraries consultation.

37 MINUTES OF THE MEETING HELD ON 24 NOVEMBER 2014

RESOLVED

> That the minutes of the meeting held on 24 November 2014 be signed by the Chairman as a correct record subject to it being noted that Tony Crawley and Mike Norman from KPMG were both in attendance.

38 ORGANISATIONAL LEARNING - LIBRARIES PROJECT

Consideration was given to a report which provided the Committee with independent insight on the facts surrounding the decision making process associated with the Libraries Project and identified suggested areas for improvement.

Members were advised that the report provided a chronology of events and a comprehensive examination of the decision making process throughout the Libraries Project, leading up to the Executive decision in December 2013. It was reported that the review of the Library Service involved a complex range of political, economic and social objectives and that the decision around the future delivery of libraries was sensitive, difficult and multi-faceted and the proposed changes were significant.

Initially it was queried whether it was appropriate to discuss this matter in light of the considerations of the proposals for the library service by the Community and Public Safety Scrutiny Committee the following day, and whether the deliberations at this meeting would have an effect on that meeting? Members were advised that this report would not have an effect as it related to what had already happened, and the Audit Committee was not being asked to determine policies around the library service. It was about the processes that led to the Judicial Review, and to ensure that decision making in the future took account of what had happened. There was a need to examine how the authority could learn from this experience and so make better decisions in the future.

The Chairman stated that the Audit Committee would not be revisiting the decisions which had been made, that was the role of the scrutiny committee. This was a regulatory committee, and needed to be apolitical. The Chairman stated that non-members of the Committee would not be allowed to speak.

Members were advised that the role of internal audit had been to look at the critical systems and processes, not to question the policy or the decisions that were made. This report was based on good governance principles and the recommendations were seeking how governance might be improved following the Library Service review. The lessons learned had been detailed in the report, and it recognises that there was a lot of work done and that there were key improvements for management to consider.

The Executive Director for Environment and Economy was in attendance to address the Committee and respond to questions in relation to this report. It was suggested that instead of Members considering what went wrong in the process and the Judicial Review, it was better to question why the outcome that was anticipated was not achieved. However, the Executive Director welcomed the report. It was noted that the focus for this report was on the process, advice, governance and decision making. It was acknowledged that the authority always expected to be challenged, but this was not something to be afraid of.

The Executive and officers were required to save £1.97m from the libraries budget whilst maintaining an effective and comprehensive library service. However, it was important to note that there was no definition of what this was. It was felt that it was important that only deliverable options were presented to decision makers, and there were two issues to be resolved – what was a comprehensive and efficient library service, and how should it be delivered. One option proposed by officers firmly rejected: to retain 13 main libraries and close the others.

Consultation would remain as an essential factor in decision making, and in the future would use internal resources and the internal community engagement team.

The report would be carefully considered by the Executive Director and his colleagues, as well as by the Audit Committee, Executive and other councillors. In the future the authority would be faced with a succession of complex changes with fewer resources to plan and implement them. It was important that the authority did not become risk averse and so make little change. It must consult fairly and be open to valid alternatives and not mislead the public by offering choices that were not affordable or deliverable. Lincolnshire County Council must continue to be a learning organisation that was willing to undergo transformational change.

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:

- It was noted that there was a typographical error at point 3.32 of the report, and the date should have read 22 November 2013, not 2011;
- One member expressed disappointment that non-members were not able to speak at this Committee;
- It was suggested that when scrutiny committees did not support recommendations, it was good practice for them to suggest alternatives;
- The Greenwich Leisure Ltd (GLL) proposal was received on the last day of the consultation and it was not perceived as a 'Community Right to Challenge'. The proposal was still considered despite the limited information which had been included with the submission. The rationale for not considering this proposal further was outlined in paragraph 3.28 of the report;
- The judgement suggested that if there had been more input from Legal Services, it may have highlighted some of the issues that the Consultation Institute was not qualified to have picked up on;
- The Consultation Institute had been approached in order to give a degree of independence to the consultation, and to ensure that it was prepared in a transparent way;
- Concerns were raised regarding the timeframe, and it was queried whether it was felt that due to the timing of the submission from GLL, there was a tendency to look for reasons why the proposal was not suitable? Members were advised that all proposals were considered by the Panel that was set up to consider all expressions of interest. It was commented that it was felt as though there was enough time to consider the submissions;
- It was queried whether the timing of the election in May 2013 had had an effect on the process, as a lot of scrutiny experience was lost in the election. Some of the new councillors may not have been scrutinising at the level that they should have been;

- It was recognised that the proposal submitted by a member of the public (Proposal X) was a genuine attempt to find another delivery model;
- It had not been recognised that GLL could be classed as a 'relevant body' under the Localism Act;
- From a governance point of view, the Council chose not to take a controversial decision before an election, and there was no right or wrong way in this approach. One issue for a council when taking decisions such as these before an election, was that one council would set the budget, and the new council would need to implement it;
- One of the issues picked up by the report was the vast amount of paperwork which was circulated as part of this process. It was commented that it was difficult to get the balance right between providing members with every piece of information or just giving them the relevant information;
- It was queried what the role of scrutiny was; what powers the scrutiny committees had; and what could be asked of the Committees;
- It was observed that the Judicial Review was critical of the consultation process, not the decision;
- It was commented that a presentation was made to one political group, and queried whether this was offered to any of the other groups;
- Concerns were highlighted regarding the document that was provided to the Scrutiny Committee by Sheffield Hallam University 15 minutes prior to the start of the meeting. It was queried when this document was received by officers, and if anyone had had prior sight of the report? It was considered important that Scrutiny Committees were fully informed. It was reported that generally members would receive papers five working days prior to the meeting. Members were advised that the report which had been circulated on the day of the scrutiny committee had only been completed that day, and was intended as background material to the presentation which was given to the Committee by Sheffield Hallam University;
- Members were advised that it was appropriate and normal for any report coming from external organisations to be analysed by officers. It was also mentioned that officers should be able to comment on any report prepared by a consultant (however, the comments did not have to be included within the report). Only the author was able to amend a report, and authors would only allow others to change the content of their report when they agreed with the comments;
- In relation to the timing of the report presented to the scrutiny committee, it was noted that it would have been possible for officers to suggest to the Chairman of the meeting that it be deferred until members had had an opportunity to fully consider the report. The amount of time members were given to consider this report was identified as a key pressure point;
- Representatives from Sheffield Hallam University were in attendance at the scrutiny committee and presented their report and gave a presentation to the Committee. The scrutiny committee did not make the request to defer the report;
- In relation to risk assessment and management, it was queried whether there was executive oversight of the individual operating boards and workstreams and also if there was a risk management framework in place?

- One of the risks highlighted did include the timetable for the consultation process due to waiting until after the election and then having to work to a compressed timescale. However, it was felt that there was sufficient engagement to ensure that these risks were understood;
- There was a Programme Team whose purpose was to support the different projects within the Council, and people within this team had been offered to the Libraries Review Project;
- At the Budget setting meeting of Full Council in February 2013, officers were directed to put more money into the budget to take account of the process being extended;
- It was acknowledged that the Executive did have oversight of the risk assessment;
- It was suggested that there was a need for the advice to have been more robust, for example regarding not recognising GLL's proposal under the Localism Act;
- It was suggested that some controversial issues may require more time to go through the scrutiny process. The Executive listened very carefully to what was said by the scrutiny committees;
- It was said that the proposals for the library service were judged to be legal by the High Court, but it was the consultation process which was flawed, as well as not considering the GLL proposal under the Localism Act. However, it had been felt at the time that localism referred to people in the local area;
- Members were advised that the authority had been very keen to keep the Library Service in-house, rather than handing it over to an external organisation, such as GLL, who would take control of the whole service;
- It was noted that this interpretation of the Localism Act could affect other services, as at any point an authority could receive a challenge from another relevant body to take over a service;
- There had been some very positive discussions around the areas for improvement, and it had become clear that it was very important to look carefully at options appraisals and the consultation process;
- It was commented that the report was very good, but was queried whether audit had become involved at the right time, or should this have come to the Audit Committee earlier? Members were advised that this had been the right time for Audit to be involved, as the role of audit was to ensure that good governance was maintained. It was right and appropriate that Audit examined the lessons learned and that an action plan was developed and implemented;
- There was a need to examine how the Audit Committee and Scrutiny Committees could work better together;

It was proposed that the Committee should accept the suggested areas for improvement in the report and that officers be directed to address them and bring the findings back to this Committee. It was also suggested that the action plan should be considered by the Executive and Corporate Management Board and a report brought back to the meeting in March.

RESOLVED

1. That the Committee accept the suggested areas for improvement outlined in the report and officers be directed to address them and bring the findings back to a future meeting of this Committee;
2. That the action plan be considered by Executive and Corporate Management Board and a report brought back to the meeting in March.

39 COMBINED ASSURANCE STATUS REPORTS

Consideration was given to a report which provided the Audit Committee with an insight on the assurances across all the Council's critical services, key risks and projects.

The Executive Directors were in attendance to present their Combined Assurance report and answer any questions from members of the Committee.

Public Health

The Executive Director Community Wellbeing and Public Health presented the Combined Assurance report for Public Health to the Committee. The Committee was informed that the areas the Executive Director was responsible had changed quite considerably following the senior management review and now included libraries.

It was reported that the risk had not changed from last year, but there were some particularly risky areas under the core statutory business of public health, such as outbreaks, education etc. However, there was a lot of expertise which could be used to mitigate these risks. There were now some areas which were not related to core public health business such as libraries.

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

- It was noted that these reports were a 'snapshot' of the assurances in place which looked at both critical systems and strategic risks, as well as emerging risks;
- It was acknowledged that one of the highest risks at this time was that a number of services would be re-procured in the near future;
- The Coroners Officers were paid for by the Police Force, and there was very little impact the authority could have on this service;
- It was noted that in relation to the Coroners Service, it had been reduced from four districts to two three years ago. The system was currently working as well as it could, but both coroners were due to retire in two years. There would be a need to look at what the Coroners Service would look like in the future;
- Nationally, there was a preference for one coroner per county, but Lincolnshire had pushed to have two;

- It was queried, in relation to mental health issues, how certain the authority was that it could offer services that could prevent people from becoming acute cases. Members were advised that a lot of work was taking place around mental health prevention. This was a joint approach and work was underway on preventing mental health problems from getting worse or developing and the authority was working with a whole range of organisations in order to better support people. There were a variety of schemes in place including a number of schemes that supported people and the community to give people mental health resilience;
- It was noted that the Integration with Health and Social Care was a newly recorded risk, and there would be large numbers of organisations involved in this process. There was not yet a completed plan on how this process would happen. It was expected that this plan would be ready by the summer. The programme of work had its own risk register and risk arrangements. The Executive Director reported that discussions had taken place with external audit on this issue;
- The potential for a second judicial review into the libraries review was recognised, and officers had put in a lot of work to ensure that the authority could respond in a more successful way;

Finance and Public Protection

The Executive Director for Finance and Public Protection presented the Combined Assurance report for Finance and Public Protection to the Committee. It was reported that this was an assessment of risks and how the authority was dealing with them. It was noted that some areas had moved from being completely green, into amber, such as the Youth Offending Service, this was mainly due to changes to the way that the service was managed, and a move to more pro-active work.

The Committee was advised that one risk which needed to be managed corporately was the budget. It was reported that the Council would only be publishing a one year budget due to the uncertainty in a number of different areas. It was also noted that the government had only published a one year spending review due to the general election taking place in May 2015, and it was expected that the new government would publish a spending review in the autumn of 2015. There would need to be a national discussion on what the role of a local authority was in providing services.

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

- Concerns were raised regarding the police non-emergency number and how long people were waiting to get through, and how long they should then have to wait for action. The Executive Director agreed to raise this issue with the Police, but certain issues would be of lower priority than others;
- The areas with large budgets such as adult care were most sensitive, in terms of the role of local government, and it would need to be determined whether the existing model was sustainable in the future – both locally and nationally;
- In relation to the issue of Lincoln being labelled as a 'hot spot' for so called legal highs, this was due to an FOI request, and a lot of counties did not

respond. Lincolnshire also had a good recording system for incidents. It was noted that officers were developing a good database of information and were working with the Police;
- There was a government commitment in 2014 to introduce new legislation in relation to legal highs which would seek to make them illegal. The authority was working on a partnership approach, as there were issues around them being used by young people in care;
- It was commented that often, other authorities had placed difficult young people in private establishments in Lincolnshire, particularly in the south of the county, and so plans had not been able to be put in place soon enough. Officers were working with colleagues in the police on this issue as well.

Children's Services

The Assistant Director – Children's Services presented the Combined Assurance Report for Children's Services to the Committee. It was reported that there had been an Ofsted inspection of the authority in November 2014, and the outcome was very positive, and Lincolnshire received the second best report for a local authority in the country.

It was noted that the children's scrutiny committee played a significant role, and had held a task and finish group on safeguarding. The authority also had a very active Corporate Parenting Panel. The authority also participated in peer reviews and had a comprehensive performance regime which was reported through the Lead member to the DMT group and to the scrutiny committee on a regular basis. Members were advised that this year officers would be examining several areas that were showing as amber.

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:
- Members were advised that there was regular sufficiency reporting in terms of provision, from all aspects of education, but particularly in the primary sector. There was also regular reporting through the Children and Young People Scrutiny Committee;
- The government expected any new provision to be either free schools or academies;
- Home Start was very active in the south of the county. However, it was noted that this was one of the authority's commissioned activities, but due to budget restrictions it may not be commissioned in the future;
- The authority was successful at maintaining SEN provision within the county, and this provision was constantly reviewed. The provision in special schools would be reviewed in the future to determine whether there would be sufficient places for the future;
- Additional grants had been received for 2015 and 2016 to enable the authority to transition through the SEND reforms;

- There had not been a reduction in the cost of home to school transport due to reduction of the price of fuel. It was likely that this was because it was a fixed price contract;
- There were aspects of the home to school transport policy which were reviewed every year. However, the last fundamental review was approximately six years ago. The authority would be looking at new ways to bring in efficiencies and officers would be looking very closely at services related to children's transport;

Adult Care

The Director of Adult Care was in attendance to present the Combined Assurance report on Adult Care to the Committee. It was reported that this report showed an improving performance and a strengthening of budget management.

Members were advised that there had been two internal audit reports around key areas which included contracting which provided significant management assurance.

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:

- It was queried whether there was a need for a minimum standard for carers? It had been discussed whether apprenticeships could be developed which had an opportunity to progress to qualify as a nurse. It was noted that a similar issue had been raised at a recent meeting at East Lindsey District Council in relation to standards across domiciliary and residential care. Members were advised that within Adult Care was a Quality Assurance Team and contract officers would undertake quality checks when they went out to check providers;
- It was reported that there were over 60,000 visits per week in Lincolnshire, and the authority had six quality assurance officers and the CQC would visit once or twice a year. Therefore it was difficult to quality assure every visit. However, a sample of 300 people who received the home care service was carried out, and it was found that the most important thing to the people receiving the service was the quality of the relationship with the carer and that the scheduled visits took place on time. The length of the visit was found to be irrelevant;
- The area of most concern was domiciliary care in terms of securing better standards of employment and increased rates of pay;
- Clinical staff and carers were both difficult to recruit;
- The LEP had also looked at the health and care sector, and considered it one of the key sectors for the areas. One of the issues was the relatively low pay, and this was also an issue in the food sector;
- Concerns were also raised regarding the need for standardisation of travel costs for those staff who carried out home visits;

Information and Commissioning

The Chief Information and Commissioning Officer was in attendance to present the Combined Assurance report for Information and Commissioning to the Committee. Members were advised that as this was a new area, this was the first combined assurance report that had been produced.

It was reported that the contract with Mouchel would be ending on 31 March 2015 and staff would be transferred to the new providers or brought back in-house. It was also noted that there were a lot of system changes taking place, including the implementation of the Agresso and Mosaic systems. This was a relatively high risk period due to the volume and complexity of the changes, and was being very closely managed.

There was a lot of uncertainty for staff at this time and the authority was currently in a TUPE consultation period with staff. Regular newsletters were circulated and there was a lot of staff engagement both directly and with the trade unions. The engagement was positive and it hoped that there would be a successful transfer.

In relation to the technology issues, the implementation of the Mosaic system would be a substantial move away from the Northgate system. It was noted that data from 18 different systems would be moved across, and some of the data from different systems would relate to the same client. It was intended that the new system would go live on 30 March 2015. The new Mosaic system would interface with the Agresso system.

Under the new property contract, Vinci Mouchel would be implementing a new system – Concerto – on 1 April 2015, which will also be integrated with the Agresso system.

All new IT systems were in the final stages of testing.

The Committee was advised that there had been a large restructure of Commissioning, and there were still a few vacant posts to be filled. Commissioning Leads would be remaining in each department. Officers were looking with each commissioning area to improve contract management as there were a range of different contract management arrangements in place. Some arrangements worked well and some required improvement, there was a need to share best practice within the authority.

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:

- It was acknowledged that all new staff transferring into the authority would be made aware of the whistleblowing and counter fraud policies;
- In relation to the new arrangements for a more robust 24/7 out of hours communications service, it was noted that an out of hours service had been in place for a number of years on a good will basis. More robust arrangements were being put in place;

- Regular meetings took place with the suppliers of the new IT systems to ensure that the accommodation was ready and that IT equipment would be available. HR was also working closely with the suppliers;
- There was time within the hand over process to get to know the staff and help them with the transition process into their new roles;
- The biggest risk was that the Agresso system or Mosaic system were not operational on time. This risk was being managed very closely in order to mitigate the risk;
- Departments would constantly have new IT requirements, such as office moves or legislative changes. Members were assured that the new systems would be able to meet these requirements as and when they arose.

Environment and Economy

The Executive Director for Environment and Economy was in attendance to present the Combined Assurance report for Environment and Economy to the Committee. It was reported that the directorate's highest rated strategic risks were Resilience (Business Continuity) and Projects as with fewer people there would be a need to think differently as the organisation shrinks. There would be a need to build into the structures sufficient people who could cover the specialisms. Projects were a high profile risk, and the authority did not always get the result it wanted. This also carried a reputational risk.

RESOLVED

> That the Committee note the current status of the Executive Directors' assurance regime.

40 INTERNAL AUDIT PROGRESS REPORT TO 31 DECEMBER 2014

Consideration was given to a report which provided the Committee with an update on progress made against the Audit Plan 2014/15 and provided summaries of all audits completed within the period September to December 2014.

A progress update on the Agresso implementation was also provided by the Chief Information and Commissioning Officer as the project was moving so dynamically, and it was felt that this was an appropriate time to update the committee.
Members were advised that the project had now entered a very intense stage, as the project was in the second round of integration and system testing. This stage involved officers ensuring that the system did do what it was expected to do. It was noted that problems had been encountered in terms of resources, as it had been difficult to secure sufficiently experienced payroll staff to carry out the very high number of payroll tests which were necessary. Getting the payroll aspect right was a key activity. The first end to end test of the full payroll was due to be carried on the coming weeks, which would give a very good indication of whether the system was working correctly.

Training for staff would be in a number of different formats, and a lot of it could be carried out online, for example time sheets, annual leave and placing orders. There would more detailed face to face training for staff using it in relation to HR and finance.

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

- It was explained that the User Acceptance Training (UAT) which was due to take place was an opportunity for the future users of the system to go through a set of tests and see whether the system works. If the system did not work as it should then that issue would be documented and addressed;
- The final sign off of the system would be at the end of June 2015;
- It was acknowledged that there were still risks with payroll, however, the absolute worst case scenario was that the March payroll would need to be re-run, meaning that people would be paid the same amount in April as they were in March. Any corrections would then be made as necessary by Serco;
- Members were assured by the Serco Partnership Director that Serco understood their responsibilities in relation to this contract;
- It was reported that all invoices in the old system would be paid by 31 March;
- Risks in terms of data protection were being well managed during this process;
- Very detailed plans were being developed for the transportation of the physical files. The Information Governance Team was closely involved in this process;
- It was requested that a further update on the Agresso and Mosaic implementation be brought to the March meeting of the Committee.

It was reported that 11 audits had been completed between September and December 2014, and there were 13 in progress. Members were advised that since the last progress report, there were two audits with an opinion of 'Major Improvement Required' which were substance mis-use and Contract management – provision of wheeled loading shovels. It was noted that the audit of contract management within Environment and Economy had resulted in a three way assurance split.

Simon Gladwin from Public Health was in attendance to answer questions from the Committee in relation to the Substance Misuse audit. It was reported that when the audit was carried out Public Health was in a process of transition, and there was a governance process in place to govern the joint partnership group.

In relation to misuse services, it was reported that the Joint Commissioning Group (JCG) had now been disbanded and a new delivery group was being developed and a Strategy Co-ordinator had been employed.

There were issues around the Terms of Reference, and this was the only area not completed. However, they were being reviewed and revised to remove the JCG and replace with the new delivery group.

In relation to the performance targets, there was some very detailed reports and very specific reports being produced, and there was still exception reporting taking place.

In terms of the audit of Contract Management in Environment and Economy, it was reported that an update had been provided from Environmental Services. It was reported that this was a five year contract and was worth £800,000. Management had provided assurance that the actions relating to procurement had been implemented. It was also noted that the usage of the loading shovels was expected to increase from 1 April 2015 with the increased use of the Waste Transfer Stations due to the new countywide recycling contract.

Members were advised that it was right for them to challenge when audits had been cancelled, but were reminded that the Committee did not direct the work of internal audit. However, the Committee needed to be comfortable that there was a reasonable reason why an audit had been deferred or cancelled, so there may be a need for more rationale to be included in the report on these occasions.

RESOLVED

That the outcomes of the Internal Audit work be noted.

41 FUTURE WORKING BETWEEN OVERVIEW AND SCRUTINY AND AUDIT

Consideration was given to a report which provided the Committee with the opportunity to consider the role of Overview and Scrutiny at Lincolnshire County Council and how the Audit Committee and Overview and Scrutiny function might work together in the future. Members were advised that it was felt that there could be some value in working more closely together, but whilst still respecting the boundaries of the committees.

Members were provided with an 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:

- Members were cautious about rushing into anything and it was queried whether there was a possibility of an overlap of the business of Audit and scrutiny;
- The independent added member of the committee commented that they were not sure if there was any overlap, but thought it would be useful to see the Terms of Reference for both the scrutiny committees and the Audit Committee, and it would need to be known whether there was any overlap;
- It was noted that there was a separation between governance and assurance and quality and performance, and it was important that members were able to explore all issues;
- Members of Scrutiny Committees were kept informed of the discussions of the Audit Committee through the visibility of the work programme, the minutes of the meetings and officers;
- There was a need to build an understanding of each others roles and the conversations taking place;

- One issue to be addressed was how could the audit committee get assurance that the scrutiny function was working effectively?
- Suggestions on how assurance arrangements could be improved could be included within the Annual Governance Statement;
- It was not appropriate for Audit Committee to set recommendations for other bodies;
- It was good practice to bring officers to the audit committee when limited assurance was reported;
- It was important to make best use of resources;
- It was important that appropriate information was provided to members when they were making decisions or recommendations;
- There was a need for caution in that the Audit Committee did not become involved in the governance process, for example examining recommendations;
- It was suggested that Democratic Services examine the Terms of Reference for the three committees which were most likely to overlap – the Audit Committee, Overview and Scrutiny Management Committee and Value for Money Scrutiny Committee;
- There was a need for a further discussion regarding the number of scrutiny committees and their roles and whether there was a need for this to change;
- It was important that the informal governance processes worked properly;
- The questions for the Audit Committee were whether the risks were being managed and what boundaries were being worked within, and were the systems and processes supporting the governance framework.

It was suggested that further informal discussions on this issue take place during the Committee's training session which was scheduled for 30 March 2015.

RESOLVED

1. That the role of Overview and Scrutiny at Lincolnshire County Council be noted;
2. That how the Audit Committee and Overview and Scrutiny Function might co-operate further be discussed during the Committee Training scheduled for 30 March 2015.

42 EXTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report from the Council's External Auditors, KPMG, which provided the Committee with an update on the 2014/15 deliverables.

The Members of the Committee were guided through the report, and the following points were highlighted:

- KPMG's detailed audit plan would be presented to the Committee in March 2015, and would highlight the key risks to their audit at the planning stage. A significant area of focus would continue to be the work required to give the audit opinion on the accounts for the Authority and Pension Fund;
- The proposed audit fee remained the same as that notified to the authority in April 2014, which was £143,100 for the Council's audit and £24,350 for the

Pension Fund. The amount of this fee would be confirmed in the Audit Plan presented at the March meeting;

- The Independent Accountant's 'Reasonableness Assurance Report' in relation to the Teachers' Pensions 2013/14 return was issues in December 2014. This work was agreed as a separate audit as the return no longer falls within the Audit Commission's Grant Certification Regime. The fee for this work was £3,000;

Queries were raised regarding the new Pension Boards which were to be set up and it was noted that they would report to the Pensions Committee. It was commented that when carrying out audit work there was a need to have regard for the work of the Pensions Committee.

RESOLVED

That the content of the progress report be noted.

43 WORK PLAN

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

It was agreed that the following be added to the work plan:

- Wider assurance around the organisational learning action plan in relation to the Libraries Review;
- Further assurance regarding the Agresso and Mosaic IT systems;

The meeting closed at 2.30 pm

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Lincolnshire COUNTY COUNCIL Working for a better future

Regulatory and Other Committee

Open Report on behalf of Richard Wills, Executive Director for Environment and Economy

Report to:	**Audit Committee**
Date:	**30 March 2015**
Subject:	**Internal Audit Report - Organisational Learning - Libraries Project - Action Plan**

Summary:

The Committe requested that the Corporate Management Team consider and develop an management response to the findings and suggested improvements arising from the Internal Audit of the Libraries Project.

This report outlines the action to be taken to stregnthen the Council's governance and assurance arrangements.

Recommendation(s):

That the Committee:

1. Accepts the response from Dr Tony Hill on the Library Service actions, and;

2. Receives the Action Plan from the Corporate Management Board

Background

The Internal Audit review of the Libraries project was considered by the Committee at its last meeting – 26th January 2015.

The audit was commissioned following the outcome of the Judicial Review around the lawfulness of the Council's decision making process to reduce the Library Services within Lincolnshire.

Corporate Management Board has considered the report findings and approved a management response and action plan. The attached action plan **(Appendix A)** addresses the key areas of suggested improvement, namely:

- Assessment of option appraisals.
- An enhanced project monitoring process by Corporate Management Board on key or high risk projects / programmes.
- Review of scrutiny in light of the Council Motion in February 2015.

- Providing guidance on the use of legal services throughout a project.
- Development of a Consultation Framework that is appropriate and proportionate – including review of resource availability and demand in light of experience.
- New framework for equality impact assessments approved.
- Legal to provide advice on the Localism Act / Open Public Services.
- Some further consideration needed around the role of councillors in scrutiny committees as well as executive councillors. This may involve development training and constitutional guidance.
- Acknowledgement that risk is at the centre of most judgements. Generally, the Council has been good at identifying the high risk decisions and putting in the resource that's necessary. Emphasis on the importance of the Council not being risk averse.
- Review of committee reporting to be undertaken with additional guidance for those preparing executive reports / briefings to councillors.

With specific reference to the Libraries Service, Dr Tony Hill has provided a response reflecting on the new approach undertaken since the judicial review and assess the extent to which the improvements were implemented. This is attached in **Appendix B**.

Conclusion

The review of the Library Service involved a complex range of political, economic and social objectives – the decision around the future delivery of libraries was sensitive, difficult and multi-faceted – the proposed changes were significant.

The lessons arising out of this project and internal audit report has been fully considered by the Corporate Management Board with action agreed to strengthen the Council's governance, risk and control environment.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Internal Audit Report: Organisational Learning - Libraries Project Action Plan

Appendix B	Dr Tony Hills response on the Library Service Review

Background Papers

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

Document title	Where the document can be viewed
Internal Audit Report - Organisational Learning _ Libraries Project	Audit Committee - January 2015

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

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Internal Audit Report – Action Plan

Organisational learning – Libraries Project

Approved by the Corporate Management Board

Date: **19 March 2015**

Suggested Areas for Improvement

Ref	Suggested Improvement	Management Response and Agreed Action	Person Responsible	Target Date
Option Appraisal				
5.1	Decision makers should be presented with alternatives to any preferred model or intuitive solution and encourage options to be developed. All decision makers, particularly when considering significant and potentially contentious service restructure / redesign matters, should be satisfied that possible alternatives have been fully assessed. This would ensure that the Council: - fulfils its due diligence responsibilities - has substantial evidence in support of its proposals - has a robust response to opposers and / or alternative suggestions - has increased confidence and informed decision making on key issues	The Corporate Management Board agrees and notes that options appraisals are already used in many cases. Options must not just be possible but realistic. With specific reference to the Libraries Service, officers will reflect on the new approach undertaken since the judicial review and assess the extent to which the improvements were implemented.	Tony McGinty	March 2015
		To review the toolkits already available through commissioning and democratic processes in light of the learning.	Judith Hetherington-Smith Nigel West	July 2015
		Democratic Services and Legal Services Lincolnshire to challenge formal reports that do not have options. [*There may be valid reasons for not having options but these should be stated.*]	Nigel West David Coleman	

Suggested Areas for Improvement

5.2	The Council has invested significant resource into developing its commissioning capability. This includes commissioning toolkits which provides sound process and practice guidance for all stages of service redevelopment – the Management Board should ensure that these tools are used.	Agreed. CMB will ensure that these are used by commissioners.	CMB	
Project Resources				
5.3	The Authority should ensure that sufficient project resources are available for robust option appraisal on its corporate priority activities / key projects. Early assessments around project resourcing should ensure that the right people with the right skills, knowledge and experience are assigned to the project from the outset. Ideally, service areas should develop project management skills from amongst their subject specialists. However, if such people are not available, then project management specialists, who can support the service area, should be appointed. Other subject matter specialists such as lawyers may also be required in a project team from the outset.	It will be necessary to deploy corporate resources in an effective and affordable way. Key projects will need to be assessed on the basis of known risk at project initiation stage, such risk assessments to be informed by specialist input such as law and governance. The CMB will enhance its regular monitoring process for key or high risk programmes and projects in order to ensure their effective planning, risk management and delivery. This will be supported by the Council's corporate commissioning and programmes team.	Relevant project directors, supported by CMB Judith Hetherington Smith	

Suggested Areas for Improvement

Project Plans				
5.4	Project plans should allow sufficient time to introduce at least one additional pre-decision report into the Scrutiny process to enable earlier engagement and improved contribution to strategy, policy and decision making.	The Corporate Management Board agrees that more opportunities should be made for scrutiny before decisions are made on major transformations. However, this should not be limited to pre-decision scrutiny related to Executive Meeting papers. The way in which this might be achieved could vary depending on the issue. This requires a change of attitude and culture towards scrutiny. The Corporate Management Board will contribute to the review of Scrutiny resulting from the Council Motion in February, and implement any outcomes.	All directors.	September 2015
		In the short term, Democratic Services and Legal Services will advise, where aware, of ways to pursue effective scrutiny engagement.	Nigel West David Coleman	From now
Consultation				
5.5	Any constraints on the timing of public consultations should trigger a risk assessment and appropriate actions to mitigate the potential impact on decision making.	The Corporate Management Board agrees, but notes that public consultation is not required before most decisions. Where a public consultation is required by		

Suggested Areas for Improvement

		law or is planned as good practice, then any changes to the plan should be subject to a risk assessment.		
5.6	Consideration should be given to the Council's in-house capacity to support public consultations and whether it is desirable or necessary for the Community Engagement Team to co-ordinate, analyse and report on consultation exercises in addition to delivering their advisory role.	CMB notes this recommendation. It is concerned that there may be insufficient capacity to undertake this role within the present budget. Resource availability and demand to be assessed in the light of experience.	Nicole Hilton	
5.7	All projects requiring public and/or staff consultations should communicate provisional dates to the Community Engagement Team at the earliest opportunity – this would allow for suitable planning and resourcing.	CMB agrees, subject to constraints referred to above.	All commissioning managers.	
5.8	At the start of any key project, officers should liaise with Legal Services to determine whether legal advice is required on proposed consultation documentation, in particular the consultation mandate – the extent and need for legal input may depend upon the nature and sensitivity of the consultation subject. The timing of the legal input should then form part of the project plan.	CMB accepts that some projects will require more legal input than others. However, risk must be balanced with affordability and project managers should not be encouraged to abrogate their responsibilities to lawyers by referring decisions that they should be competent to make. Guidelines to be drawn up for early engagement and assessment of the use of legal services throughout a project.	David Coleman	

Suggested Areas for Improvement

		Legal Services to arrange training on the legal parameters of consultation including recent cases .	David Coleman	Before August 2015
5.9	The Council should specify a minimum standard or guidance for consultation evaluation and the process should allow for extensions in particularly complex and contentious matters. All project leads should ensure they specify the format of the consultation outcome report to ensure it meets the needs of officers and decision makers.	CMB notes this and is concerned that the council is not over-burdened. There are many degrees and types of consultation. Many consultations are statutory and some are prescriptive. Any guidance must be appropriate and proportionate . A Consultation Framework will be produced.	Tony Hill	
5.10	Legal advice should be sought on the implications of unexpected issues or events arising from consultation exercises.	The requirement for suitable advice to be included in the Consultation Framework.	David Coleman	
5.11	Where appropriate, consultations should provide the opportunity for consultees to suggest alternative proposals to the option(s) favoured by the Council. Project officers should devise a suitable process and evaluation criteria (prior to the consultation) upon which to assess any submissions – the criteria should, as a minimum, include: cost, quality, risk and strategic fit.	CMB endorses the proposal for appropriate consultations. However, it is for the Council to identify alternatives and in some circumstances identify them for people and say why they have been rejected. It is not appropriate to seek or accept alternatives for some types of consultation. It should be made clear to those being consulted when this is the case. Most consultations already have evaluation criteria in place before responses are received.	Tony Hill	

Suggested Areas for Improvement

5.12	Project officers, if required to evaluate alternative suggestions submitted during consultation exercises, should retain suitable evidence to demonstrate compliance with the pre-defined evaluation criteria.	Agreed when appropriate. However, it is for the Council to identify alternatives and in some circumstances identify them for people and say why they have been rejected.		
5.13	We advise a review of the Council's equality impact assessment forms to ensure it is fit for purpose and includes, for example, appropriate emphasis on people with protected characteristics.	Agreed. CMB approved new framework on 18 March 2015. Assessment to be undertaken.	Jasmine Sodhi	March 2015
Localism				
5.14	We advise that all proposals to reconfigure services are considered in the context of the Localism Act and Open Public Services. Legal Services should assist / review that assessment, seeking specialist advice where necessary.	Accepted. There are general issues of awareness of public law that need to be addressed also. Legal Services will give appropriate advice in each case.	David Coleman.	
Governance and Decision Making				
5.15	The Corporate Management Board should consider how they can effectively equip and support senior managers in understanding their responsibility and application of the Council's informal and formal decision making processes.	Accepted. Consideration will be given to issuing constitutional guidance and training.	Richard Wills	September 2015

Suggested Areas for Improvement

5.16	All complex projects should allow, as far as possible, a phased approach – focusing on consultation, strategy, option appraisal, scrutiny and decision (not necessarily in that order).	This requires further consideration before including in the Consultation Framework and constitutional guidance.	Tony Hill	
5.17	Where project timescales and key activities are affected by matters beyond the control of project teams, councillors and officers should jointly risk assess the impact and agree mitigating actions to avoid adverse effects on project activities and decision making. All project risk assessments should clearly think through the projected risks throughout the project lifecycle.	Accepted in principle, but requires further consideration. Mechanisms need to be established to make members aware just what is a risk judgment and what is not. There may be a perception that things are black and white and amount to mistakes when they are not. The role of councillors in scrutiny committees as well as executive councillors needs to be considered. This may require development training for councillors to better understand the risks that are inherent in some decisions.	Richard Wills	September 2015
		Appropriate recommendations will be included in the Consultation Framework and constitutional guidance.	Richard Wills	July 2015
		Risk is at the centre of most judgments. Generally LCC has been good at identifying the high risk decisions and putting in the resource that's necessary. The organisation cannot afford to be risk averse.		

Suggested Areas for Improvement

5.18	We advise a review of committee reporting with a view to producing guidance or a Council standard on content, length and clarity of recommendations. To maintain a focus on key messages, committee reports and decision papers could be enhanced by managing the length – certain items such as needs assessment, equality impact assessments and detailed consultation analysis could feature as appendices (supporting material) with summaries in the main committee report. The review should also assess the quality of the policy impact assessments of these reports.	Accepted. Too many reports betray a lack of understanding of the intellectual rigour a court will expect if a JR challenge emerges. To be considered as part of the review of scrutiny arrangements with additional guidance for those preparing executive reports.	David Coleman Richard Wills	 September 2015
5.19	Key briefings with members should be clear and concise – members should also be presented with the briefing papers to avoid potential misunderstandings.	Accepted. To be considered as part of the review of scrutiny arrangements with additional guidance for those preparing executive reports.	Richard Wills	September 2015

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Management Response to the Interal Audit Report –
Libraries Judicial Review
January 2015

In reflecting on the management response to the audit report, I would wish to outline the process followed between the Judicial Review and the decision made by Executive on 3 February 2015. Whilst this process did not have benefit of the report, I would reflect that many of its recommendations were implemented. Particular examples I would outline are:-

1. The need to approach the problem with openness as to the possible solutions or options.

   This was addressed through specifically seeking alternatives by contact with a range of stakeholders with views to offer as under:-

   - Customers and staff of the service;
   - Executive and Opposition Councillors;
   - Campaigners and opponents to change;
   - Other providers of library services and other library authorities.

2. The proper engagement of a wide range of expertise in considering options and approaches was established through a multi-disciplinary steering group.

   This group conceptualised, designed and approved all steps of the project, including supporting analysis of the input from the stakeholders described above.

3. Establishing proper tools and frameworks to test options against.

   A range of tools and frameworks were developed and applied at various stages of the option appraisal work. These included:-

   - Thematic frameworks through which to analyse public views;
   - A core objective framework to shortlist more detailed proposals;
   - The regulatory framework provided to consider potential Right to Challenge expressions of interest.

4. Developing a clear overall framework for appraisal of final options.

   In this case the domains set were:-

   - compliance with the Council's legal responsibilities;
   - the certainty of affordability of the options; and
   - the sustainability of the options in the prevailing conditions.

The two main proposals were evaluated against these domains. Where the appraisal of options presented no obvious conclusion, officers' expert judgement was applied. Where this was the case, this was fully described when the work was presented to decision makers.

It is worth reflecting that some of the steps of the kind of best practice process recommended by the report were not delivered in the work described. For example, the step of engaging decision makers and others at long listing stage was not carried out. This was because a preferred option to use as a reference model for option appraisal had already been selected.

Dr. Tony Hill,
Executive Director of Public Health & Wellbeing

20th February 2015

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**30 March 2015**
Subject:	**Draft Internal Audit Plan 2015/16**

Summary:

This report presents to the Committee the draft internal audit plan for 2015/16.

Recommendation(s):

That the Committee agrees the audit plan for 2015/16.

Background

1. The Internal Audit Section works to an annual plan of work which is agreed by the Audit Committee and Senior Management.

2. The plan has been developed using the Council's Combined Assurance Model which is a record of all assurances against our critical activities and key risks.

3. Using the Combined Assurance Model helps streamline and avoid duplication of effort where assurances can be drawn from other sources eg management – corporate functions - third parties. It provides coverage of all assurance – not just those from Internal Audit and will enable the Head of Audit to produce the annual internal audit opinion for 2016.

4. Internal Audit continues to have the right to conduct its own assurance activity freely and independently in order to meet its role and remit – even if there appears to be a good level management or alternative assurance in place. However, the Map has enabled the reasons why we have included areas in our plan to be clearly understood by Management.

5. Our work tends to focus on where current assurances have been critically assessed as having a low or medium level of confidence on service delivery arrangements – management of risks – effective control environment or where more independent assurance is required - based on significance and risk of the activity. It also takes into account the relative risks of the activity which may result in some low risk areas not being audited.

6. Attached is the draft internal audit plan for 2015/16 – **Appendix A**.

7. We have scheduled meetings in March & April 2015 with each Executive Director to consult and agree the areas included in the plan. Any suggested changes during this consultation will be reported to the Committee.

8. CIPFA's Audit Committees practical Guidance for Local Authorities and Police - 2013 Edition includes the following core functions around Internal Audit relevant to the plan:

   - That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.

   - Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.

   - Ensure that the Internal Audit Resource has sufficient capacity and capability to deliver the plan.

   - Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.

   - Assess how the Committee may seek and obtain assurance from other sources during the year – eg management and corporate functions / third parties.

Conclusion

9. The Committee is asked to agree the draft plan, identifying any amendment that is considers appropriate.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Internal Audit Plan 2015/16

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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Lincolnshire County Council

Internal Audit Plan 2015/16

Audit LINCOLNSHIRE

Public Sector Auditing…. Private sector Thinking

Draft v2
13/01/15

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CONTENTS

Introduction

1. This report summarises the proposed work of Internal Audit for 2015/16. The aim is to give a high level overview of areas we are likely to cover during the year – giving you an opportunity to comment on the proposals.

2. The audit plan has been developed to enable us to respond to changes during the year. Whist every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent – our liaison meetings with senior management will enable us to firm up audit activity during the year

3. Internal Audit is a statutory service required under the Account and Audit regulations 2011. We provide independent assurance designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes.

4. Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities - seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council, which has been established to:
   - Achieve strategic objectives
   - Ensure effective and efficient operational systems and programmes
   - Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
   - Ensure the reliability and integrity of financial and operational information
   - Ensure economic, efficient and effective use of council resources
   - Ensure compliance with established policies, procedures, laws, regulations and contracts

Our Internal Audit Strategy

5. Our Internal Audit strategy has been developed to take into account management's assessment of risk (including those set out in strategic and operational risk registers) and the assurances present on the Council's critical systems and key projects (the Council's assurance map).

6. We also use our own risk assessment against each activity assessing their significance, sensitivity and materiality – ranking the activity as high, medium or low risk. This allows us to prioritise possible areas to be included in the plan on the basis of risk. A copy of our risk assessment methodology is attached in Appendix A.

7. Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.

8. We intend to leverage assurance from these other sources to enable the Head of Internal Audit to provide their Annual Audit Opinion on the Council’s governance, risk and control framework for 2016.

9. We have identified the level of assurances in place by using the 'Three lines of defence (assurance)' model – see Figure 1.

10. The combined assurance map shows us where we can co-ordinate our assurance work across the whole Council, not just those from Internal Audit. Figure 2 below shows the current assurance levels for each Executive Director.

Figure 1: The three lines of defence (assurance) model

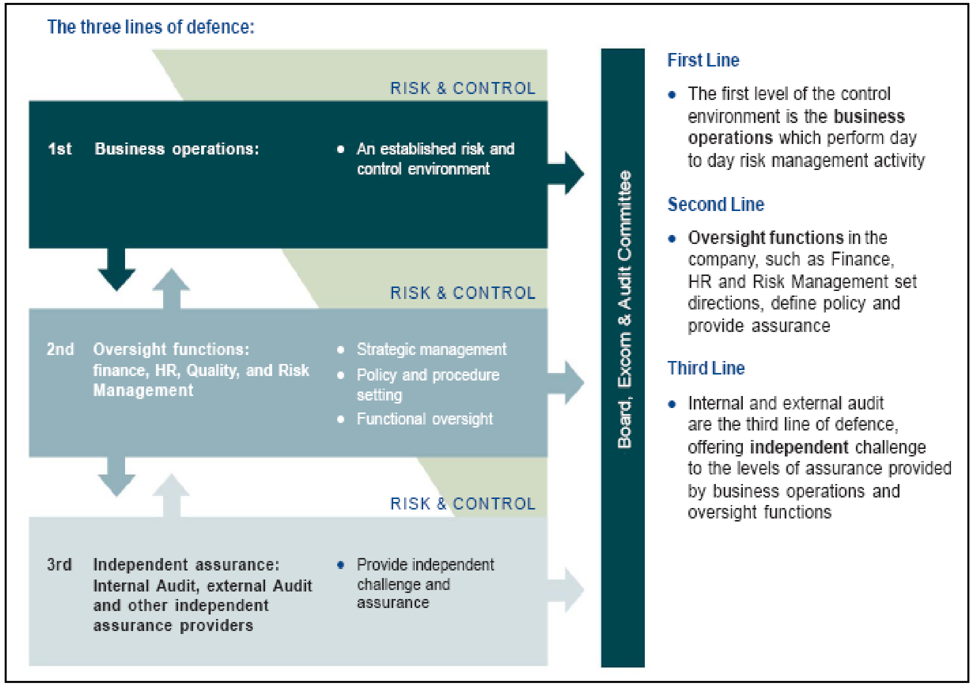
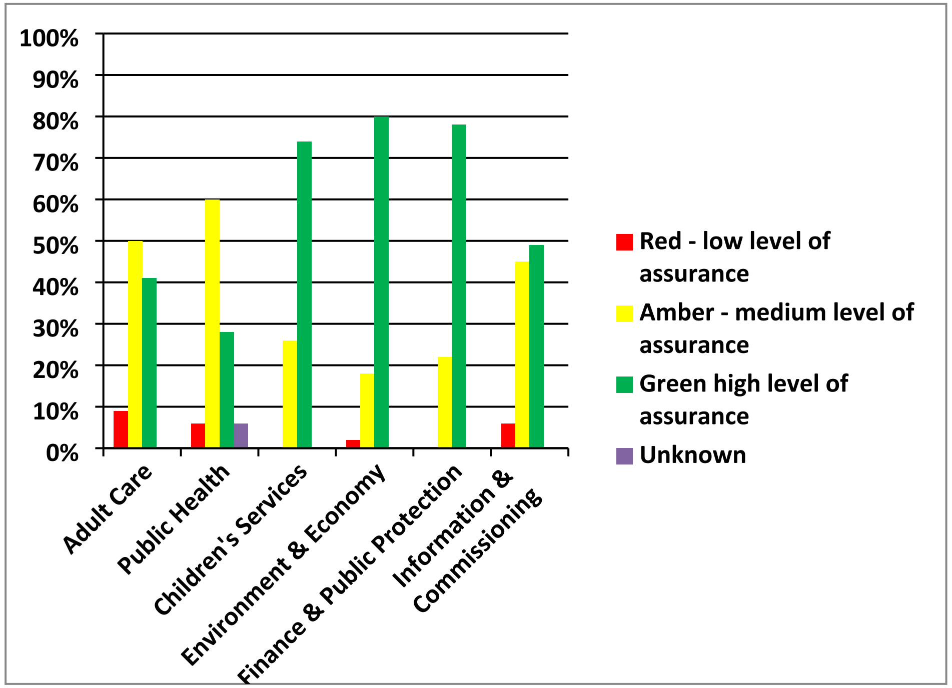


Figure 2: Overall Assurance Levels 2015



11. Although we undertake a risk assessment each year to develop our risk based audit plan – there are a number of key processes that are fundamental to the running of the Council which we review on a cyclical basis – usually once every 3 years. These systems are shown in Appendix B.

12. Analysing the assurance map may identify a number of specific critical and low risk activities - which we do not have the resources to review. The Audit Committee can specifically request management to provide assurance on these areas. Once the assurance map has been agreed we will provide a further report to Audit and Accounts Committee with more details.

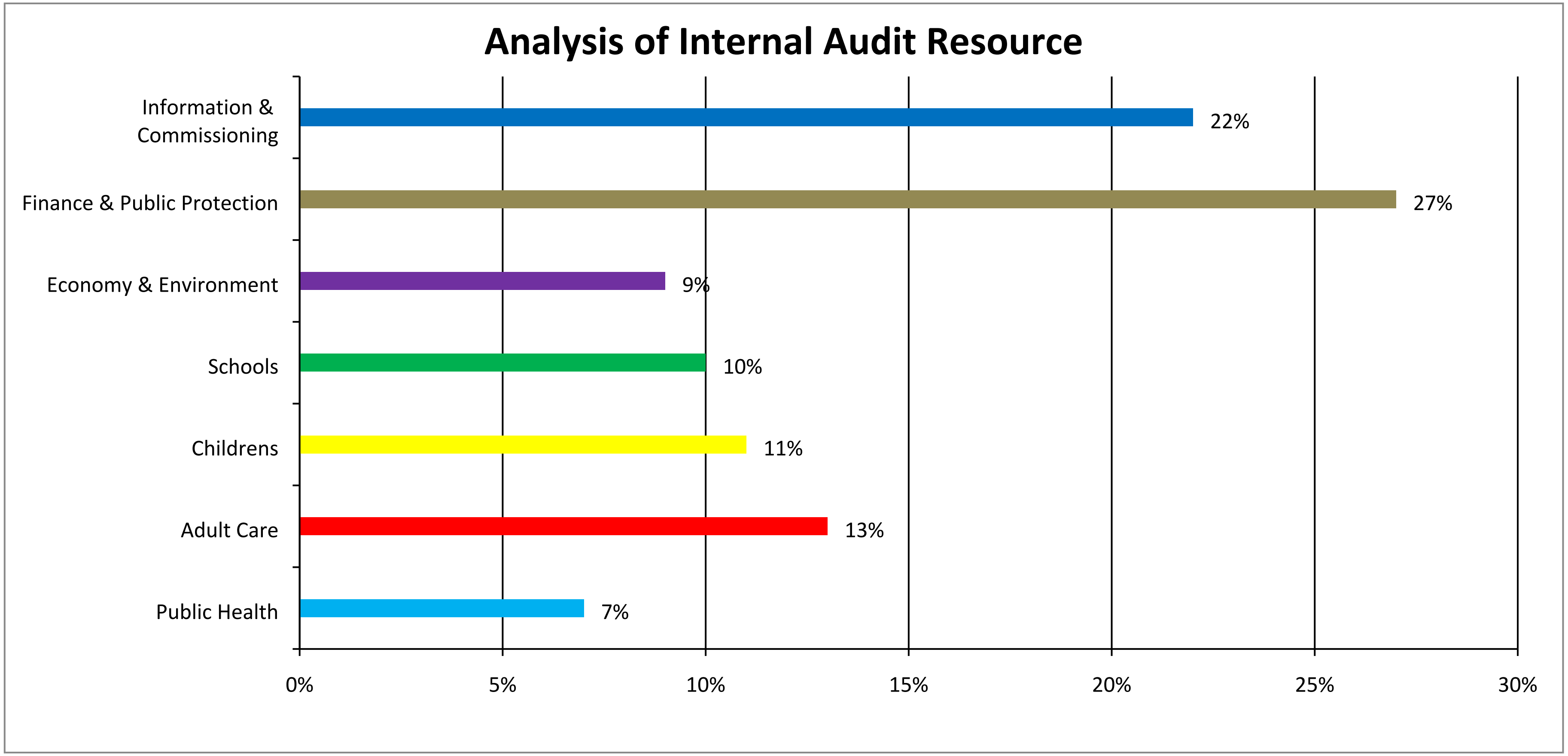
13. We co-ordinate our work on key financial systems with the Council's External Auditors, KPMG. We work to a joint working protocol which sets out where the External Auditor seeks to place reliance on our work. This ensures that the Council gets the most out of its combined audit resource – keeping audit fees low.

Draft Internal Audit Plan 2015/16

14. We propose to allocate our audit resources across each Executive Director area as shown in Figure 3 with the proposed audits detailed in Appendix C. The audit plan identifies some specific areas that will be delivered but also shows potential areas which will be considered and agreed with management during the year. This will enable the audit team to respond to any new emerging risks that arise during the year where management require independent assurance.

15. The Council's Internal Audit Plan is 1230 days – a reduction of 9% compared to last year.

Figure 3 – Analysis of Internal Audit Resource (showing % split)



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Our Performance & Quality Assurance Framework

16. Audit Lincolnshire operates in conformance with standards of best practice applicable to Internal Audit - in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Our audit team offer a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework (Appendix D) and our training and development programme.

17. Our Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication.

18. Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was

19. approved by the Audit Committee. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that allows them to make impartial and effective professional judgements and recommendations.

20. We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.

21. Our performance measures are set out below in Figure 4 for information:

Figure 4 – Our performance measures

Performance Indicator	Target
Percentage of plan completed.	100% (revised plan)
Percentage of key financial systems completed.	100%
Percentage of recommendations agreed.*	100%
Percentage of recommendations implemented.*	100%
Timescales	▪ Draft report issued within 10 working days of completing audit. ▪ Final report issued within 5 working days of closure meeting / receipt of management responses. ▪ Period taken to complete audit – 80% completed within 2 months from fieldwork commencing to the issue of the draft report.
Client Feedback on Audit (average)	Good to excellent

* Achievement of the performance measures on recommendations agreed and implemented are not within our control. These are reported so the Audit Committee can see what actions management have taken. The details of any recommendations not agreed will be included in the executive summary and report to Committee.

Audit Lincolnshire Partnership – Resources

22. The County Council works in partnership with the City of Lincoln for the provision of internal audit services to their own authorities and authorities with whom they have contractual or other agreements.

23. By working together the partnership aims to be:

‘the best audit assurance provider for Lincolnshire public sector agencies’.

24. The partners deliver 6 of the 8 Lincolnshire local authority internal audit functions - plus Newark and Sherwood District Council. We have developed excellent relationships, demonstrating the relevant skills and expertise to deliver a comprehensive audit service to our clients. By working together we improve the overall quality of the service provided through:

- Sharing of knowledge and experience
- Adoption of leading audit techniques and methods
- Pooling resources across the organisations to make savings, improve efficiency and offer greater value for money to our clients through streamlining our audit plans to audit / research specific areas of common interest.

25. The County Council has five significant external clients:

- North Kesteven District Council
- South Holland District Council
- West Lindsey District Council
- Newark and Sherwood District Council
- Lincolnshire Academies

The net income generated from this arrangement is £119,435. Our budget also includes income of £10,200 for fraud recoveries – we usually exceed this target. **Figure 5** below shows how our resources are distributed across our clients

26. The delivery model for the Internal Audit Service is mixed – a combination of in-house staff and external resources. This enables the service to be responsive to changing demand and buy in specialist resources as required eg ICT Audit.

27. There are sufficient resources to support the Section 151 Officer. This helps ensure the Council meets the requirements of the Accounts and Audit Regulations for maintaining an adequate and effective internal audit function and governance, risk and internal control environment.

28. The net budget for the Internal Audit Service, including Counter Fraud for 2015/16 is £551,574 - a reduction of £87,726 (14%).

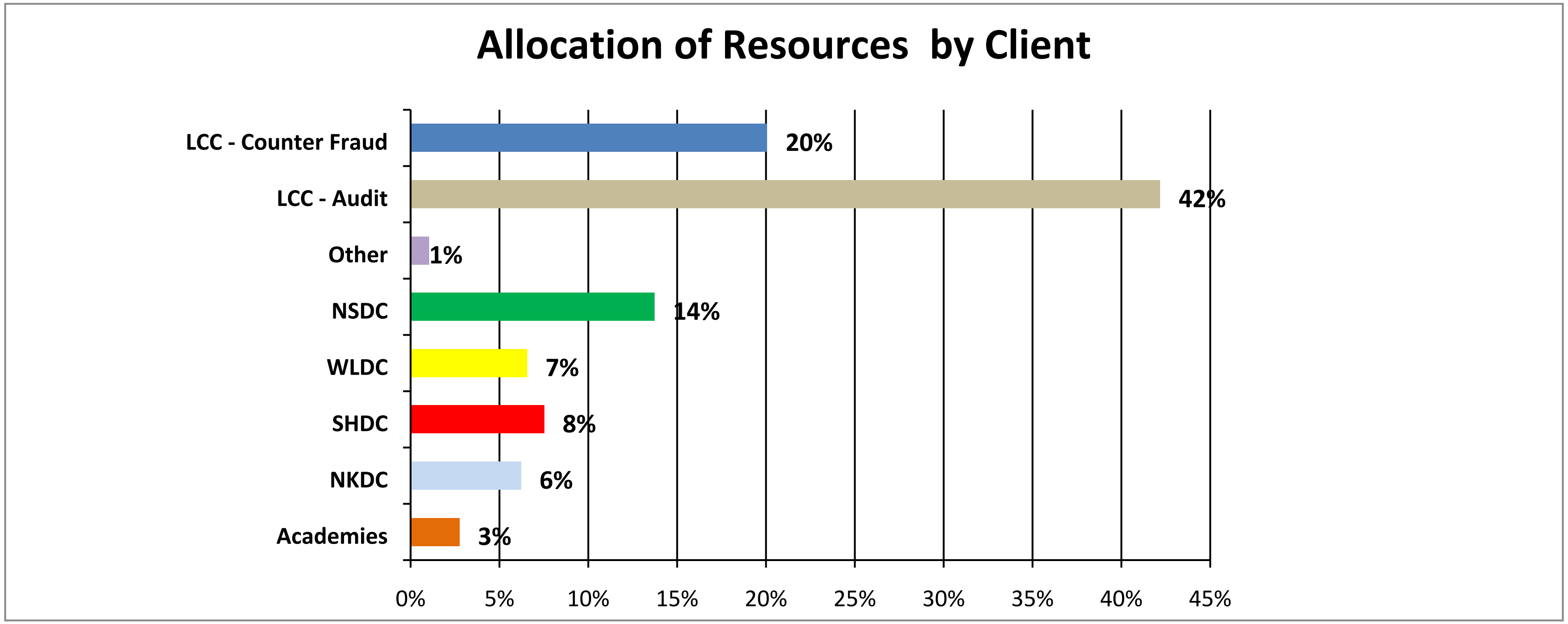
29. The service will be reviewed during 2015. This review will seek to maximise the use of audit resources – balancing the provision of an effective internal audit service with what the Council can afford.

30. This review will inevitably have some impact on the delivery of the plan during the year due to organisational change.

31. The service also generates income of £48,000 through providing an Academies Insurance product and risk management services.

32. The above initiatives minimise the overall cost of the Audit and Risk Service to the Council with any underspends and fraud recoveries being made available to other Council priorities / services.

Figure 5 – Resource Allocation across our Client Base



Appendix A – Audit Lincolnshire – Planning Risk Assessment Methodology

Value / Volume
This assessment is based on either the cost to the council, the volume of transactions that the activity is handling or a combination of the two
0 – Not material
1 – Minor importance (up to £100k[1] budget and approx. weekly transactions)
2 – Important (up to £1m[2] budget and up to daily transactions)
3 – Material (over £1m budget and multiple transactions daily)

Audit rating
0 – recent review no significant findings (full / substantial)
1 – Recent review with findings (limited)
2 – Not recently reviewed (3 years)
3 – Recent review – number of significant findings (No assurance)

Sensitivity / Profile (Risk)
This assessment is about the impact if things went wrong, how much interest would there be and how much would this impact on reputation
0 – low (internal system)
1 – Medium profile
2 – High profile

Significance
This assessment reflects how important the activity is to the authority and its residents
0 – not significant
1 – Minor significance
2 – Significant
3 – Very significant

Changes to people / systems
0 – no changes
1 – Minor changes
2 – Significant changes
3 – New system or team

Other assurance
Other assurances we have identified during the mapping process and how much reliance we can place on these.
0 – high level of assurance – e.g. Snr mgmt. oversight / management reporting / activities / external review / scrutiny
1 – Moderate level of assurance – management assurance
2 – Low level of assurance – new area – assurance unknown – emerging risk

Risk score		Risk score		Risk score	
1	Low	7	Med	12	High
2		8		13	
3		9		14	
4		10		15	
5		11			
6					

[1] £500k for County
[2] £5m for County

Appendix B – Cyclical Due Diligence Plan

System	Opinion	Last audited	System Changes	Year 1 2014/15	Year 2 2015/16	Year 3 2016/17
Due Diligence						
Payroll	Substantial	2012/13	Yes – in 2015/16		✓	
Creditors	Limited - LCC Substantial - Mouchel	2013/14	Yes – in 2015/16		✓	
Procurement Card	Limited	2013/14	No			✓
Income	Full – centrally controlled Limited – Business Support	2013/14	Yes – in 2015/16		✓	
Debtors	Limited	2013/14	Yes – in 2015/16			✓
General Ledger	See Key Control Testing		Yes – in 2015/16			✓
Bank Reconciliation	Full	2012/13	Yes – in 2015/16		✓	
Treasury Management	Full	2012/13	Yes – in 2015/16		✓	✓
VAT	Full	2006/07	?			

System	Opinion	Last audited	System Changes	Year 1 2014/15	Year 2 2015/16	Year 3 2016/17
Pensions Admin	Substantial	2013/14	Yes – in 2015/16			✓
Pensions Fund	Full	2013/14	Yes – in 2015/16			✓
Budget Preparation /Management	Some improvement needed	2014/15	Yes – in 2015/16	✓		
Capital Programme	Full	2012/13	?		✓ ?	
Tax Compliance	Limited	2013/14				✓
KEY CONTROL TESTING						
Payroll Starters Leavers Changes Time claims Travel Claims Signals Reports Exception Reports Payroll Runs/BACS Returned Claims	Substantial	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
Debtors Write offs Amendment & Cancellations Customer Masterdata	Substantial	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓

System	Opinion	Last audited	System Changes	Year 1 2014/15	Year 2 2015/16	Year 3 2016/17
Creditors Payment Runs Exception Reports Vendor Masterdata	Full	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
Pensions Admin	Full	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
Pensions Fund	Full	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
General Ledger	Full	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
Bank Reconciliations/Cash	Full	Throughout 2014/15	Yes – in 2015/16	✓	✓	✓
Property, Plant and Equipment Reconciliations Additions Disposals Revaluations	Full	2014/15	Yes – in 2015/16	✓	✓	✓

Financial Due Diligence audits are conducted on a 3 year cycle, Other Due Diligence are conducted of a 5 year cycle

Area	Indicative Scope
Critical Service Areas Those areas identified by senior management as having the most impact on successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss, impact on people (risks)	
Executive Director – Pete Moore	
Emergency Planning and Business Continuity	Review the Council's arrangements and resilience to respond and recover to a major event / incident.
Review of Coroner's Officers	To provide assurance in the following areas: ▪ the structure is fit for purpose ▪ demand and case management ▪ IT use ▪ agile working ▪ leadership, governance and cultural ▪ local working practice
Executive Director – Richard Wills	
Joint waste management strategy	Review to provide assurance on arrangements and progress for the district waste strategy. To include assessment of financial benefits and district engagement.
Adult Learning	Review of the financial arrangement in to confirm adequate financial control and sustainability

Joint Policy working / Joint Local Plan	Review of joint policy working arrangements to ensure that LCC is clear of its role and responsibilities and is an active partner in managing the risks (link to JPU and Wind farm policies). Provide assurance on the revised delivery arrangements for the central Lincolnshire joint local plan and provide support and advice at key stages through gateway review.
Director of Children Services – Debbie Barnes	
Families Working Together	To provide audit support as per the requirements of the grant
People Management	Review the effectiveness, quality and compliance of the People Strategy launched in 2012 and the strands underpinning delivery of the Council's people management arrangements. Areas not previously reviewed in 2013/14: ▪ Resource & Talent Management ▪ Capability and Disciplinary ▪ Managing Employee Performance & Development
Schools	Periodic audits of maintained schools.
Director of Adult Services – Glen Garrod	
Transformation Programme	Review, advice and guidance around the transformation programmes within Social Care, including the Case Management System and Lincolnshire Health and Adult Care - considering the design and application of the governance structure. To provide proactive advice and support on governance, managing key risks and effective internal control.
Lincolnshire Quality Assurance Framework (safeguarding)	Co-ordinate a self-assessment using the framework to provide positive assurance to the Lincolnshire Adult Safeguarding Board
Workforce Development	A review of training planning and delivery arrangements.

Director of Public Health – Tony Hill	
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes. (Co-ordinate audit with Director of Adult Services & Director of Children Services)
Chief Information and Commissioning Officer – Judith Hetherington-Smith	
EU procurement changes	Review of the procurement regulations to ensure that the necessary changes have been implemented.
ICT Infrastructure and service delivery	Work is underway to finalise ICT assurance map and status report – this will inform the choice of audits in this section of the plan. Scheduling of individual ICT audits will be agreed when the assurance map is finalised.
Due Diligence - Those systems that support the running of the Council and ensure compliance with key policies	
Human Resources – SERCO	To provide assurance that the approach to managing the contract and transfer of staff is adequate to ensure continued support for the business
Key Control Testing	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.
Bank Reconciliation	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements. How often Internal Audit review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management. We also consider the requirements of External Audit.
General Ledger	
Payroll	
Income	
Creditors	
Budget Management – Agresso reporting	
Treasury Management	
People Management	
ICT audit	
ICT plays a vital role in supporting the Council's business and customer interface. Possible areas identified on the assurance map include: ▪ ICT strategy ▪ Disaster recovery & resilience	

- Key Application Audit – Agresso and Case Management System (MOSIAC)

Emerging Issues and Key Risks

To enable Internal Audit to respond to changes during the year we will meet regularly with Senior Management to agree which areas to focus our audit assurance work.

The following areas have been identified through our risk assessment and on the assurance map as possible areas to focus audit activity:

Executive Director – Pete Moore

- Youth Offending
- Trading Standards

Executive Director – Richard Wills

- Flood Management
- Lincolnshire Supported Bus Service
- Capital Projects
- Highways Maintenance – Revenue Contract

Director of Children Services – Debbie Barnes

- Exclusions
- Special Educational Needs and Disabilities Reform
- 14-19 Strategy
- Closing the Gap
- Social care and SEND transport

Director of Adult Services – Glen Garrod

- Mental Health Services
- Carers

Director of Public Health – Tony Hill

- Customer Service Centre
- Health Improvement, prevention and self-management

- Integrated & Equipment Service

Chief Information and Commissioning Officer – Judith Hetherington-Smith

- Procurement Cards
- Procurement Lincolnshire - Governance

Other relevant Areas	
Combined Assurance	Updating assurances on the Council's assurance map with senior managers and helping to co-ordinating the annual status report.
Follow up of Recommendations	Audit Reports issued during 2014/15 where an audit opinion of 'major improvement' or 'inadequate' will be followed to establish progress in implementing agreed management actions.
Non-Audit	
Advice & Liaison	
Annual Report	
Annual Governance Statement	
Audit Committee	
Total Planned Days 1230	

Appendix D – Quality Assurance Programme

Quality outcomes / process designed to deliver a consistently high quality audit service to our clients - fit for purpose / meet client expectations / conform to PSIAS

Quality improvement plan - HIA reporting to Audit Committee on the outcome of Quality Assurance – with improvement action plan and any significant non-conformance included in the Annual Report / Annual Governance Statement

Ongoing monitoring – quality built into the audit process

Quality checks and oversight are undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working well.

Annual self- assessment

- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment – co-ordinated with Audit Committee (planned for 2015)

Periodic quality assurance assessments

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with quarterly highlight reports on outcome of reviews

- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services

- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review. The extent of supervision needed will depend on the proficiency and experience of the internal auditors and the complexity of the engagement.

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**30 March 2015**
Subject:	**Counter Fraud and Investigations Work Plan 2015/16**

Summary:

The Council's counter fraud arrangements demonstrate its continued commitment to strong governance and best use of resources. Our response to Central Government's expectations for tackling fraud and corruption is reflected in the draft 2015/16 Counter Fraud Plan. It is important we maintain our counter fraud response and resilience as the changes to Council service delivery continue to evolve.

Recommendation(s):

To review and approve the Counter Fraud Work Plan for 2015/16.

Background

1 In response to central government's expectations for tackling fraud and corruption, we aim to continue to focus on our prevention, detection and investigation work.

2 During 2014 CIPFA has issued a Counter Fraud Code of Practice which sets out the good practice on managing the risk of fraud and corruption. The key principles of the code covers:

- Acknowledging responsibility
- Identify risks
- Develop a strategy
- Provide resources
- Take action

3 During the year we will review the Council's Counter Fraud policy and arrangements to ensure that we comply with the code of practice.

4 Our whistleblowing and counter fraud awareness activity will continue throughout 2015/16 and we plan for more engagement with managers, members and staff.

5 We will continue to use our data analytics expertise to enhance our analysis and fraud & error testing across key financial systems, as well as carrying out discrete pieces of work in areas carrying a higher fraud risk. We will update the Council's fraud risk assessment.

6 Our pro-active work will also cover analysing and investigating the results of the National Fraud Initiative and we will review the Council's exposure to any areas of emerging fraud risk that may be highlighted nationally.

7 Action plans resulting from our proactive and investigation work will focus on recovery action (where loss through fraud & error is identified) and recommendations to improve systems, process or policy to prevent reoccurrence.

8 The conflict between our planned proactive work and the investigation demand will remain – we do our best to balance this within our Work Plan and manage it throughout the year.

9 The Council is the Accountable Body for the Lincolnshire Counter Fraud Partnership. We were allocated £200,000 from central government to assist and improve how Lincolnshire local authorities work together to tackle high risk areas of corporate fraud. The last few months has focussed on setting up the project management arrangements and recruiting resources to support delivery of the work plan. Most of the planned work is scheduled for 2015/16 - with progress and delivery being monitored by the Chief Finance Officer Group.

Conclusion

10. Resilience to fraud is essential when public funds are under so much pressure.

11. The Council's Counter Fraud Work Plan for 2015/16 provides a robust response to Central Government's expectations for tackling fraud and corruption. This demonstrates the Council's continued commitment to ensuring good governance during a period of significant change to service delivery.

12. The Audit Committee plays a key role in monitoring the effectiveness of Council policies on confidential reporting code, anti-fraud and anti-corruption policy and the Council's compalints process. In considering the proposed Counter Fraud work plan the Committee should be able to:

- Gain assurance that the Council has effective arrangements in place to fight fraud locally

- Confirm that counter fraud resources are targeted to the Council's key fraud risks.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Counter Fraud Work Plan 2015/16

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 Stephanie Kent, who can be contacted on 01522 553692 or Lucy.pledge@lincolnshire.gov.uk.

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Draft Plan 2015/16 – Counter Fraud

Area	*Planned Activities*
Counter Fraud	
Governance	
• Review Counter Fraud Policy and Procedures	• Implement the Counter Fraud Code – updating our arrangements as necessary • Publish counter fraud activity and results as required by the transparency code
Culture	
• Engagement and training • Website maintenance • Awareness	• Identify risks associated with fraud & corruption with key service areas and update counter fraud risk assessment • Briefing sessions – training for members, management and staff in general and specific fraud areas • Updates, risks, results and information (various publications and channels) • Develop e-learning platform and link to Audit Lincolnshire microsite • Newsletter to raise fraud awareness • Update session for Audit Committee
Deterrence	
Promotion of Counter Fraud Activity	• Counter Fraud Team • Investigation outcomes and learning points • Fraud prevention measures
Prevention	
• Organisational Learning • Data Analysis	• Reports and action plans • Data analysis in counter fraud – pro active exercises. Possible high risk areas include:

• Advice	○ Contracts ○ Schools ○ Grants and funds ○ Vulnerable adults funds ○ Direct payments ○ Financial Assessments ○ Petty cash
Lincolnshire Counter Fraud Partnership	• Develop and deliver county wide counter fraud initiatives: ○ Raising awareness ○ Proactive counter fraud exercises ○ Monitoring progress and delivery through the Chief Finance Officer Group
Detection	
• Lincolnshire Fraud Forum • Update fraud risk profile • Pro-active counter fraud exercises • National Fraud Initiative 2014/15 • Midlands Fraud Group	• Co-ordination of joint group devised from DCLG Funding – oversight and development of counter fraud work • Analysis of NFI matches • Co-ordination/host of Midlands Fraud Group
Investigation	
Whistleblowing and Fraud Investigations	Investigations arising from Whistleblowing reports or frauds identified
Sanctions and Redress	
Pursue civil, disciplinary and criminal sanctions where required	Action identified and taken resulting from the investigation process
Total Days – 585 days	

- I have assumed the same total days as 2014/15 plan
- I have assumed the same Counter Fraud heading areas (in line with Counter Fraud Policy)
- I have included contingency at 10%

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**30 March 2015**
Subject:	**Internal Audit Progress Report to 18 March 2015**

Summary:

This report provides an update on progress made against the Audit Plan 2014/15 and provides summaries of all audits completed within the period 1 January to 18 March 2015.

Recommendation(s):

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

Background

This report provides summaries of all audit reports completed within the period 1 January to 30 March 2015. It also provides an update on the progress made against the current years Audit Plan 2014/15. Further detail 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 Effective or Some Improvement Required
- Performance Information
- Full report on audits rated as Inadequate or Major Improvement Required
- Other matters of interest

Conclusion

This progress report outlines the key findings from each audit and offers more information on those areas which received an audit rating of inadequate or major improvement required.

We are pleased to report good progress in this last quarter – during the period 1 January to 18 March 2015 we have completed 16 County audits, 6 to final report and 10 to draft report stage, almost all of the key financial control testing and a further 4 school audits. We have also completed some independent investigations on behalf of the Council. Overall we have completed 93% of the 2014/15 audit plan.

We still have two auditors advising / supporting the Agresso implementation project – this continues to be a significant part of our work and the Chief Information and Commissioning Officer will be providing an update on this and the Mosaic project, under a separate agenda item.

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

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

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

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

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

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

Background Papers

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

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

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Public Sector Auditing.... Private Sector Thinking

Internal Audit Progress Report

Date: March 2015

Contents

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Introduction

1. The purpose of this report is to:

   - Provide details of the audit work during the period 1 January to 18 March 2015
   - Advise of progress being made with the Audit Plan 2014/15
   - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. During the period 1 January 2015 to 18 March 2015 we have completed 16 County audits, 6 to final report and 10 to draft report stage, a further 4 schools audits and the majority of our key financial control testing. We have also completed additional work in the following areas:

   - Fire & Rescue Control Centre Projects (draft report stage)
   - Families Working Together Grant – 2014/15 Quarter 4 claim sign off
   - 3 Independent Investigations

   Overall we have completed 93% of the plan.

3. We still have two auditors advising / supporting the Agresso implementation project – attending operational project and Board meetings, completing independent testing and identifying and reporting on key risk issues. Highlight reports have been presented periodically to the S151 Officer and Project Board.

   In order to present the Committee with the most accurate and up to date position on this priority project a separate paper will be tabled, accompanied by a verbal update – the Chief Information and Commissioning Officer (Project Director) and Serco representative will be in attendance. This will be covered as a separate agenda item.

4. There are 11 audits in progress in addition to the final key financial control testing. We have also completed 35 Academy visits to date in accordance with their agreements.

5. A number of alterations have been made to the 2014/15 Audit Plan, since December 2014, in agreement with directors, managers and in response to changing priorities:

   ICT Audits

   We had planned to undertake reviews of:

   - Infrastructure security & resilience
   - ICT Strategy

- PSN Compliance
- Data sharing – LCC & NHS
- Project management
- Access controls

The Chief Technology Officer requested that these audits be postponed for commencement in July 2015. We understand the section does not currently have the capacity to assist with the completion of the audits due to the fact that they are managing two ICT Service Providers across a 1st April transfer date, and will have significant remedial work through to the end of May. In addition, they are preparing for a pending audit by the Information Commissioner's Office – these audits will form part of the 2015/16 audit plan.

Adult Learning

The auditor originally allocated this work (a contract auditor taken on to cover a vacant post) was required at short notice to undertake the requested audit of the Fire & Rescue Control Centre (see 'Other Work' below). We were unable at this late stage in the year to cover for this change in priorities.

Emergency Planning and Business Continuity

This audit has been moved to the 2015/16 audit plan.

EU Procurement Changes

This has been deferred to 2015/16 on management request – this was due to capacity issues within the service area – focus is on delivery of ongoing projects e.g. Agresso.

Application of the Council's Sickness Management Policy

As above, this has been deferred to the 2015/16 audit plan at the request of the Director. There is currently no staff availability to support the audit due to the focus on FDSS / Agresso projects.

Review of Coroner's Officers

Following on from our review of Coroners, management requested an audit of the Coroner's Officers. We are currently awaiting the outcome of a peer review in this area – this will help us finalise our scope and avoid any duplication. This audit will now transfer to the 2015/16 audit plan.

Internal Audit work completed in the period 1 January 2015 to 18 March 2015

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

Effective	Some Improvement Required	Major Improvement Required	Inadequate
▪ Non-Attendance at School	▪ Contract Management – Learning Disabilities and Mental Health ▪ Health Protection ▪ Lincolnshire Community Assistance Scheme	▪ Corporate Landlord Project ▪ Information Governance	▪

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

7. Since our last progress report we are reporting 2audits with an opinion of 'Major Improvement Required' – more detail can be found at Appendix 2:

   - Corporate landlord – *County Property Officer to attend meeting*
   - Information Governance Breaches – *Chief Information and Commissioning Officer is to present a paper to the next Audit Committee*

8. Below is a summary of the areas where we gave the audit opinion of 'Some Improvement Required' or 'Effective':

Non-Attendance at School – Effective

We confirmed that the Inclusion and Attendance, Education Welfare Services Teams and Parenting Support Services are taking a proactive approach to the implementation of the Attendance Strategy 'Every Day Matters' and are striving to work closely with schools, parents and children to encourage good school attendance and the benefits it will bring.

Although attendance rates in Lincolnshire are in line with the national average, the Attendance Strategy is designed to better the national averages or at least maintain the current position with regards to persistent absence.

As such the Authority has applied a more consistent application of the rules to help in tackling persistent absence and encouraged Headteachers to adopt a less lenient approach to authorising family holidays in term time. Parents are now required to prove exceptional circumstances for the additional holiday time as opposed to it being an entitlement. We confirmed this has brought authorised and unauthorised absence into line with national averages between 2012 and 2014.

Contract Management Learning Disabilities and Mental Health – Some Improvement Required

A previous review of Mental Health contracts resulted in a Substantial Assurance – this good practice has continued. Revised processes and structure in respect of Learning Disability contracts have provided a focused approach to contract management in this area; this has been evidenced though the review of contract management files and management reporting.

Whereas previously contract visits were done on a strategic relationship basis, the appointment of 2 Contract Officers in January 2014 has enabled a rolling programme of on-site visits to providers at service level. Providers have been visited in priority of risk, all High risk and the majority of Medium Risk contracts have now been visited. Strong links and working relationships have been made with officers of the CQC (Care Quality Commission) and other third parties; where services have not yet been visited – though shared knowledge, any significant concerns regarding service provision are brought to the attention of the Contract Management team.

Our review found the team demonstrated a good knowledge of each contract and service provider; good working relationships have been formed with a clear aim to work with the providers to address any issues raised.

Effective reporting arrangements have been evidenced - regular updates are provided to the Learning Disability and Mental Health Programme Board. Highlight reports are regularly submitted to the Procurement Board, these include key issues and risks associated with individual contracts and the actions being taken to address these.

A ‘Provider Risk Rating Spreadsheet’ records and monitors progress of individual providers, contracts, associated risks and regularity of visits. Whilst some anomalies were highlighted on this monitoring tool, in terms of regularity of visits, etc, in most cases these were due to more involved contractual management exercises outside of the routine review.

We believe the existing arrangements could be enhanced by:

- ensuring the regularity of visits is in line with the ‘Contract Monitoring Frequency Risk Assessment’ and recording the reasons for any lapses
- only changing risk scores following approval of the Risk Panel
- ensuring each risk is supported by a completed ‘Contract Monitoring Frequency Risk Assessment’

Health Protection – Some Improvement Required

We found the Health Protection frameworks to be robust and represent good practice, including:

- clear scopes describing the intentions of the documents
- a section explaining their assurance gathering methods
- how problems and issues can be escalated to Senior Management
- an area on specific targets and performance monitoring

However the Service is currently unable to utilise these frameworks due to an inability to access external key data and the internal capacity of staff. The Frameworks therefore do not match the methodology used by Public Health to gain assurance that the four programmes are operating successfully.

The existing assurance arrangements were found to be sufficient to obtain the requisite assurances on the Health Protection programmes – Public Health staff will, however, be working with Internal Audit to review, revise and update the frameworks to ensure they are practical and achievable.

Key issues include:

- two areas are having difficulty getting relevant data from a third party which has hindered the quarterly reporting
- the appendix around performance for all Frameworks is not being used
- methodologies defined in the Frameworks for gathering assurance data are inaccurate and require updating to reflect external and internal organisational changes

Infection Prevention and Control is an evolving area and management need to develop and implement a number of processes around contractor assessments, including a standardised strategy, policy and contract targets.

Lincolnshire Community Assistance Scheme (LCAS) – Some Improvement Required

There are adequate processes in place to deliver a streamlined and efficient service. A sample test of 25 cases showed that all Service Users were eligible for assistance, their claims were processed quickly and they received the help they required within an appropriate timescale. We identified good working relationships between the different teams involved both on a day to day basis and through scheduled meetings, along with regular updates to Senior Management.

However, the future provision of the LCAS service is uncertain. The LCAS service currently provides support to those in need and no longer providing it may cause severe hardship within the Community. This decision to stop the grant aid funding was subject to Judicial Review – this is now concluding and will also be presented to Members. We recommend that a decision is made promptly and the outcome communicated to all stakeholders.

Some minor issues were noted involving:

- Goods Receipt forms without the necessary evidence that the Service User provided ID when collecting their goods
- the need for a system to manage the long term retention of Service User files and documentation

Audits in Progress

9. The following audits are currently in progress:

Audits at draft report stage:

- Budget Management
- Capital contracts
- Mouchel Delivery – SAP Support & Maintenance Charges
- Ethnic Minority and Traveller Education
- Children's Adolescent Mental Health Services
- Fire & Rescue Trading Company
- Joint Policy Working/Joint Local Plan
- Sexual Health Services
- Safeguarding
- Ethnic Minority and Traveller Education

Fieldwork in progress

- Key control testing (almost complete – indicate assurance – effective)
- Transformation Programme
- Organisational Learning
- Joint Commissioning Board
- Property Management
- Wellbeing Service
- Transport Grant – Compliance Audit of Grant Conditions
- Broadband Project – Compliance Audit of Grant Conditions
- Members' Support
- Pension Fund – Transfer to New Provider
- CfBT Contract
- 1 x school audit

Other Work

10. **Agresso Project**

Update report covered as a separate agenda item (report to be tabled).

11. **Mosaic Project**

Update report covered as a separate agenda item (report to be tabled).

12. **Schools and Academies**

We have completed audit reviews on the financial control environment for 26 schools in total, 4 of those being since the last progress report.

We provide an internal audit service to 10 Academies, which covers 15 schools. To date in 2014/15 we have visited each Academy/school 2 to 3 times in accordance with the agreements we have with those Academies making 35 visits in total.

13. **Fire & Rescue Control Centre**

Lincolnshire Fire and Rescue entered into a partnership agreement with Humberside Fire and Fire and Rescue, Hertfordshire Fire and Rescue and Norfolk Fire and Rescue to create a shared, integrated and resilient virtualised mobilising control centre infrastructure. The arrangement is known as the East Coast and Hertfordshire Control Room Consortium (ECHCRC).

As part of mobilisation but unrelated to ECHCRC, Lincolnshire Fire and Rescue has replaced officers' Blackberry mobile phones with Android based Samsung Galaxy mobile phones.

Our review focused on compliance with the Council's IT Governance Framework, security compliance and the acquisition of IT assets. The audit is at draft report stage.

14. **Independent Investigations**

During the period we have been requested to carry out three independent investigations on behalf of the Council.

Performance Information

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

Performance Indicator	Target	Actual
Percentage of plan completed (based on revised plan)	100%	93%
Percentage of recommendations agreed	100%	100%

Performance Indicator	Target	Actual
Percentage of recommendations implemented	100% or escalated	Measured at year end
Timescales: Draft Report issued within 10 days of completion Final Report issued within 5 days of management response Draft Report issued within 2 months of fieldwork commencing	 100% 100% 80%	 88% 100% 82%
Client Feedback on Audit (average)	Good to excellent	Measured at year end

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

Other Matters of Interest

16. **CIPFA's New Counter Fraud Code**

    This Code is principles based and sets out the governance and organisational arrangements an organisation should have in place to counter fraud and corruption effectively. This is a voluntary Code but CIPFA recommends that all public sector bodies adopt it – although aimed at the organisation's leadership team, it applies equally to those with a governance role, including the Audit Committee. More information is provided in the Counter Fraud Progress Report.

17. **Accounts and Audit Regulations – Consultation**

    DCLG issued new regulations for consultation in June 2014 – they set the requirement for local authorities to publish an annual governance statement, set the timetable for the publication of annual accounts and establish requirements for internal audit. The final regulations are not yet published but proposed areas of change include:

    - From 2017/18 bringing forward the dates for the preparation, audit and publication of accounts – this means accounts need to be complete by 31 May (instead of June) and published by 31 July (instead of September).
    - Updating the requirement for internal audit to take into account public sector internal audit standards
    - Clarifying internal audit's access rights

18. **New Code of Audit Practice**

This draft Code sets out the approach all external auditors of local authorities must follow from 2015. It will replace the current Code set by the Audit Commission in 2000.

19. **LGA Company to Manage External Audit Contracts**

The Local Government Association have set up a company (Public Sector Appointments) to take on responsibilities related to local public audit when the Audit Commission closes. It will manage existing audit contracts until 2017.

20. **Whistleblowing in the Public Sector: A Good Practice Guide**

Four Audit Agencies in the UK have jointly issued a guide for workers and employers in the public sector – it includes guidance on policy and provides a checklist for organisations.

21. **Financial Resilience of Public Bodies**

There are a number of reports examining impact of reduced funding on public services – ones of interest:

- National Audit Office: Financial Sustainability of Local Authorities 2014
- Grant Thornton: Rising to the Challenge

22. **School Governance**

A report issued by the National Audit Office looks at how effectively oversight and intervention work in the schools sector. The report identified failing in both maintained schools and academies. A key conclusion of the report is that the Department for Education and the Education Funding Authority do not know enough about school level governance to identify risks.

23. **Procurement and Contract Management Risks**

The Better Governance Forum has produced a briefing (from a number of sources) which summarises key issues which have emerged on procurement and contract management in the public sector.

24. **CIPFA/SOLACE Framework of Good Governance for Local Government**

This is to be reviewed in 2015 and is particularly important as it underpins the annual governance statement – we expect more news on this throughout the year.

Appendix 1 - Assurance Definitions[1]

Effective	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively. As a guide there are a few low risk / priority actions arising from the review.
Some improvement needed	Our critical review or assessment on the activity gives us a reasonable level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low. A few specific control or risk issues identified. As a guide there are low to medium risk / priority actions arising from the review.
Major improvement needed	Our critical review or assessment on the activity identified numerous concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives. As a guide there are numerous medium and a few high risk / priority actions arising from the review. Our work did not identify system failures that could result in any of the following: - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements
Inadequate	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. Our work identified system failures that could result in any of the following: - damage to the Council's reputation - material financial loss - adverse impact on members of the public - failure to comply with legal requirements There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high. As a guide there are a large number of high risks / priority actions arising from the review.

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

Appendix 2 – Audits where assurance is assessed as 'Inadequate' or 'Major Improvement Needed'

Corporate Landlord – Major Improvement Required

Introduction and Scope

Property has centrally managed some office accommodation through the Corporate Landlord (CL) function since April 2012. The Council's property assets are managed in a variety of ways including by service directorates as well as the Corporate Property Service. This has led to the use of locally held budgets and a variety of cost coding methods. As a result there is a lack of transparency about the council's overall property costs, and it is difficult to analyse comparative costs between properties.

The primary aim of the Corporate Landlord expansion project is to provide consistency in processes, leading to transparency and efficiency in the management of all appropriate Council properties. This should lead to enhanced value for money and effective use of resources applying to facilities management. Aims also include improved customer experience by providing a working environment that is fit for purpose.

The project has a built in review point at the end of year one and Corporate Property managers requested that internal audit carryout a review.

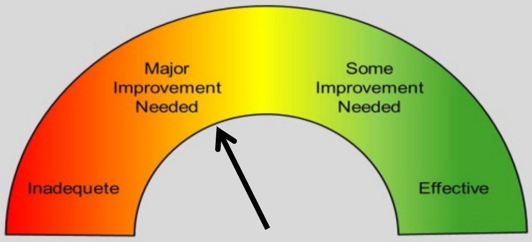
Through discussion and agreement with Corporate Property managers we reviewed the following areas to provide assurance on year one progress:

- governance structure
- project aims and objectives have been through a robust development and approval process
- stage one project aims and deliverables have been completed to support the project moving forward into the next stage
- Council Directorates teams are engaged and finance and reporting systems are adequate to support the project aims
- project team is adequately resourced and workloads are recorded and monitored
- regular performance monitoring and reporting
- monitoring and management of risks

Executive Summary

Assurance Opinion

Major Improvement Needed



The project has not progressed as expected in year one and some key tasks and milestones have not been delivered. Therefore the key aims of enhanced value for money through effective use of property and improved customer experience by improving the working environment are at risk of not being achieved. The main contributing factor is the lack of clear project governance, which has led to inconsistent management understanding of progress, inconsistent communication and a lack of understanding on technical and resource requirements.

Specifically we found that:

- There have been no regular project board or group meetings where day to day project issues should have been managed. In addition management have not received a consistent message on project progress.
- Although project aims and objectives had been documented key project officers are not clear on what Corporate Landlord is. Year one milestones are recorded but the detail on some key deliverables and system technical requirements was not understood.
- We could not evidence that the property service had assurance that new finance and asset systems, going live in April 2015 could produce the required outputs for the CL project.

We also found that some fundamental project management processes had not been applied including, regular highlight reports on progress, reviewing and updating the project risk register and using this to engage with staff and manage project issues.

In our opinion the root cause of issues is the lack of a project board, this gap has been filled by verbal and email communications which were not team inclusive and led to a breakdown in understanding and performance.

Direction of Travel

Improving

Direction of travel is based on the fact that the project plans included a review at the end of year one. This built in break and review is in line with corporate

	project procedures and provides the service with an independent level of assurance on progress and management of the project. The review will give the chance to refocus, establish governance arrangements and redefine ownership and purpose of the Corporate Landlord project.

We found that there were systems and management in place for the start of the project including a project initiation group, recorded meetings, business cases and project initiation documents. From January 2014 onwards these systems and management are not evident. There are no recorded project meetings and management of the project becomes fractured.

In our opinion it is the gap in governance and the lack of a project board which has led to the failure in communications, understanding and management of the project. Verbal updates and e-mails replaced the regular reporting and communication that should have taken place at a project board. As a result of this management of deliverables and issues was not inclusive.

Project officers were not clear on what Corporate Landlord is. Either they had different opinions about the overall project objectives or stated that it had never been clear. For the project to progress in its second year management should ensure that all relevant officers are engaged and clear on the details and outcomes.

A key milestone for the project was to increase the production of quarterly asset rental reports on property usage and costs. This has not been completed and it is stated that this is due to the complexities in compiling this information and the resources need to complete this. It was also said that the change in finance systems meant that the project should wait until Agresso is launched before starting the reports.

Review of this area showed that:

- The property team are still seeking assurance that new finance system Agresso will produce the required outputs
- There is a lack of management engagement to current asset rental reports illustrated by the lack of feedback from to the property team
- During one quarter the due reports were not sent out and this generated no feedback, we assume it was unnoticed.

Management should consider these issues when looking at year two of the project and review the objectives and deliverables to ensure Corporate Landlord reporting is relevant to services and the property team.

Management Response

The initiation of the Corporate Landlord project coincided with two significant events affecting the Corporate Property team. The re-tendering of the contract (currently held by Mouchel) and the Corporate Property team re-structure demanded a significant amount of time and, with the distracting effect of a re-structure on the employees, resulted in the Corporate Landlord project standards being compromised.

However both events provided an opportunity to revisit the project and hence the timing of the audit was planned to coincide with a number of changes to the Corporate Property service. Namely:

- New NEC3 contract with Vincimouchel commenced in October 2014
- Overhaul of all processes, performance metrics and service delivery as part of the mobilisation plan
- A new Corporate Property structure, with revised or new job descriptions and associated roles and responsibilities was established in September 2014

The audit identified a lack of assurance of the financial reporting requirements for Agresso (the replacement to the current SAP database). This has been a valuable finding and was highlighted at a stage when corrective action could be, and has been, applied.

A report of the requirements and assurance will be presented at the next Corporate Management team meeting by the Business Manager. There is already increased confidence that the new system will support the requirements for Corporate Landlord. The Business Manager is the lead for IT and business process work streams that are vehicles for implementing the new contract mobilisation plan.

The definition of Corporate Landlord and its requirements is being reviewed as the new contract has provided the opportunity to totally refresh the type and quality of data that will be collated and stored using a different Asset & Facilities Management system. This will allow improved data for trend and theme analysis.

The findings and subsequent learning from the audit concerning communication will be applied to the communication plan for implementing the financial element of both work streams and the associated launch of Agresso. The Business Manager will monitor the effectiveness of the new financial reporting.

Management Actions	**No**	**All to be completed by:**
High Priority	3	31 April 2015
Medium Priority	7	31 April 2015

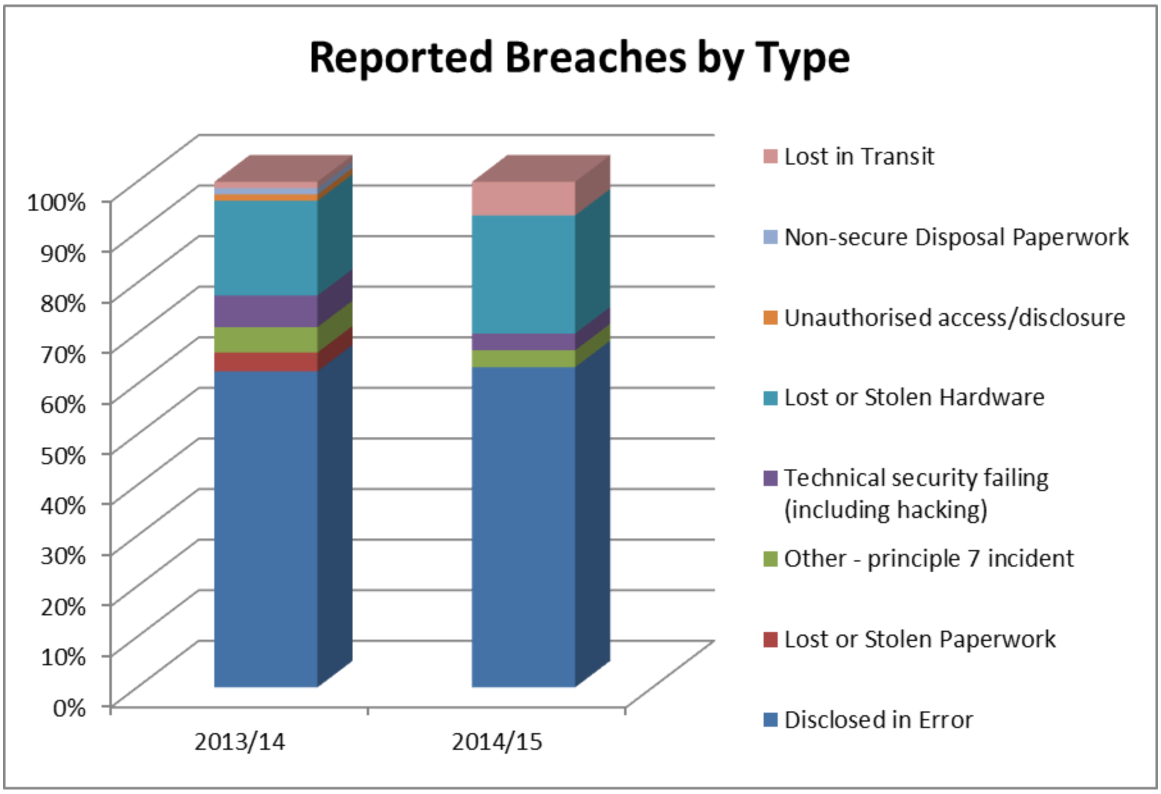
Information Governance Breaches – Major Improvement Required

Introduction and Scope

This review was requested following a number of data breaches, several of which were brought to the attention of the Information Commissioner's Officer (ICO).

Information governance arrangements are managed by the Information Governance (IG) Team. They are responsible for establishing the IG framework and processes, providing IG training and managing data breaches. Managers are responsible for ensuring that staff undertake the training which is provided on line and ensuring the framework and processes are applied.

During 2013-14 there were 80 information breaches recorded by the Information Governance team and between April and July 2014 a further 30 breaches were reported. The bulk of reported breaches are due to "disclosure in error" (63% of breaches in 2013/14 and 2014/15), with the next highest level of breaches being lost/stolen hardware (19% in 2013/14, 23% in 2014/15).



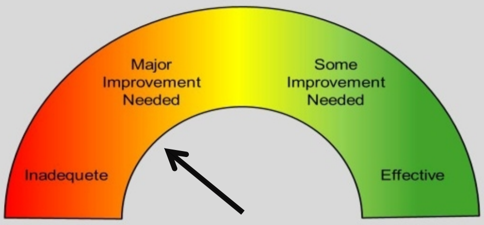
Departments are required to notify the Information Governance team promptly of any identified breaches with an investigation then being undertaken. The ICO may undertake their own enquiries if they deem the breach to be serious enough. The ICO can issue fines of up to £500,000 for serious breaches of the Data Protection Act. Between November 2010 and September 2014 the ICO had issued a combined total of fines of up to £2.25m to the Local Government sector.

As part of this review we aimed to provide management assurance on:

- The annual completion of e-learning Information Governance training module by staff.
- Staff awareness of information security policies made available to staff.
- The adequacy of information exchanges in sections of the Council where recent breaches had occurred.
- Recent breaches are promptly reported and investigated with incident management arrangements operating to established corporate procedures and in accordance with best practice.
- Recommendations arising from incident management investigations are agreed and promptly implemented.
- There are effective arrangements in place so the Local Authority (LA) can be assured that they are compliant with the requirements of the Data Protection Act when requiring external parties to process data on the Council's behalf (3rd party processors).
- 3rd Party processors are appropriately trained in data handling prior to being provided with data belonging to the Council.
- Information provided to 3rd party processors is communicated using adequately secure methods.
- Signed formal agreements clearly communicate to 3rd party processors the expectations surrounding control of data, its ultimate destruction or return and what actions to take where a breach of data protection is thought to have occurred.

Executive Summary

Assurance Opinion - Major Improvement Needed



The Council is not effectively managing the risks around several key areas of information governance, including Information governance training for Council staff and control of 3rd party data processors

We have also identified some issues around the incident management arrangements for responding to information breaches.

These weaknesses may result in:

- Higher number of information breaches occurring.
- Potential fines and/or enforcement action imposed by the Information

Commissioner's Office (ICO).

- Failure to learn from previous information breaches experienced within the Council, with no guarantee that remedial measures suggested by the Information Governance (IG) team have been implemented.

Dedicated e-learning modules for Information Governance are provided by the Council and all staff should annually complete this IG training. The number of staff completing annual IG training must be significantly increased to the levels that both the Council and ICO expect. The lack of IG training within the Council can not only contribute to data security breaches but could also hinder the identification of breaches when they do occur. Elements of the IG training also require review to increase emphasis on identifying and reporting suspected information breaches.

Incident management arrangements require improvement. There needs to be a robust and consistent approach to dealing with reported information breaches and their onward reporting to the ICO. Following a breach remedial actions need to be agreed with the responsible department, communicated to relevant parties and tracked to ensure that they have been implemented. There is a risk that breaches may be repeated if lessons are not learnt and remedial measures implemented.

As part of the review we attempted to identify where and when LCC provides information to 3rd parties to process on its behalf. This proved impossible, an issue in itself, but we did find a number of instances which were not supported by a formal contract setting out what the 3rd party could or could not do with LCC data. The Council needs to undertake a data audit to establish what data is held and where it is shared with, or processed by, 3rd parties. Contracts formalising information sharing then need to be put in place where they are absent.

Direction of Travel

The Information Governance team has been established to improve information governance arrangements in the Council. They have established an IG framework and initiated a review of the incident management process prior to the start of the audit. During the course of the audit they started to introduce improvements in their processes in response to audit enquiries and findings.

New systems are being introduced in April 2015 which will help ensure that the mandatory IG training is monitored, so that staff not completing the courses can be identified and pursued.

These new arrangements are establishing a basis for Information Governance to improve within the Council.

IG Training

Dedicated e-learning modules for Information Governance are provided by the Council and all staff should annually complete this IG training. Management must ensure that all staff are adequately trained to meet Data Protection requirements. We calculated that 66% of new starters in 2013-14 had completed the training by July 2014. The ICO have asked direct questions about the rate of completion of IG training, and there is the possibility that this may yet have adverse consequences for the Council. Improvements are likely to be experienced as a new Enterprise Resource Planning (ERP) system is being introduced for April 2015 that will enable improved reporting on who has and who hasn't completed the IG training.

The current failure to ensure staff are trained to adhere to the requirements of the Data Protection is a key concern and may contribute to potential information breaches.

The content of the IG training course should be enhanced with renewed emphasis on the exchange of information with 3rd parties and identifying and reporting breaches. Additionally, a distilled refresher course for staff that have previously completed the full IG training package would reduce the time to complete further training and help improve completion rates.

Information Breaches

We examined a range of breaches that occurred within both Adults and Children's directorates since April 2013, and in within the Adult Services brokerage team, at the specific request of the Director of Adult Services.

The brokerage team regularly upload electronic files into secure areas that care providers can access. There have been a number of instances where information has been uploaded to the wrong provider. We examined 3 breaches that occurred within the brokerage team. The breach in these instances is mitigated as the data is only disclosed to organisations that have entered into a contractual arrangement with the Council, which details data security expectations. Whilst we consider the types of breaches experienced within brokerage to represent a low risk, the repeated occurrences are a concern. The Information Governance team have met with the managers of the brokerage function and have developed an action plan to address recent breaches, including the adoption of a preferred method of uploading data. The action plan is comprehensive in tackling the issues within brokerage and we do not think any further specific action is required.

Although there are a relatively high number of breaches within brokerage when compared to other sections, brokerage is effective in identifying and reporting breaches. The vast majority of the brokerage team had completed the IG training module (92%), a level of completion that greatly exceeds the average for the Council.

Other breaches we examined involved:

- Emails sent to the wrong recipient (x 2) – a difficult type of breach to prevent and a type that may not be appreciated as a breach if the IG training is not completed.
- Email with unapproved attachment (x1).
- Stolen Laptops (x2) – one stolen from car along with papers and one taken from home address.

- Lost Laptop (1) – Laptop believed to have been handed back when a project ended in 2009 – IT unable to locate and so reported as potential breach. We understand that there may be more of these types of breaches reported as the support services contract moves to Serco and attempts made to reconcile inventories.

3rd Party Processing

The extent of 3rd party processor arrangements across the Council is not known, particularly where the arrangements are less formal and not subject to a contract that would specify data protection requirements.

Following a breach involving a 3rd party processor, we attempted to identify 3rd party processing arrangements within the Council but this proved impossible, not least due to the general lack of understanding on these types of arrangements. We did identify some 3rd party processing arrangements – some of which related to independent chairs of safeguarding boards and foster and adoption panels.

Whilst in the main, the exchange of information between the Council and these parties had been considered and appropriate measures put in place, we did not find any formal agreement or contract, as required by the Data Protection Act (DPA), to communicate the standards expected of the 3rd party when handling LCC data nor any process for ensuring proper security measures. Under such arrangements the legal responsibility for compliance with the DPA remains with the Council, and therefore the Council will be liable should any breach occur.

The Council needs to undertake a data audit to identify what data is held where, and with whom data is shared or provided to for processing on the Council's behalf. Information sharing agreements and contracts between Council and data processor must be put in place where these are then found to be absent.

Incident Management

Information breaches are reported to the Information Governance team who record and respond to the incident. A number of improvements could be made to the incident management process that would further help align it to best practice as established by the HSCIC (Health and Social Care Information Centre) and the ICO.

The decision to notify the ICO of significant breaches can be subjective. We observed one instance where different positions were taken by Legal and the Senior Information Risk Owner (SIRO). This decision process could be helped by using a similar method to that identified within the HSCIC Checklist Guidance document. We also observed there to be a lack of evidence that Caldicott Guardians had been notified of breaches, as required by the incident management procedures.

Evidence relating to the investigation should be held in a central repository and appropriately referenced, particularly as one of the consequences of a data breach may be disciplinary action for the responsible individual.

We also feel that certain key stages of the investigation should be documented and communicated, such as:

- Assessing and communicating whether the measures put in place by the department responsible for the breach to contain and recover lost data is appropriate. This provides an assurance to the reporting department that their actions are appropriate
- Production of a final report to relevant officers detailing the investigation findings and remedial actions. This provides the reporting department with notification that the investigation has been finalising, whilst also communicating to key officers the causes of the breach and the action to be taken to prevent further occurrence.

Management Response

Good information governance requires a multi-disciplined approach across every aspect of the Council involved in handling, processing, and sharing information. This governance must also extend to the third parties who process information on our behalf and to an extent those we share data with. The scope of information governance therefore is extensive.

Central to good governance is a robust framework which supports and acknowledges the relevant legal and compliance requirements the Council must abide by and there has already been much improvement recently in many areas of information governance. Work continues to ensure this momentum is maintained and this is evidenced by the fact the majority of recommendations made within the report had already been acknowledged as areas requiring improvement. This report therefore supports some of this work.

It is important to acknowledge however that ensuring an information governance framework is in place is only part of the challenge as good governance also requires organisational buy in, engagement by staff, and recognition that information is an important asset within the Council. This requires cultural change on a wider scale.

Major improvement therefore requires effort from all areas of the Council responsible for handling and processing information and must be supported by a relevant, accurate and consistent information governance framework.

Responses have been given to the recommendations within the report, although we feel that they thematically fall into 3 subject areas; training; security incident reporting; and 3rd party processing/sharing. Our responses can be then summarised as follows:

Training Comments: Annual training is an integral part of raising awareness and increasing staff knowledge across every aspect of information governance, particularly when handling personal data.

The annual delivery of information governance training is required to meet both legislative and external compliance requirements across a multi-disciplined subject matter. It must also consider the already high demands on staff.

Informal feedback from staff has indicated that the current training package is complex in its approach, excessive in length and sometimes lacks clarity.

Furthermore the accuracy of the current reporting mechanism is undermined by inaccurate people data.

It is clear that improvement is necessary.

Security Incident Reporting Comments: Encouraging timely security incident reporting supports an open and transparent approach to dealing with data breaches; allows the Council to better understand areas of weakness (training, policy, technical solutions); and assists in managing breaches more efficiently thereby reducing the impact of any such breach.

The current security incident reporting process has already been much improved and efforts continue to further develop it. It draws on several sources of good practice and is designed to best fit the Council's needs.

Further improvement will be made.

Third party Information Processing and Sharing Comments: The scale and complexity of 3rd party information processing and 3rd party information sharing makes this a particularly challenging area to apply appropriate governance. This is reflected in the challenges faced by the Auditor when identifying 3rd party arrangements currently in place.

The information governance team face similar challenges when supporting colleagues across the Council and it is often a lack of clarity and an absence of a single corporate approach that adds to the complexity of the process - this can, and does, undermine governance controls put in place by the information governance team.

It is opined therefore that low level simplistic process change will have limited impact. The corrective action plan needs to consider changes on an organisational level.

The core requirement of this element of the corrective action plan is to understand where our data resides and who is responsible for it; only then can we begin to map data flows and apply good governance.

Timelines: There is a high probability that time lines stated within the response below will be impacted by the current transition work involving support services (and after effect). Similarly a reliance on colleagues from other Director Areas who will be subject to their own demands and priorities will also need to be considered.

Management Actions	No	All to be completed by:
High Priority	6	June 2015
Medium Priority	7	December 2015

Appendix 3 – Internal Audit Plan 2014/15

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Critical Service Areas: - Those areas identified by senior management as having the most impact on the successful delivery of Council priorities or whose failure could result in significant damage to reputation, financial loss, impact on people (risks)						
Executive Director – Pete Moore						
Corporate property						
Property Management	Review the effectiveness and delivery of the Property Strategy and utilisation of its property assets.		Dec 2014			Client Brief issued
Capital Contracts	Review of award and management of contracts		Oct 2014	Jan 2015		Draft Report
Fire and Rescue						
Trading Company	Assurance over the governance, risk and control environment arrangements set up for the Company.		Dec 2014	Jan 2015		Draft Report
Sub Total		**50**				
Executive Director – Richard Wills						
Environment & Planning						
Carbon Reduction Commitment	Review of the arrangements in place to comply with the Environment Agency's requirements under the CRC, including sign off of the LCC Evidence Pack.		July 2014	July 2014	October 2014	Final Report – Effective

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Joint Policy working / Joint Local Plan	Review of joint policy working arrangements to ensure that LCC is clear of its role and responsibilities and is an active partner in managing the risks (link to JPU and Wind farm policies). Provide assurance on the revised delivery arrangements for the central Lincolnshire joint local plan and provide support and advice at key stages through gateway review.		June 2014	June 2014		Highlight report issued and Draft Report
Joint waste management strategy	Review to provide assurance on arrangements and progress for the district waste strategy. To include assessment of financial benefits and district engagement.		Dec 2014			Cancelled – Joint Waste Management Strategy will not be in place until Q3 2015/16
Highways & Transport						
Social Care Transport	To provide assurance that effective arrangements are in place for the operational management of transport services – including Safeguarding arrangements.		May 2014	May 2014	August 2014	Final Report Some Improvement Required

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Economic Development						
Adult Learning	Review of the financial arrangement in to confirm adequate financial control and sustainability		Oct 2014			Postponed c/fwd to 2015/16
Sub Total		**70**				
Director of Children Services – Debbie Barnes						
Commissioning						
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes. (Co-ordinate audit with Director of Adult Services & Director of Public Health)		July 2014	Feb 2015		Fieldwork Ongoing
Home to School / College Transport	To provide assurance that effective arrangements are in place for the financial and operational management of Home to School / College transport services – including VfM and Safeguarding arrangements.		May 2014	May 2014	August 2014	Final Report Some Improvement Required
Regulated Services						
Children's Adolescent Mental Health Services	To provide assurance around the commissioning of Children's Adolescent Mental Health Service. LCC are lead		August 2014	Sept 2014		Draft Report

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	commissioner for funds allocated by NHS England.					
School Administration Services						
Non-attendance at school	To provide independent assurance that the authority has robust policies and procedures in place to enable them to meet their legal duty to identify children missing education and get them back into education.		June 2014	July 2014	Feb 2015	Final Report – Effective
Performance Assurance						
CfBT contract	Audit of the financial arrangements covering the four funding streams – open book accounting approach		November 2014	Mar 2015		Replaced with review of school improvement process – Special Schools
Educational Performance – Moderation	To review the moderation arrangements of pupil attainment across all Key Stages, including Early Years and pupils with special educational needs.		November 2014			Director requested cancellation
Safeguarding – Organisational Learning	Assurance over organisational learning following the outcome of serious case reviews. Co-ordinating the audit engagement		August 2014	October 2014		Fieldwork in progress

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	through the Lincolnshire Children Safeguarding Board.					
Human Resources						
People Management	Review the effectiveness, quality and compliance of the People Strategy launched in 2012 and the strands underpinning delivery of the Council's people management arrangements. Areas not previously reviewed in 2013/14: • Resource & Talent Management • Capability and Disciplinary • Managing Employee Performance & Development		Oct 2014	January 2015		Scope changed at request of director – audit to cover application of the Sickness Management Policy. Deferred to 2015/16 due to current staff commitments on FDSS / Agresso projects.
Sub Total		150				
Schools	Periodic audits of maintained schools.	150	April 2014	April 2014		26 schools completed
Sub Total		**300**				
Director of Adult Services – Glen Garrod						
Safeguarding	To provide assurance around the Governance and decision making arrangements of the new mandatory Safeguarding Board. The audit will also review and		July 2014	Aug 2014		Draft Report

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	assess progress and implementation of recommendations arising from the Lincolnshire Adult Social Care Peer Challenge and Domestic Homicide Reviews.					
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes. (Co-ordinate audit with Director of Children Services & Director of Public Health)		July 2014	Feb 2015		Fieldwork Ongoing
Information Governance	A review to assess the controls in place for preventing Data Security Breaches.		July 2014	July 2014	Mar 2015	Final Report – Major Improvement Required
Workforce Development	A review of training planning and delivery arrangements.					Director requested cancellation, reported to Committee in January 2015
Reablement Service	Review to gain assurance around the new arrangements.		October 2014			Director requested cancellation, reported to Committee in Jan 15
Contract Management - Mental Health & Learning Disabilities	Assurance around the contract governance, monitoring and reporting procedures.		October 2014	Nov 2014	Mar 2015	Final Report – Some Improvement Required

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Sub Total		**100**				
Director of Public Health – Tony Hill						
Joint Commissioning Board	Review of Joint Commissioning Governance and decision making processes. (Co-ordinate audit with Director of Adult Services & Director of Children Services)		July 2014	Feb 2015		Fieldwork Ongoing
Sexual Health Services	Review of the Governance and decision making arrangements for commissioning mandated Sexual Health Services.		December 2014	December 2014		Draft Report
Health Protection	A review of the Assurance Framework for protecting the Health of the Local Population, including screening, infection control and immunisation.		July 2014	Aug 2014	Jan 2015	Final Report – Some Improvement Required
Lincolnshire Community Assistance Scheme	To provide assurance around the application, payment, monitoring and reporting procedures and controls for this new scheme.		June 2014	Sept 14	Jan 2015	Final Report – Some Improvement Required
Substance Misuse	Review of the Governance and decision making arrangements		May 2014	June 2014	September 2014	Final Report – Major Improvement Required

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	for commissioning services.					
Wellbeing Service	Review of the Governance and decision making arrangements for the implementation of the Wellbeing Service.		November 2014	Mar 2015		Fieldwork in Progress
Contract Management	To provide assurance around the transfer of Public Health/ NHS contracts to the Authority. Assurance around the contract governance, monitoring and reporting procedures.		Jan 2015			
Review of Coroner's Officers	To provide assurance in the following areas: • the structure is fit for purpose • demand and case management • IT use • agile working • leadership, governance and cultural • local working practice		Feb 2015			New – Management Request Awaiting outcome of peer review to finalise scope and avoid duplication. Audit to now start April 2015
Sub Total		**100**				

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Corporate Functions - Due Diligence - Those systems that support the running of the Council and ensure compliance with key policies						
Executive Director – Pete Moore						
Finance						
Key financial systems – transaction testing	Throughout the year test key controls and transactions feeding into the Council's accounts to ensure financial control environment remains effective throughout the final year		May 2014	May 2014		Ongoing throughout 2014/15 – testing almost complete – assurance so far – effective
Mouchel Contract	Assurance over handover arrangements and delivery to the end of the contract.		Sept 2014	December 2014		SAP licences – Draft Report
Pensions Fund / Administration	Provide assurances over the arrangements to transfer responsibilities to new provider (9 month process from June 2014)		Oct 2014	Mar 2014		Fieldwork Ongoing
Budget Management	On cyclical plan for 2014/15 – although high confidence in this area – analytical review plus deeper dive into service area budgets	150	July 2014	Dec 2014		Draft Report
Procurement Lincolnshire						
Contract Management	Review the effectiveness of contract management model enterprise wide.		Through 2014/15			Ongoing

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Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
EU procurement changes	Review of the procurement regulations to ensure that the necessary changes have been implemented.	15	Nov 2014			Deferred to 2015/16 due to availability of staff within service area (ongoing projects_
Other						
Corporate Governance	To review the effectiveness of the Council's governance arrangements, including compliance with new standards regime		Through 2014/15			Ongoing
Member Support	Review the arrangements for member support in view of the risks identified from the changing political make-up of the council	20	Sept 2014			Fieldwork ongoing – reviewing 3rd party assurance (peer review)
Information governance / records management	To review organisation wide information governance arrangements to provide assurance that data related risks are sufficiently managed whilst ensuring the right data is available at the right time.	15	Dec 2014	Dec 2014		Draft Report
Emergency Planning and Business Continuity	Review the Council's arrangements and resilience to respond and recover to a major event / incident.	15				Moved to 2015/16 Audit Plan
Sub Total		**215**				

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
ICT						
ICT Infrastructure and service delivery	Work is underway to finalise ICT assurance map and status report – this will inform the choice of audits in this section of the plan. Scheduling of individual ICT audits will be agreed when the assurance map is finalised.		Sept 2014			Assurance Map and Status Report finalised. ICT audits postponed to July 2015.
IT Application	Social Care Case Management System		Sept 2014			Fieldwork in progress
Sub Total		**130**				
Key Projects						
Executive Director – Pete Moore						
New Finance System	Support and advise the Implementation Group on the key workstreams re. transfer to the Finance System		April 2014	April 2014		In progress – periodic reporting to S151 Officer and project Board
Broadband in Lincolnshire	To provide assurance on delivery and compliance with the grant conditions.		Feb 2015	Mar 2015	Mar 2015	Fieldwork in Progress
Corporate landlord	To provide a consultative and supportive role for the 'corporate landlord' project as it progresses along its implementation plan during 2014/15	205	Dec 2014	Dec 2014	Jan 2015	Final Report – Major Improvement Required

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
Executive Director – Richard Wills						
Library needs assessment	Review to confirm that proposals for the future of the Library Service will deliver reported savings.	15		July 2014	Jan 2015	Review of organisational learning re Libraries Judicial Review – Final Report
Director of Children Services – Debbie Barnes						
New HR System	Support and advise the Implementation Group on key HR workstreams		April 2014	April 2014		Ongoing alongside work on New Finance System
Families Working Together	To review and audit claims for Troubled Families Grant. Days allocated on the basis of a quarterly claim.	35	Quarterly claim			Quarters 1 to 4 complete
Raising the Participation Age (project) / Tracking the Status of 16 – 18 year olds in education, employment or training (critical activity)	From September 2013, all 17 year olds had a duty to participate in education, employment or training. This extends to 18 year olds from September 2014. To review the arrangements in place that ensure young people are aware of their duty to participate and that there will be sufficient provision available. This could include how the LA are identifying young people that are not in education or training,		November 2014	Feb 2015		Draft Report

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	including data sharing arrangements with Educational Institutions.	20				
Director of Adult Services – Glen Garrod						
Transformation Programme	Review, advice and guidance around the transformation programmes within Social Care, including the Case Management System and Lincolnshire Sustainability Review - considering the design and application of the governance structure. To provide proactive advice and support on governance, managing key risks and effective internal control.	30	July 2014	July 2014		On-going work throughout the year
Sub Total		**305**				
Emerging Risk & Contingency						
Emerging risk – delivery of transformation	Assurance arrangements around commissioning (in line with the commissioning strategies & the fundamental budget reviews).					
Emerging risk contingency	To audit any significant emerging risks arising in the year – • Responding to legislation eg					

Area	Indicative Scope	Planned Days	Planned Start Date	Actual Start Date	Final Report Issued	Status/Assurance Level Given
	Care Bill / Dilnot					
Sub Total		**115**				
Other Relevant Areas						
Combined Assurance	Co-ordinating and updating assurances on the Council's assurance map with service managers. Co-ordinating the annual status report.	Sept 2014	Sept 2014	Sept 2014	January 2015	Combined Assurance work complete – all status reports produced
Sub Total		**50**				
Non-Audit						
Advice & Liaison		44				
Annual Report		1				
Audit Committee		20				
Sub Total		**65**				
Grand Total 2014/15		**1500**				

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**30 March 2015**
Subject:	**Counter Fraud Progress Report to 28 February 2015**

Summary:

This report provides an update on our fraud investigation activities and information on progress made against our counter Fraud Work Plan 2014/15.

Recommendation(s):

To note the outcomes of our counter fraud work and identify any actions it requires.

Background

This report provides an update on the progress made against the Counter Fraud Work Plan 2014/15, including our investigation activities. Details can be found in Appendix A, including:

- Key messages
- Proactive work
- Investigations
- Progress against plan
- Other matters of interest
- Counter Fraud Work Plan 2014/15

Conclusion

We have made good progress against the work plan for 2014/15 having completed work in a number of key fraud pro-active areas, particularly around fraud awareness.

We have received fifteen fraud referrals since April 2014 – seven cases have now been concluded and we currently have 8 live cases. More information can be found on pages 5 to 8. We have had one successful prosecution since our last progress report – this related to an employee's misuse of a lease vehicle.

Our recent targeted fraud awareness programme and improved channels of communication continue to produce regular referrals from Adult Care and Safeguarding teams. It is important that we continue our pro-active activities and joint working approach in this fraud risk area to ensure that fraud and financial abuse cases are highlighted and addressed.

Our joint bid for to the Department for Communities and Local Government was successful and we received £200k to support the creation of a Lincolnshire Counter Fraud Partnership in conjunction with the district councils. This will involve counter fraud specialists and subject area experts working together to provide a sustained response to the threat of fraud to local authorities in Lincolnshire.

This progress report is designed to provide the Committee with information which enables it to:

- confirm the Council's Counter Fraud arrangements are targeted and effective

- assess whether appropriate progress has been made against the approved work plan, and

- ensure lessons have been learnt, that there is an understanding of the fraud risks facing the Council and that actions are being taken to reduce the risk

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Counter Fraud Progress Report

Background Papers

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

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

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Public Sector Auditing ….. Private Sector Thinking

Counter Fraud Progress Report

Date: March 2015

Contents

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Introduction

1. The purpose of this report is to:

   - Provide an update on our fraud investigation activities
   - Report on progress against our Counter Fraud Work Plan 2014/15

Key Messages

Pro-active Work

2. We have made good progress against our 2014/15 pro-active work plan since our last report, in particular:

   - An additional fraud awareness workshop with the Adult Safeguarding teams
   - Targeted training session with contracting officers within Children's Services

3. To enhance fraud awareness we have liaised with the Council's Communication Team to produce regular publications and articles to support and reinforce our counter fraud messages and ensure maximum coverage.

4. The National Fraud Initiative data matches for Lincolnshire County Council were received in February 2015 and we have commenced investigation of these – 2 potential overpayments have already been identified.

5. One of our bids to the Department of Communities and Local Government's Counter Fraud Fund was successful and we received £200k to set up a Lincolnshire Counter Fraud Partnership (comprising Lincolnshire County Council and all district councils within the county). The main aims of the partnership will be to develop joint proactive counter fraud exercises, deliver an effective and co-ordinated fraud awareness programme and ensure that counter fraud intelligence, expertise and best practice are shared across partners.

Investigations

6. We have received 8 suspected fraud referrals since November 2014:

   - 1 case was referred to the Police and the individual received an 18 month Community Service Order and were required to pay costs. They were also summarily dismissed at a disciplinary hearing
   - 2 cases where the individuals involved have resigned (one disciplinary hearing is scheduled to take place the other case is now closed)
   - 8 live cases – two of these are currently being investigated by the Police with the Court of Protection dealing with one case. We continue to make enquiries into the remaining five cases

7. One historic case (2012) – 3 perpetrators involved in a mandate fraud against the Council are scheduled to appear at Liverpool Crown Court in the summer. This case is being handled by Merseyside Police and the offences include money laundering and fraud by false representation.

Counter Fraud Pro-active Work

Fraud Awareness

8. In addition to the fraud awareness sessions delivered to Adult Care and Central Finance Teams we have now also made presentations to the Council's Adult Safeguarding team. These have again been well received and we continue to receive regular referrals as well as requests for advice around potential fraud and financial abuse.

9. The financial abuse cases tend to relate to the behaviour of individuals overseeing financial affairs on behalf of Vulnerable Adults – these may be family members or other individuals holding a Power of Attorney. The Direct Payments cases we are currently handling involve potential exaggeration of disabilities with a view to obtaining increased direct payments or care provision.

10. From our improved liaison with Adult Care and Safeguarding teams we believe there is clear scope to improve and assist in the investigation of adult financial abuse cases. The Counter Fraud & Investigation Team continues to work with Adult Care Practitioners, Safeguarding Officers, Police, the Office of Public Guardianship (OPG) and Court of Protection Team – this has seen increased and regular referrals.

11. Financial abuse cases can be difficult to prove and involve numerous barriers. We continue to explore avenues that will help obtain information and allow successful investigation of cases. The emphasis on our work with Adult Care and Safeguarding teams has been around joint working to identify and investigate fraud – we are in the process of developing a protocol that will facilitate and control this.

12. The Audit Commission's 'Protecting the Public Purse 2014' publication reiterated the threat of procurement fraud to all organisations. The annual cost to the public sector in this area is estimated at £876m. We have met with contract management leads across the Council with a view to improving our response to procurement fraud.

13. Contract officers within Children's Services engaged well in a fraud awareness session – they were keen on the joint working approach and have helped to distribute promotional material to the Council's providers.

14. Similar sessions are planned for contract officers across all areas of the council. We aim to ensure that contracts are prescriptive about rights of access, reporting and investigation expectations in the event of a suspected fraud. Using

intelligence gained from contract officers we plan to highlight selected contracts for analysis as part of a proactive fraud exercise in 2015/16.

15. Further to the recent distribution of counter fraud promotional material to all Council and school establishments, we have now updated our GEORGE page to ensure all material and policies are current and easily accessible. We have also targeted and distributed relevant material to specific areas in response to fraud risks that may affect them.

National Fraud Initiative (NFI)

16. In October 2014 we submitted large volumes of Council data in 8 key areas of business for the purposes of the National Fraud Initiative:

17. The Audit Commission have now returned the data matches (over 16000) and we have commenced work on the reports containing the highest fraud risks:

    - **Personal Budgets** – this area is included within the National Fraud Initiative for the first time. We are liaising with the Central Finance Team and have identified 2 cases where the direct payment recipient has died yet payments have continued – a combined estimated loss of £12k. Payments have now ceased but Failure to Disclose Information is a fraud offence and we are considering the circumstances to ascertain if any fraud is involved. We are also reviewing reports with a view to identifying whether correct information has been provided for financial assessments
    - **Private Residential Care Homes** – this area has previously resulted in recoveries and has been given priority over other areas. Processes have, however, improved in recent years and overpayments tend to be recovered quicker
    - **Pensions** – we have had several recoveries against these reports in previous exercises although overpayments have reduced in recent years as the Council employs a tracing agency

18. Once review of these priority reports is complete we plan to work alongside other teams to review reports and investigate potential cases where fraud, error or overpayment may have occurred.

Targeted Pro-active Fraud Work

19. The team are nearing the end of a proactive fraud exercise on the Council's payroll transactions. This focused on honoraria, overtime and other ad-hoc payments. The Counter Fraud and Investigation Team have used data analysis to identify outliers, unusual patterns or individual transactions for validation and/or investigation – this is now at draft report stage.

20. A planned proactive exercise on Contracts will now take place in 2015/16 – investigation demand and increased due diligence commitments, especially around the Agresso project has caused this slippage.

Lincolnshire Counter Fraud Partnership

21. The Department for Communities and Local Government recently announced that they had made £16m available to Local Authorities to help tackle corporate fraud over a two year period. Councils were invited to submit bids in order to receive a share of the Counter Fraud Fund.

22. We were notified in November 2014 that we had successfully secured £200k to create a Lincolnshire Counter Fraud Partnership.

23. Our successful bid recognised the DCLG's desire for Local Authorities to work in collaboration to fight fraud. Our aim is a partnership that comprises counter fraud specialists working with subject area experts across Lincolnshire County Council and seven district councils. The main objectives of the partnership are:

    - delivering joint fraud proactive exercises across Lincolnshire
    - developing and delivering an effective co-ordinated fraud awareness programme
    - sharing intelligence, investigative resource, expertise and best practice

24. We received the first tranche of funding (£50k) in December 2014 and are currently working on governance arrangements for the partnership. A Project Group has been created to oversee and monitor the work of the partnership. This group has produced a Counter Fraud work plan to guide and monitor priorities, a data sharing agreement and a project risk register.

25. The project will be overseen/delivered by a Principal Investigator – the recruitment is ongoing and interviews are due to be held on 25th March 2015. This role is designed to help set up, co-ordinate and deliver the activities of the Lincolnshire Counter Fraud Partnership. The secondment opportunity covers an 18 month period – after which we expect the arrangements to be self-funding through savings and cash recoveries identified.

26. Bids for funding are being invited from Lincolnshire's Councils and we have developed an evaluation which is designed to achieve maximum recovery potential and wider partnership benefits.

27. We are required to submit our first progress report to DCLG by 23rd March 2015 – this will include an update on project spend and outcomes to date. We will include periodic updates to the Audit Committee over the coming year.

Investigations

28. The Council has referred to 2 cases to the Police involving service users subject to potential financial abuse. These cases have been identified as a result of our increased fraud awareness work with Adult Care and Safeguarding teams. One case relates to potential misappropriation of a service user's assets by a family member and the other case involves potential financial abuse of a service user by

a party unknown – a mobile telephone bill has been received in the service user's name that they have no knowledge of. In liaison with the relevant social work teams we have facilitated approaches to the Police and will provide information analysis and support when required.

29. We have received 8 suspected fraud referrals since our last report – 1 of which required preliminary enquiries only:

- A manager within Adult Care referred suspicions that a provider was not delivering the required number of hours to service users but were invoicing the Council for the full contracted hours – insufficient evidence to prove fraud.

  Outcome – preliminary enquiries confirmed discrepancies but no evidence of fraud. Negotiations agreed repayment of overcharged amount and action plan to be issued recommending improvements to the provider's systems and processes

30. We currently have 8 live cases – 2 of which are currently with the Police. It is unlikely that the remaining 6 cases will result in a Police referral:

- 1 x Service user suspected of exaggerating disabilities to obtain Direct Payments

  Adult Care have reassessed and ceased payments to the service user. Counter Fraud & Investigation Team are working with Adult Care to establish whether invoices submitted are fraudulent. Adult Care intend to recover overpayments (estimated at £5.5k) from the service user

- 1 x Service user suspected of exaggerating disabilities to obtain care provision

  A care provider has reported suspicious behaviour by service user that suggests they may be exaggerating the extent of their condition. The service user does not receive Direct Payments from the Council although the Authority does meet the costs of providing care. Counter Fraud & Investigation Team are liaising with Adult Care to agree a way forward (estimated cost has not yet been quantified)

- 1 x Service user subject to financial abuse by an appointee

  Report received from Safeguarding Team that a service user's finances are being abused by the individual assigned as Power of Attorney. Mouchel Court of Protection Team are currently working on this case in conjunction with the Office of the Public Guardian. The Counter Fraud and Investigation Team is liaising with both parties to achieve an appropriate outcome. Calculations are still being made to quantify the potential value of fraud involved.

- 1 x employee suspected of Data Protection offences and fraudulent misuse of working time

  Employee accessed confidential information and spent excessive time in doing this. This is a disciplinary investigation and a draft report has been produced.

- 1 x employee suspected of submitting incorrect mileage claims

  Preliminary enquiries have been completed and an investigation has been commissioned – the estimated loss/overpayment has not yet been calculated

- Suspected misuse of a library card (also potential copyright offences)

  Preliminary enquiries are ongoing

- Employee suspected mileage irregularities and working when on sick leave

  These concerns are also being investigated under the Council's disciplinary process – we have completed the investigation and the outcome report is being finalised.

31. Since our last progress report one case has been closed with a successful outcome:

    In December 2014 a former employee was charged with Taking a Vehicle without Consent and Driving without Insurance. This case involved unauthorised use of a council vehicle. They pleaded guilty and received an 18 month Community Service Order, 6 penalty points against their driving licence and ordered to pay court fees of £85.

Progress Against Plan

32. The Counter Fraud Work Plan at Appendix A provides summary information on progress against plan – much of our work is on-going. We are, however, making good progress and our achievements to date are detailed in points 8 to 20 above.

Other Matters of Interest

CIPFA Code of Practice on Managing the Risk of Fraud and Corruption

33. The new CIPFA Counter Fraud Centre will lead and co-ordinate the fight against fraud & corruption across public services. They have recently published a new Code of Practice that replaces the previous guidance included in the ‘Red Book’ publication.

34. The Code of Practice includes 5 key principles. These expand upon the themes of the Local Government Fraud Strategy (Fighting Fraud Locally) that was previously published in 2011. The key principles are to:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption

35. The Code reinforces the responsibility of public bodies to embed effective standards to counter fraud and corruption in their organisations. This should support a framework of good governance and demonstrate effective and robust public financial management. It is encouraging that many of the measures identified within the code have already been implemented by the Council.

36. The Code also states that where organisations are making a statement in their Annual Governance report, they should assess and report upon their level of conformance with the Code.

END OF REPORT

Counter Fraud Work Plan 2014/15 **Appendix A**

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
Culture					
Engagement and training	Briefings sessions / training for members, management, staff, key partners		April 2014	March 2015	On track
Website maintenance	Updates / warnings of emerging fraud risks, case summaries, results and prevention information		September 2014	December 2014	Content update in progress
Awareness Campaign	Posters, leaflets, e-learning tool to rejuvenate staff awareness		April 2014	June 2014	Awareness material complete E-learning tool at development stage
Sub Total		**40**			
Deterrence					
Promotion of counter Fraud Activity	Communications covering: ▪ Counter fraud team ▪ Investigation outcomes / prosecutions ▪ Advice on fraud prevention measures		April 2014	March 2015	Ongoing – • successful outcomes have been publicised through local press and internal media & publications

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
					• Counter Fraud GEORGE page updated .
Sub Total		**10**			
Prevention					
Organisational learning	Supplementary reports and actions plans arising out of investigation work		April 2014	March 2015	Ongoing
Data analytics	Further development / use of data analytics: ▪ Quarterly testing – specific fraud tests		April 2014	March 2015	Ongoing – transactions where increased fraud risk are highlighted and followed up on a regular basis
Advice	Enhancing fraud controls and process – new and existing systems		April 2014	March 2015	Ongoing – new finance system & contract management
Sub Total		**40**			
Detection					

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
Update Fraud Risk Profile	Incorporating emerging risk issues and results from local risk assessment		December 2014	January 2015	Ongoing
Proactive fraud exercises	• Payroll (overtime / honoraria / allowances) • Contracts		September 2014 December 2014	March 2015 January 2015	Fieldwork complete and draft report being finalised Delayed until 2015/16 Counter Fraud Work Plan
National Fraud Initiative 2014/15	• Data preparation for 2014/15 upload and matching exercise • Initial analysis, sampling and testing of LCC data matches		September 2014 February 2015	October 2014 March 2015	Complete – uploads successful Priority reports identified and testing commenced – 2 possible cases highlighted for investigation
Sub Total		**140**			
Investigation					

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
Whistleblowing and Fraud Investigation	In line with investigation manual and recommended best practice		April 2014	March 2015	On-going
Sub Total		**350**			
Sanctions and Redress					
Pursue civil, disciplinary and/or criminal sanctions	Action taken during investigation process		April 2014	March 2015	On-going
Identify and recover losses	Identified during investigation – recovery action through Proceeds of Crime Act, Insurance and legal means		April 2014	March 2015	On-going
Sub Total		**5**			
Contingency					
Advice & Liaison			April 2013	March 2014	On-going
Sub Total		**65**			
Grand Total		**650**			

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**30 March 2015**
Subject:	**International Audit Standard - Response to Management Processes Questions**

Summary:

This report provides the Committee with an assessment around whether the County Council and Pension Fund financial statements may be mis-stated due to fraud or error.

Recommendation(s):

To consider if the assessment accurately reflects the Council's management processes to minimise the risk of fraud or error in the County Council and Pension Fund financial statements.

Background

Each year the External Auditors are required to obtain an understanding of the Council's management processes in a number of areas. The International Auditing Standards specify the areas concerned and each one is listed below, together with the details of our current processes.

Note: A material mis-statement for the Authority's accounts in 2014/15 is around £20m and £17m for the Pension Fund accounts.

1. **An assessment of the risk that financial statements may be materially mis-stated due to fraud**

There are a variety of controls to ensure that the accounts are accurate and reflect properly authorised expenditure and income due to the Council.

Accounting – the form of the accounts and accounting processes are determined by the Executive Director of Resources and Community Safety. There are regular reconciliations covering bank reconciliation, payments, payroll and suspense accounts. Access to make journal entries in the accounts is restricted and year end manual accruals in excess of £50k are subject to separate authorisation.

Orders and Payments – access is restricted through formal schemes of authorisation. Cheque payments in excess of £50k require release by senior finance staff. There are formal procurement and tendering rules for contracts.

There is segregation of duties between purchase and payment and appropriate levels of authorisation have been set.

Monitoring expenditure and income – every area of expenditure and income is the responsibility of a named budget holder. Throughout the year Budget Holders are required to regularly review the accuracy of payments and income. This is supplemented by specialist contract management expertise for larger contracts.

Statement of accounts – there are a variety of year end reconciliations and checks. There is also a robust statement of accounts quality assurance undertaken by specialist finance staff independently of staff who prepare the draft statements.

2. An assessment of the risk that the Pension Fund statements may be materially mis-stated due to fraud

In addition to the arrangements described above, there are a number of specific controls and requirements which apply to the administration of the Lincolnshire Pension Fund. The fund is not subject directly to any laws and regulations that are any different to other bodies in the same sector:

- UK law which applies to pension schemes including Act of Parliament and regulations
- European law
- Case law which is relevant to pension schemes

The Local Government Pension schemes are regulated by a range of specific statutory requirements, the main ones being:

- Local Government Pension Fund (Management and Investment of Funds) Regulations 2009
- Local Government Pension Scheme Regulations 2013

The accounts format and content is covered by the Pensions SoRP and underpinned at a high level by the Accounts and Audit Regulations as well as the specific Codes published under statute such as the CIPFA Codes covering the accounts.

The Council employs external investment managers to make most investment decisions and a custodian holds the investment certificates which add further assurance to the overall control environment. The Council receives annual auditor assurance reports from these organisations.

The Pensions Committee approves the investment policy of the Fund and monitors its implementation during the year. The Committee meets, as a minimum, on a quarterly basis and special meetings are convened if considered necessary. The Committee membership includes representatives from the County Council, district councils, other employers and trade unions.

3. Identifying and responding to risks of fraud in the organisation

Our proactive counter fraud work and whistleblowing arrangements help us fight against fraud and reduce our exposure to the risk of fraud. Our annual report provides information on the outcomes of this work.

The Council has recognised the importance of protecting the public purse and has maintained a robust response through its dedicated Counter Fraud Team.

The risk of fraud is included in our risk management processes.

We also work with other local authorities to share good practice and undertake joint work e.g. raise awareness. This is enhanced by recently developed Lincolnshire Counter Fraud Partnership – reporting directly to the Chief Finance Officer Group and tasked with carrying out county-wide fraud proactive exercises in areas of high fraud risk. We also take account of best practice and emerging fraud issues published by the CIPFA Counter Fraud Centre and until recently, the Audit Commission.

Outcomes and progress of our proactive counter fraud work is monitored by our Audit Committee.

Appendix A includes our response to a series of fraud related questions which will also help to inform External Audit's assessment of the risk of fraud and error within the Authority and Pension Fund financial statements.

3. Communication to employees of views on business practice and ethical behaviour

Employees are made aware of these via:

- The induction process
- The Code of Conduct for Employees
- The Councils value statement
- The Constitution, particularly Financial Regulations

- Internal communications through our intranet GEORGE

4. Communication to those charged with governance of the processes for identifying and responding to fraud

The Audit Committee is informed by:

- The review of the Counter Fraud and Whistleblowing policies which are based on good practice
- Approval and progress reports on the delivery of our Counter Fraud Work Plan
- The Authority's Annual Governance Statement
- Internal and External Audit Plans and Reports
- The Final Accounts scrutiny and other External Audit Reports

5 Awareness of any actual or alleged instances of fraud

During the last 12 months, our counter fraud team has been involved in a number of investigations. The combined value does not represent any material effect on the financial statements. The Authority has also recovered fraud losses in year and has taken all reasonable action to seek redress, where possible.

6 Compliance with laws and regulations and the potential for litigation and claims that would affect the financial statements

The Authority's Constitution provides the framework for the Council's governance arrangements and, as well as this:

- The Monitoring Officer is responsible, after consultation, for reporting to full Council or Executive, if it is considered that any proposal, decision or omission would give rise to unlawfulness.
- Legal Comments are contained in reports to Council, the Executive and Committees to advise on compliance with the policy framework and the Constitution.
- The Executive Director – Resources and Community Safety has responsibility to highlight any proposal, decision or course of action which will involve any unlawful expenditure and the financial impact of any decision.
- The Council has a strong overall control environment which aims to reduce the risk of potential litigation and claims arising. Regular Internal Audit reviews occur to ensure compliance with established controls.

- A robust assurance framework underpins the Council's governance arrangements – it is regularly updated and periodically reviewed to ensure continued effectiveness.
- There are clear policies in place which are routinely updated and communicated throughout the Authority. The Council has strong, well established corporate functions which, along with the ongoing support from its legal advisors, help to minimise the risk of non-compliance with laws and regulations.
- The risk management process assesses the key risks facing the Council and takes measured risks that seek to minimise impact and maximise benefits / innovation.
- Our insurance cover helps us minimise our exposure to potentially large claims.
- Instances of potential claims will be acknowledged, if appropriate, as a contingent liability in the financial statements of the authority.

Conclusion

Given the above information the Council is assessed as **low risk** that the financial statements may be materially mis-stated due to fraud or error.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Response to fraud and error questions

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.

Response to fraud and error questionnaire

No.	Questions for management	Managements response
1	Are you aware of any instances of actual, suspected or alleged fraud, within the authority as a whole during the period 1 April 2014 – 31 March 2015?	Yes – these are received and investigated by our dedicated counter fraud & investigation team. Head of Audit provides fraud updates (esp. material cases) to S151 officer, EA liaison and Audit Committee. Refer to EA liaison fraud update for cases during 2014/15.
2	Do you suspect fraud may be occurring, within the authority? ➢ Have you identified any specific fraud risks within the authority? ➢ Do you have any concerns that there are areas within the authority that are at risk of fraud? ➢ Are there particular locations within the authority where fraud is more likely to occur?	Yes – we acknowledge and understand our fraud risks – we have a dedicated counter fraud team to respond to these risks. Yes – see below In line with key fraud risks highlighted nationally & consideration of the Council's own fraud risk profile, we believe areas to focus on are: ▪ Procurement ▪ Contracts ▪ Schools ▪ Direct Payments ▪ Grants
3	Are you satisfied that internal controls, including segregation of duties, exist and work effectively? ➢ If not where are the risk areas?	We are satisfied that overall the Council's control framework is sufficient. An end of contract reconciliation has revealed a number of payment discrepancies between the Pensions Benefits System and SAP payroll – the combined value of the error does not materially affect the Council's accounts. This issue will not reoccur due to the integrated nature of Agresso (new Finance/HR system). We will continue to review the adequacy of the control framework to ensure compliance where issues such as segregation of duties may become an issue. For example:

No.	Questions for management	Managements response
		■ Smaller schools ■ Establishments ■ 3rd parties / partners ■ Fewer managers / wider remits / new responsibilities – potential for gaps in control to develop
	➢ What other controls are in place to help prevent, deter or detect fraud?	■ Whistleblowing arrangements ■ Robust CF Policy and zero tolerance stance to fraud ■ Proactive work programme – delivered by CF team (deter/detect) / analytical review ■ Due diligence activities on key financial systems throughout the year (deter/detect) ■ Accredited counter fraud specialists ■ Deterrence - case summaries on website / successful prosecutions in Echo / results and work of CF team periodically published in Echo (from Audit Committee reporting)
4	How do you encourage staff to report their concerns about fraud?	■ Whistleblowing arrangements ■ Counter Fraud Policy / leaflets / Fraud Response Plan ■ Whistleblowing and Counter Fraud posters ■ Regular news bulletins ■ Code of Conduct – reporting expectations ■ Dedicated counter fraud team ■ Fraud awareness sessions ■ Assistant Directors and Heads of Service briefings
	➢ What concerns about fraud are staff expected to report?	All suspicions re. fraud, corruption or theft.
5	From a fraud and corruption perspective, what are considered to be high risk posts within your area of responsibility?	■ Bank and authorised signatories ■ Treasury management e.g. borrowing
	➢ How are the risks relating to these posts identified, assessed and managed?	Policies, procedures – managed by established control framework, overall scheme of delegation & assessed through recent audit process.

No.	Questions for management	Managements response
6	Are you aware of any related party relationships or transactions that could give rise to instances of fraud? ➢ How do you mitigate the risks associated with fraud related to related party relationships and transactions?	Yes – in LCC Pensions and Mouchel Pensions (S151 officer aware / risks assessed & managed). This relationship risk will no longer apply from 1 April 2015. Requirement for officers to declare any interests / personal relationships (Code of Conduct / Personal Relationships at Work Policy). Management responsible for assessing the risk and taking any control actions i.e. transferring responsibilities / decision making, removing delegated authority, restricting access to information, meetings etc
7	Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading? ➢ Are there particular balances where fraud is more likely to occur? ➢ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the authority? ➢ Could a false accounting entry escape detection? If so, how? ➢ Are there any external fraud risk factors which are high risk of fraud?	No Imprest (materiality low) No No No
8	Are you aware of any organisational, or management pressure to meet financial or operating targets? ➢ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	No No

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Lincolnshire
COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**30 March 2015**
Subject:	**Risk Management Progress Report - March 2015**

Summary:

The role of the committee is to gain assurances that the Council is effectively managing its key risks and has good risk management systems and processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.

There have been no big suprises for the Council where it suffered significant financial loss or reputation.

In addition the Committee have responsibility to monitor effective development and operation of risk management and corporate governance in the Council.

This report assists the Committee in fullfilling that role, by providing an update on how well the Council's biggest risks are being managed as well as reporting on the progress made in assisting the Council to adapt and change the way it 'thinks' about risk.

Recommendation(s):

That the Committee notes the current status of the strategic risks facing the Council and make recommendations on any further scrutiny required.

Background

1. As part of the on-going review and oversight of the Strategic Risk Register, there have been regular updates from the risk owners in obtaining assurances that the strategic risks are being managed effectively.

2. During the past few months we have undertaken a review of our strategic risks taking into account of any 'operational' risks.

3. The Risk Management Progress Report, which can be found in Appendix A, provides the Committee with updates on key messages received over the past 12 months since the last report in June 2014.

Conclusion

4. Overall, the council's strategic risks continue to be managed pro-actively. There is a good level of awareness of the current and emerging issues, with positive action being taken where appropriate.

5. Given the scale and significance of the changes facing the Council further work is required to ascertain and review the Council's risk appetite going forward.

6. In addition to this, work will be underway over the summer months to align the strategic risks against the new business plan of the Council.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Risk Management Progress Report - March 2015

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 Debbie Bowring, who can be contacted on 01522-553772 or debbie.bowring@lincolnshire.gov.uk.

Lincolnshire
COUNTY COUNCIL

Risk Management Progress Report

Audit
LINCOLNSHIRE

Date: March 201

Contents

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Audit LINCOLNSHIRE

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Introduction

1. The purpose of this report is to provide an update on:

    - the key strategic risks facing the Council
    - the activities being undertaken to support the Council in developing a culture of being *'Creative & Aware of Risk'*[1].

Key Messages

Strategic risk register

2. Over the past couple of months, we have undertaken updates from the various risk owners against the strategic risks to gain an assurance that these are being managed effectively.

3. We have also aligned the strategic risks to the new Commissioning strategies from January 2015.

4. Our Strategic Risk Register includes 11 risks – these are;
    - **Safeguarding** – Safeguarding Children
    - **Safeguarding** – Safeguarding Adults
    - **Resilience (Business Continuity)** – Capacity & resilience to responding to, and recover from, wider area and prolonged emergencies and business disruption (e.g. coastal flooding / pandemic flu) impacting on public safety, continuity of critical functions and normal service delivery.
    - **Market Supply Adult Care** – Adequacy of market supply to live within budget
    - **Integration of Health & Social Care Services and the Better Care Fund** – Maintaining a viable, safe & sustainable health infrastructure.
    - **Projects** – Monitoring of designated management projects
    - **Budget – LCC** – Funding and maintaining financial resilience
    - **Governance** – Maintenance of effective governance arrangements including the way we implement transformational change and decisions affecting service delivery
    - **Commissioning** – Commissioning for Lincolnshire doesn't deliver the priorities and benefits
    - **Recruitment / Staffing** – Requirement to have the right people in the right place with the right skills at the right time a) Reshaping our workforce b) Capacity to deliver our core strategic objectives e.g. transformational change, recruitment & retention of specialist skills
    - **Strategic contracts** – Ensuring contracts are fit for purpose in the Commissioning Agenda

[1] The Council wishes to be creative and open to considering all potential delivery options, with well measured risk taking whilst being aware of the impact of its key decisions.

5. There are still a couple of risks that require assurances to be fully explored and the level of risk the Council is prepared to accept to be determined. We shall continue to work with the risk owners firm up control actions and classify the current and target risk scores.

Operational (Tactical) risks

6. The Corporate Risk & Safety Steering Group met on 6th January 2015 and provided an update on the Directorate Risk & Safety Dashboards.

7. The dashboard approach enables the Council to maintain an oversight of its Directorates risk and safety performance. It recognises that there is no single reliable measure of risk and safety performance, opting instead to use a 'basket' of measures to provide information on a range of key risk and safety activities which can be tracked over time to assess overall performance.

8. The 'Risk' element of each dashboard focuses purely on what are considered to be the - biggest (tactical) risks for the 'Directorates'. It also acts as an early warning mechanism for any emerging big risks requiring escalation to the Strategic Risk Register.

9. A summary of each Directorates 'Top 5' risks can be seen in *Appendix 1* from which the following key messages can be drawn:

   - Almost all areas have identified having a tactical risk around 'people', e.g. inability to retain/recruit skilled & motivated staff, a risk which is echoed within the Strategic Risk Register;

   - Almost all areas have identified having a tactical risk around 'budget and lack of future finances to deliver services', a risk which is echoed within the Strategic Risk Register;

   - There are no tactical risks requiring escalation to the Strategic Risk Register or CMB at the present time.

   - There are no risks with 'No Assurance' from a management perspective.

Risk Management – Internal Audit Report

10. Following on from the internal risk audit report that was concluded last year, overall there were a number of key actions as follows:

Number	Action	Update on action	Completed
1	Risk in decision making	Work is underway to raise a revised template around key decisions within the Committee papers. The Council's business plan has recently been agreed and in view of the impending key programs coming into the Council e.g. Agresso implementation, it is more appropriate to run the risk workshops later in the year.	• Target for completion June 2015. • Target for completion July 2015
2	Effectiveness of Risk & Safety Groups	Still ongoing, however operation risk continues to be managed through directorate groups.	• Completed
3	Financial Procedure		• Completed
4	Project risk management	Projects and programs have changed – we are looking to include within our 2015 work program as an in depth piece of work.	• Target for completed December 2015

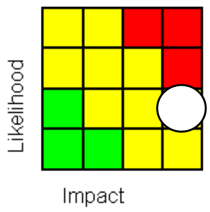
Our Strategic Risks

11. In view of the newly revised Council Business Plan, our strategic risks need to be reviewed - this will commence over the summer months.

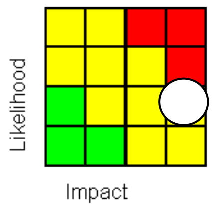
    The review will include establishing the current risk appetite over key areas of the business with Members and Senior Officers.

12. Key areas/risks to note are as follows:

Risk 1: Safeguarding Children – *Substantial assurance*



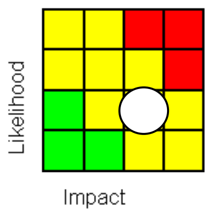
Current risk score



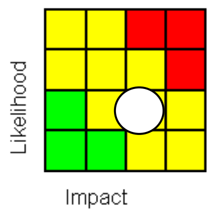
Target risk score

The level of assurance over this risk remains at 'substantial' with the direction of travel increased to 'improving' which is due to the 'good' findings following the Ofsted inspection.

Risk 2: Safeguarding Adults – *Substantial assurance*



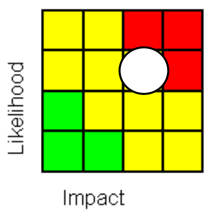
Current risk score

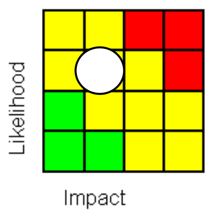


Target risk score

Following a number of audit reports completed in this area which have shown as 'substantial' assurance together with the implementation in January 2015 of the action plan arising from the Peer Challenge, this risk has now reached target score and has been increased to 'substantial' assurance from 'limited'.

Risk 3: Good Business Continuity & Resilience – *Substantial assurance*

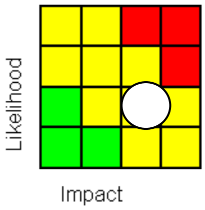


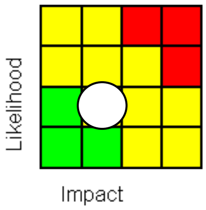


Current risk score **Target risk score**

This risk continues to be a relevant risk with no movement on the assurance level, direction of travel or scoring of this risk. However, work is continuing and in particular the action around 'reviewing our preparedness in the event of an emergency and working with partners and looking at joint arrangements with the districts for the LRF and looking at a deal about mutual aid around the region'.

Risk 4: Adequacy of market supply to meet eligible needs for adults- *Substantial assurance*

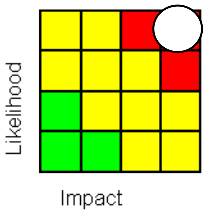


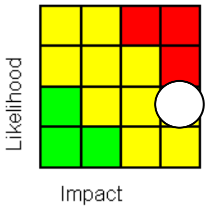


Current risk score **Target risk score**

There has been a lot of media interest over the past few months around this particular risk; however this is being managed effectively. Additional funding has been agreed by Executive and Homecare rates have been established and procurement approach agreed.

Risk 5: Integration of Health & Social Care Services and the Better Care Fund – *Limited assurance*





Current risk score **Target risk score**

This is a key programme and remains critical to the Councils transformation of adult social care working with health in Lincolnshire.

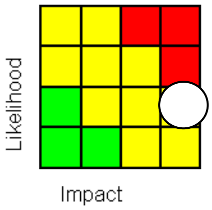
The title of the risk has been amended to include 'The Better Care Fund' as this is linked to this risk. The programme is making good progress in the midst of changing national approaches. We are implementing those changes that we can do without consultation and these are working well. We expect to have a public consultation later in the summer for other proposals.

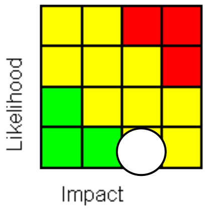
Risk 6: Monitoring of designated management projects – *Assurance level to be determined*

The Council has a number of key projects that impact the successful delivery of its strategic aims and objectives. This risk associated with each project is managed through appropriate project boards.

Work is underway to co ordinate over the projects.

Risk 7: Funding and maintaining financial resilience – *Substantial assurance*

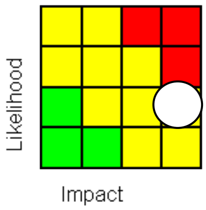


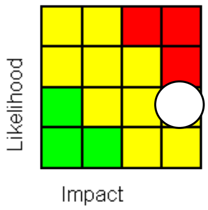


Current risk score **Target risk score**

There have been no movement on the assurance level, direction of travel or scoring of this risk since our last report; however the Fundamental Budget Review has been completed and set savings targets for the next few years. There has only been a one year budget set due to the uncertainties.

Risk 8: Maintenance of effective governance arrangements – *Substantial assurance*





Current risk score **Target risk score**

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

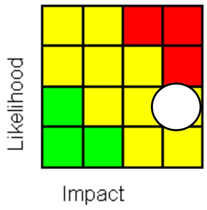
There have been no movement on the assurance level, direction of travel or scoring of this risk since our last report; however the Members code of conduct has been revised and approved in December 2014. The action around the code is the monitoring and implementation of this to ensure effectiveness. The Scheme of Delegation has also been completed.

Risk 9: Commissioning for Lincolnshire doesn't deliver the priorities and benefits

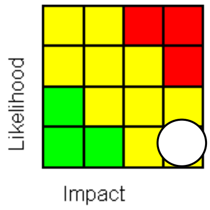
Due to the nature of this risk, it has been decided that it is not a risk in its own right but a risk that affects majority of, if not all the remaining existing strategic risks. In view of this, this risk will be removed from the register at the next time of updating.

Risk 10: Requirement to have the right people in the right place with the right skills at the right time
a) Reshaping our workforce

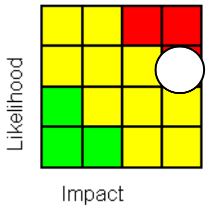
b) Capacity to deliver our core strategic objectives e.g. transformational change, recruitment & retention of specialist skills – *Substantial assurance*



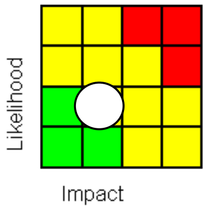
A – Current score



A – Target score



B – Current score



B – Target score

We have obtained confirmation for this risk that the assurance level is at 'substantial' and the direction of travel is 'static'. Even though there is a lot of uncertainty amongst the Council with the various service reviews, it is felt that this risk is being managed effectively.

Risk 11: Ensuring contracts are fit for purpose in the Commissioning Agenda – *Assurance level to be determined*

Within our work plan for 2015/16, this is an area we will be looking at and the risks associated with contracts.

A copy of the updated Strategic Risk Register can be seen in *Appendix 2*.

Progress against 2015/16 priorities

13. Our priorities for (2015/16) continue to be as follows:

- Continue to track and monitor progress of how the council's strategic risks are being managed.
- Maintenance of the Strategic Risk Register Assurance Map
- Continue to provide 6 monthly progress reports to the Audit Committee (or by exception where necessary)
- Finish developing and launch a range of action based learning activities for staff and elected members to engage with and assist the council in developing a culture of being *"creative & aware of risk"*.
- Work with the Risk & Safety groups with support and co-ordinate Health & Safety, Risk and Insurance intelligence.
- Completion and launch of the Risk Management Toolkit
- Refresh the Strategic risk register to fall in line with the new business plan
- Work with Organisational Development in providing training to the key staff within the organisation.

APPENDIX 1 - Directorate Top 5 Risks – as at 31st December 2014

Adult Social Care			
No.	RISK	Level of Mgnt Assurance	Escalation Req'd?
1	Transformation agenda (Health integration - LSSR)	Substantial	No
2	Retention / Morale of staff and maintaining skills to deliver services	Limited	No
3	Budget	Substantial	No
4	Adequacy of market supply and ability to manage demand for services to meet eligible needs of adults	Limited	No
6	Safeguarding of adults	Limited	No

Childrens			
No.	RISK	Level of Mgnt Assurance	Escalation Req'd?
1	Safeguarding of children	Substantial	No
2	Staff safety	Substantial	Nn
3	High risk activities - ensuring we are robust in 'non licensed' adventurous activities such as cycling	Limited	No
4	Building based management	Substantial	No
5	Documentation: Management & Storage	Substantial	No

Environment & Economy			
No.	RISK	Level of Mgnt Assurance	Escalation Req'd?
1	Effective governance of major projects	Substantial	No
2	Ability to recruit and retain suitably qualified and experienced staff	Limited	No
3	Significant budget reductions in light of whole service review leading to failing of critical services	Limited	No
4	Staff resilience and business continuity in light of a significant emergency	Limited	No
5	Fundamental Budget Review impacting on effective and efficient service delivery	Limited	No

Public Health			
No.	RISK	Level of Mgnt Assurance	Escalation Req'd?
1	Contract Management	Limited	No
2	Political - working and decision making in a political organisation	Limited	No
3	Finance - certainty of funding, mgnt of spend, ensuring VFM	Substantial	No
4	Access to and storage/holding of information - sharing with other parties, data protection	Limited	No
5	Lack of performance mgnt framework	Substantial	No

Finance & Public Protection			
No.	RISK	Level of Mgnt Assurance	Escalation Req'd?
1	Inability to recruit & retain skilled staff	Limited	No
2	Insufficient budget to deliver acceptable level of service	Substantial	No
3	Safety of children and adults in and out of county (assessed from a local service perspective)	Substantial	No
4	Compliance with statutory legislation within various services	Substantial	No
5	Reputational risk around relationships with external clients	Limited	No

Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**30 March 2015**
Subject:	**External Audit Plan - 2014/15**

Summary:

This report decribes how External Audit will deliver their Finanical Statement 2014/ 15 work for the Council

Recommendation(s):

To consider the External Audit plan and any implications the plan has on the Council's governance, risk and control environment.

Background

The attached report (**Appendix A**) sets out how the Council's External Auditor will deliver their financial statement audit for both the Council and the Pension Fund. It also sets out their approach to Value for Money work for 2014/15.

CIPFA's Audit Committees practical Guidance for Local Authorities and Police - 2013 Edition includes core functions around External Audit relevant to the plan where the Committee may wish to obtain assurance, namely:

- Reviewing if the planned resources and team composition have the required seniority, expertise and experience to undertake the engagement.
- Reviewing details of any non-audit work being undertaken and how this may impact on the financial statement work.
- Assurances on any key risks identified. Further assurance needed around impact / risks associated with early close down
- Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed

Conclusion

External Audit are required to issue an audit report giving an opinion on the accounts (including the Annual Governance Statement) and the Council's use of resources (the value for money conclusion) as at 31st March 2015. The plan describes how this will be done.

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 Plan 2014/15

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.

cutting through complexity

External Audit Plan 2014/15

Lincolnshire County Council

March 2015

Contents

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1st Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Introduction

This document describes how we will deliver our audit work for Lincolnshire County Council and Lincolnshire Pension Fund.

Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in April 2014. It describes how we will deliver our financial statements audit work for Lincolnshire County Council ('the Authority') and Lincolnshire Pension Fund ('the Pension Fund'). It also sets out our approach to value for money (VFM) work for 2014/15

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 provides further detail on the audit risks for the pension fund
- Section 6 explains our approach to VFM arrangements work.
- Section 7 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

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

Headlines

Audit approach	Our overall audit approach remains similar to last year with no fundamental changes . Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with management. Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.
Key financial statements audit risks	We have completed our initial risk assessment for the financial statements audit and have identified the following significant risk: ■ Accounting for Local Authority Maintained Schools. CIPFA have issued definitive clarification of existing guidance on significant entries to be included in the financial statements. This is described in more detail on page 13. We will assess this risk area as part of our interim work and conclude this work at year end. The Authority is introducing significant changes to its financial systems as part of its transition from Mouchel to Serco as its provider of financial support services. The Authority is replacing SAP with Agresso and the new system will be in place from April 2015. The 2014/15 accounts will be produced using SAP and we have discussed with managers the information required from the outgoing system for our audit. We will continue to liaise with managers regarding the accounts closedown and their arrangements for managing the operational impact of the system and organisational changes.
Key financial statements audit risks for the Pension Fund	Our initial risk assessment for the Pension Fund's financial statements audit has identified the following significant risk: ■ From 1 April 2014, all members of the Local Government Pension Scheme (LGPS) have automatically joined the new career average defined benefit scheme. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. We have described this in more detail on page 14. We will assess the Authority's progress in addressing this risk area as part of our interim work and conclude this work at year end. As well as changing its main financial services provider the Authority is changing its pensions administration arrangements from April 2015, with West Yorkshire Pensions taking over from Mouchel. As part of this change the Pension Fund will need to move its membership and other administrative information from the current AXIS system to the incoming provider's CIVICA system. We have discussed with Pension Fund managers the information required for our audit from SAP and AXIS. We will continue to liaise with managers regarding accounts closedown and their arrangements for managing the impact of the ongoing changes.

Headlines (continued)

VFM audit approach	We have completed our initial risk assessment for the VFM conclusion and have identified the following significant risk: ▪ The Authority has undertaken, through its Future Delivery of Support Services project, major procurement exercises to re-award its contracts for Corporate Support Services and Property Services. These services are to be supplied by new providers and the five year contracts will become live from 1 April 2015. The Authority has also agreed a change to its pension fund administration provider. In view of the importance of these changes to the Authority's contracts we need continued assurance about the Authority's arrangements for the economy, efficiency and effectiveness criterion of the VFM conclusion. These issues are described in more detail on page 20. .
Audit team, deliverables, timeline and fees	There have been two changes to the audit team from last year, with Tom Tandy and John Pressley taking on the in-charge roles for the audit of the Authority and Pension Fund respectively. Our main year end audits are currently planned to commence in June 2015. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*. The overall planned fee for the 2014/15 audit is £167,450. This is unchanged from the position set out in our *Audit Fee Letter 2014/15*. This comprises £143,100 for the Authority's audit and £24,350 for the Pension Fund. We expect there to be an added element for the additional work required in relation to the significant risks identified in this Plan relating to the Authority and Pension Fund financial statements audit opinions and the VFM conclusion. We will update the Committee when the additional amount has been determined and agreed with officers and the Audit Commission.

Our audit approach

We undertake our work on your financial statements in four key stages during 2014:

- **Planning (January to February).**
- **Control Evaluation (February to March).**
- **Substantive Procedures (June to August).**
- **Completion (September).**

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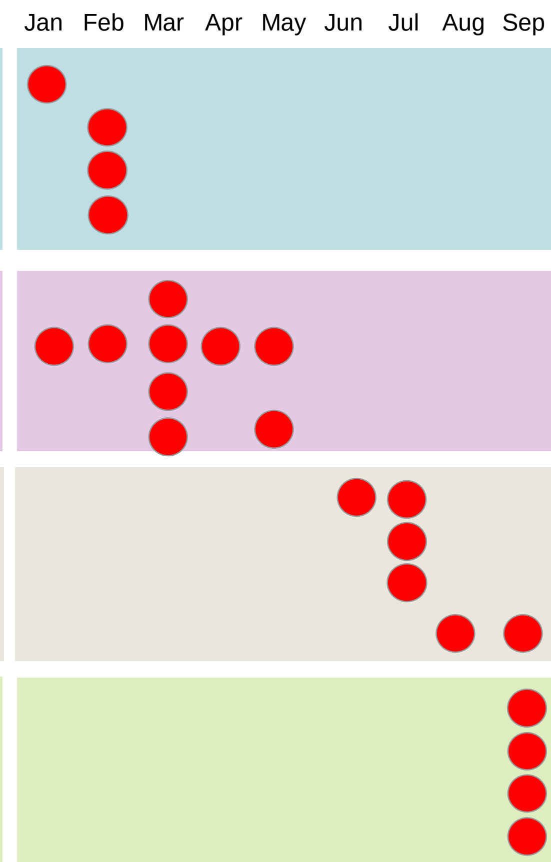
We have summarised the four key stages of our financial statements audit process for you below.

1	Planning	Update our business understanding and risk assessment. Assess the organisational control environment. Determine our audit strategy and plan the audit approach. Issue our *Accounts Audit Protocol*.
2	Control evaluation	Evaluate and test selected controls over key financial systems. Liaise with Internal Audit. Review the accounts production process. Review progress on critical accounting matters
3	Substantive procedures	Plan and perform substantive audit procedures. Conclude on critical accounting matters. Identify audit adjustments. Review the Annual Governance Statement.
4	Completion	Declare our independence and objectivity. Obtain management representations. Report matters of governance interest. Form our audit opinion.



Our audit approach – planning (continued)

During January and February 2015 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work takes place in January and February 2015. This involves the following aspects:

Planning

- Update our business understanding and risk assessment including fraud risk.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks including risk of fraud affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 7 of this document.

Our audit approach –planning (continued)

When we determine our audit strategy we set a monetary materiality level for planning purposes.

For 2014/15 we have set this at the planning stage at £20 million for the Authority's accounts and £17 million for the Pension Fund accounts.

We will report to the Audit Committee all audit differences over £1 million for the Authority Accounts and £0.85 million for the Pension Fund accounts

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

Materiality for planning purposes has been set at £20 million for the Authority's accounts, which equates to around 2 percent of gross expenditure in the previous year. Materiality for planning purposes has been set at £17 million for the Pension Fund accounts, which is around 2 percent of forecast year end total assets. We will revisit both of these assessments when the actual values for total gross expenditure and total assets are available.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) *'Communication with those charged with governance'*, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 (UK&I), *'Evaluation of misstatements identified during the audit',* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1 million. For the Pension Fund the trivial threshold is £0.85 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Our audit approach – planning (continued)

We will issue our *Accounts audit protocol* following completion of our planning work.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. Separate documents will be issued for the Authority and the Pension Fund .These important documents sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We met with the finance team to discuss mutual learning points from the 2013/14 audits. These will be incorporated into our work plan for 2014/15. We revisit progress against areas identified for development as the audits progress.

Our audit approach – control evaluation

During March 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15.

We work with your finance team and the pensions team to enhance the efficiency of the accounts audits.

We will report any significant findings arising from our work to the Audit Committee.

Our on site interim visits will be completed during March. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Liaise with internal audit regarding relevant audit work.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's and Pension Fund's key financial processes where our risk assessment has identified that these are relevant to our final accounts audits and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visits.

We liaise with internal Audit and take their reports on topics which are relevant to our audit opinions into account. If appropriate we review their detailed work in relation to specific testing on which we plan to rely.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in July 2015.

Our audit approach – substantive procedures

During June to August 2015 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Audit Committee in September 2015.

Our final accounts visits on site have been provisionally scheduled for the period June to August. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's and Pension Fund's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss with management our early findings of the approach to addressing the key risk areas for the Authority and Pension Fund accounts prior to reporting to the Audit Committee in September 2015.

Audit adjustments

During our on site work, we will meet with the officers on a regular basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site visits, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

Pension Fund Annual Report

We also issue an opinion on the consistency of the Pension Fund's accounts included in the *Pension Fund Annual Report* with those included in the Statement of Accounts We intend to issue this opinion at the same time as our opinion on the accounts.

Our audit approach – other matters

In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified audit approach for 2014/15 have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 19.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of March 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Key financial statements audit risks

In this section we set out our assessment of the significant risks or other key areas of audit focus of the Authority's financial statements for 2014/15.

For each key risk we have outlined the impact on our audit plan.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Appendix 3 covers more details on our assessment of fraud risk.

The table on page 13 sets out the significant risk we have identified through our planning work that is specific to the audit of the Authority's financial statements for 2014/15.

The Authority is introducing significant changes to its financial systems as part of its transition from Mouchel to Serco as its provider of financial support services. The Authority is replacing SAP with Agresso and the new system will be in place from April 2015. The 2014/15 accounts will be produced using SAP and we have discussed with managers the information required from the outgoing system for our audit. We will continue to liaise with managers regarding the accounts closedown and their arrangements for managing the operational impact of the system and organisational changes.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key financial statements audit risks (continued)

We have outlined the impact of this risk on our audit plan.

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Key audit risks	Impact on audit
Accounting for local authority maintained schools **Audit areas affected** - Property, plant and equipment - CIES (income/ Expenditure)	**Risk** LAAP Bulletin 101 *Accounting for School Assets used by Local Authority Maintained Schools* issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools. The Authority will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that the Authority could incorrectly omit school assets from, or include school assets in, its balance sheet. Particular risks surround the recognition of Foundation School assets which may or may not be held in Trust. The Authority should pay particular attention to the nature of the relationship between the Trustees and the school governing body to determine whether the school controls the Trust and the assets should therefore be consolidated into the balance sheet. **Our proposed audit work** As part of our audit, we will ensure the Authority is aware of the latest guidance and review the judgements it has made. This will include: - Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools; - Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary; and - Determining whether the basis of valuation of any assets which are brought onto the balance sheet at 1 April 2013 is appropriate.

Key financial statements audit risks – the Pension Fund

In this section we set out our assessment of the significant risk to the audit of the Pension Fund's financial statements for 2014/15, and its impact on our audit plan.

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As for the Authority's financial statements, professional standards require us to consider two standard risks for all Pension Funds. To recap, these are:

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for pension funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table below sets out the significant risk we have identified through our planning work that is specific to the audit of the Pension Fund's financial statements for 2014/15. We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

As well as changing its main financial services provider the Authority is changing its pensions administration arrangements from April 2015, with West Yorkshire Pensions taking over from Mouchel. As part of this change the Pension Fund will need to move its membership and other administrative information from the current AXIS system to the incoming provider's CIVICA system. We have discussed with Pension Fund managers the information required for our audit from SAP and AXIS. We will continue to liaise with managers regarding accounts closedown and their arrangements for managing the impact of the ongoing changes.

Key audit risks	Impact on audit
LGPS reform **Audit areas affected** - Benefits	**Risk** From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 2014/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected. **Our audit work** We will review the controls and processes that the Pension Fund have put in place to accurately capture the data required by LGPS 2014. Our work will also focus on testing that the system has been set up to accurately calculate future benefit entitlement.

Key financial statements audit risks – the Pension Fund (continued)

We will assess the progress made in implementing the new Pension Fund governance arrangements implemented from 1 April 2015.

Other areas of audit focus

From 1 April 2015, the Pensions Regulator is responsible for regulating the governance and administration of public service pension schemes, which includes the Local Government Pension Scheme. Scheme managers and pension board members must comply with a number of legal requirements, such as the establishment of a pension board with an equal number of employer representatives and member representatives. Pension board members for a public service pension scheme must also meet certain legal requirements that relate to their knowledge and understanding.

We will discuss with managers the progress made in implementing these new governance arrangements and report our findings to the September 2015 Audit Committee through our 'Report to those Charged with Governance' (ISA 260 Report).

VFM audit approach

Our approach to VFM work follows guidance provided by the Audit Commission.

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Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future.	■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ■ achieving cost reductions; and ■ improving efficiency and productivity.	■ Prioritising resources ■ Improving efficiency and productivity

VFM audit approach (continued)

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

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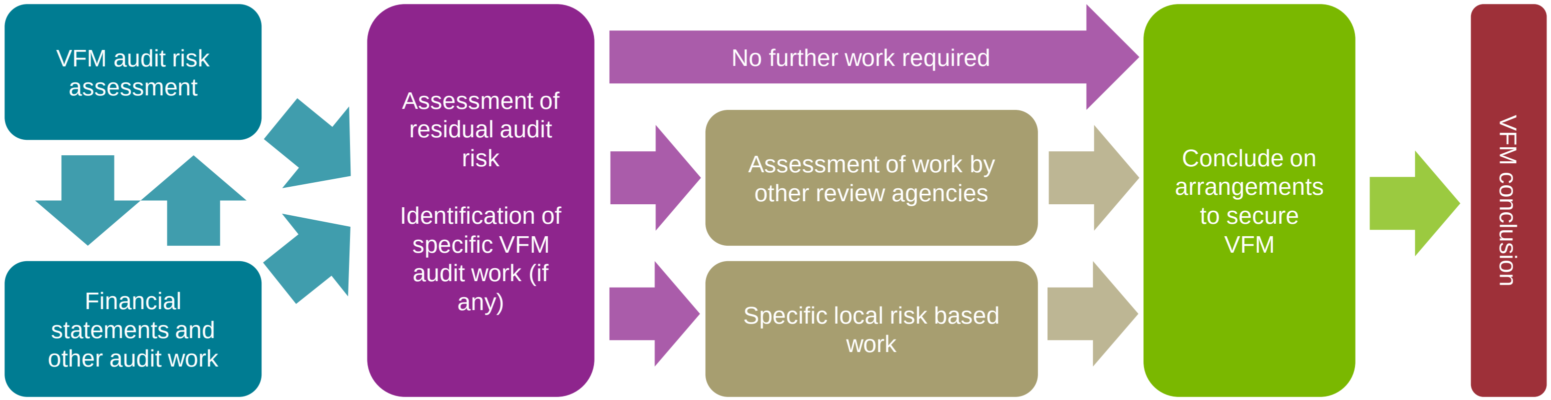
Overview of the VFM audit approach

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



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*. In doing so we consider: ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Audit Commission's VFM profile tool ; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of other inspectorates and review agencies.

VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

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VFM audit stage	Audit approach
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Assessment of residual audit risk	It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria. Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.
Identification of specific VFM audit work	If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ▪ considering the results of work by the Authority, inspectorates and other review agencies; and ▪ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as: ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	On the following page, we report the results of our initial risk assessment. We will report on the results of the VFM audit through our *ISA 260 Report*. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

VFM audit approach (continued)

We have identified one specific VFM risks.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We will carry out additional risk-based work in relation to the changes to the Council arrangements arising from the Future Delivery of Support Services project and the change in the pensions administration provider.

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In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion,

We will report our final conclusions in our *ISA 260 Report 2014/15*.

Key VFM risk	Risk description and link to VFM conclusion
Future Delivery of support Services project	The Authority has undertaken, through its Future Delivery of Support Services project, major procurement exercises to re-award its contracts for Corporate Support Services and Property Services. These services have been provided through the current contract with Mouchel since 2000. Two separate contracts have been let, to Serco and VINCIMouchel respectively, and the five year contracts will become live from 1 April 2015. The combined value over the life of the projects is over £117m and they are forecast to deliver savings totalling £16m over that period. The Authority has also agreed a change to its pension fund administration provider. It will move from its current provider, Mouchel, and enter into a new shared service arrangement with West Yorkshire Pension Fund from 1 April 2015. In view of the importance of these changes to the Authority's contracts we need assurance about the Authority's arrangements for the economy, efficiency and effectiveness criterion of the VFM conclusion. We have already, during our 2013/14 audit, reviewed the procurement arrangements and documentation used by the Authority for the selection of its provider for the Corporate Support Services contract. We did not raise any significant issues with management in the course of that work. We will assess the arrangements the Authority has in place for monitoring and mitigating the risks around handover of the two contracts to the new providers from 1 April 2015. We will, in the course of this work liaise closely with Internal Audit and review the Authority's arrangements for managing the risks around the transfer of data from the SAP general ledger system to Agresso and the implementation of the new system. We will also assess the arrangements in place for monitoring and mitigating the risks around the move to the new pension fund administration provider and liaise with Internal Audit regarding their work on the transfer of data to the new system.

Audit team

Tony Crawley (Director) and Mike Norman (Manager) were part of the audit team of Lincolnshire County Council last year. Tom Tandy (Assistant Manager) and John Pressley (Assistant Manager) are new to the audit team for 2014/15. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.

Tony Crawley

Director

"My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee and Chief Executive."

Mike Norman

Manager

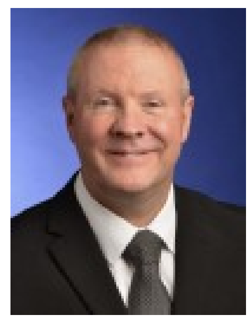
"I am responsible for the management, review and delivery of the audit of the Authority and of the Pension Fund.

I will liaise with the County Finance Officer, Audit and Risk Manager and Pensions managers"

Tom Tandy

Assistant Manager

"I will be responsible for the on-site delivery of our work on the Authority's financial statements. I will liaise with the Finance Team. I will also supervise the work of our audit assistants."



John Pressley

Assistant Manager

"I am responsible for the management, review and delivery of the audit of the Pension Fund.

I will liaise with the Pensions team."

Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports, statements and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report as appropriate with the Authority's officers prior to publication.

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Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures.	March 2015
Control evaluation and Substantive procedures		
Reports to Those Charged with Governance (ISA 260 Reports) for the Authority and Pension Fund	■ Details any control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements.	September 2015
Completion		
Auditor's Report	■ Provides an opinion on the Authority and Pension Fund accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2015
Whole of Government Accounts	■ Provide our assurance statement on the Authority's WGA pack submission.	September 2015
Pension Fund Annual Report	■ We provide an opinion on the consistency of the Pension Fund annual report with the Pension Fund accounts,	September 2015
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	November 2015

Audit timeline

We will be in continuous dialogue with you throughout the audit.

Key formal interactions with the Audit Committee are:

- **March – External Audit Plan;**
- **September – ISA 260 Report;**
- **November – Annual Audit Letter.**

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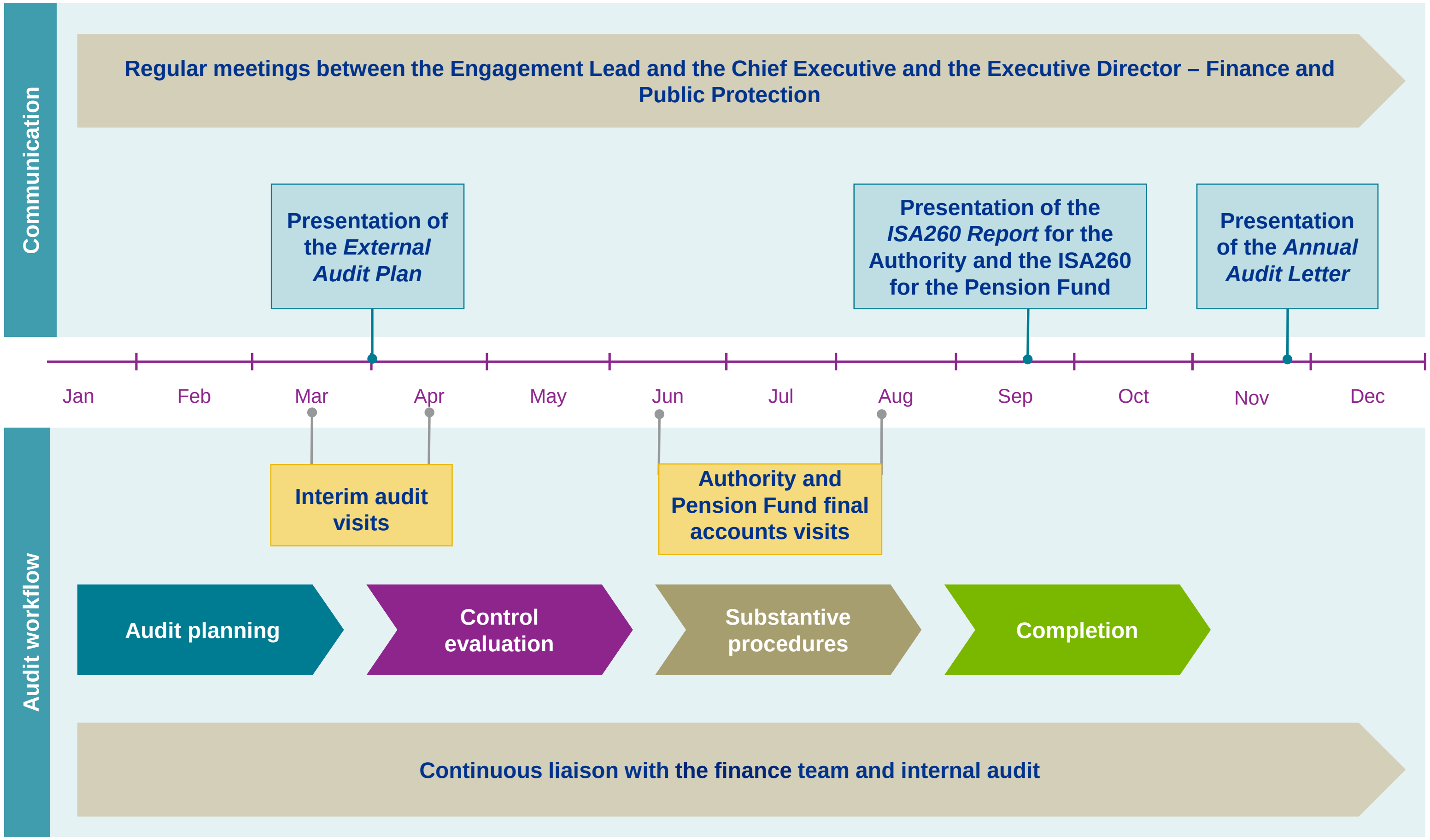
We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- **Interim audit visits during March and April.**
- **Final accounts audits between June and August.**



Key: ● Audit Committee meetings.

Audit fee

The planned fee for the 2014/15 audit of the Authority is £143,100. The planned fee for our audit of the Pension Fund is £24,350. The fee has not changed from that set out in our *Audit Fee Letter 2014/15* issued in April 2014.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

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Audit fee

Our September 2014 *Audit Fee Letter 2014/15* first set out our fees for the 2014/15 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2014/15 (planned)	2013/14 (actual)
Main audit fee	£143,100	£148,815
Pension Fund audit fee	£24,350	£24,350

Our main audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements. In 2013/14 we charged the Authority an additional £5,715 relating to work required to review your arrangements for the Future Delivery of Support Services, which had been identified as a significant risk to the VFM Conclusion. If we are required to undertake additional work to address the significant risks to the authority and Pension Fund financial statements audit opinions and the VFM conclusion identified in this plan for 2014/15 an additional fee will be charged. We will agree the additional fee for that work with officers and then with the Audit Commission, and update the Committee accordingly.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013/14;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;
  - requested information will be provided within the agreed timescales;
  - prompt responses will be provided to queries and draft reports;
- any internal audit work on which we rely meets appropriate professional standards; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept low if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Executive Director – Finance and Public Protection.

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Tony Crawley as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 2: KPMG Audit Quality Framework (continued)

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

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Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

Appendix 3 : Assessment of fraud risk

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Members /Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management./officers

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition.
  - Management override of controls.

Appendix 4: Transfer of Audit Commission's functions

The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commission's regulatory and other functions.

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From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO; and
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office.

cutting through complexity™

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Lincolnshire COUNTY COUNCIL
Working for a better future

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**30 March 2015**
Subject:	**Statement of Accounts 2014/15**

Summary:

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2014/15 Statement of Accounts;

- The review of the Council's Statement of Accounts for de-cluttering; and

- The review of the Council's Accounting Policies.

Recommendation(s):

The Executive Director of Finance and Public Protection asks Members of the Audit Committee to:

1. Note the changes required to our Statement of Accounts from the Code of Practice 2014/15; and

2. Approve the notes to be removed from the 2014/15 Statement of Accounts; and

3. Approve the Statement of Accounting Policies (Appendix A) for use in preparing the Council's accounts for the financial year ending 31 March 2015.

Background

1.1 The Council is required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) and the Service Reporting Code of Practice (SeRCOP). These both ensure the accounts are prepared using “proper accounting practice”.

Changes to the Code of Practice on Local Authority Accounting for 2014/15

1.2 The Code of Practice for 2014/15 has introduced a number of revisions and clarifications to the accounts and accounting requirements for the 2014/15 Statement of Accounts. The most significant of these relates to the accounting treatment of assets used by schools.

1.3 Clarification has been issued on how assets used by schools should be accounted for, and when they should be recognised on the Council's balance sheet. The accounting standard for property, plant and equipment (IAS 16) defines a non-current asset as "a resource controlled by the Council as a result of a past event from which future economic benefits or service potential are expected to flow". The clarification on how this should be interpreted requires the assets of a school to be controlled by the Council or the Schools governing body for this criteria to be met, and therefore the assets included within the Council's balance sheet.

1.4 All school assets have been reviewed to identify if they are controlled by the Council and should be included on the Council's balance sheet. In general terms all Community Schools and Foundation Schools (which are not controlled by a separate trust) should be included on the Council's balance sheet. Voluntary Controlled and Voluntary Aided Schools where the assets are generally controlled by a Trust (often the Diocese) should not be on the Council's balance sheet.

1.5 The overall effect of the clarification will be dealt with in the Council's balance sheet as a prior period adjustment and the accounts will be restated as at 1 April 2013 and 31 March 2014 as if the Council had always accounted on this basis. The estimated net effect on the balance sheet at 1 April 2014 is a reduction in the property plant and equipment balance of £13.838m, made up of an addition of £85.304m for Foundation Schools coming onto the Council's balance sheet and a reduction of £99.142m for Voluntary Controlled Schools coming off.

1.6 There are also a number of changes to the Code, primarily around group relationships and accounting that do not impact on the County Council in 2014/15. These are:

- IFRS 10, Consolidated Financial Statements;
- IFRS 11 Joint Arrangements; and
- IFRS 12 Disclosure of Interests in Other Entities.

De-cluttering Review of the Statement of Accounts

1.7 The Council revised the format of the Statement of Accounts at the time of converting to accounting under International Financial Reporting Standards in 2010/11. During 2014/15 a review of the disclosures made in the Statement of Accounts has been undertaken to refresh the information reported and remove any information and notes which are:

- not required by the Code;

- where the information can be found elsewhere in the document; or
- where the note is not material (determined to be over £1.000m).

1.8 It is proposed that the following notes are removed from the Statement of Accounts from 2014/15 (a copy of the Statement of Accounts for 2013/14 is attached at **Appendix A** for your information when considering the notes to be removed):

Note	**Explanation**
Note 8 - Service Expenditure Analysis	This note sets out a more detailed breakdown of gross expenditure and income in the Comprehensive Income and Expenditure Statement. This note not is required by the Code. Note 32 Amounts Reported for Resource Allocation Decisions (Segmental Reporting) provides similar information but analysed by County Council service area rather than statutory headings.
Note 20 - Construction Contracts; Note 34 - Trading Activities; Note 36 - Road Charging Schemes; and Note 52 - Capitalisation of Borrowing Costs	The notes currently included within the Statement of Accounts state that the Council does not undertake these activities. Review on an annual basis to confirm the Council does not have anything to disclose for these activities.
Note 51 - Impairment Losses	The note currently included within the Statement of Accounts state that the Council does not have any impairments to disclose. Review on an annual basis to confirm the Council does not have anything to disclose for these activities.
Note 44 –Landfill Allowance Trading Scheme	The scheme ended on 31 March 2013. All references to the scheme can be removed from the Statement of Accounts from 2014/15.
Note 22 - Cash and Cash Equivalents	The note does not provide any information that is not available in other parts of the Statement of Accounts.
Note 43 - Expenditure on Publicity	The note is not a requirement of the Code, therefore the note can be removed from the Statement of Accounts.

Note 57 - Group Relationships and Other Interests	The Council does not have any material group relationships (where the value to the Council is over £1.000m). Therefore the note can be removed from the Statement of Accounts. Review on an annual basis to confirm the Council does not have any material relationships to disclose.
Note 58 - Trust Funds	The Trust Funds administered by the Council are not material (over £1.000m). Therefore the note can be removed from the Statement of Accounts. Review on an annual basis to confirm the Council does not have any material Trust Funds to disclose.

Statement of Accounting Policies

1.9 An important section of the published Accounts is the statement of accounting policies. This summarises the rules and codes of practice used to prepare the Accounts, together with any estimation techniques adopted. The policies have been reviewed and are attached at **Appendix B** for consideration and approval by this Committee.

1.10 A small number of minor changes have been made to the accounting policies for 2014/15, these include:

- An updated policy on accounting for schools assets to reflect the Code clarifications set out above;
- Removal of the policy for the Landfill Allowance Trading Scheme as this ceased on 31 March 2013 and the accounts now do not contain any references to the scheme; and
- Updated allocations for Central Establishment Charges for the cost of support services.

Conclusion

2.1 Changes to the format and content of the accounts and accounting requirements will be incorporated into the Statement of Accounts for 2014/15 as required by the Code of Practice and review of the Statement of Accounts.

2.2 The Statement of Accounts will be prepared using the Accounting Policies approved by the Audit Committee at this meeting.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Statement of Accounts for Lincolnshire County Council 2013/14 *(please note: due to the size of this document it has not been printed. Electronic copies are available at www.lincolnshire.gov.uk/committeerecords)*
Appendix B	Statement of Accounting Policies 2014/15

Background Papers

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

Document title	Where the document can be viewed
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15	Executive Director of Finance and Public Protection
Service Reporting Code of Practice for Local Authorities	Executive Director of Finance and Public Protection

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 2013-14

Note **Contents:** **Page**

Statement of Accounts 2013-14

Explanatory Foreword

Introduction to the Accounts

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

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

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

Content

The Explanatory Foreword

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

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

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

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

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

Balance Sheet as at 31 March 2014

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

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

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

Notes to the Accounts

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

The Statement of Responsibilities for the Statement of Accounts

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

The Governance Statement

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

Audit Opinion

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

The Lincolnshire Pension Fund Account

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

The Lincolnshire Fire and Rescue Pension Fund Account

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

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

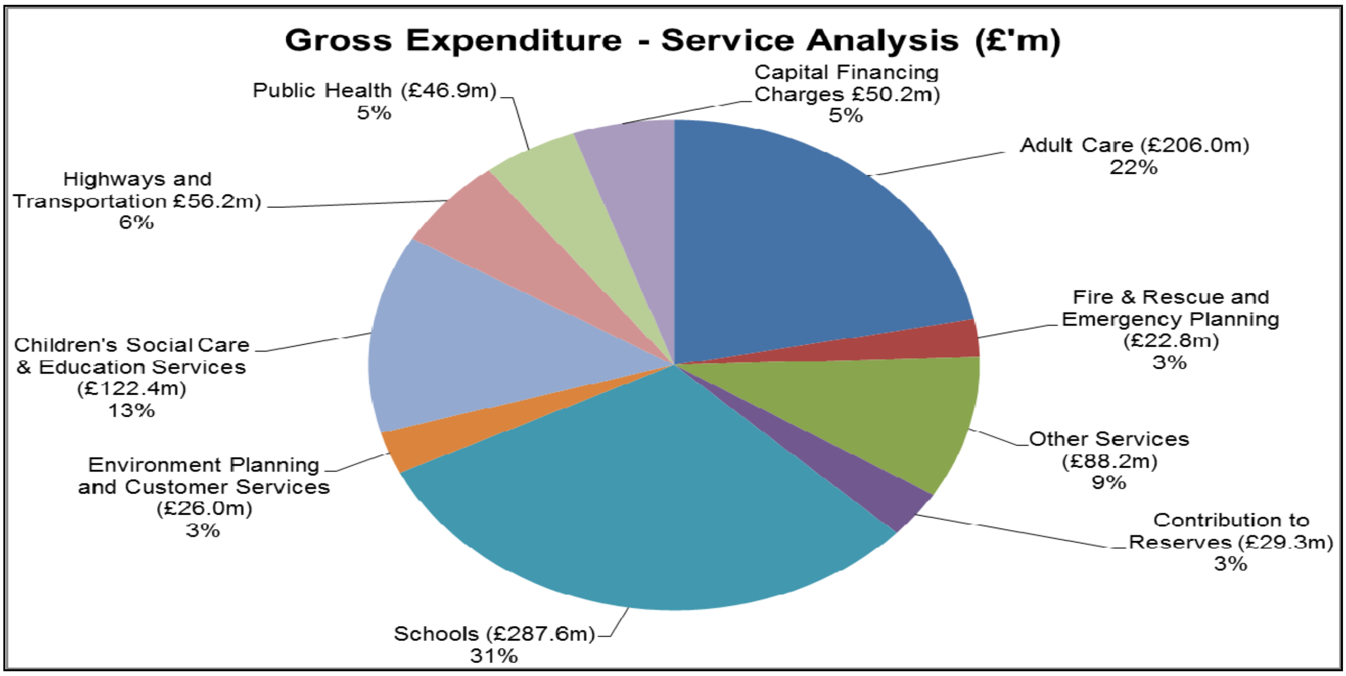
Review of the Year

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

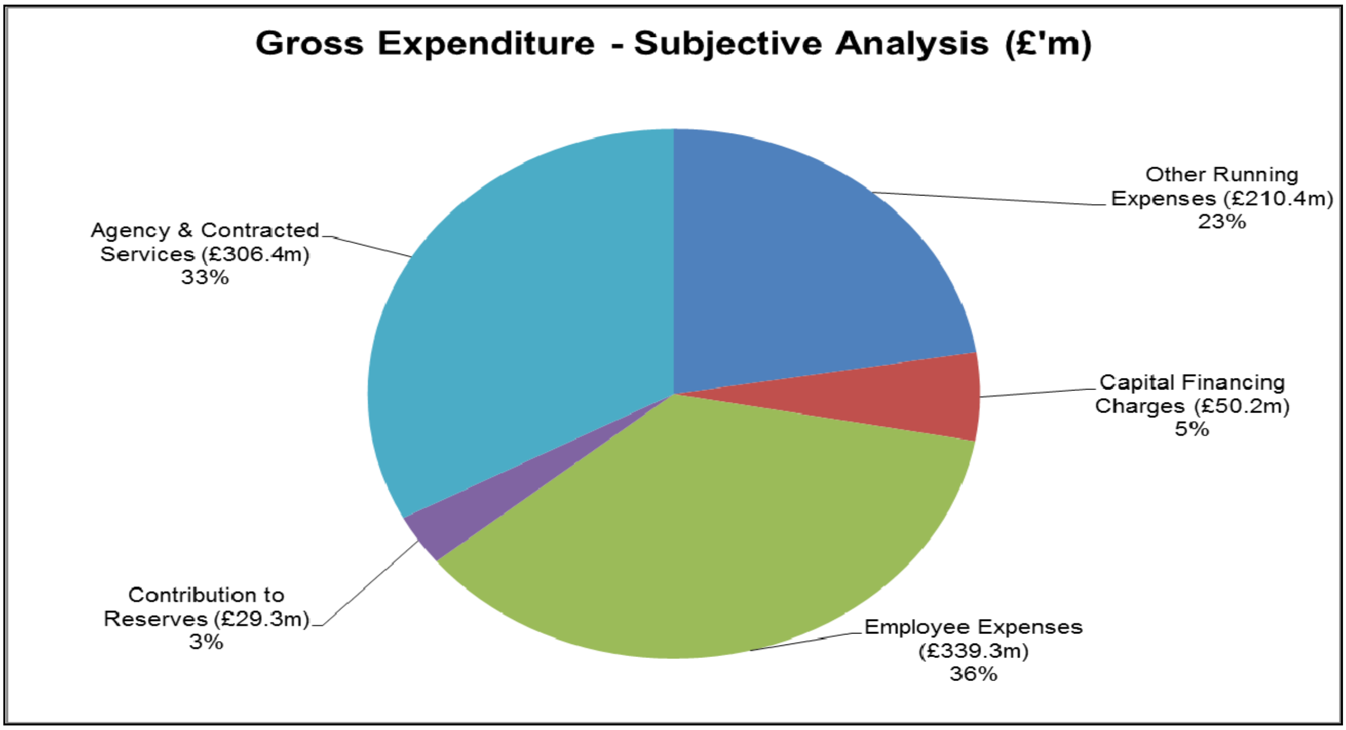
Annual Revenue Spending

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

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



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

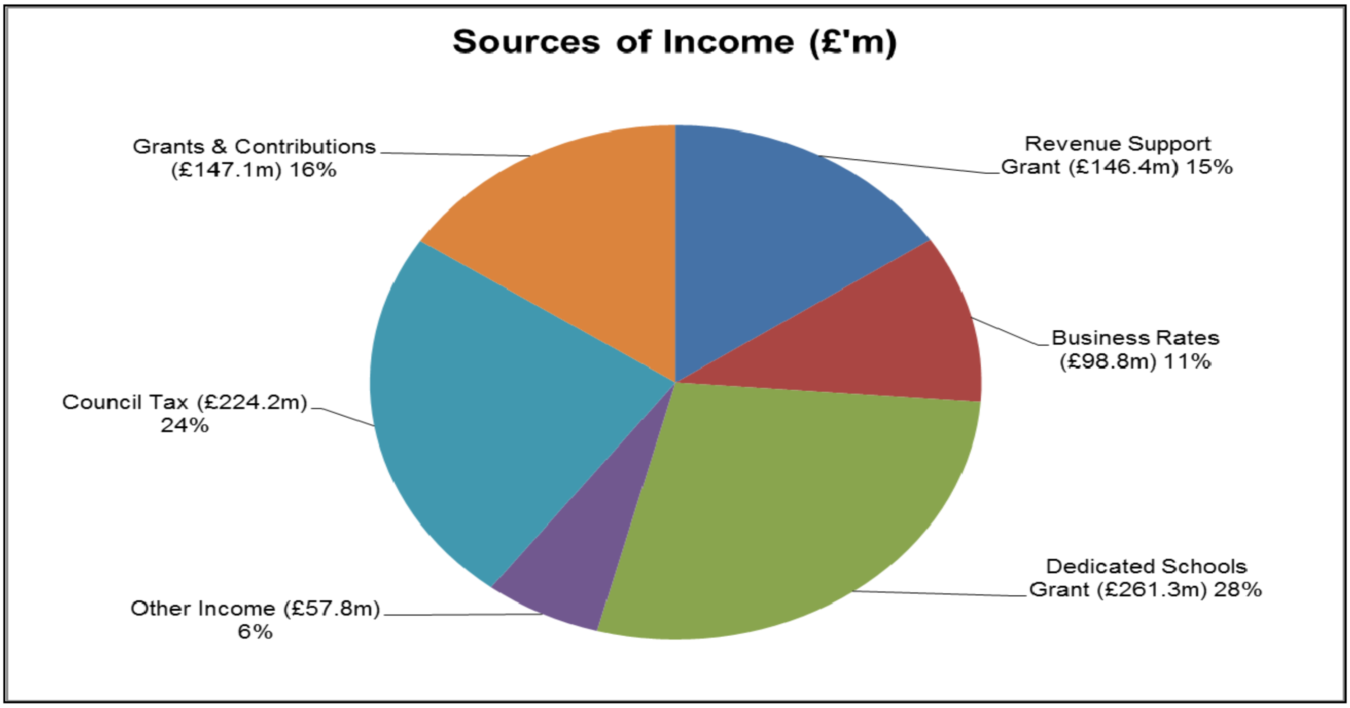


The distribution of expenditure by type differs significantly between different services. For example, salaries and wages comprises 64.6% of expenditure for schools. For services other than schools, salaries and wages comprises 27.0% of expenditure and contract payments comprises 48.6% of total expenditure.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

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

Annual income

The Council's revenue spending was funded by:



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

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

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

Revenue budget outturn 2013-14.

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

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

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

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

Significant variances include:

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

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

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

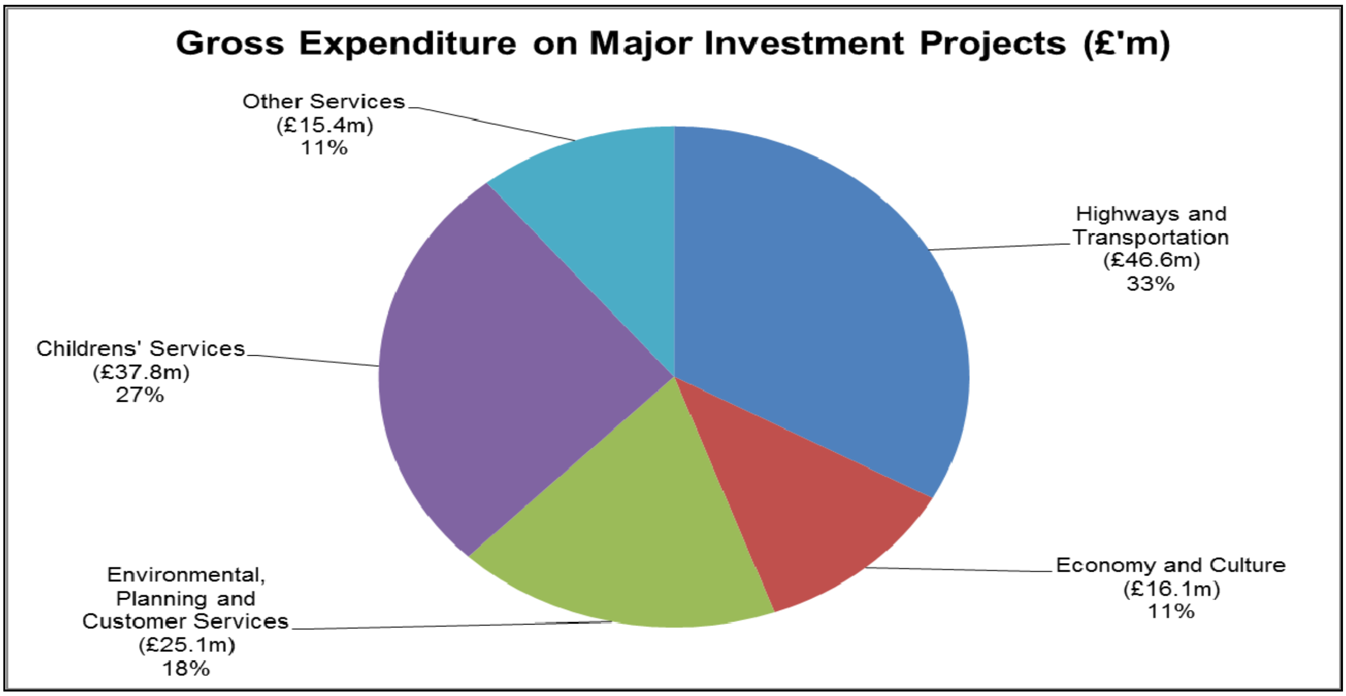
- Schools Budgets (£21.158m underspend). Schools budgets are ring-fenced and carried into the next financial year for schools. This underspend represents a significant reduction on previous years underspend.

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

Investment in major projects

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

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



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

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

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

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

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

Financial health and performance

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

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

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

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

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

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

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

Economic Climate and future revenue and capital budgets and future financing

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

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

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

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

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

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

Energy from Waste Plant

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

Public Health Responsibilities

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

Conversion of Schools into Academies

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

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

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

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

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

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

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

· Approve the Statement of Accounts.

The Chairman's Responsibilities

The Statement of Accounts was presented to Lincolnshire County Council Audit Committee and approved on 22 September 2014.The original documents were signed by Councillor Mrs Rawlins (Chairman Lincolnshire County Council Audit Committee) on 22 September 2014.

The Executive Director of Finance & Public Protection

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

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

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

The Executive Director of Finance & Public Protection has also:

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

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

The original documents were signed by Pete Moore, CPFA (Executive Director -Finance and Public Protection) on 22 September 2014.

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

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

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

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

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

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

(*1) It is the Council's policy to fully utilise all capital receipts to finance capital expenditure in the year they are received.
(*2) The presentation of the MIRS has changed from 2012-13 Statement of Accounts due to a prior period adjustment arising from the revision to IAS 19 retirement benefits.

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

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

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

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

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

Lincolnshire County Council: Balance Sheet as at 31 March 2014

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

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

Lincolnshire County Council: Cashflow Statement as at 31 March 2014

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

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

Note 1. Statement of Accounting Policies

1. General Principles and Concepts

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

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

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

2. Changes in Accounting Policies

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

3. Prior period adjustments – estimates and errors

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

The following disclosures will be made:

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

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

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

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

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

Classification

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

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

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

a) Initial Recognition

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

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

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

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

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

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

b) Measurement after Recognition – Valuation Approach

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

The code requires the following valuation approaches to be adopted:

Operational Assets

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

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

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

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

Non-Operational Assets

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

Valuation Programme

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

c) Revaluation Gains and Losses

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

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

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

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

d) Depreciation

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

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

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

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

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

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

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

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

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

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

Component Accounting for Property, Plant and Equipment

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

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

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

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

e) Disposal of Property, Plant and Equipment

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

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

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

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

f) Impairment of non-Current Assets

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

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

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

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

5. Intangible Assets

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

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

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

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

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

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

6. Investment Properties

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

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

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

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

d) Depreciation is not charged on Investment Properties.

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

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

7. Heritage Assets

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

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

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

a) Initial Recognition

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

b) Measurement after recognition:

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

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

d) Depreciation is not charged on Heritage Assets.

8. Non-Current Assets Held for Sale

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

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

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

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

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

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

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

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

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

9. Donated Assets

Donated assets are non-current assets which are given to the Council at no cost or at below market value. These assets are initially recognised in the Balance Sheet at this value and then measured at fair value. The difference between the fair value and any consideration paid is credited to the Taxation and Non-Specific grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally.

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

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

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

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

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

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

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

11. Minimum Revenue Provision

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

12. Revenue Expenditure Financed through Capital under Statute

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

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

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

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

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

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

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

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

14. Borrowing Costs

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

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

15. Classification of Leases

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

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

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

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

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

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

a) Finance Leases

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

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

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

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

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

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

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

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

b) Operating Leases

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

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

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

16. Government Grants and Contributions

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

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

- The grant or contribution will be received.

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

Capital Grants and Contributions (non-current assets)

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

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

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

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

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

Revenue Government Grants and Contributions

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

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

17. Debtors

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

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

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

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

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

18. Creditors

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

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

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

19. Provision for Bad and Doubtful Debt

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

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

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

20. Inventories

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

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

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

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

21. Cash and Cash Equivalents

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

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

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

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

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

22. Provisions

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

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

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

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

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

23. Contingent Liabilities

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

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

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

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

24. Contingent Assets

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

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

25. Events after the Reporting Date

These are events that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. The Council will report these in the following way if it is determined that the event has had a material effect on the Council's financial position.

- Events which provide evidence of conditions that existed at the end of the reporting period will be adjusted and included within the figures in the accounts; and

- Events that are indicative of conditions that arose after the reporting will be reported in the narrative notes to the accounts.

- Events which take place after the authorised for issue date are not reflected in the Statement of Accounts.

26. Recognition of Revenue (Income)

Revenue shall be measured at the fair value of the consideration received or receivable.

Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, with the exception of non-exchange transactions (such as Council Tax and general rate) where it is assumed there is no difference between the delivery and payment date.

27. Exceptional Items

Exceptional items are material amounts of income or expenditure which occur infrequently in the course of the Council's normal business and are not expected to arise at regular intervals. When these items of income or expense are material, their nature and amount will be disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts depending on how significant the items are to an understanding of the Council's financial performance.

28. Costs of Support Services

The costs of overheads and support services are charged to those who benefit from the supply of services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013-14 (SeRCOP). The costs are recharged to services on the following basis:

Costs	Basis of apportionment
Accommodation	staff numbers
Accountancy services	estimated time
Business support	budget amount
Communications	gross expenditure and sales
Creditor payments	number of payments
Customer service centre	number and length of calls
Debtor services and income collection	number of debtor accounts and number of cash receipts
IT services	number of PC's
Payroll services	number of employees
People Management	number of employees
Programme Centre and Property Rationalisation Programme	gross expenditure and sales
Property services	number of properties
Adult Social Care (Assessments Team and associated Swift IT)	number of Adult Social Care clients

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation; and

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

29. Acquired and Discontinued Operations

Where the Council takes on new activities or ceases providing services, the costs relating to these activities will be identified in the Comprehensive Income and Expenditure Statement, on the surplus or deficit on discontinued operations line. These items will not form part of the net cost of services in the Comprehensive Income and Expenditure Statement in the year they occur.

30. Value Added Tax (VAT)

The Council's Comprehensive Income and Expenditure Statement excludes VAT. All VAT must be passed on (where output tax exceeds input tax) or repaid (where input tax exceeds output tax) to HM Revenue and Customs.

The net amount due to or from HM Revenue and Customs for VAT at the year-end shall be included as part of creditors or debtors balance.

31. Council Tax and Business Rates Income

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

The Council Tax and Business Rates income is included in the Comprehensive Income and Expenditure Statement on an accruals basis and includes the precept for the year plus the Council's share of Collection Fund surpluses and deficits from the billing Authorities.

The difference between the income reported in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund, shall be taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

The year-end Balance Sheet includes the Council's share of debtors (arrears and collection fund surpluses) and creditors (prepayments, overpayments and collection fund deficits).

32. 'Cap and Trade' Schemes

Landfill Allowance Trading Scheme – LATS (ceases 31 March 2013)

LATS is the only 'cap and trade' scheme that currently affects Lincolnshire County Council. The LATS scheme is recorded in our accounts as:

- an asset for allowances held;
- LATS grant income (treated as a revenue government grant); and
- a liability for actual biodegradable municipal waste landfill usage.

Allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority, shall be recognised as current assets. They shall be measured initially at their fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial measurement, Authorities shall re-measure the value of landfill allowances as the lower of cost or net realisable value.

As landfill is used, a liability shall be recognised for actual landfill usage. The liability is discharged by using allowances to meet the liability or paying a cash penalty to DEFRA. The liability is measured as the best estimate of the expenditure required to meet the obligation at the reporting date (this will be the present market price of LATS at the Balance Sheet date).

Carbon Reduction Commitment Scheme – CRC

The Council is required to participate in the CRC Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances.

The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Authority is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption.

33. Reserves

a) Useable Reserves

The Council's general revenue balances are held in the General Fund. The Council also maintains a number of specific 'earmarked' reserves for future expenditure on either policy purposes or to cover contingencies. When expenditure is financed from an earmarked reserve, it is charged to the relevant revenue service account in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back to the General Fund Balance via the Movement in Reserves Statement, so that there is no net charge against council tax.

b) Unusable Reserves

Certain reserves are kept to maintain the accounting processes for non-current assets, financial instruments and employee benefits. These accounts do not represent usable resources for the Council. These include:

- Capital Adjustment Account;
- Revaluation Reserve;
- Financial Instruments Adjustment Account;
- Pension Reserve;
- Collection Fund Adjustment Account; and
- Accumulated Absences Reserve.

34. Employee Benefits – Benefits Payable during Employment

a) Benefits Payable During Employment – Short Term Benefits

These are amounts expected to be paid within 12 months of the Balance Sheet date. These include:

- Salaries, wages and expenses accrued up to the Balance Sheet date. These items are charged as an expense to the relevant service revenue account in the year the employees' services are rendered; and

- Annual leave and flexi hours earned, but not yet taken at the Balance Sheet date. An accrual is made for items at the wage and salary rate payable. The accrual is charged to the relevant service revenue account, but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account, so this does not have an impact on council tax.

Teacher Leave Accrual

The accrual for short term benefits for teachers is calculated using a standard methodology, reflecting the fact that teachers across the Council are subject to standard terms and conditions of employment. This methodology is based on the number of days of the Spring Term (both term-time and holiday) that fall within the financial year and the leave entitlement of the teacher (which varies according to whether an individual has left the teaching profession at the end of the Spring term).

b) Long Term Benefits

These are amounts which are payable beyond 12 months. The Council does not have any material long term benefits to be declared within the Financial Statements.

35. Employee Benefits – Termination Benefits

Employee termination benefits arise from the Council’s obligation to pay redundancy costs to employees. These costs will be recognised in the Council’s Financial Statements at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for a restructuring. For example; when there is a formal plan for redundancies (including the location, function and approximate number of employees affected; the termination benefits offered, and the time of implementation).

These items will be accrued in the Balance Sheet at the year end and charged to the relevant service revenue account. If payments are likely to be payable in more than 12 months from the year end, then these costs will be discounted at the rate determined by reference to market yields.

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

36. Employee Benefits – Post Employment Benefits (Pensions)

Lincolnshire County Council participates in three different pension schemes which provide scheme members with defined benefits related to pay and service. The schemes are as follows:

- **Teachers' Pension Scheme:** This is a notionally funded scheme administered nationally by Capita Teachers' Pensions on behalf of the Department for Education (DFE). The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to teachers' pensions in the year are treated as expenditure on the education service line in the Comprehensive Income and Expenditure Statement.

- **National Health Service Pension Scheme (NHSPS):** This is a notional funded scheme administered national by NHS Pensions on behalf of the Department of Health (DoH) The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to the National Health Service Pension Scheme in the year are treated as expenditure in the Public Health service line in the Comprehensive Income and Expenditure Statement.

- **Uniformed Fire-fighters Pension Scheme (FPS):** From 1 April 2006, a new pension fund for Fire-fighters was set up. This scheme replaced the 1992 Fire-fighters scheme for new Fire-fighters. Both the 1992 and 2006 schemes remain unfunded but there are differences in the contributions payable into each scheme and the benefits paid to members. Both employee and employer contributions are paid into each fund, against which pension payments are made. Each fund is topped up by additional government funding if contributions are insufficient to meet the cost of the pension payments. Any surplus in each fund at the end of each year will be repaid back to the Department for Communities and Local Government (DCLG). Contributions in respect of ill health retirements are still the responsibility of the Council.

- **Local Government Pension Scheme (LGPS):** Other employees are eligible to join the LGPS. The Council pays contributions to a funded pension scheme from which employee pension benefits are paid out.

The pension costs included in the Statement of Accounts in respect of both the LGPS and the FPS have been prepared in accordance with IAS 19 Employee Benefits. The pension costs in respect of both the LGPS and FPS have been estimated by the Pension Fund actuary adviser and have incorporated an actual valuation of the accrued pension liabilities attributable to the Council as the scheme employer.

The Local Government Pension Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme:

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

- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on long term UK Government bonds greater than 15 years).

- The assets of Lincolnshire Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid or last traded price;
- unquoted securities – professional estimates;
- unitised securities – current bid price.

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

- Service cost comprising:

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

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

• Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debit to the Pensions Reserve as Other Comprehensive Income and Expenditure; and

• contributions paid to the Lincolnshire Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Council also pays any costs arising in relation to unfunded elements of pensions, paid to certain employees that have retired early and have been awarded discretionary compensation under the provisions of the Council's early retirement policy. These costs are charged to Non-Distributed Costs in the Comprehensive Income and Expenditure Statement.

37. Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves

In Lincolnshire, Local Authority education is provided in: Foundation, Voluntary Aided, Voluntary Controlled and Community Schools (all known as 'maintained schools').

Income and Expenditure

All income and expenditure relating to maintained schools in Lincolnshire is shown in the Council's Comprehensive Income and Expenditure Statement.

Non-Current Assets

Schools non-current assets will be accounted for by considering their substance and economic reality and not merely their legal form. The Code defines non-current assets as "a resource controlled by the Council as a result of a past event and from which future economic benefits or service potential are expected to flow".

If assets are owned by the Council, or the future economic benefits are identified to sit with the Council, then the non-current assets will be recorded in the Balance Sheet. Where the non-current assets and long term liabilities for a school are vested in the individual governing bodies, and it is assessed that the future economic benefits sit with the governing body of the school; no Property, Plant and Equipment is recorded in the Council's Balance Sheet.

The exception to this is for any finance leases for IT equipment taken out by the Council on behalf of a school; these remain within the Council's Balance Sheet as the Council retains the liability.

Assets and Liabilities

All assets and liabilities, excluding non-current assets which are covered above, relating to maintained schools are included within the Council's Balance Sheet.

Reserves

The Council maintains specific earmarked reserves for schools balances. At year end balances from dedicated schools budgets, including those held by schools under a scheme of delegation, are transferred into the reserve to be carried forward for each school to use in the next financial year. This ensures that any unspent balances at the end of the financial year are earmarked for use by those schools as required by the Council’s scheme for financing schools approved by the Secretary of State for Education.

38. Group Relationships

The Council assesses on an annual basis relationships with other bodies to identify the existence of any group relationships. A de-minimis level of £1.000m has been set for considering bodies to be included within group accounts.

The Council has not identified, and does not in aggregate have any material interests in subsidiaries, associated companies or joint ventures and therefore is not required to prepare group accounts.

39. Financial Instruments

a) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. All the Council's borrowings are carried at amortised cost and the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

No repurchase has taken place as part of a restructuring of the loan portfolio that included the modification or exchange of existing instruments. Therefore gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement and spread over future years under statutory regulation.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over ten years or the term that was remaining on the loan if less than ten years. The reconciliation of premiums / discounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

b) Financial Assets

Financial Assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and

- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

i) Loans and Receivables

Loans and Receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the majority of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

The Council has set a £50k de minimis limit to the value of soft loans or the discounting of interest rates. Below this amount the above accounting treatment for soft loans is not applied and the soft loans are shown in the accounts at their carrying value.

Where assets are identified as impaired, because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement or the relevant service (for receivables specific to that service). The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of the assets are credited/debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

ii) Available-for-sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis; and
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Where fair value cannot be measured reliably, the instrument is carried at cost (less impairment losses).

The Council holds a small equity holding of 14,000 of shares at £1 par value, in a company called 'Investors for Lincoln Ltd'. These shares do not have a quoted market price in an active market and therefore their fair value cannot be measured reliably, consequently they are shown in the Balance Sheet at cost.

Changes in fair value are balanced by an entry in the Available-For-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on revaluation of Available-for-Sale Assets. The exception is where impairment losses have been incurred and these are debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-For-Sale Reserve.

Where assets are identified as impaired, because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-For-Sale Reserve.

Note 2. Accounting Standards that have been issued but have not yet been adopted.

The County Council is required to disclose information relating to the impact of changes in accounting standards on the financial statements as a result of new standards that have been issued, but are not yet required to be adopted.

In the 2013-14 accounts, the County Council is required to disclose the following changes to Accounting Standards which may have an impact on the County Council's accounts in 2014-15. The following standards are being introduced by the 2014-15 Code:

IFRS 10 Consolidated Financial Statements;
IFRS 11 Joint Arrangements;
IFRS 12 Disclosure of Interests in Other Entities;
IAS 27 Separate Financial Statements;
IAS 28 Investments in Associates and Joint Ventures;
IAS 32 Financial Instruments: Presentation; and
Annual Improvements to IFRS 2009-11 Cycle.

The above changes to Accounting Standards and the Code of Practice have been considered and are not expected to have a material impact on the County Council's accounts in 2014-15.

Note 3. Critical judgements in applying accounting

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts include:

Government Funding

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

PFI Contract- Focus Education Lincolnshire

-The County Council entered into a PFI contract with Focus Education (Lincolnshire), for the construction and provision of seven fully serviced school premises. The Council is deemed to control the service provided in these schools and also control the residual value in the school buildings at the end of the agreement. The accounting policy for Service Concessions and Similar Arrangements (including PFI agreements) has been applied to account for this contract and the property, plant and equipment assets associated with these schools, plus the outstanding liability for the PFI finance lease have been included within the Council's balance sheet. Details of the Council's PFI contract accounting are set out in Note 50 Private Finance Initiatives (PFI) and Similar Contracts.

On the 1st March 2013, one of the seven PFI schools - the Phoenix School at Grantham, converted to Academy status. A lease has been agreed between the County Council and the Academy to reflect the effects of the conversion. This lease is accounted for in accordance with the County Council's Accounting Policies on Leases.

Energy from Waste Plant

- The Council has reviewed the arrangements in place for the construction and operation of the Energy from Waste Plant. There are elements of the Energy from Waste contract that meet the definition of a service concession arrangement in that the contract is design, build and operate. However, the land, building and equipment assets associated with the plant have been purchased outright by the Council (and financed through Prudential Borrowing), as such these have been recognised as assets of the Council's in the balance sheet.

Classification of Leases

-The County Council has entered into numerous leases for property and equipment, both as lessee and lessor. All new arrangements are assessed on an annual basis using the Council's accounting policies on leasing. Details of all leases held by the Council are set out in Note 49 Leases.

Group Boundaries - Eastern Shires Purchasing Organisation

- The County Council is one of seven local authority members of Eastern Shires Purchasing Organisation (ESPO). The relationship between the County Council and ESPO has been assessed to be a jointly controlled entity. ESPO has not been consolidated into the County Council's accounts as the relationship is not deemed to be material for the County Council. This relationship has been disclosed as a narrative note within the accounts. Full details of group relationships and other interests are detailed in Note 57.

School Assets

- The County Council's accounting policies on accounting for schools assets states: ‘The Code defines non-current assets as “a resource controlled by the Council as a result of a past event and from which future economic benefit or service potential are expected to flow”. In applying this accounting policy, the following school assets have been included within the balance sheet as non-current assets: community school assets and voluntary controlled school assets. Voluntary aided and foundation school assets have not been included within the County Council's balance sheet as ownership, economic benefit and future service potential of these assets is deemed to be vested in the school's governing body.

Investment Properties

- The County Council has assessed its portfolio of property assets and has identified a small number of assets held for investment purposes (including the Council's County Farms Estate). These assets are held purely for the purposes of capital appreciation or income generation, or both, and have been accounted for under the County Council's policy on investment properties. Further details are contained in Note 16.

Note 4. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contain a number of estimated figures that are based on assumptions made by the County Council, about the future or where there is a degree of uncertainty about outcomes. Estimates made take into account: historical experience, current trends and relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates included in the Statement of Accounts.

The County Council's balance sheet as at 31 March 2014 contains the following entries for which there is a significant risk of material adjustments in the forthcoming financial year:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Property, Plant and Equipment - PP&E (Valuations and Asset Lives)	- Land and building assets carrying value and remaining useful life are assessed by the County Council's Valuers. These valuations include an assessment of the condition and use of assets. Changes in local government funding and future restructuring of services by the Council may affect the use of existing assets and levels of spending to maintain these assets. This may lead to changes in asset values and asset lives in the future.	Changes to asset value and lives, will have an effect on the annual depreciation charge for use of assets charged to services in the CI&ES. The annual depreciation charge for PP&E in 2013-14 was £67.056m (2012-13 was £75.855m) and the gross book value of these assets was £1,654.837m (2012-13 £1,720.155m). Note 1 on accounting policies and Note 14 Property, Plant and Equipment, details the current policy on valuation methods, asset lives and depreciation applied by the County Council.
Pensions	- The County Council's accounts contain an estimate of the future liability to pay pensions on the retirement of employees. This liability is estimated by the Council's actuary who applies a number of assumptions relating to: salary projections, retirement ages, changes in mortality rates and expected rates of return on pension assets and the discount rates used.	Changes to the actuaries assumptions may materially affect the value of the pension fund liability, however, these changes are difficult to predict as the assumptions interact in complex ways. During 2013-14 the Council's actuaries advised that the net pension liability had increased by £73.596m (£96.359m increase in 2012-13). Details of the pension fund liabilities are set out in Note 54 Defined Benefit Pension Schemes.
Accruals	- Debtor and creditor accruals are measured at the best estimate of the income / expenditure expected at the balance sheet date. Details of debtor and creditor balances are set out in Note 21 (Debtors) and Note 24 (Creditors).	The most significant accrual as at 31 March 2013, is for pay which totals £7.678m (£5.427m of which is for employee leave earned but not taken).

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

Note 5. Exceptional Items

The County Council is required to disclose separately within the financial statements any exceptional items which are material and are not expected to recur frequently in the Council's normal operations.

In 2013-14, an exceptional item has arisen due to the number of schools converting to Academy status. Academies are independent of the Council, they receive funding from the Department for Education directly and incur their own expenditure. Prior to becoming Academy Schools, this income and expenditure formed part of the Council's net expenditure on schools.

The effect of schools converting to Academies in 2013-14 on the Comprehensive Income and Expenditure Statement is:

	Reduction to Gross Expenditure £'000	Reduction to Income £'000	Effect on Net Expenditure £'000
Primary Schools	(19,766)	19,926	160
Secondary Schools	(32,603)	32,666	63
Special Schools	(2,326)	2,352	26
Total Effect on Comprehensive Income & Expenditure Statement	**(54,695)**	**54,944**	**249**

These amounts have not been shown separately on the face of the Comprehensive Income and Expenditure Statement.

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

In 2012-13 a similar reduction occurred due schools becoming Academies. The effect on the CI&ES was to reduce gross expenditure by £75.335m and income by £77.229m, giving a net effect of £1.894m.The effect on the County Council's balance sheet as at 31 March 2013 was a reduction of £86.077m due to land and building assets being leased to Academies Trusts and the removal of schools equipment from the balance sheet of £0.647m.

Note 6. Material items of income and expenditure

The County Council is required to disclose any material amounts of income or expenditure which are not disclosed on the face of the Comprehensive Income and Expenditure Statement or in other supporting notes to the accounts anywhere. Any items that are over 10m that are not disclosed on the face of Comprehensive Income and Expenditure or in other supporting notes needs to be disclosed via this note. Material items (over £10m) not disclosed elsewhere in the accounts are:

A number of Lincolnshire schools have gained academy status during the 2013-14 financial year which has resulted in them no longer being owned by the Council. Further details on the impact on the Comprehensive Income & Expenditure Statement and the gain and loss on the disposal of assets can be found in Note 5 Exceptional Items.

A number of Public Health responsibilities transferred to the County Council from April 2013. Further details can be found in Note 33 Acquired and Discontinued Operations.

In 2013-14 the County Council saw a significant reduction in the Early Intervention Grant (£26.506m in 2012-13 to £19.587m in 2013-14). In 2013-14 rather than being paid as a separate grant it was included partially in the Revenue Support Grant (RSG) and partially in the Dedicated Schools Grant (DSG). As a result of this the income figures for Children's Services on the Comprehensive Income and Expenditure Statement for the 2013-14 financial year were significantly lower. The reason for this may not be obvious but the reduction in the grant can be seen in Note 46 Revenue Grants and Contributions.

Note 7. Events after the balance sheet date

a) Authorisation of Accounts for Issue

The Statement of Accounts were authorised for issue by Pete Moore, CPFA (Executive Director of Finance & Public Protection) in accordance with the Accounts and Audit Regulations 2011 (England).

b) Post Balance Sheet Events

In accordance with IAS 10 'Events after the Reporting Period' have been considered on the following basis:

- Events taking place after the date the Accounts were authorised for issue (22 September 2014) are not reflected in the Financial Statements or the notes.

- Events that provide evidence of conditions that existed at the end of the reporting period 31 March 2014 are reflected in the figures in the Financial Statements and the notes, where the information has a material impact.

- Events that arose after the reporting period have not been reflected in the figures in the Accounts. A note of material events which took place after 31 March 2014 is set out here to provide information that is relevant to an understanding of the Council's financial position, but do relate to conditions at this date.

There have been no Events After the Balance Sheet Date to report in the Financial Statements.

Note 8. Service Expenditure Analysis

The net cost of services is presented according to the service expenditure analysis detailed in the Service Reporting Code of Practice (SeRCOP) as issued by CIPFA. A further breakdown of the figures shown in the Comprehensive Income and Expenditure Statement is provided below:

2012-13 Gross Expenditure £'000	2012-13 Income £'000	(*1) Restated Net Expenditure £'000		2013-14 Gross Expenditure £'000	2013-14 Income £'000	2013-14 Net Expenditure £'000
			CHILDREN'S AND EDUCATION SERVICES - EDUCATION SERVICES			
40,651	(30,657)	9,994	Early Years	40,295	(5,694)	34,601
217,606	(176,520)	41,086	Primary Schools	194,538	(185,333)	9,205
131,703	(124,300)	7,403	Secondary Schools	83,472	(59,442)	24,030
42,597	(36,513)	6,084	Special Schools	43,480	(37,704)	5,776
15,510	(5,180)	10,330	Services to Young People and Other Community Learners	13,684	(2,179)	11,505
21,204	(9,809)	11,395	Other Strategic Functions	34,252	(20,728)	13,524
469,271	**(382,979)**	**86,292**	**TOTAL**	**409,721**	**(311,080)**	**98,641**
			CHILDREN'S AND EDUCATION SERVICES - CHILDREN'S SOCIAL CARE			
1,620	(60)	1,560	Service Strategy	2,497	(88)	2,409
15,650	(2,258)	13,392	Commissioning and Social Work	25,931	(5,145)	20,786
20,911	(1,044)	19,867	Children Looked After	22,018	(1,401)	20,617
14,056	(4,600)	9,456	Family Support Services	13,131	(2,121)	11,010
4,524	(3,579)	945	Youth Justice	4,417	(3,740)	677
413	(173)	240	Children's and Young People's Safety	590	(137)	453
525	(545)	(20)	Asylum Seekers	4	0	4
5,098	(387)	4,711	Other Children's and Families' Services	4,692	(626)	4,066
62,797	**(12,646)**	**50,151**	**TOTAL**	**73,280**	**(13,258)**	**60,022**
			ADULT CARE			
1,460	(13)	1,447	Service Strategy	269	(4)	265
131,575	(40,445)	91,130	Older People (Aged 65 or Over) including Older Mentally Ill	129,380	(47,968)	81,412
18,993	(3,235)	15,758	Adults Aged Under 65 with a Physical Disability or Sensory Impairment	19,503	(4,525)	14,978
61,263	(19,616)	41,647	Adults Aged Under 65 with Learning Disabilities	60,679	(16,563)	44,116
13,770	(5,627)	8,143	Adults Aged Under 65 with Mental Health Needs	12,917	(5,099)	7,818
9,546	(3,058)	6,488	Other Adult Services	2,667	(1,665)	1,002
236,607	**(71,994)**	**164,613**	**TOTAL**	**225,415**	**(75,824)**	**149,591**
			HIGHWAYS AND TRANSPORT SERVICES			
7,567	(1,450)	6,117	Transport Planning, Policy and Strategy	6,059	(1,403)	4,656
11,140	(741)	10,399	Structural Maintenance	10,620	(3,862)	6,758
29,055	(3,075)	25,980	Capital Charges Relating to Construction Projects	30,980	0	30,980
10,776	(994)	9,782	Environmental, Safety and Routine Maintenance	11,433	(1,122)	10,311
5,637	(564)	5,073	Street Lighting (including energy costs)	6,159	(686)	5,473
7,634	(198)	7,436	Winter Service	4,672	(221)	4,451
5,711	(1,766)	3,945	Traffic Management and Road Safety	6,503	(1,488)	5,015
302	(274)	28	Parking Services	769	(897)	(128)
17,902	(1,957)	15,945	Public Transport	19,242	(3,430)	15,812
95,724	**(11,019)**	**84,705**	**TOTAL**	**96,437**	**(13,109)**	**83,328**
			CULTURAL AND RELATED SERVICES			
6,513	(1,382)	5,131	Culture and Heritage	6,434	(1,393)	5,041
1,612	(103)	1,509	Recreation and Sport	1,369	(85)	1,284
892	(26)	866	Open Spaces	509	(65)	444
1,295	(392)	903	Tourism	1,590	(359)	1,231
13,356	(791)	12,565	Library Services	13,123	(742)	12,381
23,668	**(2,694)**	**20,974**	**TOTAL**	**23,025**	**(2,644)**	**20,381**

2012-13 Gross Expenditure £'000	Income £'000	(*1) Restated Net Expenditure £'000		2013-14 Gross Expenditure £'000	Income £'000	Net Expenditure £'000
			ENVIRONMENTAL AND REGULATORY SERVICES			
2,828	(137)	2,691	Community Safety (Crime Reduction)	2,621	(251)	2,370
912	(215)	697	Flood Defence and Land Drainage	867	(27)	840
3,263	(828)	2,435	Regulatory Services	3,072	(734)	2,338
19,999	(202)	19,797	Waste Disposal	19,438	(89)	19,349
119	(115)	4	Trade Waste	130	(111)	19
4,867	(597)	4,270	Recycling	4,480	(392)	4,088
27	(1)	26	Waste Minimisation	77	(6)	71
32,015	**(2,095)**	**29,920**	**TOTAL**	**30,685**	**(1,610)**	**29,075**
			PLANNING SERVICES			
901	(345)	556	Development Control	1,090	(387)	703
612	(32)	580	Planning Policy	728	(48)	680
1,434	(467)	967	Environmental Initiatives	1,431	(436)	995
578	(8)	570	Economic Research	464	(22)	442
3,383	(1,025)	2,358	Business Support	4,040	(1,151)	2,889
5,379	(2,506)	2,873	Economic Development	7,737	(3,840)	3,897
2,571	(773)	1,798	Community Development	2,818	(499)	2,319
14,858	**(5,156)**	**9,702**	**TOTAL**	**18,308**	**(6,383)**	**11,925**
			FIRE & RESCUE SERVICES			
1,475	(376)	1,099	Community Safety	1,345	(421)	924
27,742	(2,609)	25,133	Fire Fighting and Rescue Operations	30,946	(2,842)	28,104
29,217	**(2,985)**	**26,232**	**TOTAL**	**32,291**	**(3,263)**	**29,028**
			HOUSING SERVICES			
346	(83)	263	Other Council Property: Travellers' Sites	541	(79)	462
			Supporting People	14,163	(614)	13,549
346	**(83)**	**263**	**TOTAL**	**14,704**	**(693)**	**14,011**
			CENTRAL SERVICES TO THE PUBLIC			
1,930	(1,187)	743	Registration of Births, Deaths and Marriages	2,132	(1,184)	948
18	0	18	Elections	846	0	846
837	(164)	673	Emergency Planning	767	(116)	651
1,427	(39)	1,388	Coroners' Court Services	1,639	(46)	1,593
4,212	**(1,390)**	**2,822**	**TOTAL**	**5,384**	**(1,346)**	**4,038**
			CORPORATE & DEMOCRATIC CORE			
2,342	(32)	2,310	Democratic Representation and Management	2,374	(6)	2,368
1,390	(146)	1,244	Corporate Management	1,163	(12)	1,151
3,732	**(178)**	**3,554**	**TOTAL**	**3,537**	**(18)**	**3,519**
			NON DISTRIBUTED COSTS			
(11,984)	0	(11,984)	Non distributed costs	2,867	0	2,867
(11,984)	**0**	**(11,984)**	**TOTAL**	**2,867**	**0**	**2,867**
960,463	**(493,219)**	**467,244**	**COST OF SERVICES (EXCLUDING ACQUIRED AND DISCONTINUED OPERATION)**	**935,654**	**(429,228)**	**506,426**

(*1) The presentation of the Service Expenditure Analysis has changed from 2012-13 Statement of Accounts. Civil Parking Enforcement was a new service undertaken by the Council from 1 April 2012. As an acquired operation, net expenditure £0.028m was excluded from the SEA in the 2012-13 Statement of Accounts. For comparability, this expenditure is now included under the heading Highways & Transport Services.

(*2) The presentation of Supporting People costs has changed from 2013-14.In 2012-13 these costs were included within Adult Care in the Service Expenditure Analysis.From 2013-14 the costs are shown under Housing Services.

Note 9. Adjustments between accounting basis and funding basis under regulations.

This Note details the adjustments that are made to total Comprehensive Income and Expenditure Statement to adjust proper accounting practice for statutory provisions to meet future capital and revenue expenditure.

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

Note 10. Transfer to/from earmarked reserves.

The note below sets out the amounts set aside from the General Fund into Earmarked Reserves to provide financing for future expenditure plans and the amounts posted back from Earmarked Reserves to meet General Fund expenditure in 2013-14.

Balance at 1 April 2012 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2013 £'000		Balance at 1 April 2013 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2014 £'000
46,705	27,371	(36,158)	37,918	**Balances from dedicated schools budget including those held by schools under a scheme of delegation**	37,918	21,139	(25,161)	33,896
				Other Earmarked Reserves:				
2,232	3,965	(2,232)	3,965	Other Services	3,965	3,999	(3,965)	3,999
1,053	1,000	(1,053)	1,000	Adverse Weather	1,000	0	0	1,000
3,023	1,035	0	4,058	Insurance	4,058	1,028	0	5,086
114	0	0	114	Invest to Save	114	0	(114)	0
943	0	(266)	677	School's Sickness Insurance Scheme	677	126	0	803
139	10	0	149	Purchase of Museums Exhibits	149	0	(11)	138
11,745	0	(11,745)	0	Waste Disposal	0	0	0	0
563	0	(30)	533	Development - Economic Development Reserve	533	0	0	533
126	0	(61)	65	Development - Migrant Workers Reserve	65	0	(65)	0
771	143	(359)	555	Development - SCS Reserve	555	0	(511)	44
0	0	0		Development - Lincs Coastal Country Park	0	386	0	386
5,312	54	(1,382)	3,984	Health and Well Being	3,984	24	(1,076)	2,932
832	851	(543)	1,140	Legal Services	1,140	1,029	(600)	1,569
0	730	0	730	Procurement	730	51	0	781
203	219	(128)	294	Salix Carbon Management	294	138	(331)	101
1,168	315	(150)	1,333	Safer Communities Development Fund	1,333	0	(500)	833
685	140	0	825	Community Safety Development Fund	825	120	0	945
0	0	150	150	Co-Responder Services	150	0	0	150
0	23,200	0	23,200	Financial Volatility Reserve - Budget Shortfall	23,200	0	(16,420)	6,780
4,356	9,948	(1,256)	13,048	Financial volatility	13,048	29,958	0	43,006
50	0	0	50	Teal Park	50	0	0	50
400	0	0	400	Youth Service Positive Activities Development Fund	400	0	(99)	301
171	0	0	171	Corby Glen/South Lincolnshire Sports fund	171	0	0	171
9,000	0	(9,000)	0	Fire Fleet	0	0	0	0
2,000	0	(2,000)	0	Roads Maintenance - Drought Damage	0	0	0	0
0	2,000	0	2,000	Roads Maintenance	2,000	5,843	(2,000)	5,843
0	500	0	500	Responders to Warmth	500	0	(500)	0
500	4,000	(307)	4,193	Support Services contract	4,193	725	(918)	4,000
0	156	0	156	Civil Parking Enforcement	156	156	0	312
0	363	0	363	Youth Offending Service	363	0	0	363
0	50	0	50	Domestic Homicide Reviews	50	50	0	100
0	0	0	0	New Salt Dome Willingham	0	200	0	200
0	0	0	0	Waste Management Reserve	0	727	0	727
0	0	0	0	Planning Appeals Reserve	0	100	0	100
0	0	0	0	Adoption Reform Reserve	0	600	0	600
0	0	0	0	Community Advisors Reserve	0	287	0	287
0	0	0	0	Local Welfare Provision Reserve	0	221	0	221
0	0	0	0	Property Management	0	250	0	250
0	0	0	0	Broadband Project	0	292	0	292
154	81	0	235	Flood and Water Risk Management (1*)	235	386	0	621
327	6	0	333	Young People in Lincolnshire (1*)	333	0	0	333
52	24	(52)	24	Members Big Society (1*)	24	0	(16)	8
500	0	0	500	Lincoln Eastern Bypass (LEB) (1*)	500	0	0	500
400	0	(300)	100	Unsuitable Transport Routes (1*)	100	0	0	100

Balance at 1 April 2012 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2013 £'000		Balance at 1 April 2013 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2014 £'000
522	216	0	738	Families Working Together (1*)	738	0	0	738
413	0	(213)	200	Enterprise Schemes (1*)	200	0	(9)	191
0	180	0	180	Asbestos Pressure Reserve (1*)	180	0	(43)	137
0	191	0	191	Children's Insurance Pressures Reserve (1*)	191	0	(191)	0
0	20	0	20	Adult Care Operations - Lincoln Prison Reserve (1*)	20	0	0	20
0	381	0	381	DAAT Pooled Budget (1*)	381	0	(115)	266
				Revenue Grants and Contributions Unapplied Reserves				
7,046	0	(906)	6,140	Growth Points - Lincoln	6,140	10	(2,307)	3,843
3,789	0	(1,631)	2,158	Growth Points - Grantham	2,158	0	(286)	1,872
2,359	2,069	(460)	3,968	Children Services	3,968	524	(1,033)	3,459
735	163	(45)	853	Highways and Transport	853	3,972	(120)	4,705
7,015	3,721	(1,596)	9,140	Adult Care	9,140	14,737	(7,106)	16,771
9,801	4	(10)	9,795	Growing Places	9,795	186	(2,931)	7,050
6,378	2,592	(3,852)	5,118	Other Grants and Contributions	5,118	3,992	(1,248)	7,862
131,582	**85,698**	**(75,585)**	**141,695**	**Total**	**141,695**	**91,256**	**(67,676)**	**165,275**

(*1) The presentation of the temporary service reserves has been changed to show these balances individually from 2013-14.

The balance held by schools under the scheme of delegation, represents the net underspending of school budget shares in 2013-14. It is earmarked for use by those schools as required by the Lincolnshire County Council Scheme for financing Schools approved by the Secretary of State for Education.

The **Other Services Reserve** represents net under and overspendings in 2013-14 on services other than schools (i.e. Children's Services, Adult Care, Public Health, Communities, Corporate Services) which will be carried forward for use in 2014-15.

The **Adverse Weather** reserve is used to fund any overspend of the council's Winter Maintenance budget caused by the weather being particularly severe.

The reserve for **Insurance** is earmarked for potential future claims under the excess clauses of the Council's external insurance policies. Separate provision is made within Provisions for all claims currently outstanding.

The **Invest to Save** reserve provides funding for the implementation costs of initiatives which will produce future savings and pay back the initial investment over a period of years.

The reserve for **Schools Sickness Insurance Scheme** represents the unspent balance of amounts set aside by schools to provide cover for staff absences.

The reserve for the **Purchase of Museum Exhibits** is earmarked for this purpose in future years. This also includes the reserve for the Tennyson Collection, which is earmarked for the preservation and expansion of the collection of Tennyson's works held at Lincoln's central library.

The specific need for a **Waste Disposal** reserve is no longer applicable. This has been transferred into the Financial Volatility Reserve.

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

The **Health and Wellbeing** reserve has been set up with contributions from both Lincolnshire County Council and Lincolnshire Primary Care Trust. It will be used to fund future initiatives which will help to achieve the objectives and aspirations of both parties.

The **reserve for Legal Services** represents what the Practice carried forward from 2013-14. The Legal Services Management Board will agree on what proportion of the surplus should be distributed to the shared service partners in 2014-15.

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

Salix Carbon Management is a reserve to provide the Council match funding for Salix compliant carbon management projects.

The **Safer Communities Development Fund** was set up from a planned underspend of Area Based Grant in 2008-09. The reserve will enable the commissioning process to continue as the Government grant reduces.

Community Safety Development Fund was set up from an underspend of development funding in 2008-09 to be used for the implementation of the Positive Futures and Neighbourhood Management Projects.

The **Co-responder Services** Reserve has been set up to provide financial support to Lincolnshire Fire and Rescue co-responder scheme. The scheme is based at twenty-one stations and operates in partnership with LIVES and EMAS. The scheme provides a vital first response to medical emergencies within Lincolnshire and helps maintain the health and wellbeing of our communities.

The **Financial Volatility** and the **Financial Volatility - Budget Shortfall** reserves have been established to help the Council deal with the future uncertainties around Local Government funding. The Financial Volatility - Budget Shortfall Reserve contains £23.2m which the Council has budgeted as contributions to the revenue budget in 2014-15 and 2015-16.

The **Teal Park** reserve was created for a bond that has been put in place for the development of this site.

The **Youth Service Positive Activities Development** reserve has been established to support a small grants scheme to transform the traditional Youth Services to a community delivery model.

Corby Glen South Lincolnshire Sports Fund has been established to recycle a capital receipt from the sale of playing field land in Corby Glen back into sports facilities in the Corby Glen area of the county.

The **Fire Fleet reserve** was used to fund the purchase of the fire and rescue vehicles when the Council took on ownership of the fleet during 2012-13.

The **Roads Maintenance - Drought Damage** reserve was used for key road maintenance schemes including that relating to drought damage to the highways during 2013-14.

The **Roads Maintenance reserve** has been established to provide for additional funding for Highways related matters to be undertaken in 2014-15.

The **Responders to Warmth reserve** has been established to continue the Council's contribution to this voluntary sector organisation who assist people with disabilities and long term conditions which are worsened by living in cold conditions.

The **Support Services Contract reserve** will be used to fund the specialist services required to enable the support service contract to be re-let.

The **Civil Parking Enforcement Reserve** has been set up to carry forward annual surpluses/deficits in this area, due to the volatility of income in this service.

The **Youth Offending Service reserve** has been set up to deal with changes in funding for the service area.

The **Domestic Homicide Reviews Reserve** has been established to fund the Council's costs for the statutory responsibility under section 9 of the Domestic Violence, Crime and Victim's Act (2004).

The **New Salt Dome Reserve** has been established to fund a new salt dome at Willingham Highways Depot to enable a more efficient Winter Maintenance service.

The **Waste Management Reserve** has been created to fund £0.727m of Waste Management's 2014/15 savings target. The service will use the fundamental budget review to identify a base budget solution for the savings target.

The **Planning Appeals Reserve** has been created to fund complex and costly planning appeals during future financial periods.

The **Adoption Reform Reserve** has been created to carry forward the unspent part of the unringfenced element of the Adoption Reform Grant received by the Council in 2013-14.

The **Community Advisors Reserve** has been created to fund the Community Engagement Services capacity for building resilience in communities by sharing through the development of community hub networks.

The **Local Welfare Provision Reserve** has been created to carry forward the unspent, unringfenced grant received by the Council in 2013/14 for the Lincolnshire Community Assistance Scheme (LCAS).

The **Property Management Reserve** has been established to tackle various property issues which will arise in 2014/15 and 2015/16 where dual premises costs may be a pressure along with relocating staff.

The **Broadband Reserve** is to provide funding for costs associated with implementing the 'OnLincolnshire' broadband programme.

The **Temporary Service** reserves will be used to fund a number of service projects to be undertaken in 2013-14 and beyond.

The **Flood and Water Risk Management Reserve** has been established to retain monies from the Local Services Support Grant for flood and risk water management in future years.

The **Young People in Lincolnshire Reserve** will be used for initiatives that benefit young people.

The **Members Big Society Reserve** has been established to carry forward any unspent elements of their £2,000 allowance to be spent in their constitution.

The **Lincoln Eastern Bypass (LEB) Reserve** will fund initial costs on getting the scheme started.

The **Unsuitable Transport Routes Reserve** will fund capital investment in a number of unsuitable transport routes will generate savings on school transport.

The **Families Working Together Reserve** has been established to carry forward the underspend on this programme in future financial years.

The **Enterprise Schemes Reserve** has been established to fund four schemes which run across more than one financial year.

The **Asbestos Pressure Reserve** will fund the Council's statutory duty to manage asbestos in non-domestic premises and annual inspections of asbestos containing materials in buildings.

The **Children's Insurance Pressures Reserve** has been established to meet an addition charge for third party insurance claims in 2013/14.

The **Adult Care Operations - Lincoln Prison Reserve** has been established to support the Council's agenda of developing broader links with HMP Lincoln and an improved service to inmates and their families.

The **DAAT Pooled Budget Reserve** has been established with the underspend from the Pooled budget for Drug and Alcohol Action Team. This money has been identified to fund the 'Enough is Enough' alcohol action programme.

The **Revenue Grants and Contributions Unapplied** reserve is used where the Council has received funding but the expenditure has not yet taken place. The funding will be used for the schemes that it was awarded for in future accounting periods.

Restated 2012-13 General Fund Balance £'000	Restated 2012-13 Usable Reserves Capital Receipts Reserve £'000	Restated 2012-13 Capital Grants Unapplied £'000	Restated 2012-13 Movements in Unusable Reserves £'000		2013-14 General Fund Balance £'000	2013-14 Usable Reserves Capital Receipts Reserve £'000	2013-14 Capital Grants Unapplied £'000	2013-14 Movements in Unusable Reserves £'000
				<u>**Adjustments primarily involving the Capital Adjustment Account:**</u>				
				Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
(75,802)	0	0	75,802	Charges for depreciation and impairment of non-current assets	(67,055)	0	0	67,055
(14,846)	0	0	14,846	Revaluation losses on Property Plant and Equipment	(13,455)	0	0	13,455
0	0	0	0	Revaluation losses on Heritage Assets	0	0	0	0
(402)	0	0	402	Revaluation losses on Held for Sale Assets	(112)	0	0	112
12,957	0	0	(12,957)	Movements in the market value of Investment Properties	10,813	0	0	(10,813)
(2,491)	0	0	2,491	Amortisation of intangible assets	(2,082)	0	0	2,082
29,296	0	0	(29,296)	Capital grants and contributions applied	41,533	0	0	(41,533)
1,063	0	0	(1,063)	Movement in the Donated Assets Account	0	0	0	0
(6,074)	0	0	6,074	Revenue expenditure funded from capital under statute (net of Grants and Contributions)	(22,557)	0	0	22,557
(86,122)	0	0	86,122	Amounts of Property, Plant & Equipment written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(16,879)	0	0	16,879
(656)	0	0	656	Amounts of assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(1,996)	0	0	1,996
(3,521)	0	0	3,521	Amounts of investment properties written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(1,452)	0	0	1,452

2012-13 General Fund Balance £'000	2012-13 Usable Reserves Capital Receipts Reserve £'000	2012-13 Capital Grants Unapplied £'000	2012-13 Movements in Unusable Reserves £'000		2013-14 General Fund Balance £'000	2013-14 Usable Reserves Capital Receipts Reserve £'000	2013-14 Capital Grants Unapplied £'000	2013-14 Movements in Unusable Reserves £'000
				<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
29,682	0	0	(29,682)	Statutory provision for the financing of capital investment	25,925	0	0	(25,925)
17,255	0	0	(17,255)	Capital expenditure charged against the General Fund	9,677	0	0	(9,677)
				<u>Adjustments primarily involving the Capital Grants Unapplied Account:</u>				
28,207	0	(28,207)	0	Capital grants and contributions unapplied credited to the CI&ES	22,890	0	(22,890)	0
0	0	15,825	(15,825)	Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	30,673	(30,673)
				<u>Adjustments primarily involving the Capital Receipts Reserve:</u>				
6,049	(6,049)	0	0	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CI&ES	3,238	(3,238)	0	
0	6,049	0	(6,049)	Use of the Capital Receipts Reserve to finance new capital expenditure	0	3,238	0	(3,238)

2012-13					2013-14			
Usable Reserves					Usable Reserves			
General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movements in Unusable Reserves £'000		General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Movements in Unusable Reserves £'000
				Adjustment primarily involving the Financial Instruments Adjustment Account:				
15	0	0	(15)	Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	(171)	0	0	171
				Adjustments primarily involving the Pensions Reserve:				
(41,200)	0	0	41,200	Reversal of items relating to retirement benefits debited or credited to the CI&ES (Note 54)	(64,207)	0	0	64,207
36,034	0	0	(36,034)	Employer's pensions contributions and direct payments to pensioners payable in the year	35,802	0	0	(35,802)
				Adjustments primarily involving the Collection Fund Adjustment Account:				
291	0	0	(291)	Amount by which council tax & business rate income credited to the CI&ES is different from council tax & business rates income calculated for the year in accordance with statutory requirements	(3,766)	0	0	3,766
				Adjustment primarily involving the Accumulated Absences Account:				
1,961	0	0	(1,961)	Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,318	0	0	(1,318)
(68,304)	**0**	**(12,382)**	**80,686**	**Total Adjustments**	**(42,536)**	**0**	**7,783**	**34,753**

Note 11. Other operating expenditure.

Other operating expenditure in the Comprehensive Income and Expenditure Statement is made up of:

2012-13 £'000		2013-14 £'000
1,062	- Precepts paid to non-principal authorities and levies	1,079
84,250	- Gain or Loss on the disposal of non-current assets	17,096
402	- Revaluation losses on assets held for sale	112
85,714	**TOTAL**	**18,287**

Note 12. Financing and Investment Income and Expenditure.

Financing and investment income and expenditure included in the Comprehensive Income and Expenditure Statement is made up of:

Restated (*1) 2012-13 £'000		2013-14 £'000
19,713	- Interest payable and similar charges	19,906
25,445	-Net Interest on the net defined benefit liability (asset)	28,824
(2,302)	- Interest receivable and similar income	(1,412)
(14,138)	- Income, expenditure and changes in the fair values of investment properties	(12,052)
28,718	**TOTAL**	**35,266**

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

Note 13. Taxation and Non Specific Grant Income.

Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement is made up of:

2012-13 £'000		2013-14 £'000
(253,681)	Council tax income	(221,137)
(197,680)	National Non-Domestic Rates Income	0
0	Business Rates - Districts	(18,501)
0	Business Rates - Top up fund	(79,603)
	Non-ringfenced government grants	
(3,832)	- Revenue Support Grant	(146,366)
(6,332)	- Council Tax freeze Grant	(2,547)
(2,000)	- Local Services Support Grant	(1,378)
(1,374)	- New Homes Bonus Grant & Returned Topslice	(2,864)
0	-Education Services Grant	(7,492)
0	- Adoption Reform Grant	(1,277)
0	-Other Non Specific Grant	(2,092)
(58,565)	- Capital grants and contributions	(64,423)
(523,464)	**TOTAL**	**(547,680)**

New Homes bonus grant was included within Note 46 Specific Grants credited to the Revenue Account in the Comprehensive Income and Expenditure Statement in 2012-13.

Note 14. Property, Plant and Equipment.

a) Movement on Non-Current Assets

Movement in Property, Plant & Equipment As at 31 March 2014	**Land & Buildings £'000**	**Vehicles, Plant, Furniture & Equipment £'000**	**Infra-structure £'000**	**Community Assets £'000**	**Surplus Assets £'000**	**Assets Under Construction £'000**	**Total £'000**	**PFI Assets Included in Property, Plant & Equipment £'000**
Cost or Valuation								
At 1 April 2013	695,929	192,937	673,228	22	26,298	131,741	**1,720,155**	26,579
Additions	22,120	20,830	37,790	0	4,768	19,901	**105,409**	84
Donations	0	0	0	0	0	0	**0**	0
Revaluation Increase to RR	51,708	0	0	0	1,739	0	**53,447**	(527)
Revaluation Decrease to RR	(36,434)	0	0	0	(2,797)	0	**(39,231)**	(85)
Revaluation Increase/(Decrease) to SDPS	(8,641)	0	0	(22)	(4,792)	0	**(13,455)**	86
Derecognition - Disposals	(11,772)	(152,396)	0	0	(3,314)	0	**(167,482)**	0
Derecognition to RR	(329)	0	0	0	0	0	**(329)**	0
Derecognition to SDPS	(2,025)	0	0	0	0	0	**(2,025)**	0
Reclassified to/from Heritage Property	0	0	0	0	0	(118)	**(118)**	0
Reclassified to/from Held for Sale	(365)	0	0	0	(370)	0	**(735)**	0
Reclassified to/from Investment Property	0	0	0	0	0	(80)	**(80)**	0
Reclassifications - Other	52,704	66,302	2,537	0	1,778	(124,040)	**(719)**	0
At 31 March 2014	**762,895**	**127,673**	**713,555**	**0**	**23,310**	**27,404**	**1,654,837**	**26,137**
Depreciation and Impairment								
At 1 April 2013	(52,866)	(171,053)	(224,895)	0	(3,350)	0	**(452,164)**	(2,100)
Depreciation Charge for 2013-14	(21,466)	(11,082)	(34,305)	0	(202)	0	**(67,055)**	(475)
Depreciation written out on upward revaluation	44,390	0	0	0	2	0	**44,392**	531
Depreciation written out on downward revaluation	3,934	0	0	0	426	0	**4,360**	0
Depreciation written out to the SDPS	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the RR	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the SDPS	0	0	0	0	0	0	**0**	0
Derecognition - Disposals	106	152,300	0	0	420	0	**152,826**	0
Derecognition to RR	43	0	0	0	0	0	**43**	0
Derecognition - SDPS	284	0	0	0	0	0	**284**	0
Reclassified to/from Heritage Property	0	0	0	0	0	0	**0**	0
Reclassifications to Asset Held for Sale	0	0	0	0	0	0	**0**	0
Reclassifications to/from Investment Property	0	0	0	0	0	0	**0**	0
Reclassifications - Other	(13)	0	0	0	13	0	**0**	0
At 31 March 2014	**(25,588)**	**(29,835)**	**(259,200)**	**0**	**(2,691)**	**0**	**(317,314)**	**(2,044)**
Net Book Value								
At 31 March 2014	**737,307**	**97,838**	**454,355**	**0**	**20,619**	**27,404**	**1,337,523**	**24,093**
At 1 April 2013	643,063	21,884	448,333	22	22,948	131,741	**1,267,991**	24,479

Movement in Property, Plant & Equipment As at 31 March 2013	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infra-structure £'000	Community Assets '£'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000	PFI Assets Included in Property, Plant & Equipment £'000
Cost or Valuation								
At 1 April 2012	730,875	183,202	614,222	563	34,183	83,806	**1,646,851**	32,767
Additions	15,590	11,082	44,477	0	0	74,972	**146,121**	64
Donations	0	1,063	0	0	0	0	**1,063**	0
Revaluation Increase to RR	66,637	0	0	0	2,332	0	**68,969**	0
Revaluation Decrease to RR	(18,917)	0	0	0	(4,066)	0	**(22,983)**	(1,804)
Revaluation Increase/(Decrease) to SDPS	(11,758)	0	0	(675)	(2,413)	0	**(14,846)**	0
Derecognition - Disposals	(85,965)	(1,654)	0	0	(1,260)	0	**(88,879)**	(4,448)
Derecognition to RR	(605)	0	0	0	0	0	**(605)**	0
Derecognition to SDPS	(4,159)	0	0	0	0	0	**(4,159)**	0
Reclassified to/from Heritage Property	0	0	0	0	0	(1,324)	**(1,324)**	0
Reclassified to/from Held for Sale	(1,140)	0	0	0	(1,836)	0	**(2,976)**	0
Reclassified to/from Investment Property	(542)	0	0	0	0	(122)	**(664)**	0
Reclassifications - Other	5,913	(756)	14,529	134	(642)	(25,591)	**(6,413)**	0
At 31 March 2013	**695,929**	**192,937**	**673,228**	**22**	**26,298**	**131,741**	**1,720,155**	**26,579**
Depreciation and Impairment								
At 1 April 2012	(47,097)	(150,343)	(194,154)	0	(3,474)	0	**(395,068)**	(2,032)
Depreciation Charge for 2012-13	(22,623)	(22,032)	(30,741)	0	(459)	0	**(75,855)**	(534)
Depreciation written out on upward revaluation	9,080	0	0	0	39	0	**9,119**	0
Depreciation written out on downward revaluation	1,654	0	0	0	509	0	**2,163**	152
Depreciation written out to the SDPS	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the RR	0	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the SDPS	0	0	0	0	0	0	**0**	0
Derecognition - Disposals	5,604	963	0	0	138	0	**6,705**	314
Derecognition to RR	30	0	0	0	0	0	**30**	0
Derecognition - SDPS	391	0	0	0	0	0	**391**	0
Reclassified to/from Heritage Property	0	0	0	0	0	0	**0**	0
Reclassifications to Asset Held for Sale	(8)	0	0	0	0	0	**(8)**	0
Reclassifications to/from Investment Property	0	0	0	0	0	0	**0**	0
Reclassifications - Other	103	359	0	0	(103)	0	**359**	0
At 31 March 2013	**(52,866)**	**(171,053)**	**(224,895)**	**0**	**(3,350)**	**0**	**(452,164)**	**(2,100)**
Net Book Value								
At 31 March 2013	**643,063**	**21,884**	**448,333**	**22**	**22,948**	**131,741**	**1,267,991**	**24,479**
At 1 April 2012	683,778	32,859	420,068	563	30,709	83,806	**1,251,783**	30,735

RR - Revaluation Reserve
SDPS - Surplus or Deficit on the Provision of Services

b) Depreciation and Asset Lives

The Council's depreciation policies are set out in Note 1 Statement of Accounting Policies. All non-current assets that are subject to depreciation are dealt with in accordance with these policies. All assets are assigned a useful economic life over which they are depreciated. For assets subject to revaluation, this life is reviewed whenever an asset is revalued. For assets carried at cost, this is considered on an annual basis.

The following useful lives and depreciation rates have been used in the calculation of depreciation:

	Useful Economic Life (Years)
Land	999
Buildings	
Specialist Buildings, including Schools, Youth Centres, Residential Homes, Day Centres, Family Centres, Libraries, Museums, Highways Maintenance Depots	15 to 70
Energy From Waste Buildings	
Civil	60
Mechanical	25
Instrumentation, Control and Automation	10
Non-Specialist Buildings	40
Siteworks, including playground, hardstanding, car parks etc.	
- associated with specialist buildings	5 to 55
- associated with non-specialist buildings	20
Infrastructure	
Structures (Bridges)	120
Major Road Construction	60
Street Lighting, Kerbing	40
Drainage	40
Safety Fencing	25
Traffic Signals, Other Street Furniture (Signs, Ornamental structures), Junction Improvements, Bus Stop Infrastructure, Carriageway Works, Footways, Materials Testing, Verges, Rights of Way	20
Reactive Signs	15
Carriageway Surfacing - Non-Principal Roads	12
Patching, Footway Slurry Sealing	10
Carriageway Surfacing - Principal Roads	8
Carriageway Slurry Sealing	6
Potholes - Non-Principal Roads	3
Potholes - Principal Roads	1
Vehicles, Furniture & Equipment	
Energy from Waste - Mechanical	25
Energy from Waste - Instrumentation, Control and Automation (ICA) and Admin Equipment	10
IT Equipment	4
Furniture and Equipment	5
Vehicles	3 to 18

c) Capital Commitments

At 31 March 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014-15 and future years budgeted to cost £17.795m.

Detail	**Gross £'000**
Grantham Priory Ruskin Academy -Major rebuilding programme	1,596
Bourne Elsea Park -Construction of new Primary School	1,860
Skegness -Construction of new Primary School	2,614
Boston Staniland Academy -Extensions to existing school to provide additional places	1,082
Spalding Wygate Park -Construction of new Primary School	1,606
Crowland Primary School -Remodelling former St Guthlac's School into replacement Primary School	1,917
Kirton Primary School -Extensions to existing school to provide additional places	1,314
Lincoln Castle -To restore Lincoln Castle improving the visitor offer and strengthening the local economy - repair of the walls	1,548
Lincoln Castle -To restore Lincoln Castle improving the visitor offer and strengthening the local economy - developing the prison & building a vault for Magna Carta	4,258

d) Valuations

The County Council undertakes a five year rolling programme of revaluations to ensure that land and buildings are measured at fair value. All valuations are carried out by the Council's appointed Valuers - Mouchel Ltd. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations are carried out as at 1 April.

In addition to the five year rolling programme, and to comply with the Code requirements to carry assets at fair value at balance sheet date, the Council's appointed Valuers have undertaken a review of properties held by the Council to ensure they are all held at Fair Value, as such, all current cost valuations were up to date as at 31 March 2014.

The significant assumptions applied in estimating the fair values are:

- Depreciated Replacement Cost (DRC) has been used where the asset is of a specialised nature, of where there is no evidence of market value or suitably comparable properties (e.g. schools).

Vehicles, Furniture and Equipment, Specialist Equipment, Infrastructure and Community Assets are not subject to revaluation. They are reported at the cost of construction or purchase price, where this information is not available the assets are carried at a nominal amount (e.g. for some Community Assets).

Non-Current Assets carried at historic cost	**2012-13**	**2013-14**
	£'000	**£'000**
Vehicles, Plant, Furniture and Equipment (*1)	21,884	97,838
Infrastructure	448,333	454,355
Community Assets	22	0
Assets Under Construction (*1)	131,741	27,404
Total Cost of Valuation	**601,980**	**579,597**

(*1) The large increase is Vehicles, Plant, Furniture and Equipment relates to the Energy from Waste Plant becoming operational. This has also caused the large reduction in value seen for Assets Under Construction.

Note 15. Heritage Assets.

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The assets held by the Council, which have been classed as Heritage Assets fall into three categories:

1) Windmills
The Council is responsible for four windmills:
- Alford five sail windmill
- Burgh le Marsh windmill
- Ellis Mill in Lincoln
- Heckington Windmill

All four windmills are operational, open to the public on a managed basis and usually staffed by volunteers. Each windmill provides value to the cultural heritage of the County, preserving unusual or even unique features such as Heckington Mill which is the only surviving eight sailed mill in the country.

2) Historic Buildings
The Council owns various historic buildings, the most famous of which is Lincoln Castle. The Castle was constructed by William the Conqueror on the site of a pre-existing Roman fortress. The Castle is open to the public and guided tours are available to give an insight into the history of Lincoln and Lincolnshire. Various cultural and entertainment events are also held at the Castle each year.

Also, the 12th century Temple Bruer Preceptory Tower, which was built to house the military order formed to guard the shrines of the Holy Land and protect pilgrims on the road. This site is managed by Heritage Lincolnshire on behalf of the Council.

3) Collections
The Council owns and is responsible for more than three million items in its collections (held across libraries, museums and archives). These include physical and digital collections from all periods of Lincolnshire's history.

Many items are unique and of high cultural significance on a national or international scale (for example the Tennyson collection, Bishops Rolls and Registers). Others are of local interest for Lincolnshire.

The County's collections bring a wealth of enjoyment and education to those living in Lincolnshire and beyond. The County is legally obliged to protect significant elements of these collections but, importantly, their management and development ensures that the cultural heritage and life of the County are preserved for future generations and are available to the current generation.

The management and development of the collections is governed by the Council's Policy on Collection Management, which can be found on the Council's website in the resident's area, under Leisure, Culture and Heritage. (http://www.lincolnshire.gov.uk/residents-culture-and-heritage/heritage/)

a) Reconciliation of the carrying value of Heritage Assets held

	Windmills	Other Historic Buildings	Collections	Total
	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 April 2013	4,605	4,024	27,727	36,356
Additions - In House construction/Improvement	5	2	0	7
Revaluations recognised in the Revaluation Reserve	(38)	0	0	(38)
Reclassifications	118	0	0	118
At 31 March 2014	**4,690**	**4,026**	**27,727**	**36,443**

	Windmills £'000	Other Historic Buildings £'000	Collections £'000	Total £'000
Cost or Valuation				
At 1 April 2012	4,599	2,696	27,727	35,022
Additions - In House construction/Improvement	10	4	0	14
Revaluations recognised in the Revaluation Reserve	(4)	0	0	(4)
Reclassifications	0	1,324	0	1,324
At 31 March 2013	**4,605**	**4,024**	**27,727**	**36,356**

b) Valuation

The Heritage Assets held by the Council are valued using an appropriate basis:

- Windmills are valued on an 5 year rolling programme. These valuations are carried out by the Council's appointed Valuers (Mouchel Ltd).
- Other Historic Buildings are carried at historic cost. No current cost valuation is applied to these properties.
- The Collections are valued at their insurance valuation as at 31 March each year. These valuations are provided by the Council's insurers. Valuations for the Collections are reviewed and updated annually.

c) Depreciation

Depreciation is not charged on Heritage Assets

d) Additions to Heritage Assets

There have been no new material Heritage assets purchased during 2013-14.

The £1.329m addition to Other Historic Buildings is the Castle Revealed project at Lincoln Castle.

e) Disposals

There have been no material disposals of Heritage Assets during 2013-14.

f) Heritage Assets Five Year Summary of Transactions

The Code of Practice stipulates that a five year summary of transactions on Heritage Assets should be included here, if such information is available. The Council hold this information from 2010-11 onwards. This is set out in the tables below. It is intended that such information will be complete by 2014-15.

	2010-11 Total Heritage Assets	2011-12 Total Heritage Assets £000	2012-13 Total Heritage Assets £000	2013-14 Total Heritage Assets £000
Balance at Start of the Year	26,935	31,157	35,022	36,356
Cost of Acquisitions	315	109	14	7
Donated Assets	0	0	0	0
Revaluations	3,907	3,718	(4)	(38)
Carrying Amount of Disposals/Proceeds	0	(114)	0	0
Impairment	0	0	0	0
Reclassifications	0	152	1,324	118
Total at Year End	**31,157**	**35,022**	**36,356**	**36,443**

Note 16. Investment Properties.

Investment Properties are assets held for either capital appreciation or income generation, or both. For these purposes the Council holds the County Farms estates and a small number of other general fund properties. The County Farms estate includes both freehold (owned by the Council) and leasehold (rented by the Council) properties.

a) Investment Properties Income and Expenditure

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

County Farm Estates	2012-13 £'000	2013-14 £'000
Rental Income from Investment Property	(1,940)	(2,097)
Direct Operating Expenses arising from Investment Property	805	862
Net (Income)/Expenditure	**(1,135)**	**(1,235)**

Other General Fund Properties	2012-13 £'000	2013-14 £'000
Rental Income from Investment Property	(65)	(56)
Direct Operating Expenses arising from Investment Property	18	52
Net (Income)/Expenditure	**(47)**	**(4)**

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

b) Movement on Investment Properties

The following table summarises the movement in the fair value of investment properties over the year:

	County Farm Estates £'000	Other General Fund Properties £'000
Balance at 1 April 2013	71,919	701
Additions - Acquisitions (Purchase and Construction)	0	0
Additions - Subsequent expenditure	421	0
Disposals	(1,452)	0
Net Gains/(Losses) from fair value adjustments	10,813	0
Transfers to/from Property, Plant and Equipment	80	0
Balance at 31 March 2014	**81,781**	**701**
Nature of asset holding		
Owned	81,693	701
Leased	88	0
Balance at 31 March 2014	**81,781**	**701**

	County Farm Estates £'000	Other General Fund Properties £'000
Balance at 1 April 2012	61,776	614
Additions - Acquisitions (Purchase and Construction)	0	0
Additions - Subsequent expenditure	130	0
Disposals	(3,521)	0
Net Gains/(Losses) from fair value adjustments	13,412	(455)
Transfers to/from Property, Plant and Equipment	122	542
Balance at 31 March 2013	**71,919**	**701**

Nature of asset holding		
Owned	71,819	701
Leased	100	0
Balance at 31 March 2013	**71,919**	**701**

c) Revaluations

The Council revalues investment properties annually to ensure that they are carried at fair value. All valuations are carried out by the Council's appointed Valuers - Savils (L&P Ltd) for the County Farms Estate and Mouchel Ltd for other general fund Investment Properties. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations are carried out as at 31 March each year to ensure all Investment Properties are carried at fair value at the Balance Sheet date.

Note 17. Intangible Assets.

The Council accounts for its software and licences as intangible assets. The IT systems are accounted for as part of Property, Plant and Equipment, under the heading Vehicles, Plant, Furniture and Equipment. Intangible assets recognised by the Council include both purchased software, licenses and internally generated software.

a. Movement on intangible assets:

	Software £'000	Software Licenses £'000	Other Intangibles £'000	Total £'000
Balance at 1 April 2013				
- Gross carrying amount	16,037	3,926	41	20,004
- Accumulated amortisation	(9,027)	(3,732)	(41)	(12,800)
Net carrying amount at 1 April 2013	**7,010**	**194**	**0**	**7,204**
Additions:				
- Purchases	454	0	0	454
Asset classified as held for sale	0	0	0	0
Other disposals	0	0	0	0
Amortisation for the period	(2,007)	(75)	0	(2,082)
Other changes - reclassifications	141	0	0	141
Net carrying amount at 31 March 2014	**5,598**	**119**	**0**	**5,717**
Comprising:				
- Gross carrying amounts	12,174	310	0	12,484
- Accumulated amortisation	(6,575)	(192)	0	(6,767)
Balance Sheet amount at 31 March 2014	**5,599**	**118**	**0**	**5,717**

b. Depreciation and Asset Lives

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major classes of intangible assets used by the Council are:

	Useful Economic Life (Years) From	To
- Software	1	10
- Software Licenses	1	7
- Other Intangibles	4	4

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £2.082m (£2.490m in 2012-13) charged to revenue in 2013-14 was charged to the IT cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure on Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

c. Significant Capitalised Software

At 31 March 2014, the County Council has not capitalised any material items of software (with a value over £1m) in 2013-14.

d. Capital Commitments

At 1 April 2014, the Council has entered into a number of contracts for the purchase of intangible assets for 1 April 2014 to 31 March 2015 and for future years budgeted to cost £38.984m. The major commitments are:

Detail	Gross £'000
Superfast Broadband - A programme to trigger the installation of digital infrastructure in communities and businesses	30,303
Replacement ERP Finance System - Replacement of the SAP finance system with Agresso in line with the FDSS (Future Delivery of Support Services) programme.	7,000
Case Management System (CMPP) - Replacement of fragmented social care IT systems with a new multi-agency case management system.	1,681

e. Revaluation

The Council does not revalue its intangible assets, all assets are carried at cost. Annually, an impairment review is undertaken to ensure that all intangible assets have an appropriate asset life and carrying value as at 31 March each year.

Note 18. Financial Instruments and the Nature and Extent of Risks Arising from Financial Instruments.

a. Financial Instruments Balance

The following categories of financial instruments are disclosed in the Balance Sheet:

	Long-Term		Current	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£'000	£'000	£'000	£'000
Borrowings				
Financial Liabilities At Amortised Cost (*1)	454,787	443,222	413	15,749
Financial Liabilities at Fair Value Through Profit and Loss	0	0	0	0
Total Borrowings	**454,787**	**443,222**	**413**	**15,749**
PFI & Finance Lease Liabilities				
PFI and Finance Lease Liabilities	14,905	13,799	0	0
Total PFI & Finance Lease Liabilities	**14,905**	**13,799**	**0**	**0**
Creditors & Other Long Term Liabilities				
Financial Liabilities Carried at Contract Amount (*2)	5,477	11,156	78,541	68,533
Total Creditors	**5,477**	**11,156**	**78,541**	**68,533**
Investments				
Loans and Receivables	200	2,200	157,056	149,930
Available for Sale Financial Assets	0	0	36,025	35,083
Unquoted Equity Investments At Cost	14	14	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0	0	0
Total Investments	**214**	**2,214**	**193,081**	**185,013**
Debtors				
Loans and Receivables	6,316	8,772	0	0
Financial Assets Carried at Contract Amount	0	0	31,744	28,263
Total Debtors	**6,316**	**8,772**	**31,744**	**28,263**

(*1) Long term loans repayable within one year and accrued interest on long term borrowing have been reclassified as short term borrowing and are included in Current Borrowing Balance as opposed to being classified as Current Creditors for both 2013 and 2014.

(*2) S106 agreements have been a split between current and long term creditors, this has resulted in an increase in long term creditors and a reduction of current creditors in 2013-14.

b. Financial Instruments Income, Expense, Gains or Losses

The Council's Financial Liabilities are all valued at amortised cost. There have been no gains or losses on derecognition or impairment losses during the year on the financial liabilities held by the Council.

The Council's Financial Assets are predominantly loans and receivables valued at amortised cost; although it's investments held in Stable Net Asset Value Money Market Funds are classed as Available for Sale Financial Assets which are valued at fair value that equates to the carrying value, as 1 unit held in these funds = £1 fair value. Investments held in Certificate of Deposits are also classed as Available for Sale which are also valued at fair value based on the prevailing price at 31 March 2014. The Council has a small share holding in Investors in Lincoln Ltd, a company established to promote economic regeneration and the development and expansion of industry, commerce and enterprise in and around the City of Lincoln. Shares are held to the nominal value of £14,000. These are classed as Unquoted Equity Investments and are valued at cost. No income is received from this investment.

There have been no gains or losses on derecognition or impairment losses during the year on the financial assets held by the Council. No revaluation of assets has taken place and hence no gains or losses on revaluation have occurred.

Interest received or incurred, fee expenses or income received or incurred, or any unrealised gains or losses in fair value of Available for Sale investments, in relation to the financial instruments held by the Council is shown in the following table:

	2012-13 £'000	2013-14 £'000
Unrealised Reduction in Fair Value - Available for Sale Financial Assets held at 31st March	**0**	**15**
Financial Liabilities At Amortised Cost	19,922	19,946
Financial Liabilities at Fair Value Through Profit and Loss	0	0
Total Interest Expense	**19,922**	**19,946**
Total Fee Expense	5	15
Total Expense in Surplus or Deficit on the Provision of Services	**19,927**	**19,961**
Unrealised Increase in Fair Value -Available for Sale Financial Assets held at 31st March	**0**	**(98)**
Loans and Receivables at Amortised Cost	(1,950)	(1,120)
Available for Sale Financial Assets	(360)	(295)
Unquoted Equity Investments At Cost	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0
Total Interest Income	**(2,310)**	**(1,415)**
Total Fee Income	0	0
Interest Received	**(2,310)**	**(1,415)**

c. Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cashflows that take place over the remaining life of the investments using the following assumptions:

- For loans from the PWLB, equivalent borrowing rates available from the PWLB at 31 March 2014 have been applied to provide the fair value under the PWLB debt redemption procedures.

- For non PWLB loans and loans receivable prevailing benchmark market rates have been used to provide the fair value.
- No early repayment or impairment is recognised.
- Where an instrument has a maturity of less than 12 months (other than PWLB debt), or is a trade or other payable or receivable, the fair value is taken to be the principal outstanding or the billed amount.
- The fair value of trade and other payables and receivables, taken to be the invoiced or billed amount, are not shown in the table below.

The fair values calculated are as follows:

	31 March 2013		31 March 2014	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB Debt (Long Term > 12 Months)	444,765	486,634	433,222	448,602
Non PWLB Debt (Long Term > 12 Months)	10,022	9,410	10,000	8,892
PWLB Debt (Short Term < 12 Months)	3,537	3,797	11,543	11,958
Non PWLB Debt (Short Term < 12 Months)	456	455	322	321
Long-Term Creditors & Other Long Term Liabilities	5,477	5,477	11,156	11,156
Total Financial Liabilities at Amortised Cost	**464,257**	**505,773**	**466,243**	**480,929**

Where the fair value is less than the carrying amount, this is due to the Council's portfolio of loans including a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future gain based on economic conditions at the Balance Sheet date arising from a commitment to pay interest to lenders below current market rates.

Where the fair value is more than the carrying amount, the opposite is true, i.e. a number of fixed rate loans held in the Council's portfolio have interest rates payable above current market rates for similar loans. The change in fair value from 31 March 2013 to 31 March 2014, highlights the reduction or increase in market rates over this period.

Loans and Receivables	31 March 2013 Carrying Amount £'000	Fair Value £'000	31 March 2014 Carrying Amount £'000	Fair Value £'000
Loans and Receivables (Long Term > 12 Months)	200	200	2,200	2,191
Loans and Receivables (Short Term < 12 Months)	156,145	156,145	149,475	149,475
Long-Term Debtors	6,316	6,574	8,772	8,892
Financial Assets at Amortised Cost	**162,661**	**162,919**	**160,447**	**160,558**

The fair value is greater than the carrying amount, because the Council's portfolio of long term investments includes a number of fixed rate loans where the interest rate receivable is higher than the estimated rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above the current market rate increases the amount that the Council would receive if it agreed to early repayment of the loans and hence shows a notional future gain.

Available for Sale Investments, not included in the table above are carried on the Balance Sheet at their Fair Value already, which is calculated using the market price of the investments at 31 March 2014. The detail of these investments are shown in the table below.

Available for Sale Investments	31 March 2013 Carrying Amount £000	Fair Value £000	31 March 2014 Carrying Amount £000	Fair Value £000
Certificates of Deposit	0	0	35,000	35,083
Money Market Funds	36,025	36,025	0	0
Available For Sale Financial Assets	**36,025**	**36,025**	**35,000**	**35,083**

As with Loans and Receivables, the Fair Value of the Certificate of Deposits is higher than the original purchase amount due to the majority of Certificates of Deposit held having a higher coupon than those available for similar Certificate of Deposits in the market at the balance sheet date. The Fair Value of Money Market Funds equate to the Carrying Value as 1 unit held in these funds equals £1 fair value.

d. Nature and Extent of Risks Arising From Financial Instruments and How the Authority Manages Those Risks

(i) Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;

- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;

- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;

- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

(ii) Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are laid down in a legal framework set out in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;

- by approving annually in advance prudential indicators for the following three years limiting:

  - o maximum and minimum exposures to fixed and variable rates;
  - o maximum and minimum exposures to the maturity structure of its debt;
  - o maximum annual exposures to investments maturing beyond one year.

- by approving an investment strategy for the forthcoming year, setting out its criteria for both investing and selecting investment counterparties in compliance with Government Guidance.

These items are required to be reported and approved at or before the Council's Annual Council Tax setting budget; and are also reported as part of the Council's annual treasury management strategy and investment strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported quarterly to Councillors.

These treasury management policies are implemented by a central treasury management team. The Council maintains written principles for overall risk management; as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through its Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

(iii) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. To minimise this risk, deposits are not made with banks and financial institutions unless they meet the minimum requirements of the Council's investment criteria (based on independent credit rating assessments of institutions and countries, their credit watches and outlooks from credit rating agencies and their credit default spreads), as outlined in its investment strategy. A summary of the minimum requirements are outlined below:

Minimum Acceptable Long-Term Credit Rating:	Bank or Building Society: AA- Money Market Fund: AAA UK Government: Not Applicable
Minimum Acceptable Sovereign (Country) Credit Rating: (UK excepted).	AAA

The following analysis summarises the Council's investments at the reporting date by the long-term credit rating, (using Fitch IBCA's scoring criteria), of the counterparties with whom its investments are made and hence shows its potential exposure to credit risk at the reporting date.

	Amount at 31 March 2013		Amount at 31 March 2014	
Deposits With Banks and Financial Institutions	**£'000**	**%**	**£'000**	**%**
AAA Rated Counterparties	36,025	18.73%	0	0.00%
AA Rated Counterparties	66,145	34.38%	106,625	57.11%
A Rated Counterparties	80,000	41.58%	77,850	41.70%
Other Counterparties (*3)	10,214	5.31%	2,214	1.19%
Total Investments	**192,384**	**100.00%**	**186,689**	**100.00%**

(*3) Other Counterparties are predominantly investments with other Local Authorities (UK Government), who are not credit rated in their own right, however represent low credit risk to the Council.

At the time of making the investment, the financial institutions fully met the Council's minimum investment criteria. A sum of £9.6m investments with AA- Rated Dutch bank Rabobank remained outstanding at the reporting date which no longer met the Council's minimum AAA Sovereign Rating, due to Netherlands losing its AAA status during the year.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council has not received nor expects any losses/defaults from the non-performance by any of its counterparties in relation to its investments.

Collateral – During the reporting period the Council held no collateral as security for its investments.

The Council does not generally allow credit for its customers. However, there is one exception to this where there is an agreed policy in relation to care home fees to allow credit with an attachment over property.

The overdue, but not impaired, amounts of the Council's customers at 31 March 2014 can be analysed by age as follows:

Analysis of Debts by Age	Amount at 31 March 2013		Amount at 31 March 2014	
	£'000	%	£'000	%
Less than 3 months	1,800	28.26%	1,627	25.95%
3 to 6 months	966	15.17%	747	11.91%
6 months to 1 year	1,567	24.60%	1,396	22.26%
More than 1 year	2,036	31.97%	2,500	39.87%
Total Outstanding Debt	**6,369**	**100.00%**	**6,270**	**100.00%**

(iv) Liquidity Risk

The Council has ready access to borrowings from the Money Markets to cover any day-to-day cash flow need. The Public Works Loan Board provides access to longer-term funds; it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is, therefore, no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

(v) Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Long term risk to the Council relates to managing the exposure to replacing longer term financial instruments (debt and investments) as they mature.

The approved prudential indicator limits for the maturity structure of debt and the limits for investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategists address the main risks and the central treasury team address the operational risks within the approved parameters. These include:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs and that the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of the Council's debt and investments at the reporting date are shown in the table below:

Debt Outstanding- Financial Liabilities	31 March 2013 £'000	31 March 2014 £'000
Less than one year	7,900	15,749
Between one and two years	11,565	21,550
Between two and five years	52,624	66,749
Between five and ten years	84,264	59,011
Between ten and fifteen years	42,941	40,884
Between fifteen and twenty-five years	45,845	37,479
Between twenty-five and thirty-five years	29,439	36,823
Between thirty-five and forty-five years	146,109	175,725
Maturing in more than forty-five years	42,000	5,000
Total	**462,687**	**458,970**

Investments Outstanding - Financial Assets	31 March 2013 £'000	31 March 2014 £'000
Less than one year	193,081	185,013
Between one and two years	0	2,000
Between two and three years	0	0
Maturing in more than three years	214	214
Total	**193,295**	**187,227**

All trade and other payables are due to be paid in less than one year. Trade debtors and creditors are not shown in the table above.

(vi) Market Risk

Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on Provision of Services Account will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall (no impact on revenue balances);
- investments at variable rates – the interest income credited to the Surplus or Deficit on Provision of Services Account will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings or Loan and Receivables are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings or fixed rate loans and receivables would not impact on the Surplus or Deficit on Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on Provision of Services and affect the General Fund Balance.

Unrealised nominal gains and losses on the fair value of Available for Sale Investments would be reflected in the Balance Sheet and balanced by an entry in the Available For Sale Reserve in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team monitor markets and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Based on the financial liabilities and assets as at the balance sheet date a one percent point movement in average interest rates would be equivalent to a £1.424m change in the Council's net interest charge in the Comprehensive Income and Expenditure Account. This calculation is based on a full year interest effect at a constant level of borrowing and investments as at the reporting date, a further breakdown is shown in the table below:

Financial Impact of the Interest Rate Risk	Amount at 31 March 2014 £'000
Increase in interest payable on variable rate borrowings	(3)
Increase in interest receivable on variable rate investments	1,427
Impact on Income and Expenditure Account	**1,424**

The impact on the fair value of the Council's long term fixed borrowings and long term fixed investments from a one percentage point movement in average rates is shown below:

	Fair Value 31 March 2014 £'000	Fair Value at 1% Higher £'000	Fair Value at 1% Lower £'000
County Council	467,353	414,741	534,560
Schools	2,099	1,992	2,216
Long Term Fixed Borrowing:	**469,452**	**416,733**	**536,776**
Long Term Fixed Investments:	**1,991**	**1,952**	**2,030**

There is no impact on the Surplus or Deficit on Provision of Services or the Other Comprehensive Income and Expenditure account from the movement in fair value on borrowing and loans & receivables shown above. Fair values have been calculated using the same methodology/assumptions as outlined on page 63. Fair Value of Assets and Liabilities Carried at Amortised Cost.

The impact on fair value of the Councils Available for Sale Investments, already carried on the Balance Sheet at fair value on 31 March 2014, from a 1% movement in average rates is shown in the table below. This impact would be reflected on the Surplus/Deficit on Revenue of Available for Sale Financial Assets as shown in the Comprehensive Income & Expenditure Statement.

	Fair Value 31 March 2014 £'000	Fair Value at 1% Higher £'000	Fair Value at 1% Lower £'000
Available For Sale Investments	**35,083**	**34,980**	**35,187**

Price Risk

The Council, excluding the pension fund, does not generally invest in equity shares and is therefore not exposed to losses arising from movements in the price of shares.

The Council has a small equity holding of 14,000 shares (£1 par value) in a company called Investors in Lincoln Ltd, received in connection with the Council's economic regeneration policies.

These shares are classed as 'Unquoted Equity Investments' valued at cost and do not represent a price risk for the Council.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Note 19. Inventories.

The Council held the following inventory items at 31 March 2014:

	Balance outstanding at 1 April 2013 £'000	Purchases £'000	Recognised as an expense in the year £'000	Written off balances £'000	Reversals of write-off in previous years £'000	Balance outstanding at 31 March 2014 £'000
Salt Stores	799	1,305	(892)			1,212
Total Inventories	**799**	**1,305**	**(892)**	**0**	**0**	**1,212**

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

Note 20. Construction Contracts.

The Council does not undertake construction contracts.

Note 21. Debtors.

The Council held the following debtors at 31 March 2014:

31 March 2013 £'000	Amounts falling due in one year:	31 March 2014 £'000
13,964	Central government bodies	15,885
4,373	Other local authorities	1,683
3,303	NHS bodies	5,057
0	Public corporations and trading funds	43
11,602	Bodies external to general government	8,462
10,002	Council tax agency and business rates agency arrangements	10,416
4,889	Payments in advance	3,647
48,133	**Total Short Term Debtors**	**45,193**

31 March 2013 £'000	Amounts falling due after one year:	31 March 2014 £'000
2,248	Central government bodies	1,868
460	Other local authorities	833
10	NHS bodies	0
3,598	Bodies external to general government	6,071
6,316	**Total Long Term Debtors**	**8,772**

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

The Council Tax and Business Rates Agency Arrangements figure represents the Council's share of council tax arrears (net of impairment for doubtful debts) and any surpluses on the Collection Funds held by the District Councils in Lincolnshire.

The arrangement for business rates only applies from 1 April 2013. Following the introduction of the new funding regime for local government,10% of the business rates collected locally are used to fund County Council services.

From 2013-14 the Council's accounting policies on manual debtors and creditors includes a diminimus of £10k for revenue and £25k for capital items.

Note 22. Cash and Cash Equivalents.

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

31 March 2013 £'000		31 March 2014 £'000
(8,356)	Cash & Cash Equivalents held by the County Council	(5,375)
(8,356)		**(5,375)**

Note 23. Assets Held for Sale.

The Council held the following assets for sale at 31 March 2014:

	Current		Non-Current	
	2012-13 £'000	2013-14 £'000	2012-13 £'000	2013-14 £'000
Balance outstanding at 1 April	2,239	3,660	0	0
Assets newly classified as held for sale:				
- Property, Plant and Equipment	2,985	735	0	0
- Intangible Assets	0	0	0	0
- Other assets/liabilities in disposal groups	0	0	0	0
Revaluation Increase to RR				
Revaluation Decrease to RR	(328)	(262)	0	0
Revaluation Increase/(Decrease) to SDPS	(402)	(112)	0	0
Assets declassified as held for sale:				
- Property, Plant and Equipment	0	0	0	0
- Intangible Assets	0	0	0	0
- Other assets/liabilities in disposal groups	0	0	0	0
Assets Sold	(834)	(2,477)	0	0
Transfers from non-current to current				
Balance Outstanding at 31 March	**3,660**	**1,544**	**0**	**0**

Note 24. Creditors.

The Council had the following creditors at 31 March 2014:

31 March 2013 £'000	Amounts falling due in one year:	31 March 2014 £'000
(17,008)	Central government bodies	(8,693)
(3,191)	Other local authorities	(2,905)
(409)	NHS bodies	(3,341)
(2)	Public corporations and trading funds	(10)
(53,874)	Other entities and individuals	(41,737)
(5,328)	Council tax agency and business rates agency arrangements	(8,841)
(2,577)	Receipts in advance	(4,229)
(9,025)	Employee benefits accrual	(7,665)
(91,414)	**Total Short Term Creditors**	**(77,421)**

31 March 2013 £'000	Amounts falling due after one year:	31 March 2014 £'000
(1,815)	Central government bodies	(1,618)
(725)	Other local authorities	(671)
(2,937)	Other entities and individuals	(8,867)
(5,477)	**Total Long Term Creditors**	**(11,156)**

The Council Tax & Business Rates Agency Arrangements figure represents the Council's share of council tax prepayments, overpayments and our share of any deficit owed to the Collection Funds held by the District Council's in Lincolnshire.

The arrangement for business rates only applies from 1 April 2013. Following the introduction of the new funding regime for local government,10% of the business rates collected locally are used to fund County Council services.

From 2013-14 the Council's accounting policies on manual debtors and creditors includes a diminimus of £10k for revenue and £25k for capital items.

Note 25. Other Long Term Liabilities

The Council had the following long term liabilities at 31 March 2014:

31 March 2013 £'000		31 March 2014 £'000
(14,905)	Outstanding Liabilities on PFI and Finance Leases	(13,799)
(641,730)	Pension Liability	(715,325)
(656,635)		**(729,124)**

Note 26. Provisions.

The Council made the following provisions during 2013-14:

Summary of Provisions	Balance at 1 April 2013 £'000	Additional Provisions made in 2013-14 £'000	Amounts Used in 2013-14 £'000	Unused amounts reversed in 2013-14 £'000	Unwinding of discounting in 2013-14 £'000	Balance at 31 March 2014 £'000
Social Services - Section 117	(307)	0	0	0	0	(307)
Waste Disposal Claims	(804)	0	19	785	0	0
Insurance Claims	(6,801)	174	0	68	(224)	(6,783)
Carbon Reduction Scheme	(598)	(41)	0	0	0	(639)
Business Rates Appeals	0	(667)	0	0	0	(667)
Waking Nights Provision	0	(876)	0	0	0	(876)
Onerous Contracts Property Leases	(218)	0	156	26	0	(36)
TOTAL	**(8,728)**	**(1,410)**	**175**	**879**	**(224)**	**(9,308)**

Short Term Provisions	Balance at 1 April 2013 £'000	Additional Provisions made in 2013-14 £'000	Amounts Used in 2013-14 £'000	Unused amounts reversed in 2013-14 £'000	Unwinding of discounting in 2013-14 £'000	Balance at 31 March 2014 £'000
Waste Disposal Claims	(26)	0	19	7	0	0
Insurance Claims	(2,942)	0	0	68	0	(2,874)
Carbon Reduction Scheme	(598)	(41)	0	0	0	(639)
Business Rates Appeals	0	(667)	0	0	0	(667)
Waking Nights Provision	0	(876)	0	0	0	(876)
Onerous Contracts Property Leases	(218)	0	156	26	0	(36)
TOTAL	**(3,784)**	**(1,584)**	**175**	**101**	**0**	**(5,092)**

Long Term Provisions	Balance at 1 April 2013 £'000	Additional Provisions made in 2013-14 £'000	Amounts Used in 2013-14 £'000	Unused amounts reversed in 2013-14 £'000	Unwinding of discounting in 2013-14 £'000	Balance at 31 March 2014 £'000
Social Services - Section 117 Deposits	(307)	0	0	0	0	(307)
Waste Disposal Claims	(778)	0	0	778	0	0
Insurance Claims	(3,859)	174	0	0	(224)	(3,909)
TOTAL	**(4,944)**	**174**	**0**	**778**	**(224)**	**(4,216)**

The Council's accounting policy on provisions includes a de-minimis of £100k.

Social Services - Section 117 of the Mental Health Act 1983, prescribes that Service Users who have been placed in care under Section 3 of the same Act do not have to pay for aftercare services. Where they have been charged for such services, they are entitled to reimbursement of the charges, plus interest. This provision was made to pay Service Users who are assessed as falling into this category.

The **Waste Disposal** provision has been established for claims against Lincolnshire County Council for necessary remedial work on waste disposal sites sold by the Council. As at 31 March 2014 the waste disposal provision is no longer required.

The **Insurance provision** represents all estimated outstanding claims under the excess clauses of the Council's external insurance polices. Material risks which are met by the Council under current insurance policies are shown below:

Type of Insurance	**Met by the County Council**	
	Each Claim £'000	**Maximum for all such claims £'000**
Public & employer's liability	150	3,000
School property	150	500
Other property	10	100

The provision for **Carbon Reduction Scheme** has been set up because, although the energy data relating to carbon emissions during 2013-14 has been collated, the details of the amount will not be available until 2014-15.

The **Waking Nights** provision has been created following an investigation that found that Children's Services has not paid an extra overnight allowance to night carers as part of a past Job evaluation. This is back pay from 2007.

The Council have and will continue to vacate properties as part of the reductions to funding and services. The lease costs and costs associated with leaving these properties will be provided for as an **onerous contract**.

Note 27. Usable Reserves.

The Council's usable reserves include: the General Fund, Earmarked Reserves (including revenue grants and contributions unapplied), Capital Receipts Reserve and Capital Grants Unapplied.

Reserve	**Balance at 31 March 2013 £'000**	**Balance at 31 March 2014 £'000**
Capital Grants Unapplied	(56,242)	(53,827)
Usable Capital Receipts (*1)	0	0
Earmarked Reserves	(141,695)	(165,276)
General Fund	(15,900)	(16,400)
Total	**(213,837)**	**(235,503)**

Please refer to the Movement in General Reserves Statement, Note 9 Adjustments Between Accounting Basis and Funding Basis Under Regulations and Note 10 Transfer To/From Earmarked Reserves for further details.

(*1)The County Council's policy is to fully utilise Usable Capital Receipts in the year they are received.

Note 28. Unusable Reserves.

Restated (*1) Balance at 31 March 2013 £'000		Note	Balance at 31 March 2014 £'000
(272,346)	Revaluation Reserve	(28a)	(319,865)
(568,151)	Capital Adjustment Account	(28b)	(579,290)
(31)	Financial Instruments Adjustment Account	(28c)	140
641,730	Pension Liability	(28d)	715,325
(4,674)	Collection Fund Adjustment Account	(28e)	(908)
6,744	Accumulated Absences Account	(28f)	5,426
0	Available for Sale Financial Instrument Reserve	(28g)	(83)
(196,728)	**Total**		**(179,255)**

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

a. Revaluation Reserve.

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:
- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2012-13 £'000		2013-14 £'000	2013-14 £'000
(240,194)	**Balance at 1 April**		**(272,346)**
(78,087)	Upward revaluation of assets	(97,884)	
21,727	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	35,502	
(56,360)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(62,382)	
6,335	Difference between fair value depreciation and historical cost depreciation	7,115	
17,873	Accumulated gains on assets sold or scrapped	7,748	
24,208	Amount written off to the Capital Adjustment Account	14,863	
(272,346)	**Balance at 31 March**		**(319,865)**

b. Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

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

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

2012-13 £'000		2013-14 £'000
(621,730)	**Balance at 1 April**	**(568,151)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
75,802	- Charges for depreciation and impairment of non-current assets	67,055
15,248	- Revaluation losses on Property, Plant and Equipment	13,567
2,491	- Amortisation of intangible assets	2,082
6,074	- Revenue expenditure funded from capital under statute (net of Grants and Contributions)	22,552
90,299	- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	20,327
(24,208)	Adjusting amounts written out of the Revaluation Reserve	(14,863)
165,706	Net written out amount of the cost of non-current assets consumed in the year	**110,720**
	Capital financing applied in the year:	
(6,049)	- Use of the Capital Receipts Reserve to finance new capital expenditure	(3,238)
(29,296)	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(41,533)
(15,825)	- Application of grants to capital financing from the Capital Grants Unapplied Account	(30,673)
(29,682)	- Statutory provision for the financing of capital investment charged against the General Fund	(25,925)
(17,255)	- Capital expenditure charged against the General Fund	(9,677)
(98,107)		**(111,046)**
(12,957)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(10,813)
(1,063)	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	0
(14,020)		**(10,813)**
(568,151)	**Balance at 31 March**	**(579,290)**

c. Financial Instruments & Financial Assets Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.

2012-13 £'000		2013-14 £'000
(16)	**Balance at 1 April**	**(31)**
0	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0
15	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	15
(30)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	156
(31)	**Balance at 31 March**	**140**

d. Pensions Liability

The Pensions Liability absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer’s contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Restated (*1) 2012-13 £'000		2013-14 £'000
545,371	**Balance at 1 April**	**641,729**
91,193	Actuarial gains or losses on pensions assets and liabilities	45,191
41,200	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CI&ES	64,207
(36,034)	Employer’s pensions contributions and direct payments to pensioners payable in the year	(35,802)
641,730	**Balance at 31 March**	**715,325**

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

e. Collection Fund Adjustment Account

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

2012-13 £'000		2013-14 £'000
(4,383)	**Balance at 1 April**	**(4,674)**
(291)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax & business rates income calculated for the year in accordance with statutory requirements	3,766
(4,674)	**Balance at 31 March**	**(908)**

f. Accumulated Absences Account

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

2012-13 £'000		2013-14 £'000	2013-14 £'000
8,705	**Balance at 1 April**		**6,744**
(8,705)	Settlement or cancellation of accrual made at the end of the preceding year	(6,744)	
6,744	Amounts accrued at the end of the current year	5,427	
(1,961)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(1,318)
6,744	**Balance at 31 March**		**5,426**

g.Available for Sale Financial Instrument Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the County Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost; and
- disposed of and the gains are realised.

2012-13 £'000			2013-14 £'000
	Balance at 1 April		
0	Upward revaluation of investments	(83)	
0	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	0	
			(83)
0	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		0
0	**Balance at 31 March**		**(83)**

Note 29. Operating Activities.

The cashflow operating activities include the following items:

2012-13 £'000		2013-14 £'000
(1,717)	Interest received	(1,785)
19,739	Interest paid	19,900
0	Dividends received	0

The surplus or deficit on the provison of services has been adjusted for the following non-cash movements:

2012-13 £'000		2013-14 £'000
(75,802)	Depreciation	(67,055)
(15,248)	Impairment and downward valuations	(13,567)
(2,491)	Amortisation	(2,082)
(457)	Increase/(decrease) in impairment for bad debts	(173)
6,020	(Increase)/decrease in creditors	(808)
3,832	Increase/(decrease) in debtors	(3,394)
(20)	Increase/(decrease) in inventories	412
(5,166)	Movement in pension liability	(28,404)
(90,300)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(20,335)
18,237	Other non-cash items charged to the net surplus or deficit on the provision of services	9,843
(161,394)	**Net surplus/(deficit) on provison of services for non cash movements**	**(125,563)**

The surplus or deficit on the provison of services has been adjusted for the following non-cash movements:

2012-13 £'000		2013-14 £'000
0	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investment in associates, joint ventures and subsidiaries)	0
58,566	Capital Grants credited to Surplus or deficit on the provision of services	64,423
6,049	Proceeds from sale of property, plant and equipment, investment property and intangible assets	3,238
1,182	Any other items for which the cash effects are investing or financing cash flows	1,239
65,797	**Net surplus/(deficit) on provison of services for Investing & Financing activities**	**68,900**

Note 30. Investing Activities.

The cashflow investing activities include the following items:

2012-13 £'000		2013-14 £'000
146,921	Purchase of property, plant and equipment, investment property and intangible assets	111,175
972,068	Purchase of short-term and long- term investments	906,021
823	Other payments for investing activities	914
(6,049)	Proceeds from sale of property, plant equipment, investment property and intangible assets	(3,238)
(1,016,868)	Proceeds from short-term and long-term investments	(911,930)
(51,278)	Capital Grants Received (Government)	(65,346)
(2,005)	Other receipts from investing activities	(2,153)
43,612	**Net cash flow from investing activities**	**35,443**

Note 31. Financing Activities.

The cashflow financing activities include the following items:

2012-13 £'000		2013-14 £'000
(12,100)	Cash receipts of short and long-term borrowing	0
0	Other receipts from financing activities	0
1,318	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance-Sheet PFI Contracts	1,304
6,750	Repayments of short and long-term borrowing	3,740
0	Other payments for financing activities	0
(4,032)	**Net cash flow from Financing activities activites**	**5,044**

Note 32. Amounts reported for Resource Allocation Decisions (Segmental Reporting)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice set out by CIPFA. However, decisions about resource allocation are taken by the Council’s Executive on the basis of budget reports analysed across Directorates, and service areas.

These reports are prepared on a different basis from the accounting policies used in the Financial Statements. In particular:

- no charges are made in relation to capital expenditure (where as depreciation and amortisation; and revaluation/impairment losses in excess of the balance on the Revaluation Reserve are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer’s pension contributions) rather than current service cost of benefits accrued in the year; and

- expenditure on support services forms part of the Resources and Chief Executive Offices' budgets and expenditure. However, within the Comprehensive Income and Expenditure Statement these are allocated to front line services based on their usage. Methods of allocation for these services are set out in the Council's accounting policies (Note 1).

a. Income and Expenditure analysed over the Council's directorates and reported in the Council's Outturn Report.

This analysis may include items that do not form part of the Comprehensive Income and Expenditure Statement, hence the need for the Reconciliation from the Segmental Reporting Analysis to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

Service Analysis 2013-14	Employee Expenses £'000	Agency and Contract Payments £'000	Other Running Expenses £'000	Gross Expenditure £'000	Specific Grants and Contributions £'000	Other Income (inc. Fees and Charges) £'000	Total Income £'000	Cost of Services £'000
Children's Social Care	29,771	16,697	11,010	57,478	(10,807)	(476)	(11,283)	46,195
Education Services	23,205	8,928	32,830	64,963	(3,731)	(3,473)	(7,204)	57,759
Adult Care	25,332	148,395	32,271	205,998	(37,040)	(35,762)	(72,802)	133,196
Public Health	5,053	34,165	7,724	46,942	(4,643)	(100)	(4,743)	42,199
Public Health Grant Income	0	0	0	0	(26,272)	300	(25,972)	(25,972)
Highways & Transportation	8,472	35,970	11,766	56,208	(9,596)	(2,962)	(12,558)	43,650
Environment Planning & Customer Services	5,848	17,501	2,616	25,965	(645)	(808)	(1,453)	24,512
Economy & Culture	9,463	78	10,686	20,227	(5,011)	(2,370)	(7,381)	12,846
Fire & Rescue	18,076	45	4,653	22,774	(2,539)	(637)	(3,176)	19,598
Community Safety	15,683	94	5,914	21,691	(2,333)	(1,345)	(3,678)	18,013
Finance & Resources	2,442	6,785	12,190	21,417	(2,641)	(3,440)	(6,081)	15,336
Performance & Governance	8,560	7,709	6,581	22,850	(381)	(191)	(572)	22,278
TOTAL SERVICE BUDGETS	**151,905**	**276,367**	**138,241**	**566,513**	**(105,639)**	**(51,264)**	**(156,903)**	**409,610**
OTHER BUDGETS								
Capital Financing Charges	0	0	50,157	50,157	0	(1,412)	(1,412)	48,745
Contingency	0	0	0	0	0	0	0	0
Other Budgets	1,494	0	510	2,004	0	0	0	2,004
TOTAL OTHER BUDGETS	**1,494**	**0**	**50,667**	**52,161**	**0**	**(1,412)**	**(1,412)**	**50,749**
SCHOOLS BUDGETS								
Delegated School Budgets	178,631	6,195	54,723	239,549	(20,775)	(4,152)	(24,927)	214,622
Central Services within the DSB	7,233	23,866	16,930	48,029	(3,004)	(986)	(3,990)	44,039
Dedicated Schools Grant	0	0	0	0	(261,338)	0	(261,338)	(261,338)
TOTAL SCHOOLS BUDGETS	**185,864**	**30,061**	**71,653**	**287,578**	**(285,117)**	**(5,138)**	**(290,255)**	**(2,677)**
TOTAL EXPENDITURE	**339,263**	**306,428**	**260,561**	**906,252**	**(390,756)**	**(57,814)**	**(448,570)**	**457,682**
INCOME								
Revenue Support Grant	0	0	0	0	(146,366)	0	(146,366)	(146,366)
Business Rates	0	0	0	0	(79,603)	(19,157)	(98,760)	(98,760)
Council Tax	0	0	0	0	0	(224,247)	(224,247)	(224,247)
Other Non Specific Grants	0	0	0	0	(17,650)	0	(17,650)	(17,650)
TOTAL INCOME	**0**	**0**	**0**	**0**	**(243,619)**	**(243,404)**	**(487,023)**	**(487,023)**
Use/(Contribution) to Reserves				906,252			(935,593)	(29,341)

Service Analysis 2012-13	Employee Expenses £'000	Agency and Contract Payments £'000	Other Running Expenses £'000	Gross Expenditure £'000	Specific Grants and Contributions £'000	Other Income (inc. Fees and Charges) £'000	Total Income £'000	Cost of Services £'000
Children's Social Care	27,372	7,835	12,848	48,055	(5,958)	(331)	(6,289)	41,766
Education Services	24,665	3,924	41,360	69,949	(30,108)	(2,805)	(32,913)	37,036
Adult Care	27,707	144,083	27,759	199,549	(31,255)	(35,491)	(66,746)	132,803
Public Health	2,184	14,619	5,350	22,153	(4,941)	(66)	(5,007)	17,146
Highways & Transportation	10,196	34,947	12,468	57,611	(4,874)	(2,770)	(7,644)	49,967
Environment Planning & Customer Services	5,496	21,849	2,431	29,776	(618)	(908)	(1,526)	28,250
Economy & Culture	9,629	1,564	9,475	20,668	(4,683)	(2,469)	(7,152)	13,516
Fire & Rescue	17,674	26	5,146	22,846	(2,210)	(511)	(2,721)	20,125
Community Safety	14,674	35	5,995	20,704	(2,387)	(1,380)	(3,767)	16,937
Finance & Resources	2,609	10,590	8,999	22,198	(2,970)	(4,379)	(7,349)	14,849
Performance & Governance	7,460	8,008	6,829	22,297	(295)	(169)	(464)	21,833
TOTAL SERVICE BUDGETS	**149,666**	**247,480**	**138,660**	**535,806**	**(90,299)**	**(51,279)**	**(141,578)**	**394,228**
OTHER BUDGETS								
Capital Financing Charges	0	0	55,985	55,985	0	(2,302)	(2,302)	53,683
Contingency	0	0	0	0	0	0	0	0
Council Tax Freeze Grant	0	0	0	0	(6,332)	0	(6,332)	(6,332)
Other Budgets	3,040	0	579	3,619	(3,387)	0	(3,387)	232
TOTAL OTHER BUDGETS	**3,040**	**0**	**56,564**	**59,604**	**(9,719)**	**(2,302)**	**(12,021)**	**47,583**
SCHOOLS BUDGETS								
Delegated School Budgets	217,175	1,175	74,440	292,790	(28,913)	(4,860)	(33,773)	259,017
Central Services within the DSB	8,206	21,078	12,443	41,727	(4,293)	(87)	(4,380)	37,347
Dedicated Schools Grant	0	0	0	0	(293,367)	0	(293,367)	(293,367)
TOTAL SCHOOLS BUDGETS	**225,381**	**22,253**	**86,883**	**334,517**	**(326,573)**	**(4,947)**	**(331,520)**	**2,997**
TOTAL EXPENDITURE	**378,087**	**269,733**	**282,107**	**929,927**	**(426,591)**	**(58,528)**	**(485,119)**	**444,808**
INCOME								
Formula Grant	0	0	0	0	(201,512)	0	(201,512)	(201,512)
Council Tax	0	0	0	0	0	(253,389)	(253,389)	(253,389)
TOTAL INCOME	**0**	**0**	**0**	**0**	**(201,512)**	**(253,389)**	**(454,901)**	**(454,901)**
Use/(Contribution) to Reserves				929,927			(940,020)	(10,093)

A description of the services provided and the sources of funding for these areas is set out below:

Children's Social Care provides services such as child protection and looked after services (including: frontline social workers and adoption/fostering services). Funding comes from LCC contributions and specific grants. This also includes **Home to School Transport.**

Education Services includes school improvement, youth services, targeted early intervention services and career guidance. Funding comes from LCC contributions and specific grants.

Adult Care includes**:**

Older People & Physical Disabilities These two services are managed through one management structure focussing on 18-64 year olds with Physical Disabilities and over 65s with a variety of social care needs. Team members offer support, advice, information and guidance to enable these groups of people in Lincolnshire to live more independently. This is increasingly through Personal Budgets either by Direct Payment or by LCC commissioning services on behalf of the people assessed as needing support. Funding comes from LCC contributions, specific grants from government departments, funding from LCCG's for specific work or projects and fees and charges for services.

Learning Disabilities This is a joint funded service in conjunction with LCCG's under a Section 75 agreement. Additional funding comes from LCC contributions and joint partnership funding with the Department of Health, plus specific grants from government departments, fees and charges for services (including: Fairer Charging Policy and Charges for Residential Accommodation Guidance). It offers support, advice, information and guidance to enable people in Lincolnshire, over the age of 18 with learning disabilities to live more independently providing services such as Residential and Day Care, Home Support, Supported Living, equipment and telecare services. This is provided through personalisation of direct payments and direct provision.

Mental Health The service is provided by Lincolnshire Partnership Foundation Trust (LPFT) under a Section 75 agreement on behalf of the Council. It offers support, advice, information and guidance to enable people over the age of 18 in Lincolnshire with Mental Health difficulties to live more independently. This is provided mostly through the provision of direct payments via a personal budget but also via a direct provision of home care and residential services.

Adult Social Care Operations offers support, advice, information and guidance to enable people in Lincolnshire, over the age of 18, to live more independently providing services such as Residential and Day Care, Home Support, Extra Care Housing, equipment and telecare services. Funding comes from LCC contributions and joint partnership funding with the Department of Health, plus specific grants from government departments, and fees and charges for services (including: Fairer Charging Policy and Charges for Residential Accommodation Guidance).

Public Health provide information and services to enable people to live independently in their own homes providing services such as Supporting People Housing Related Support, Supported Employment Services and Local Involvement Networks (LINKs). Funding comes from LCC contributions, specific grants (including Supporting People) and joint partnership funding with the Department of Health.

Highways and transportation are responsible for maintaining Lincolnshire's road network (including winter maintenance), bus subsidies and transport planning. Funding comes from LCC contributions, plus smaller amounts from government grants and developer contributions.

Environment, Planning and Customer services includes waste disposal, spatial and environmental planning and the Council's Customer Service Centre. Funding comes primarily from LCC contributions.

Economy is responsible for investing to create regeneration opportunities in Lincolnshire. Funding comes from regional, national and European funding, in addition to LCC contributions. **Culture** maintains a network of static and mobile libraries services across the County. It, also provides care and access to Lincolnshire's archives, museum objects, historic buildings and other sites. Funding comes from LCC contributions, government grants and fees and charges.

Fire & Rescue including: fire prevention, protection and emergency response, as well as leading on the County's emergency planning. Funding comes from LCC contributions plus some specific grants (including: urban search and rescue grant) and from other Local Authority contributions.

Community Safety provides the following services to the public; Trading Standards, Registration & Coroners, Youth Offending and Rehabilitation Programmes. In addition, it provides the central Business Support function to the Council. Funding comes primarily from LCC contributions.

Finance & Resources provide the following functions for the Authority: Legal, Audit, Procurement, Corporate Property and Treasury & Financial Strategy. Whilst there are small number of corporate contracts that are recharged out across other directorates, as this area relates to the support services/overheads for LCC then the majority of funding is directly through LCC Contributions.

Performance & Governance provides support services including: HR, ICT, communications and scrutiny functions and support for Councillors and the democratic process. Funding comes from LCC contributions.

Other budgets include: expenditure of capital financing charges which include the annual revenue costs of funding the Council's capital programme e.g. payment of principal and interest on amounts borrowed; insurance and county wide joint projects including council tax second homes and the sustainable community strategy expenditure. Income here is non-ring fenced government grants, Non Domestic Rates and the Council Tax. Other budgets also contains a contingency budget which is set aside to pay for unforeseen events that occur during the year.

b. Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement.

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2012-13 £'000	**2013-14 £'000**
Net Expenditure in the Directorate analysis (Use of Reserves)	(10,093)	(29,341)
Add: Net expenditure on services and support services not included in main analysis	0	0
Add: Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis (Note 32c)	112,976	139,065
Less: amounts reported to management in the analysis not included in the Comprehensive Income and Expenditure Account (Note 32c)	364,361	397,598
Net Cost of Services in the Comprehensive Income and Expenditure Statement	**467,244**	**507,322**

c. Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2013-14	**Service Analysis Cost of Service £'000**	**Amounts not reported to Management £'000**	**Amounts not included in CI&ES £'000**	**Net Cost of Services £'000**	**Corporate Amounts £'000**	**(Surplus)/Deficit on Provision of Services £'000**
Other income (including fees and charges)	(57,814)	(12,802)	1,412	(69,204)		(69,204)
Income from Council Tax	(243,404)		224,246	(19,158)	(221,137)	(240,295)
Specific Grants and Contributions	(634,375)		262,776	(371,599)	(262,120)	(633,719)
Interest and Investment Income Receivable			2,153	2,153	(14,378)	(12,225)
TOTAL Income	**(935,593)**	**(12,802)**	**490,587**	**(457,808)**	**(497,635)**	**(955,443)**
Employee Expenses	339,263	33,766	(35,503)	337,526		337,526
Agency and Contract Expenditure	306,428		0	306,428	0	306,428
Other Running Expenses	260,561	155	(55,591)	205,125	52	205,177
Support Service Recharges				0	0	0
Depreciation, Amortisation and Impairment		117,946		117,946	(64,423)	53,523
Interest Payable and Similar Charges			(1,895)	(1,895)	20,768	18,873
Precepts and Levies				0	1,079	1,079
Gain or Loss on Disposal of Non-Current Assets				0	17,208	17,208
Pension Interest Cost				0	28,824	28,824
TOTAL Expenditure	**906,252**	**151,867**	**(92,989)**	**965,130**	**3,508**	**968,638**
Surplus/ Deficit on the Provision of Services	**(29,341)**	**139,065**	**397,598**	**507,322**	**(494,127)**	**13,195**

Restated (*1) Reconciliation to Subjective Analysis 2012-13	Service Analysis Cost of Service £'000	Amounts not reported to Management £'000	Amounts not included in CI&ES £'000	Net Cost of Services £'000	Corporate Amounts £'000	(Surplus)/Deficit on Provision of Services £'000
Other income (including fees and charges)	(58,528)	(22,113)	2,302	(78,339)	0	(78,339)
Income from Council Tax	(253,389)	0	253,389	0	(253,681)	(253,681)
Government Grants and Contributions	(628,103)	0	211,218	(416,885)	(211,218)	(628,103)
Interest and Investment Income Receivable	0	0	2,005	2,005	(17,232)	(15,227)
TOTAL Income	**(940,020)**	**(22,113)**	**468,914**	**(493,219)**	**(482,131)**	**(975,350)**
Employee Expenses	378,087	13,794	(36,033)	355,848	0	355,848
Agency and Contract Expenditure	269,733	0	0	269,733	0	269,733
Other Running Expenses	282,107	(31)	(66,670)	215,406	(64)	215,342
Support Service Recharges	0	0	0	0	0	0
Depreciation, Amortisation and Impairment	0	121,326	0	121,326	(58,565)	62,761
Interest Payable and Similar Charges	0	0	(1,850)	(1,850)	20,569	18,719
Precepts and Levies	0	0	0	0	1,062	1,062
Gain or Loss on Disposal of Non-Current Assets	0	0	0	0	84,652	84,652
Pension Interest Cost	0	0	0	0	25,445	25,445
TOTAL Expenditure	**929,927**	**135,089**	**(104,553)**	**960,463**	**73,099**	**1,033,562**
Surplus/ Deficit on the Provision of Services	**(10,093)**	**112,976**	**364,361**	**467,244**	**(409,032)**	**58,212**

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

Note 33. Acquired and Discontinued Operations.

The following table shows the amount of income and expenditure within the Council's accounts which relates to its acquired and discontinued operations:

	Year ended 31 March 2014		
	Gross Expenditure £'000	**Income £'000**	**Net Expenditure £'000**
Local Welfare Assistance	1,581	(1,802)	(221)
Public Health Responsibilities	27,895	(26,778)	1,117
Surplus or Deficit on Acquired and Discontinued Operations	**29,476**	**(28,580)**	**896**

Local Welfare Assistance

From April 2013 Community Care Grants and Crisis Loans previously provided by the Department for Work and Pensions were abolished. From that date responsibility passed to the County Council to provide a locally based and designed provision to deliver a more responsive service that's better targeted and relevant to the needs of vulnerable people in society. The cost of this service is £1.581m and funded by a specific government grant.

Public Health

The Health and Social Care Act 2012 reformed the existing NHS structures and responsibilities with a number of these responsibilities transferring from the NHS to the control of Local Authorities from April 2013.

Public Health is about helping people to stay healthy and avoid illness, so this includes work on a range of policy areas such as immunisation, nutrition, tobacco and alcohol, drugs recovery, sexual health, pregnancy and children’s health.

The Council became responsible for commissioning services for many of these policy areas which was funded by a specific government grant for 2013-14.

Following disaggregation of the closing balance sheet of Lincolnshire NHS PCT a number of balances were transferred to the County Council. These are included in the 2013-14 accounts but opening balances were not restated because the amounts were not material.

Note 34. Trading Activities.

The Council has no trading activities to report for 2013-14.

Note 35. Agency Services.

a. Nursing Care

The Council makes payments to independent sector nursing homes for both the nursing care element and the personal care element of the accommodation charges. The nursing care element is the financial responsibility of the Clinical Commissioning Groups.

The Council paid £5.812m (£5.534m in 2012-13) acting as an agent of the Clinical Commissioning Groups in order to simplify the payment arrangements to the homes. The total amount paid is recovered from the Clinical Commissioning Groups.

b. Street Lighting

The Council makes payments on behalf of the District Councils to electricity companies for street lighting. These amounts are then recovered as these charges are the responsibility of the District Councils.

During 2013-14 Lincolnshire County Council paid £0.034m acting as an agent for West Lindsey District Council. £0.039m was recovered. (In 2011-12 £0.015m was spent, with £0.010m being recovered)

Note 36. Road Charging Schemes Under the Transport Act 2000.

The Council has no road charging schemes under the Transport Act 2000.

Note 37. Pooled Budgets

Under Section 31 of the Health Act 1999 (superseded by Section 75 of the Health Act 2006), Lincolnshire County Council has entered into pooled budget arrangements.

The Council is the host Authority for the pooled budgets relating to Learning Disabilities, Integrated Community Equipment Service and Child & Adolescent Mental Health Services, and is responsible for their financial administration.

The NHS Trust is the host Authority for the pooled budgets relating to Mental Health services and Substance Misuse and is responsible for their financial administration.

a. Learning Disability

In 2001-02 Lincolnshire County Council and Lincolnshire Clinical Commissioning Group's established a pooled budget Partnership Arrangement for the provision of Learning Disability services.

2012-13 £'000		2013-14 £'000
55,176	Gross Partnership Expenditure	57,846
(48,580)	Gross Partnership Income	(59,129)
6,596	**Surplus(-)/Deficit(+)**	**(1,283)**
29,335	**Contribution from Lincolnshire County Council**	**45,206**

The underspend for 2013-14 is £1.282m which includes an underspend of £1.173m in relation to daytime opportunities. (However Day Time opportunities are for people of all client groups and not just those with Learning Disabilities). The underspend that can be purely attributable to Learning Disability services is therefore £98k.

This underspend occurred due to a number of reasons.

In the main LD Service, significant savings were achieved in the service through both efficiencies and savings projects. There was through the Practice Enablement Group, far greater control of financial decisions and the timing of when this impacts upon the budget. A new brokerage process for Residential placements has also helped to hold costs down.

As already identified In-House day opportunities has produced a larger than expected underspend.

b. Integrated Community Equipment Service (ICES)

In 2004-05 Lincolnshire County Council and Lincolnshire Clinical Commissioning Group's established a pooled budget Partnership Arrangement for the provision of the Integrated Community Equipment Service.

From 1 November 2012 a new section 75 agreement was put in place between Lincolnshire County Council and Lincolnshire Community Health Services NHS trust, United Lincolnshire Hospitals NHS Trust and Lincolnshire Partnership Foundation NHS Trust

2012-13 £'000		2013-14 £'000
3,791	Gross Partnership Expenditure	5,938
(3,791)	Gross Partnership Income	(5,938)
0	**Surplus(-)/Deficit(+)**	**0**
1,940	**Contribution from Lincolnshire County Council**	**2,948**

This is a 50:50 shared responsibility budget between the Council and the Clinical Commissioning Group's and any overspend is shared.

c. Substance Misuse

With effect from 1st April 2013 Lincolnshire County Council hosts the budget for substance misuse on behalf of the Lincolnshire Drug and Alcohol Action Team (DAAT) which is now under a Memorandum of Understanding across the DAAT Partnership. Previously the budget was hosted by Lincolnshire Primary Care Trusts (LPCT). The budget for substance misuse is termed a virtual pooled fund arrangement but is not operated under S.75 of the National Health Service Act 2006.

Responsibility for providing drug and alcohol services passed to Lincolnshire County Council from 1st April 2013. Because of this the majority of the partnership funding now comes from Lincolnshire County Council via the Public Health ring-fenced grant.

The 2013-14 Gross Partnership Expenditure and Income shows an increase of £768,000 when compared to the 2012-13 totals. This is mainly because the 2013-14 totals include expenditure relating to certain alcohol services for the first time. In 2012-13 these services were funded by LPCT development budgets and as such were excluded from the virtual pooled budget arrangement.

2012-13 £'000		**2013-14 £'000**
6,934	Gross Partnership Expenditure	7,702
(6,934)	Gross Partnership Income	(7,702)
0	**Surplus(-)/Deficit(+)**	**0**
(147)	**Contribution from Lincolnshire County Council**	**7,527**

There is a risk sharing agreement in place between the parties interested in the DAAT budget. The agreement states that under or overspends on the DAAT budget will be shared between these parties at year end.

For 2013-14 Lincolnshire's share of the risk is 94.5% (51% in 2012-13).

Lincolnshire's received a refund of £380,700 in 2012-13. The budget was fully spent in 2013-14 so no refund was due.

The Council is the host authority for the pooled budget relating to Child & Adolescent Mental Health Services.

d. Child & Adolescent Mental Health Services

In 2012-13 Lincolnshire County Council and Lincolnshire Clinical Commissioning Group's established a pooled budget Partnership Arrangement for the provision of Child & Adolescent Mental Health Service. The size of this pooled budget increased significantly in 2013-14 following variations made which incorporated additional functions in to the Section 75 Agreement.

2012-13 £'000		**2013-14 £'000**
1,001	Gross Partnership Expenditure	5,198
(1,001)	Gross Partnership Income	(5,198)
0	**Surplus(-)/Deficit(+)**	**0**
495	**Contribution from Lincolnshire County Council**	**725**

Note 38. Members Allowances

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

2012-13 £'000		2013-14 £'000
	Members Allowances:	
629	Basic Allowances	630
356	Special Responsibility Allowances	349
985		979
102	Expenses	117
1,087	**TOTAL**	**1,096**

The figures above will always be different to the figures that are disclosed on the Lincolnshire County Council Website as the figures above have been produced on an accruals basis, where as the figures disclosed on the website are produced on a cash basis.

Note 39. Officers' Remuneration

a. Officers' remuneration bandings

The table below shows the total number of staff employed by the Council whose actual remuneration exceeded £50,000 per annum, shown in £5,000 bands. Remuneration includes gross salary, expenses, the money value of benefits in kind and termination payments for staff leaving during the year. In addition, the table also identifies the number of staff that left the Council receiving termination payments in the respective year:

2012-13 Number of Staff			**2013-14 Number of Staff**	
Remuneration received (excl those receiving termination payments)	**Staff who received termination payments**	**Pay Band**	**Remuneration received (excl those receiving termination payments)**	**Staff who received termination payments**
1	0	£125,000- £129,999	0	0
0	0	£120,000- £124,999	1	0
0	0	£115,000- £119,999	0	0
0	1	£110,000- £114,999	0	1
0	0	£105,000- £109,999	2	1
0	0	£100,000- £104,999	1	1
0	0	£95,000- £ 99,999	2	0
3	1	£90,000- £94,999	1	0
7	3	£85,000- £89,999	6	1
5	1	£80,000- £84,999	6	1
6	0	£75,000- £79,999	6	0
8	2	£70,000- £74,999	10	2
24	1	£65,000- £69,999	35	3
47	0	£60,000- £64,999	46	0
95	1	£55,000- £59,999	79	3
106	6	£50,000- £54,999	100	1
302	**16**	**Total**	**295**	**14**

A breakdown of the numbers between schools and other services can be found at Appendix A at the back of this document.

Note the above table excludes all employees who are included within the Senior Officer remuneration table on the next page.

b. Senior Officers' Remuneration

The Accounts and Audit (England) Regulations 2011 requires Local Authorities to disclose individual remuneration details for senior employees (determined as those who have responsibility for the management of the organisation and who direct or control the major activities of the Council).

Job Title	**Year**	**Salary** £	**Employer's Pension Contribution** £	**(2*) Other Emoluments** £	**Total** £
Senior Officers with a salary over £150,000					
Tony McArdle - Chief Executive	2013-14	173,643	32,740	0	206,383
	2012-13	*173,226*	*32,740*	*696*	*206,662*
Senior Officers with a salary over £50,000 and less than £150,000					
Director of Adult Services (*1)	2013-14	105,000	19,845	0	124,845
	2012-13	*91,059*	*17,210*	*0*	*108,269*
Executive Director - Children's Services	2013-14	126,400	23,811	0	150,211
	2012-13	*120,981*	*22,734*	*0*	*143,715*
Executive Director - Resources & Community Safety	2013-14	125,983	23,957	1,408	151,348
	2012-13	*125,983*	*23,957*	*980*	*150,920*
Executive Director - Communities	2013-14	126,400	23,811	0	150,211
	2012-13	*126,678*	*23,811*	*0*	*150,489*
Executive Director - Performance & Governance	2013-14	125,983	23,811	491	150,285
	2012-13	*125,983*	*23,811*	*1,194*	*150,988*
Chief Fire Officer	2013-14	111,100	23,664	123	134,887
	2012-13	*111,100*	*23,664*	*123*	*134,887*
Director of Public Health	2013-14	*160,835*	*20,595*	*427*	*181,857*
	2012-13	*0*	*0*	*0*	*0*

(*1) Director of Adult Services was appointed from 1 February 2013 (Assistant Director prior to this date). Therefore salary less than other equivalent Senior Officers in 2012-13.

(*2) Other Emoluments include the profit element of car hire and medical insurance.

Note 40. Exit Packages

The numbers of exit packages with total cost (redundancy and pension strain) per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13 £	2013-14 £
£0 - £20,000	103	75	78	35	181	110	£1,443,821	£757,177
£20,001 - £40,000	28	15	32	14	60	29	£1,648,122	£794,917
£40,001 - £60,000	9	0	6	3	15	3	£739,301	£161,705
£60,001 - £80,000	7	0	1	0	8	0	£540,958	£0
£80,001 - £200,000	2	3	0	1	2	4	£180,659	£557,659
Total	**149**	**93**	**117**	**53**	**266**	**146**	**£4,552,861**	**£2,271,458**

Redundancy and pension strain payments are presented in this note in the year that payment is made or accrued (at the point in time when an individual employee is committed to leave the Council). Provisions for redundancy and pension strain costs are not included within this note as they represent costs which are committed, but where specific individuals have not yet been identified.

Details of the actual costs included within the Council's Income and Expenditure for redundancy and pension strain are set out below in Note 41 Termination Benefits. The difference between the values reported in this note and Note 41 Termination Benefits arise due to provisions and any variances between year end accruals and the actual payments made in the next financial year.

Note 41. Termination Benefits.

In 2013-14 the County Council incurred liabilities of £2.163m (£4.604m in 2012-13) from terminating employees contracts of employment. These costs were made up of:

- £1.831m for redundancy payments (£3.931m in 2012-13); and
- £0.332m for pension strain (£0.673m in 2012-13).

Further information on termination benefits can be found in Note 40 on Exit Packages which details the number of exit packages and total cost over bands and Note 54 on Retirement Benefits which details the effect termination benefits have had on pensions in 2013-14.

Note 42. External Audit Costs.

Lincolnshire County Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by KPMG the Council's external auditors:

2012-13 £'000		2013-14 £'000
143	Fees payable to KPMG with regards to external audit services carried out by the appointed auditor for the year	149
0	Fees payable to KPMG in respect of statutory inspections	0
7	Fees payable to KPMG for the certification of grant claims and returns	6
28	Fees payable in respect of other services provided by KPMG during the year	6
178	**Total**	**161**

Note 43. Expenditure on Publicity.

The Council's expenditure on publicity includes: staff advertising, including advertising for teaching and other staff in schools; advertising of statutory notices in relation to highways work and publicity for services such as museums and libraries.

2012-13 £'000		2013-14 £'000
1,357	Other Advertising	1,623
601	Staff Advertising	629
185	County News	190
29	Lincolnshire Show	41
174	Other Publicity	22
13	Public Relations	4
2,359		**2,509**

Other Advertising includes promotional advertising and merchandise (£0.951m) and Highways statutory notices (£0.299m).

Note 44. Landfill Allowances Trading Scheme (LATS).

The scheme ended on 31 March 2013 therefore a £nil value per tonne was applied to all transactions in respect of allowances in 2012-13. There are no transactions to report for financial year 2013-14 as the scheme has ceased.

Note 45. Dedicated Schools Grant.

The Council's expenditure on schools is funded primarily by grant monies provided by the Department of Education, the Dedicated schools Grant (DSG). The DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the Schools Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013-14 are as follows:

Schools Budget Funded by Dedicated Schools Grant	**Central Expenditure £'000**	**Individual Schools Budget £'000**	**Total £'000**
Final DSG for 2013-14 before Academy recoupment			479,340
Academy Figure Recouped for 2013-14			(218,002)
Total DSG after Academy Recoupment for 2013-14			261,338
Brought Forward from 2012-13			16,688
Agreed Initial Budgeted Distribution in 2013-14	51,840	226,185	278,025
In Year Adjustments	(967)	2,213	1,246
Final Budget Distribution for 2013-14	**50,873**	**228,398**	**279,271**
less Actual central expenditure	(48,926)	0	(48,926)
less Actual ISB deployed to schools	0	(210,833)	(210,833)
Total actual expenditure in 2013-14	**(48,926)**	**(210,833)**	**(259,759)**
Local Authority Contribution 2013-14	**5**	**45**	**50**
Carry forward to 2014-15	**1,952**	**17,610**	**19,562**

The Individual Schools Budget includes schools contingency. For the purposes of the deployment of the grant, Individual School Budgets are deemed to be spent once allocated. School balances can be seen elsewhere in the Financial Statements in Note 10 Earmarked Reserves.

Note 46. Grant Income

The Council credited the following grants and contributions and donations to the Comprehensive Income and Expenditure Statement in 2013-14; for grants & contributions where the conditions have been met, or no conditions existed:

2012-13 £'000	a) Credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement	2013-14 £'000
197,680	Contribution from National Non-Domestic Rates	0
0	Business Rates - Districts	18,501
0	Business Rates - Top up fund	79,603
6,332	Council Tax Freeze Grant	2,547
3,832	Revenue Support Grant	146,366
2,000	Local Services Support Grant	1,378
1,374	New Homes Bonus Grant & Returned Topslice	2,864
0	Education Services Grant	7,492
0	Adoption Reform Grant	1,277
0	Other Non Specific Grant	2,092
	Capital Grants and Contributions	
24,038	DFT Asset Protection Grant	23,330
6,233	DfE Basic Need Grant	9,467
9,650	DfE Capital Maintenance Grant	7,165
0	DFT Additional Maintenance Grant 2013/2014	4,205
4,136	DFT Integrated Transport Grant	4,136
1,709	Heritage Lottery Fund	2,776
2,717	ERDF Grant	2,025
1,778	ASC Social Care Capital Grant	1,810
0	DfE Academies Grant	1,705
0	DFT Pinchpoint Funding 2013/2014	1,668
1,875	Devolved Formula Grant	1,455
108	S106 Agreements	992
1,138	CLG Fire Capital Grant	885
127	Local Sustainable Transport Fund	842
1,092	Other Capital Grants and Contributions	592
181	Environment Agency Flood Grant	334
0	Public Health Grant - Drugs & Alcohol Recovery	280
0	Loan to Third Party Payment	253
0	Commuted Sum drawdown (Structures)	250
302	Arts Council	234
378	DfE Secure Unit Grant	10
260	Sustrans Grant	9
887	2 Year Old Entitlement Grant	0
500	16-19 Demographic Growth Capital Grant	0
394	DfE Short Breaks for Disabled Children Grant	0
268,721	**Total**	**326,543**

Details of capital grants unapplied during the financial year and transferred to reserves can be found in the Movement on Reserves Statement and Note 27 Usable Reserves.

2012-13 £'000	b) Credited to Revenue Service Accounts in the Comprehensive Income and Expenditure Statement	2013-14 £'000
293,367	Dedicated Schools Grant	261,338
0	Public Health Grant	26,272
10,476	Other Revenue Grants	13,637
7,563	Pupil Premium	9,709
18,530	Final Business Case Approval Funding	8,952
10,199	YPLA (EFA) 16-19 Funding	5,781
0	DfT S31 road repair grant	3,312
603	Local Sustainable Transfort Fund (LSTF) - DfT	1,834
15	Local Welfare Provision	1,801
1,522	Skills Funding Agency	1,591
0	Dept for Media, Culture & Sport - Contribution to Broadband project	1,351
1,238	Fire Revenue Grant	1,292
0	PE and Sport Grant (EFA)	1,217
659	Young People Learning Agency 16-18 Learner Responsive Funding (YPLA)	522
2,935	SEN & Teacher's Pay Grant (EFA)	328
26,506	Early Intervention Grant Income	0
5,931	LD Health Reform Grant	0
379,544	**Total**	**338,937**

Details of Revenue Grants unutilised during the financial year and transferred to Earmarked Reserves are set out in Note 10.

In addition to these grants, contributions and donations, the Council has received grants, contributions and donations which have not been recognised as income as they have conditions attached to them that have not been met and monies or property may have to be returned to the giver. The balances at the year-end are as follows:

2012-13 £'000	c) Capital Grants and Contributions Receipts in Advance	2013-14 £'000
0	Secure Accommodation Capital Grant 2013-14	16
0	**Total**	**16**

2012-13 £'000	d) Revenue Grants and Contributions Receipts in Advance	2013-14 £'000
0	Public Health Grant	1,271
359	Adult Safeguarding Grant	548
83	Leaving Care Grant	98
46	Pupil Premium	87
0	UASC Home Office	71
0	Armed Forces Covenant	71
0	Residential Care Pilot	24
32	Other Revenue Receipts in Advance	22
20	Adult Social Care Efficiency Programme Grant	20
40	Grant for AHL Museums & Schools Programme	0
580	**Total**	**2,212**

2012-13 £'000	e) Donated Assets Receipts in Kind	2013-14 £'000
1,063	Fire - New Dimensions Assets Transfer	0
1,063	**Total**	**0**

Note 47. Related Parties.

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

a. Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework; within which the Council operates; provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills).

The Council receives revenue support grant from Central Government, this is credited to taxation and non-specific grant income line in the Comprehensive Income and Expenditure Statement. Specific revenue grants are included in the income figures within the net cost of services in the Comprehensive Income and Expenditure Statement. Further details of the grants received by the Council in 2013-14 are set out in Note 13 Taxation and Non Specific Grant Income and Note 46 Grant Income.

Capital grants of £64.439m have also been received by the Council in 2013-14, these are recorded in Note 13 Taxation and Non Specific Grant Income and Note 46 Grant Income.

b. Councillors and Senior Officers

Members of the Council have direct control over the Council's financial and operating policies. The total members' allowances paid in 2013-14 is shown in Note 38.

The Chief Executive and those reporting directly to him may also be able to influence Council policy. Therefore accounting standards require the Council to disclose certain 'related party transactions' between County Councillors, Chief Officers and the Council. This information comes from the statutory registers of interest (maintained for members) and declarations of pecuniary interests (for Officers). Details of all transactions are recorded in the Register of Members' Interest, which are available for public inspection at County Offices on Newland, Lincoln, during normal office hours, or also on-line from the Council's website. All Council members and Chief Officers have been written to, advising them of their obligations and asking for any declarations of related party transactions to be disclosed within the Statement of Accounts.

Two Councillors have not submitted the declaration of interest form this year. Relevant information relating to these Councillors have been used from other sources to compile the information below.

Each Councillor received a grant to the value of £0.002m to be spent within their constituency, these grants have not been included within the note.

During 2013-14 the following have been declared:

Councillors

- Thirty-three Councillors have disclosed that they or their immediate families have control or significant influence over a private organisation;

- Four Councillors or their immediate families have provided services to the Council to the value of £0.142m;

- Three Councillors are members of Parish or Town Councils which received grants to the value of £0.005m;

- Seven Councillors are members of voluntary organisations which received grants to the value of £0.390m;

- A number of Councillors are members of other organisations such as District/Parish Councils, school governors, other public bodies and charities who have provided services for, or received services from the Council;

- One Councillor is a Director of Investors in Lincoln Ltd;

- Two Councillors are on the Management Board of ESPO;

- One Councillor is the Chairman and on the Board of Urban Challenge;

- Two Councillors are on the Board of Lincolnshire Economic Action Partnership; and

- One Councillor is a Reserved Member of SPARSE, which is a grouping of the most rural local authorities in Lincolnshire.

Senior Officers

- Two Chief Officers have disclosed that they or their immediate families have control or significant influence over a private organisation;

- Two Chief Officers are on the Board of Lincolnshire Economic Action Partnership;

- One Chief Officer is a member of the Chief Officers Group of ESPO.

c. Other Public Bodies

The Council has entered into Pooled Budget arrangements with Lincolnshire Clinical Commissioning Groups for Learning Disabilities, Integrated Community Equipment, Substance Misuse, and Child & Adolescent Mental Health Service.

The Council is the administrator of the Lincolnshire Pension Fund and has control of the fund within the overall statutory framework. During the financial year £1.076m was recharged from the Council to the pension fund for scheme administration and management. The pension fund earned a total interest of £0.029m on deposits managed within the Council's own cash, which the Council paid over to the pension fund.

d. Entities Controlled or Significantly Influenced by the Council

The Council does not aggregate any subsidiaries, associated companies or joint ventures and therefore is not required to prepare group accounts. However, the Council has disclosed under the group account note our interest in Eastern Shires Purchasing Organisation (ESPO) in Note 57 Group Relationships and Other Interests.

Note 48. Capital Expenditure and Capital Financing.

The table below shows the financing of the £144.284m capital expenditure (including revenue expenditure financed from capital under statute and finance leases), together with the resources that have been used to finance it. The explanation of movement in year shows the change in the underlying need to borrow to finance capital expenditure.

Further information on the 2013-14 expenditure is provided in the Explanatory Foreword, with details of the asset acquired.

2012-13 £'000		2013-14 £'000
492,754	**Opening Capital Financing Requirement**	**547,386**
	Capital Investment:	
147,198	Property, Plant and Equipment	105,416
130	Investment Property	421
1,075	Intangible Assets	454
0	Loans and Advances Treated as Capital Expenditure	3,216
27,513	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	34,778
	Sources of Finance:	
(6,049)	Capital Receipts	(3,237)
(46,185)	Government Grants and Contributions	(72,204)
(22,113)	Government Grants and Contributions funding REFCUS	(12,802)
	Sums set aside from Revenue:	
(17,255)	Direct Revenue Contributions	(9,677)
(29,682)	Minimum Revenue Provision/Loans fund principal	(25,925)
547,386	**Closing Capital Financing Requirement**	**567,826**
54,632	**Movement in Year:**	**20,440**
	Explanation of movement in year:	
0	Increase in underlying need to borrow (supported by government financial assistance)	0
54,170	Increase in underlying need to borrow (unsupported by government financial assistance)	20,241
462	Assets acquired under finance leases	199
0	Assets acquired under PFI/PPP contracts	0
54,632	**Increase/(Decrease) in Capital Financing Requirement**	**20,440**

Note 49 Leases.

a. Lincolnshire County Council as Lessee

i) Finance Leases

The Council has acquired the following assets under finance leases:

Land and Buildings:

County Farms - the Council hold a small number of holdings under lease which are then sub-let as part of the County Farms estate.

Other Land and Buildings – the Council has a small number of leases which it has classified as finance leases.

Vehicles, Plant, Furniture and Equipment - finance lease payments of £0.704m (£0.973m in 2012-13) were made during the year. £0.122m was charged to the Comprehensive Income and Expenditure Statement as interest payable and £0.583m written down to deferred liabilities.

The following amounts are included within tangible fixed assets Note 14 for the Property, Plant and Equipment held under finance leases:

	Land and Buildings £'000	Vehicles, Plant & Equipment £'000
Valuation at 01 April 2013	15,404	887
Additions	63	58
Revaluations	767	0
Depreciation	(374)	(533)
Disposals	(14)	0
Derecognition	0	0
Reclassifications	155	0
Net Book Value at 31 March 2014	**16,001**	**412**
Valuation at 01 April 2012	16,369	5,339
Additions	96	463
Revaluations	(127)	0
Depreciation	(372)	(4,915)
Disposals	(15)	0
Derecognition	(2)	0
Reclassifications	(545)	0
Net Book value as at 31 March 2013	**15,404**	**887**

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years

Land and Buildings:	2012-13 Minimum Lease Payments £'000	2012-13 Finance Lease Liabilities £'000	2013-14 Minimum Lease Payments £'000	2013-14 Finance Lease Liabilities £'000
Not later than one year	6	13	6	13
Between one year and not later than five years	26	51	26	51
Later than five years	213	353	212	341
Total Committed Liabilities as at 31 March	**245**	**417**	**244**	**405**

Vehicles, Plant & Equipment:	2012-13 Minimum Lease Payments £'000	2012-13 Finance Lease Liabilities £'000	2013-14 Minimum Lease Payments £'000	2013-14 Finance Lease Liabilities £'000
Not later than one year	367	98	167	45
Between one year and not later than five years	334	99	149	62
Later than five years	0	0	0	0
Total Committed Liabilities as at 31 March	**701**	**197**	**316**	**107**

The Council sub-lets County Farm holdings held under finance leases. At 31 March 2014 the minimum payments expected to be received under non-cancellable sub-leases was £0.318m.

ii) Operating Leases

The Council has acquired the following assets under operating leases:

Land and Buildings - the Council leases various properties for use in delivering services. The rentals paid during 2013-14 amounted to £1.638m (£1.928m in 2012-13). This includes £1.122m for central office accommodation which is managed by Mouchel and charged to the Council as part of a monthly service charge.

Vehicles, Plant, Furniture and Equipment - the Council makes operating lease payments for equipment, contract car hire vehicles and fleet hire. The amount paid under these arrangements was £3.016m in 2013-14 (£1.993m in 2012-13).

As at 31 March 2014, the Council is committed to making payments of £18.98m under operating leases, comprising the following elements:

	2012-13 £'000	2013-14 £'000
Not later than one year	3,415	3,911
Between one year and not later than five years	7,412	7,422
Later than five years	7,406	7,647
Total Committed Liabilities as at 31 March	**18,233**	**18,980**

b. Lincolnshire County Council as Lessor

i) Finance Leases

The Council has granted a small number of long-term leases for Adult Care properties, which are accounted for as finance leases. Buildings leased at academy sites are also treated as finance leases. There are no significant lease payments and no debtors

The Council does not acquire assets specifically for the purpose of letting under finance leases.

ii) Operating Leases

The Council acts as lessor (landlord), mainly for the County Farms estate and received income from tenants of £2.097m in 2013-14 (£1.941m in 2012-13). The Council also received rental income from other properties; where the value of the lease is material, the income amounted to £1.164m in 2013-14 (£1.049m in 2012-13).

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

	2012-13 £'000	2013-14 £'000
Not later than one year	566	701
Between one year and not later than five years	1,297	1,385
Later than five years	1,670	2,176
Total future minimum lease payments receivable as at 31 March	**3,533**	**4,262**

Note 50. Private Finance Initiatives (PFI) and Similar Contracts

Lincolnshire - Schools PFI Arrangement

a. Background

On 27 September 2001 the Council entered into a 31 year PFI contract with Focus Education (Lincolnshire), for the construction and provision of seven fully serviced school premises across the County. The school sites were completed and became operational, on a phased basis, as shown in the following table:

Buildings: Description	Occupied from
Sleaford St Botolph's County Primary	Sep 2002
Sleaford Church Lane Primary	Jan 2003
Claypole CE County Primary	Mar 2003
The Fortuna Primary, Lincoln	Sep 2003
The Sincil School, Lincoln	Mar 2006
The Phoenix School, Grantham	Sep 2003
The Lady Jane Franklin School, Spilsby	Sep 2003

The contractor is required to provide the school facilities to the specified standard (including school buildings and educational equipment). The school must operate within the policies of the Local Education Authority. The school facilities must be available and ready for use as a school during term time and the school day is specified as 8am to 7pm.

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards.

The Council is required to pay compensation to the contractor if the contract is terminated early to cover: the senior debt, any redundancy costs incurred by the provider, and any future profit elements set out in the contractor's financial model.

The contract ends in 2032, at which time the school premises will transfer to the ownership of the Council at no further cost. The contract specifies the physical condition in which the premises must be transferred.

b. Property, Plant and Equipment Held Under the PFI Contract

The table below shows the fixed assets held by the Council, and the movement in their values during 2013-14. These assets are included in the fixed assets shown in Note 14 Property, Plant and Equipment.

	Land & Buildings £'000	Furniture & Equipment £'000
Valuation at 01 April 2013	24,387	91
Additions	48	37
Revaluations	4	0
Depreciation	(418)	(57)
Disposals	0	0
Reclassifications	0	0
De-recognition	0	0
Net Book Value at 31 March 2014	**24,021**	**71**

	Land & Buildings £'000	Furniture & Equipment £'000
Valuation at 1 April 2012	30,578	157
Additions	16	48
Revaluations	(1,651)	0
Depreciation	(462)	(73)
Disposals	(4,094)	(41)
Reclassifications	0	0
De-recognition	0	0
Net Book Value at 31 March 2013	**24,387**	**91**

c. Liabilities Outstanding under the PFI Contract – Finance Lease Element

The following table shows the outstanding liability on the PFI Finance Lease, and the movement during 2013-14:

	PFI Lease Liability 2012-13 £'000	PFI Lease Liability 2013-14 £'000
Liability as at 1 April	14,505	13,939
Principal Repayments	(567)	(694)
Liability as at 31 March	**13,938**	**13,245**

d. PFI Contract Liabilities

The following table shows a breakdown of the estimated contract costs over the remaining life of the PFI contract, split into the different elements of the total cost.

	Principal Lease Repayments £'000	Financing Costs (Interest) £'000	Service Charges £'000	Total Estimated Payments £'000
Payable in 2014-15	759	929	1,662	**3,350**
Payable between 2015-16 and 2018-19	2,460	3,268	7,626	**13,354**
Payable between 2019-20 and 2023-24	4,027	2,906	10,690	**17,623**
Payable between 2024-25 and 2028-29	4,363	1,476	11,473	**17,312**
Payable between 2029-30 and 2033-34	1,636	161	6,191	**7,988**
Total Committed Liabilities as at 31 March 2014	**13,245**	**8,740**	**37,642**	**59,627**

e. Conversion to Academy Status

On 1st March 2013, the Phoenix School in Grantham converted to Academy status. A lease has been agreed between the Council and the Academy to reflect the effects of conversion. This lease is accounted for in accordance with the Authority's Accounting Policies on Leases and Accounting for Schools.

The figures shown for 2013-14 in Sections c and d above, include £2.1m of principal lease liability and £1.5m of interest liability that relate to the Phoenix School.

Note 51. Impairment Losses.

The Council has not recognised any material impairments in the 2013-14 accounts.

Note 52. Capitalisation of Borrowing Costs.

The Council does not capitalise any borrowing costs.

Note 53. Pension Schemes Accounted for as Defined Contribution Schemes.

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme (TPS), administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement and the Council makes contributions towards the costs based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purpose of these Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013-14 the Council paid £12.968m to the administrators of the TPS in respect of employer's pension contributions. The Council contribution rate to the teacher's pension fund is 14.1% in 2013-14. The Council is responsible for all pension payments relating to compensatory added years under the Council's early retirement policy.

This includes payments for associated pension increases and mandatory compensation payments to fund the early release of benefits from the scheme. These unfunded benefits amounted to £3.788m in 2013-14 and have an ongoing liability to the Council.

National Health Service Pension Scheme (NHSPS)

Staff who transferred to the County Council from the Health Authority as part of Public Health have remained in the National Health Service Pension Scheme (NHSPS).

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Health uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013-14 the Council paid £0.274m to the administrators of the NHSPS in respect of employer's pension contributions. The Council contribution rate to the NHSPS pension fund is 14% in 2013-14.

Note 54. Defined Benefit Pensions Schemes.

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:

i. Local Government Pension Scheme (LGPS)

The Local Government Pension Scheme is a funded defined benefits final salary scheme. This means that the Council and employees pay contributions into the fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Council paid employer's contributions of £25.799m into the Lincolnshire Pension Fund in 2013-14, based on 18.9% of scheme employees' pensionable pay.

Under the Council's early retirement policy, additional contributions of £5.704m were made to the Pension Fund for the pre-funding of early retirements and unfunded benefits in respect of compensatory added years and associated pension increases amounted to £1.922m. Further information can be found on pages 122 to 152 and in the Council's Pension Fund Annual Report which is available on request.

The Lincolnshire County Council's pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of it's pension Committee. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the fund are appointed by the committee-See list in the Pension Fund statements on page 127.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund the amounts required by statute as described in the accounting policies note.

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

In 2013-14 the Council paid employer's contributions of £4.34m to the Lincolnshire Fire and Rescue Pension Fund. There are currently two schemes: the 1992 scheme, where the contribution rate is 21.3% and a new scheme established in 2006, where the contribution rate is 11%. A further £0.926m was paid in respect of ill health retirements and £0.294m in respect of injury benefits. Further information on the Lincolnshire Fire and Rescue Pension fund can be found on pages 153 to 155.

Transactions Relating to Post Employment Benefits (IAS 19 Retirement Benefits accounting entries).

We recognise the cost of retirement benefits in the reported cost of services, when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The unfunded FPS employer's contributions have been defined by the actuary as benefits expenditure reduced by employee contributions. These are gross contributions and have been adjusted by the DCLG government grant. The following transactions have been made in the Comprehensive Income and Expenditure Statement and as movements to the General Fund.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

b. Pension Assets and Liabilities Recognised in the Balance Sheet, Service Costs & Other Comprehensive Income for the Local Government Pension Fund as at 31 March 2014

	Assets £'000	Obligations £'000	Net liability/asset £'000
Fair value of employer assets	843,495		843,495
Present value of funded liabilities		(1,216,901)	(1,216,901)
Present value of unfunded liabilities		(100,124)	(100,124)
Opening position as at 31 March 2013	**843,495**	**(1,317,025)**	**(473,530)**
Service cost			
Current service cost		(32,688)	(32,688)
Past service costs (including curtailments)		(236)	(236)
Effect of settlements	(1,898)	4,439	2,541
Total Service Costs	**(1,898)**	**(28,485)**	**(30,383)**
Net Interest			
Interest income on planned assets	37,742		37,742
interest cost on defined benefit obligation		(58,966)	(58,966)
Impact on asset ceiling			0
Total net Interest	**37,742**	**(58,966)**	**(21,224)**
Total defined benefit cost recognised in Profit or(Loss)	**35,844**	**(87,451)**	**(51,607)**
Cash flows			
Plan participants' contributions	8,521	(8,521)	0
Employer contributions	25,799		25,799
Contributions re unfunded benefits	5,704		5,704
Benefits paid	(39,454)	39,454	0
Unfunded benefits paid	(5,704)	5,704	0
Expected closing position	**874,205**	**(1,367,839)**	**(493,634)**
Remeasurements			
Changes in demographic assumptions		(25,050)	(25,050)
Changes in financial assumptions		411	411
Other experience		25,973	25,973
Return on assets excluding amounts included in net interest	(35,025)		(35,025)
Changes in asset ceiling			0
Total remeasurements recognised in Other Comprehensive Income(OCI)	**(35,025)**	**1,334**	**(33,691)**
Exchange differences			0
Effect of business combinations or disposals			0
Total Exchange and business combinations & disposals	0	0	0
Fair value of employer assets	839,180		839,180
Present value of funded liabilities		(1,265,591)	(1,265,591)
Present value of unfunded liabilities		(100,915)	(100,915)
Closing position as at 31 March 2014	**839,180**	**(1,366,506)**	**(527,326)**

This liability comprises of approximately £28.288m in respect of LPGS unfunded pensions and £72.627m in respect of Teachers unfunded pensions

Analysis of the present value of the defined obligation - Local Government Pension Scheme

	Liability Split %	Duration
Members	37	25.4
Deferred Members	21	23.5
Pensioners	42	11.6
	100	**18.5**

c. Pension Assets and Liabilities Recognised in the Balance Sheet, Service Costs & Other Comprehensive Income for the Local Government Pension Fund as at 31 March 2013

	Assets £'000	Obligations £'000	Net liability/asset £'000
Fair value of employer assets	755,718		755,718
Present value of funded liabilities		(1,157,489)	(1,157,489)
Opening position as at 31 March 2012	**755,718**	**(1,157,489)**	**(401,771)**
Service cost			
Current service cost		(26,688)	(26,688)
Past service costs (including curtailments)		(1,055)	(1,055)
Effect of settlements	(11,334)	27,322	15,988
Total Service Costs	**(11,334)**	**(421)**	**(11,755)**
Net Interest			
Interest income on planned assets	36,067		36,067
interest cost on defined benefit obligation		(54,712)	(54,712)
Impact on asset ceiling			0
Total net Interest	**36,067**	**(54,712)**	**(18,645)**
Total defined benefit cost recognised in Profit or(Loss)	**24,733**	**(55,133)**	**(30,400)**
Cash flows			
Plan participants' contributions	8,737	(8,737)	0
Employer contributions	25,966		25,966
Contributions re unfunded benefits	5,668		5,668
Benefits paid	(36,042)	36,042	0
Unfunded benefits paid	(5,668)	5,668	0
Expected closing position	**779,112**	**(1,179,649)**	**(400,537)**
Remeasurements			
Changes in demographic assumptions			0
Changes in financial assumptions		(137,397)	(137,397)
Other experience		21	21
Return on assets excluding amounts included in net interest	64,383		64,383
Changes in asset ceiling			0
Total remeasurements recognised in Other Comprehensive Income(OCI)	**64,383**	**(137,376)**	**(72,993)**
Exchange differences			0
Effect of business combinations or disposals			0
Total Exchange and business combinations & disposals	0	0	0
Fair value of employer assets	843,495		843,495
Present value of funded liabilities		(1,216,901)	(1,216,901)
Present value of unfunded liabilities		(100,124)	(100,124)
Closing position as at 31 March 2014	**843,495**	**(1,317,025)**	**(473,530)**

d. Pension Assets and Liabilities Recognised in the Balance Sheet, P & L & OCI for the Fire Fighters Pension Fund as at 31 March 2014

	Assets £'000	Obligations £'000	Net liability/asset £'000
Fair value of employer assets	**0**		0
Present value of funded liabilities		(155,600)	(155,600)
Present value of unfunded liabilities		(12,600)	(12,600)
Opening position as at 31 March 2013	0	(168,200)	(168,200)
Service cost			
Current service cost		(5,000)	(5,000)
Past service costs (including curtailments)		0	0
Effect of settlements	0	0	0
Total Service Costs	**0**	**(5,000)**	**(5,000)**
Net Interest			
Interest income on planned assets	0		0
interest cost on defined benefit obligation		(7,600)	(7,600)
Impact on asset ceiling			0
Total net Interest	**0**	**(7,600)**	**(7,600)**
Total defined benefit cost recognised in Profit or(Loss)	**0**	**(12,600)**	**(12,600)**
Cash flows			
Plan participants' contributions	1,100	(1,100)	0
Employer contributions	4,000		4,000
Transfers to/from other authorities	100	(100)	0
Contributions in respect of injury benefits	300		300
Benefits paid	(5,200)	5,200	0
Injury award expenditure	(300)	300	0
Expected closing position	**0**	**(176,500)**	**(176,500)**
Remeasurements			
Changes in demographic assumptions		(4,100)	(4,100)
Changes in financial assumptions		(7,500)	(7,500)
Other experience		100	100
Return on assets excluding amounts included in net interest			0
Changes in asset ceiling			0
Total remeasurements recognised in Other Comprehensive Income(OCI)	**0**	**(11,500)**	**(11,500)**
Exchange differences			0
Effect of business combinations or disposals			0
Total Exchange and business combinations & disposals	**0**	**0**	**0**
Fair value of employer assets	0		0
Present value of funded liabilities		(173,700)	(173,700)
Present value of unfunded liabilities		(14,300)	(14,300)
Closing position as at 31 March 2014	**0**	**(188,000)**	**(188,000)**

The current service cost shown in the table above includes the cost for both the non-injury benefits and injury benefits. This is split £4.495m for the non-injury benefits and £0.559 for the injury benefits.

The interest cost shown in the table above includes the cost for both the non-injury benefits and injury benefits. This is split £7.009m for the non-injury benefits and £0.559m for the injury benefits.

Analysis of the present value of the defined obligation - Fire Fighters Scheme

	Liability Split		Duration
	£000	**%**	**Years**
Members	91,200	52.5	26.2
Deferred Members	3,000	1.7	27
Pensioners	79,500	45.8	12.2
	173,700	**100**	**19.8**

	Liability Split		Duration
	£000	**%**	**Years**
Contingent injuries	9,100	63.6	26.2
Injury pension liabilities	5,200	36.4	12.7
	14,300	**100**	**21.3**

e. Pension Assets and Liabilities Recognised in the Balance Sheet, P & L & OCI for the Fire Fighters Pension Fund as at 31 March 2013

	Assets £'000	**Obligations £'000**	**Net liability/asset £'000**
Fair value of employer assets	**0**		**0**
Present value of funded liabilities		133,300	**(133,300)**
Present value of unfunded liabilities		10,300	**(10,300)**
Opening position as at 31 March 2013	0	143,600	(143,600)
Service cost			
Current service cost		4,000	**(4,000)**
Past service costs (including curtailments)		0	**0**
Effect of settlements	0	0	**0**
Total Service Costs	0	4,000	(4,000)
Net Interest			
Interest income on planned assets	0		**0**
interest cost on defined benefit obligation		6,800	**(6,800)**
Impact on asset ceiling			**0**
Total net Interest	0	6,800	(6,800)
Total defined benefit cost recognised in Profit or(Loss)	0	10,800	(10,800)
Cash flows			
Plan participants' contributions	1,000	1,000	**0**
Employer contributions	4,200		**4,200**
Transfers to/from other authorities	0	0	**0**
Contributions in respect of injury benefits	200		**200**
Benefits paid	(5,200)	(5,200)	**0**
Injury award expenditure	(200)	(200)	**0**
Expected closing position	0	150,000	**(150,000)**
Remeasurements			
Changes in demographic assumptions		0	**0**
Changes in financial assumptions		18,100	**(18,100)**
Other experience		100	**(100)**
Return on assets excluding amounts included in net interest			**0**
Changes in asset ceiling			**0**
Total remeasurements recognised in Other Comprehensive Income(OCI)	0	18,200	**(18,200)**
Exchange differences			**0**
Effect of business combinations or disposals			**0**
Total Exchange and business combinations & disposals	0	0	0
Fair value of employer assets	0		**0**
Present value of funded liabilities		155,600	**(155,600)**
Present value of unfunded liabilities		12,600	**(12,600)**
Closing position as at 31 March 2014	0	168,200	**(168,200)**

	Liability Split £000	%	Duration Years
Members	76,100	48.9	26
Deferred Members	2,600	1.7	26.9
Pensioners	76,900	49.4	12.2
	155,600	100	19.2

	Liability Split £000	%	Duration Years
Contingent injuries	7,600	60.3	26
Injury pension liabilities	5,000	39.7	12.7
	12,600	100	20.7

f. Pension Fund Assets Comprise

The Local Government Pension schemes comprise the following assets:

Asset Class	2012-13 £'000	2012-13 %	2013-14 £'000	2013-14 %
	Fair value of scheme assets		Fair value of scheme assets	
Equities (b)				
-Consumer	157,200	18.6%	154,396	18.4%
-Manufacturing	34,838	4.1%	28,352	3.4%
-Energy & Utilities	68,579	8.0%	61,626	7.2%
-Financial	90,464	10.7%	99,153	11.8%
-Health & Care	0	0.0%	0	0.0%
-Information Technology	30,234	3.6%	22,926	2.7%
-Other	95,767	11.4%	106,569	12.7%
Total Equities	**477,082**	**56.5%**	**473,022**	**56.2%**
Bonds				
-Corporate (Investment)	27,258	3.2%	26,160	3.1%
-Corporate (Non-Investment Grade)	0	0.0%	0	0.0%
-Government (Fixed)	16,714	2.0%	15,425	1.8%
-Other	10,998	1.3%	10,015	1.2%
Total Bonds	**54,970**	**6.5%**	**51,600**	**6.1%**
Total Private Equity	**55,943**	**6.6%**	**45,980**	**5.5%**
Property				
-UK	72,178	8.7%	78,889	9.4%
-Global	15,635	1.9%	12,704	1.5%
Total Property	**87,813**	**10.5%**	**91,593**	**10.9%**
Investment Funds & Unit Trusts				
- Equities	41,912	5.0%	39,194	4.8%
- Bonds	49,796	5.9%	52,916	6.3%
-Other	66,434	7.9%	71,926	8.6%
Total Investment Funds	**158,142**	**18.8%**	**164,036**	**19.7%**
Cash and Cash Equivalents	**9,544**	**1.1%**	**12,950**	**1.6%**
Total Derivatives	**0**	**0.0%**	**0**	**0.0%**
Total Assets	**843,494**	**100.0%**	**839,182**	**100.0%**

All scheme assets have quoted prices in active markets.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

The estimated return on scheme assets in the year was 6.4% (2013-14).

g. Basis for estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hyman Robertson, an independent firm of actuaries, estimates for the Council Fund being based on the latest full valuation of the scheme as at 1 April 2014.

The principal assumptions used by the actuary have been:	2012-13 Local Government Pension Scheme %	2012-13 Fire-fighters' Pension Scheme %	2013-14 Local Government Pension Scheme %	2013-14 Fire-fighters' Pension Scheme %
Price Increases	3.6	3.6	3.6	3.6
Salary Increases (*1)	5.1	3.8	4.1	3.8
Pension Increases (CPI)	2.8	2.8	2.8	2.8
Discount Rate	4.5	4.5	4.3	4.3
Equity investments	4.5	N/A	4.3	N/A
Bonds	4.5	N/A	4.3	N/A
Other	4.5	N/A	4.3	N/A
Take up of option to convert annual pension to lump sum prior to 1 April 2008	25	N/A	25	N/A
Take up of option to convert annual pension to lump sum post 1 April 2008	63	N/A	63	N/A

(*1) Salary increases are 1% p. a. nominal for the year to 31 March 2015 reverting to the long term assumption thereafter.

The table below shows the life expectancy of future and current pensioners and is based on the PFA92 and PMA92 tables; this is projected to the calendar year 2033 for non pensioners and 2017 for pensioners. Life expectancy is based on pensioners of 65 in the LGPS and 60 in the Fire-fighters' scheme.

	Local Government Pension Scheme Male	Local Government Pension Scheme Female	Fire-fighters' Pension Scheme Male	Fire-fighters' Pension Scheme Female
Current Pensioners	22.2	24.4	29.3	31.5
Future Pensioners	24.5	26.8	30.9	33
The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the above tables.	**46.7**	**51.2**	**60.2**	**64.5**

h. Sensitivity Analysis

The sensitivity analyses below have been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimation in the sensitivity analysis have followed the accounting policies of the scheme, i.e. on a actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in a previous period.

Change in assumptions in year ended 31 March 2013	**Local Government Pension Scheme**		**Fire Fighters' Pension Scheme**	
	Approximate % Change to Employer Liability	**Approximate monetary Amount £000**	**Approximate % Change to Employer Liability**	**Approximate monetary Amount £000**
0.5% decrease in Real Discount rate	9.0%	126,784	10.0%	19,000
1 year increase in member life expectancy	3.0%	40,995	3.0%	5,600
0.5% increase in the Salary Increase Rate	3.0%	34,837	2.0%	3,900
0.5% increase in the Pension Increase Rate	7.0%	90,660	8.0%	15,500

The Fire Fighters' pension arrangements have no assets to cover its liabilities.

Asset and Liability Matching (ALM) Strategy

The County Council's pension committee has agreed to an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The fund has matched assets to the pensions' obligations by investing long-term fixed interest securities and indexed linked gilt edged investment with maturities that match the benefits payments as they fall due. This is balanced with a need to maintain the liquidity of the fund to ensure that it is able to make current payments. As is required by the pensions and investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce risk of being invested in too narrow a range. A large proportion of the assets relate to equities (60% of scheme assets) and bonds (13%) These percentages are materially the same as last year. The scheme also invests in properties as a part of the diversification of the scheme's investments.

The ALM strategy is monitored annually or more frequently if necessary.

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be implemented on 31 March 2017. The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings scheme to pay pensions and other benefits.

i. Projected defined benefit cost for the period to 31 March 2015

Local Government Pension Scheme

	Assets £000	Obligations £000	Net (liability)/asset £000	% of pay
Projected Current Service Cost		(32,707)	(32,707)	-24.0%
Past service cost including curtailments			0	
Effect of settlements			0	
Total Service Cost	0	(32,707)	(32,707)	-24.0%
Interest income on plan assets	35,971		35,971	26.4%
Interest cost on defined benefit obligation		(58,643)	(58,643)	-43.1%
Total Net Interest Cost	35,971	(58,643)	(22,672)	-16.7%
Total included in Income and Expenditure	**35,971**	**(91,350)**	**(55,379)**	**-40.7%**

Fire Fighters Pension Scheme

	Assets £000	Obligations £000	Net (liability)/asset £000	% of pay
Projected Current Service Cost		(5,800)	(5,800)	-57.3%
Past service cost including curtailments			0	
Effect of settlements			0	
Total Service Cost	0	(5,800)	(5,800)	-57.3%
Interest income on plan assets			0	
Interest cost on defined benefit obligation		(8,100)	(8,100)	-80.0%
Total Net Interest Cost	0	(8,100)	(8,100)	-80.0%
Total included in Income and Expenditure	**0**	**(13,900)**	**(13,900)**	**-137.3%**

The Council expects to pay £27,003m in contributions to the LGPS and £4,960m to the Fire Fighters' scheme in 2014-15.

The weighted average duration of the defined benefit obligation for scheme members is 18.5 years in 2013-14.

j. Prior period adjustment - changes to IAS 19 retirement benefits

IAS 19 the financial reporting standard for retirement benefits has changed for accounting periods starting on or after 1 January 2013. The key change affecting Local Government relates to the expected return on assets for the Local Government Pension Scheme. Advance credit for anticipated outperformance of return seeking assets (such as equities) will no longer be permitted. The expected return on assets is currently credited to the Comprehensive Income and Expenditure Statement , however, from 2013 this is effectively replaced with an equivalent figure calculated using the discount rate (as opposed to that calculated using the expected return on assets assumption).

In accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the adoption of the revisions to IAS 19 constitutes a changes in Accounting Policy which requires the Council to adopt these changes retrospectively for the year 2012-13.

The effect of this change has been calculated by the actuary and has increased the interest on plan asset by £6.627m in the Comprehensive Income and Expenditure Statement. A corresponding adjustment has resulted in an reduction in the unrealised loss on Pension Liabilities in Other Comprehensive Income and Expenditure. There has been no overall impact on the Council's Pension Liability in the balance sheet.

This change has been reflected in the 2012-13 comparative figures in the Comprehensive Income and Expenditure Statement and supporting notes through the Financial Statements.

This prior period adjustment relates solely to the Local Government Pension Scheme, there is no impact on the Fire-fighters' Pension as this scheme is unfunded.

Note 55. Contingent Liabilities.

At 31 March 2014 the Council has the following material contingent liabilities:

a. Insurance

The Council obtained public and employer's liability insurance cover from the Independent Insurance Company between 1995 and 1998. The company went into liquidation to the extent that it will not be able to meet any current or future liabilities, meaning the Council is effectively not insured for this period. It is expected that only the liabilities for employers liability remain, as we would have expected all public liability claims for this period to have been submitted. The position is independently reviewed bi-annually by the insurance reserve actuary to ensure that reserves are sufficient to cover the total liability.

Municipal Mutual Insurance Limited (MMI), the Council's former insurer, ceased writing insurance business in September 1992 and entered a Scheme of Arrangement for an expectation of a solvent run off. This has not occurred and a Scheme of Arrangement has been invoked. The Council paid MMI 15% of the total amount of claims paid on behalf of the County Council, however, a contingency liability still exists due to potential future claims depending upon the future solvency requirements of MMI.

From 1st April 2013 there are no longer insurance provisions in place for conditions caused by the exposure to asbestos or the Legionella Bacterium, for staff or the public. However, the Council has stringent policies and procedures in place to minimise the exposure to either of these risks.

b. Expansion of Eastern Shires Purchasing Organisation (ESPO)

Lincolnshire County Council is one of seven Authorities that comprise the purchasing consortium known as ESPO. The consortium has no separate legal identity and Leicestershire County Council, as the servicing Authority for ESPO, takes on this role in terms of all ESPO's contractual obligations.

ESPO relocated to a new custom built store in Leicester on February 2006. The new store has been financed by a £12.6m PWLB loan taken out by Leicestershire County Council on behalf of the ESPO consortium. Leicestershire has obtained an indemnity from all six other consortium member Authorities to meet the conditions of the loan should ESPO ever fail to make payments. The potential maximum liability is £2.000m.

A financial provision has not been raised in the accounts to cover any future payments under these indemnities as the risk is considered minimal.

c. Lincoln Southern Bypass Blight Payments

The preferred route for the Lincoln Southern bypass was adopted during 2007-08. It is at this time of adoption that legal blight will apply on any land or property sited on this route. In addition, other nearby properties may not trigger blight but may be accepted for purchase under the Council's discretionary powers held under Section 246(2) of the Highways Act 1980.

However, it is unlikely that the road will be constructed within the near future. Potentially, other owners of land and property affected by the road can claim blight at any stage between now and construction. If these claims are upheld then the Council will have to purchase the properties or land in advance of construction. This could, excluding any discretionary purchases, amount to approximately £1.000m.

d. Extra Contractual Referrals

In Lincolnshire, there are a small number of people with Learning Disabilities who were placed in Health accommodation by other Health Authorities. Due to these establishments closing in recent years, Service Users have been moved into places within the community or in some cases their prior accommodation has become their community provision. A part of the pooled arrangements with Lincolnshire Health, we have hitherto paid for the care of these individuals and invoiced the other Local Authorities with the cost.

There are now a number of Authorities who are challenging this process on the basis that those Service Users are now deemed as an ordinary resident of the County and as such, funding responsibility lies with the Council. With on-going involvement with the Department of Health and Legal Services

Any liability is likely to be in the range of nil to £0.750m.

e. Ordinary Residency

In recent years there has been an increase in incidents of Local Authorities exercising "Ordinary Residents Rights" in relation to people who have received services in Lincolnshire and as a result, have resided within the County over a number of years but whose normal residency is outside of the County.

These Local Authorities have become active in claiming that the liability for ongoing support costs lies with the Council and in some cases retrospective charges have been levied.

Where cases have been quantified and verified, these have been included within the Accounts. However where discussions are on-going it is difficult to establish an accurate cost until an agreement is reached.

There are a range of financial outcomes depending on the eventual conclusion of discussions between Lincolnshire and the Authorities in question. Any liability is likely to be in the range of nil to £0.250m.

f. Service User Contributions

The Council are currently investigating the possibility that a small number of Service Users have been assessed for charges towards the cost of their care on an incorrect basis. This may have resulted in Service Users historically paying more towards their service than would otherwise be required. Work is on-going to confirm whether the charges that have been made are appropriate and if not, what the potential liability is to the Council.

Early analysis of the impact of a move to Fairer Charging from the CRAG residential charging model on a sample of 12 Service Users indicates a worse case of an average weekly overcharge of £120 per person; a worse case annual figure of approximately £275,000 for the 44 service users, amounting to a possible overcharge by the Council of £1.925m over seven years.

g. Land and Compensation Claims

Claims for land compensation can be submitted a year after the road opening with part one claims up to seven years. Those received to date are for a significantly higher value than anticipated. The Highways and Transportation service has also received a challenge over the valuation used for land taken by the scheme which is being dealt with through the Lands Tribunal.

There has been some settlement agreed during the 2013-14 financial year and this has reduced any potential contingent liability to £1.300m

h. Environmental Information Regulations 2004 - Property Search Claims

A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charge data. Proceedings have not yet been issued. The Council has been informed that the value of those claims at present is £1.450m plus interest and costs. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been initiated at present.

Note 56. Contingent Assets.

At 31 March 2014 the Council has the following material contingent assets:

a. Compound Interest Claim (VAT)

Between June 2008 and August 2010 Lincolnshire County Council received statutory interest from HMRC in respect of claims for VAT over declared on library charges, cultural services admission charges and take-away food. In all cases, in line with HMRC policy, the amounts were calculated on a simple interest basis.

The Council, in common with a number of local authorities and other tax payers, has a claim lodged in the High Court for compound interest which is currently stood behind the lead case. The High Court has ruled in favour of the taxpayer in the lead case, however the Council has been advised that , as a first instance decision, it is not yet precedent and is not, therefore, binding on cases stood behind.

The value of the contingent asset is £0.277m and has been calculated based on HMRC Statutory Interest rates and adjusted for interest already received.

HMRC have confirmed that they have lodged an appeal to the Court of Appeal which is likely to be heard early to mid 2015.

Note 57. Group Relationships and Other Interests.

Local Authorities may decide for a variety of legal, regulatory and other reasons to conduct their activities with other organisations. For this reason, the Financial Statements of Lincolnshire County Council alone may not give a full picture of the economic activity and financial position.

On an annual basis, the Council is required to consider all activities which it has undertaken with other bodies to assess whether these should be included within the Council's Financial Statements. This exercise has been completed for the Council for 2013-14 and no group relationships have been identified to be consolidated into the County Council's Statement of Accounts. However, in the interests of transparency and accountability, the Council has chosen to disclose its interest in the purchasing consortia Eastern Shires Purchasing Organisation (ESPO).

Interests in Joint Ventures - Eastern Shires Purchasing Organisation - (ESPO)

ESPO is a purchasing consortium established in 1988 for the purchase of goods and supplies and the provision of agreed services to their mutual benefit in accordance with Section 1 of the Local Authorities (Goods and Services) Act 1970. ESPO is constituted as a Joint Committee and Lincolnshire County Council is one of seven constituted members.

ESPO's accounting year end is 31 March and the latest (unaudited) accounts are for the year ended 31 March 2014, these showed net assets of £10.839m in 2013-14 (£9.546m in 2012-13) and a surplus of £1.208m in 2013-14 (a surplus of £1.046m in 2012-13).

Under the terms of the ESPO agreement, if the operations of ESPO were discontinued then the distribution of surplus or deficits will be divided amongst the Member Authorities in direct proportion to the use made of ESPO facilities. Under these arrangements the County Council would be entitled to approximately 15.30% of ESPO's assets and liabilities.

In 2005-06 a PWLB loan was taken out by Leicestershire County Council acting on behalf of ESPO, the six other consortium member Authorities, including the County Council, have provided an indemnity to meet the conditions of this loan should ESPO ever fail to make payments. A contingent liability has been declared within the Financial Statement for this.

A copy of ESPO's Statement of Accounts and Annual Report is available from: ESPO, Barnsdale Way, Grove Park, Enderby, Leicester. LE19 1ES. Telephone 0116 265 7878.

Note 58. Trust Funds

The Council acts as sole administrator for 49 trust funds related to specific services, principally Education and Social Care. Funds are invested either in external marketable securities or held on deposit. They are not included in the Balance Sheet.

The principal trusts are as follows:

	Balance at 31 March 2013 £'000	Income £'000	Expenditure £'000	Balance at 31 March 2014 £'000
Education Trusts	(244)	(14)	15	(243)
Children's Social Care Trusts	(21)	0	0	(21)
Adult Social Care Trusts	(424)	(3)	2	(425)
Other Trusts	(104)	0	10	(94)
Total	**(793)**	**(17)**	**27**	**(783)**

The Education funds relate principally to legacies left by individuals over a period of years in order to provide annual prizes at specified schools or colleges.

The Social Care funds represent monies held in trust either for children in care until such time as they are required or funds for the benefit of the elderly in Council homes.

LINCOLNSHIRE COUNTY COUNCIL PENSION FUND ACCOUNT & NET ASSETS STATEMENT FOR THE YEAR ENDED 31st MARCH 2014

	See Note	2012/13 £000	2013/14 £000
Contributions and Benefits			
Contributions Receivable	8	74,559	76,984
Transfers in	9	5,674	6,732
		80,233	**83,716**
Benefits Payable	10	73,235	74,244
Leavers	11	6,900	3,922
Administrative expenses	12	1,167	1,188
		81,302	**79,354**
Net additions from dealings with fund members		**(1,069)**	**4,362**
Returns on Investments			
`Investment Income	13	25,002	27,815
Profit (Loss) on Forward Deals & Currency Deals	17	(1,426)	3,085
Change in Market Value of Investments	15	141,590	64,495
Investment management expenses	12	(5,092)	(3,380)
Net returns on investments		**160,074**	**92,015**
Net increase in the Fund during the year		159,005	96,377
Opening net assets of the Fund		1,336,040	1,495,045
Closing net assets of the Fund		**1,495,045**	**1,591,422**
Net Assets statement as at 31st March 2014			
Investments	15		
Equities		842,804	880,027
Pooled Investments:			
Property		155,117	174,701
Private Equity		95,595	83,313
Fixed Interest		155,540	168,971
Index Linked Bonds		29,525	29,623
Equities		74,037	74,715
Alternatives		113,613	125,936
Cash Deposits		14,696	38,836
Other Investment Balances	18	5,242	4,365
		1,486,169	**1,580,487**
Current Assets and Liabilities			
Cash Balances		3,954	4,630
Debtors	19	7,035	6,974
Long Term Debtors	19	2,558	2,131
Creditors	19	(4,671)	(2,800)
		8,876	**10,935**
		1,495,045	**1,591,422**

Notes to the Pension Fund Account

1 Pension Fund Account

The Lincolnshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme and is administered by Lincolnshire County Council.

The following information is a summary only, and further detail can be found in the Lincolnshire County Council Pension Fund Annual Report 2013/14 (available on the Fund's website at www.lincolnshire.gov.uk/pensions), and in the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme Regulations.

General

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme to provide pensions and other benefits for pensionable employees of Lincolnshire County Council, the district councils in Lincolnshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and fire-fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee.

Membership

Membership of the LGPS is automatic for eligible employees, but they are able to opt out of the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include charitable organisations and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 185 employer organisations in the Fund including the County Council (a list of scheduled employers is shown at note 28) and the membership numbers are shown below:

	31 Mar 2013	31 Mar 2014
Number of employers with active members	171	185
Number of employees in the scheme		
Lincolnshire County Council	9,949	10,734
Other employers	9,153	9,963
Total	19,102	20,697
Number of pensioners		
Lincolnshire County Council	9,684	10,121
Other employers	6,018	6,456
Total	15,702	16,577
Number of deferred pensioners		
Lincolnshire County Council	18,146	18,794
Other employers	7,653	8,452
Total	25,799	27,246

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2013, and employer contribution rates were set ranging from 15.1% to 28.7% of pensionable pay. In addition, a number of employers are paying deficit contributions as cash payments.

Benefits

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

	Service pre 1st April 2008	Service post 31st March 2008
Pension	Each year is worth 1/80 x final pensionable salary.	Each year is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3/80 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1st April 2011.

LGPS 2014

The new LGPS 2014 comes into effect from 1st April 2014. The table below shows the key benefit changes between the current scheme and the new scheme. Further details are shown on page 20.

	Service pre 1st April 2014	**Service post 31st March 2014**
Scheme	Final salary scheme, with pension based upon the salary at retirement.	CARE scheme (career average revalued earnings) where each year builds up a pension pot that is revalued in line with inflation.
Pension	Each year is worth 1/60 x final pensionable salary.	Each year is worth 1/49 x salary earned in that year, revalued in line with inflation.
50/50 Option	Not available	Option for employees to pay half the contributions to accrue half of the pension.

2 Basis of Preparation

Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13, based on International Financial Reporting Standards (the Code), and relevant statute, and the 2007 Statement of Recommended Practice (Financial Reports of Pension Schemes). The Code includes guidance on how to apply International Financial Reporting Standards (IFRS's) and International Accounting Standards (IAS's) to local authority accounts.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits due. The accounts do not take into account liabilities to pay pensions and other benefits after the period end. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined by these valuations.

The accounting policies set out below have been applied consistently to all periods presented within these financial statements.

3 Significant Accounting Policies

Fund account - revenue recognition

Contributions income
Contributions receivable are included in the accounts in the year to which they relate. Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the relevant regulations. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment Income

Dividends, interest, stock lending and other investment income have been accrued for in the accounts where amounts were known to be due at the end of the accounting period.

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 value of the investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee be performance related:

- Invesco Asset Management - Global Equities (ex UK)
- Schroder Investment Management - Global Equities
- Neptune Investment Management – Global Equities
- Threadneedle Asset Management – Global Equities
- Morgan Stanley Investment Management Ltd - Alternative Investments

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.

The cost of obtaining investment advice from external consultants is included in the investment management charges.

The costs of the Council's in-house fund management team are charged to the Pension Fund and a proportion of the Council's costs representing management time spent by officers on investment management are also charged to the Fund.

Net assets statement

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments have been determined as follows:

UK listed securities are stated at bid price.
Overseas listed securities are stated at bid price.
Unit Trusts are stated at bid price from the most recent official valuation.

Other investments are stated at fair value, as estimated by the manager of the particular investment. These valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

Transaction costs are included in the purchase and sale costs of investments and are identified in the notes to the accounts.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contracts are priced at fair value and open contracts are included within the other investment balances.

Cash and cash equivalents

Cash comprises cash in hand and deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31st March 2014 are shown in note 29.

Financial liabilities

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Prior Period Adjustments

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

The following disclosures will be made:
• the nature of the prior period error;
• for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and
• the amount of the correction at the beginning of the earliest prior period presented.

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

Changes in Accounting Policies

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

4 Actuarial Valuation

An actuarial valuation of the Fund undertaken as at 31 March 2013 indicated that the Fund's assets were £1,495m and covered 71.5% of the Funds liabilities. This compared with assets of £1,204m at the valuation as at 31 March 2010, which covered 76% of the Fund's liabilities. The main actuarial assumptions for the 2013 valuation were as follows:

	Nominal per annum %	Real per annum %
Investment Return		
- Equities	4.6	2.1
- Bonds	3.0	
Rate of Pensionable pay inflation	3.8	1.3
Rate of Price inflation	2.5	

The Fund is valued using the projected unit method, which is consistent with the aim of achieving a 100% funding level. The changes in contribution rates resulting from the actuarial valuation as at 31 March 2013 will be effective from April 2014. The contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% over a period of up to 20 years. The next actuarial valuation will be undertaken as at 31 March 2016. A copy of the Fund Valuation report can be obtained from the Council's website.

5 Actuarial Present Value of Promised Retirement Benefits

Below is the note provided by the Fund's Actuary, Hymans Robertson, to provide the Actuarial present value of the promised retirement benefits, as required under the Code. The report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' referred to in the note can be obtained from the Pensions and Treasury Management section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for Lincolnshire Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	**31 Mar 2013** **£m**	**31 Mar 2014** **£m**
Present value of Promised retirement benefits	2,266	2,456

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2014. I estimate this liability at 31 March 2014 comprises £1,032m in respect of employee members, £459m in respect of deferred pensioners and £965m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £190m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	**1 Mar 2013 % p.a.**	**31 Mar 2014 % p.a.**
Inflation/Pension Increase rate	2.8	2.8
Salary Increase Rate*	5.1	4.1
Discount Rate	4.5	4.3

* Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter.

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2007. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.5 years	26.8 years

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

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

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Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-2008 service.

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2014 for IAS19 purposes’ dated 15 April 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Anne Cranston

Anne Cranston AFA
14 May 2014
For and on behalf of Hymans Robertson LLP

6 Assumptions Made and Major Sources of Uncertainly

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

The items in the accounts for the year ended 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	Uncertainties	**Effect if actual results differ from assumptions**
Actual present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. A firm of consulting actuaries are engaged to provide expert advice about the assumptions to be applied.	The effects of changes in the individual assumptions can be measured. For example: 1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £224m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £37m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £171m. 4) a one-year increase in assumed life expectancy would increase the liability by approximately £74m.
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Fund are £85.8m. There is a risk that these may be over or understated in the accounts.

7 Pension Fund Investments 2013/14

The strategic asset allocation for the investment of the Fund, as agreed by the Pensions Committee, is detailed below.

Asset allocation	
UK Equities	20.0%
Global Equities	40.0%
Property	11.5%
Fixed Interest	13.5%
Alternative Investments (incl. Private Equity)	15.0%
	100.0%

Surplus funds are invested in a wide variety of UK and overseas companies, Government Securities, property and other investments, in line with a Statement of Investment Principles. The assets are managed in a number of active and passive investment portfolios. Investment performance is monitored by the Pensions Committee of the County Council.

Fund manager	31-Mar 2013 £m	%	31-Mar 2014 £m	%
EXTERNALLY MANAGED				
Invesco	318	21	332	21
Neptune	72	5	79	5
Schroders	79	5	84	5
Threadneedle	81	5	87	6
Morgan Stanley (Global Brands)	74	5	75	5
Morgan Stanley (Alternatives)	117	8	139	9
Morgan Stanley (Private Equity)	99	7	87	6
Blackrock	97	7	98	6
Goodhart	88	6	101	6
INTERNALLY MANAGED				
Pooled Investments:				
Property	157	11	179	11
UK Equity	299	20	317	20

The Pension Fund Statement of Recommended Practice was amended with effect from 2008/09 to require that managers report valuations at closing prices (either bid or last traded), rather than mid prices that had previously been used. The managers within the Pension Fund have reported their year end valuations at either bid or fair value, as detailed in the table below.

Fund Manager	Valuation Pricing
EXTERNALLY MANAGED	
Invesco	Bid
Neptune	Bid
Schroders	Bid
Threadneedle	Bid
Morgan Stanley	Bid/Fair Value
Blackrock	Bid
Goodhart	Bid
INTERNALLY MANAGED	
Pooled Investments:	
Property	Bid/Fair Value
UK Equity	Bid

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JP Morgan. The total amount of stock on loan at the year-end was £28,676,625, and this value is included in the net assets statement to reflect the Funds continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year-end valued at £31,114,222, which represented 108.5% of the value of securities on loan.

Income received from stock lending activities, before costs, was £272,264 for the year ending 31 March 2014 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

8 Contributions Receivable

Contributions receivable are analysed below:

	2012/13 £000	2013/14 £000
Employers		
Normal	46,645	48,015
Deficit Funding	8,758	9,603
Additional - Augmentation	1,588	1,446
Members		
Normal	17,387	17,786
Additional years	181	134
	74,559	**76,984**

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

	2012/13 £000	2013/14 £000
Lincolnshire County Council	35,464	34,356
Scheduled Bodies	33,404	37,816
Admitted Bodies	5,691	4,812
	74,559	**76,984**

9 Transfers In

During the year individual transfers in from other schemes amounted to £6.7m (£5.7m in 2012/13).

There were no material outstanding transfers due to or from the Pension Fund as at 31st March 2014.

10 Benefits Payable

	2012/13 £000	2013/14 £000
Pensions	57,730	60,641
Commutations & Lump Sum Retirement Benefits	13,455	12,337
Lump Sum Death Benefits	2,050	1,266
	73,235	**74,244**

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

	2012/13 £000	2013/14 £000
Lincolnshire County Council	40,589	37,857
Scheduled Bodies	30,519	31,820
Admitted Bodies	2,127	4,567
	73,235	**74,244**

11 Payments to and on account leavers

	2012/13 £000	2013/14 £000
Individual transfers to other schemes	6,894	3,917
Refunds to members leaving service	6	5
	6,900	**3,922**

12 Administrative and Investment Management Expenses

The Local Government Pension Scheme Regulations permit costs incurred in connection with the management of the investments and benefit administration to be charged against the Fund. Breakdowns of these costs are set out below. The external Audit fee for the year was £24,350 and is included within the administrative expenses below.

	2012/13 £000	2013/14 £000
Benefit Administration Expenses	1,123	1,052
Actuarial & other Professional Charges	44	136
Administrative expenses	**1,167**	**1,188**
Investment, Management & Custody	4,921	3,245
Performance Measurement and other advisory charges	171	135
Investment Management expenses	**5,092**	**3,380**

13 Investment Income

		2012/13 £000	2013/14 £000
Equities		23,673	26,520
Pooled Investments			
	Property	955	985
	Private Equity	54	0
	Alternatives	0	6
Cash deposits		47	30
Stock Lending		273	272
Class Actions		0	2
		25,002	**27,815**

14 Taxes on Income

	2012/13 £000	2013/14 £000
Withholding tax - Equities	1,188	1,060
	1,188	**1,060**

15 Investments

	Value at 31/03/2013 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2014 £000
Equities	842,804	288,543	299,287	47,967	880,027
Pooled Investments					
Property	155,117	13,292	5,459	11,751	174,701
Private Equity	95,595	3,193	15,266	(209)	83,313
Fixed Interest	155,540	11,624	0	1,807	168,971
Index Linked Bonds	29,525	1,377	0	(1,279)	29,623
Equities	74,037	0	0	678	74,715
Alternatives	113,613	41,812	33,269	3,780	125,936
	1,466,231	**359,841**	**353,281**	**64,495**	**1,537,286**
Cash Deposits	14,696				38,836
Other Investment Balances	5,242				4,365
Current Assets & Liabilities	8,876				10,935
	1,495,045	**359,841**	**353,281**	**64,495**	**1,591,422**

	Value at 31/03/2012 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/2013 £000
Equities	779,938	247,249	285,247	100,864	842,804
Pooled Investments					
Property	152,538	10,274	6,623	(1,072)	155,117
Private Equity	90,949	6,566	12,972	11,052	95,595
Fixed Interest	143,166	4,922	2,923	10,375	155,540
Index Linked Bonds	26,895	0	0	2,630	29,525
Equities	0	67,500	0	6,537	74,037
Alternatives	96,798	28,091	22,480	11,204	113,613
	1,290,284	**364,602**	**330,245**	**141,590**	**1,466,231**
Cash Deposits	28,409				14,696
Other Investment Balances	3,279				5,242
Current Assets & Liabilities	14,068				8,876
	1,336,040	**364,601**	**330,245**	**141,590**	**1,495,045**

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £502,409 (£504,194 in 2012/13). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme.

A further analysis of the market value of investments is given below:

		31-Mar 2013 £000	%	31-Mar 2014 £000	%
Equities					
UK Quoted		319,114	22	323,815	21
Overseas Quoted		523,690	35	523,690	35
Total Equities		**842,804**	**57**	**880,027**	**56**
Pooled Investments					
	Property	127,499	9	150,923	10
	Private Equity	2,032	0	1,222	0
	Fixed Interest	67,577	5	68,353	4
	Index Linked Bonds	29,525	2	29,623	2
	Equities	74,037	5	74,715	5
	Alternatives	113,613	8	125,936	8
Total UK Pooled		**414,283**	**28**	**450,772**	**29**
	Property	27,618	2	23,779	2
	Private Equity	93,564	6	82,091	5
	Fixed Interest	87,962	6	100,617	6
Total Overseas Pooled		**209,144**	**14**	**209,144**	**13**
Total Pooled Investments		**623,427**	**42**	**657,259**	**42**
Cash					
Short Term Loans/External Deposits		14,696	1	38,836	2
Total		**1,480,927**	**100**	**1,576,122**	**100**

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

		2012/13 £000	2013/14 £000
Property			
	Unit Trusts	97,359	116,296
	Other managed funds (LLP's)	57,758	58,405
Private Equity			
	Other managed funds (LLP's)	95,595	83,313
Fixed Interest			
	Other managed funds	155,540	168,971
Index linked gilts			
	Other managed funds	29,525	29,623
Equities			
	Other managed funds	74,037	74,715
Alternatives			
	Other managed funds	113,613	125,936
Total Pooled Vehicles		**623,427**	**657,259**

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. The two investments that fall into this category as follows:

Investment	2012/13 Value (£000)	% of net assets	2013/14 Value (£000)	% of net assets
Goodhart Absolute Return Bond Fund	87,962	5.9	100,617	6.3
Morgan Stanley Alternative Investments	113,613	7.9	125,936	7.9

16 Analysis of Derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the fund. The use of any derivatives is managed in line with the investment management agreements of the various investment managers.

The only direct derivative exposure that the Fund has is in forward foreign currency contracts. In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month	GBP	54	AUD	(98)		-
	JPY	26,000	EUR	(184)		(1)
	MXN	2,061	GBP	(95)		-
	USD	607	GBP	(365)		(1)
	USD	8	CAD	9		-
Over one month						
	GBP	19,737	CHF	(28,800)	132	
	GBP	32,187	EUR	(38,813)	42	
	GBP	121,645	JPY	(20,346,000)	2,962	
	GBP	386,724	USD	(636,849)	4,327	
	CHF	25,600	GBP	(17,617)		(188)
	EUR	333,000	GBP	(27,799)		(219)
	JPY	14,878,000	GBP	(89,484)		(2,683)
	USD	580,100	GBP	(352,715)		(4,411)
Total					**7,463**	**(7,503)**
Net forward currency contracts at 31 March 2014						**(40)**
Prior year comparative						
Open forward currency contracts at 31 March 2013					**9,978**	**(10,745)**
Net forward currency contracts at 31 March 2013						**(767)**

17 Profit (Loss) on Forward Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of the normal trading of the Fund's managers who manage multi-currency portfolios. It also includes the unrealised loss of £0.6m (unrealised loss of £0.8m in 2012/13) from the Fund's two Currency Overlay Managers.

18 Other Investment Balances

		2012/13 £000	2013/14 £000
Dividends Receivable		2,868	2,991
Recoverable Tax		691	888
Outstanding Foreign Exchange		(767)	(40)
Outstanding Stock Lending		0	19
Unsettled Trades	Purchases	0	(1,024)
	Sales	2,450	1,531
		5,242	**4,365**

19 Current Assets and Liabilities

Debtors are recorded in the accounts when income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Debtors include a figure of £4,099,190 for contributions due from employers (2012/13 £3,488,135). Long term debtors are amounts due to the Pension Fund that will not be received within 12 months. The Pension fund only has one long term debtor, the Magistrates Court, who are funding the cost of their pensioner and deferred member liabilities over a 10 year period. Similarly, creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31 March, but payment is not made until the following financial year. As required by the Code, creditors and debtors are split by type below:

	2012/13 £000	2013/14 £000
Debtors		
Central Government Bodies	1,341	745
Other Local Authorities	4,504	4,868
NHS Bodies	0	0
Public Corporations and Trading Funds	46	12
Other Entities and individuals	1,144	1,349
	7,035	**6,974**
Long Term Debtors		
Central Government Bodies	2,558	2,131
Other Local Authorities	0	0
NHS Bodies	0	0
Public Corporations and Trading Funds	0	0
Other Entities and individuals	0	0
	2,558	**2,131**
Creditors		
Central Government Bodies	(1,153)	(569)
Other Local Authorities	(256)	(891)
NHS Bodies	0	0
Public Corporations and Trading Funds	(3,118)	(781)
Other Entities and individuals	(144)	(559)
	(4,671)	**(2,800)**

20 Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity or property investments. At the year end, the value of outstanding commitments to the 25 investment vehicles amounted to £29,109,878.

21 Contingent Assets

Five admitted body employers in the Fund hold insurance bonds or equivalent cover to guard against the possibility of being unable to meet their pension obligations. These arrangements are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

22 Impairment Losses

The Fund has no recognised impairment losses.

23 Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments amounted to £8,675,676.27 (£8,285,448 in 2012/13) and member contributions of £1,087,950.16 (£1,020,583 in 2012/13) were received by the Prudential in the year to 31st March. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

24 Dividend Tax Claims

During the financial year 2006/07, the County Council lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. The total value of the claims is £793,498 and relates to both Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2009/10, the County Council lodged a claim with HM Revenue and Customs for the recovery of withholding tax suffered on manufactured overseas dividends. This is a tax imposed on overseas dividends due to the Pension Fund when the stock is on loan to another party, through the stock lending service provided by the Fund's custodian, JP Morgan. The value of the claim is approximately £714,000 and relates to the periods from 2004/05 to 2008/09. In 2010/11 a top-up claim was submitted for the year 2009/10, for approximately £278,000. No additional claims were made in this area in 2012/13, however top-up claims for the period from 1st April 2011 to 31st March 2013 were made in May 2013, for £377,253. As with the tax claim detailed in the paragraph above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2011/12, the County Council lodged a claim with the relevant tax authorities for the recovery of withholding tax suffered on overseas dividends from Spain (approx. £101,000) and Germany (approx. £165,000), covering the periods from 2007-2010. During the financial year 2012/13 the Spanish tax authorities rejected elements of the claim, reducing the value to approximately £70,000, followed by a further rejection of approximately £65,000. The Pension Fund has appealed these rejections and there has been some positive news in the last year, with the Spanish Authorities accepting a small proportion of claims against them. As with the tax claim detailed in the paragraphs above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

It is expected that resolution of these claims will take a number of years and, if unsuccessful, the Fund could incur a share of the costs of the Commissioners of the Inland Revenue.

During the financial year 2012/13 the County Council successfully lodged a claim with the Austrian tax authorities for the recovery of witholding tax suffered on overseas dividends and received €26,129.62 (approx. £22k) in March 2013.

25 Related Party Transactions

In accordance with Financial Reporting Standard 8 'Related Party Disclosures' material transactions with related parties not disclosed elsewhere are detailed below:-

Under legislation introduced in 2003/04, Councillors are entitled to join the Scheme. Committee member M Leaning of the Pensions Committee currently receives pension benefits from the Fund. Committee members M Allan and A Antcliff are contributing members of the Pension Fund.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £3,838m and interest of £29.1k was earned over the year.

Lincolnshire County Council paid contributions of £25.8m into the Pension Fund during the year and all payments were received within agreed timescales.

Paragraph 3.9.4.2 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulations 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit Regulations 2005) satisfy the key management and personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of Lincolnshire Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lincolnshire County Council at note 47. This can be found on the Council's website at www.lincolnshire.gov.uk.

26 Financial Instruments

Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading. No financial assets were reclassified during the accounting period.

	2012/13			2013/14		
	Designated as fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000
Financial Assets						
Equities	842,804			880,027		
Pooled Investments:						
Property	155,117			174,701		
Private Equity	95,595			83,313		
Fixed Interest	155,540			168,971		
IL Bonds	29,525			29,623		
Equities	74,037			74,715		
Alternatives	113,613			125,936		
Cash		18,650			43,466	
Other Inv. Balances	15,987			12,892		
Debtors		9,593			9,105	
	1,482,218	**28,243**	**-**	**1,550,178**	**52,571**	**-**
Financial Liabilities						
Other Inv. Balances	(10,745)			(8,527)		
Creditors			(4,671)			(2,800)
	(10,745)	**-**	**(4,671)**	**(8,527)**	**-**	**(2,800)**
	1,471,473	**28,243**	**(4,671)**	**1,541,651**	**52,571**	**(2,800)**

Net gains and losses on financial instruments

	2012/13 £000	2013/14 £000
Financial Assets		
Fair value through profit & loss	141,590	64,495
Loans and receivables		
Financial liabilities measured at amortised cost		
Financial Liabilities		
Fair value through profit & loss	(767)	(40)
Loans and receivables		
Financial liabilities measured at amortised cost		
	140,823	**64,455**

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the managers to the private equity funds in which the Lincolnshire Fund has invested.

These valuations are prepared in accordance with the Private Equity and Venture Capital Valuation Guidelines (US investments), and the International Private Equity and Venture Capital Valuation Guidelines (non US investments) which follow the valuation principles of IFRS and US GAAP. Valuations are shown to the latest valuation date available and adjusted for cash flow where required to 31st March 2014.

The value for the alternatives investments with Morgan Stanley are provided by the underlying managers within the pool of investments and assurance is provided by Morgan Stanley on the quality of the valuations.

The following table provides an analysis of the financial assets and liabilities grouped into Level 1 to 3, based on the level at which fair value is observable.

Values at 31st March 2014	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Fair value through profit & loss	1,166,228	174,701	209,249	1,552,699
Loans and receivables	52,571			52,571
Financial liabilities measured at amortised cost				
Total Financial Assets	**1,218,799**	**174,701**	**209,249**	**1,605,270**
Financial Liabilities				
Fair value through profit & loss		(8,527)		(8,527)
Loans and receivables				-
Financial liabilities measured at amortised cost	(2,800)			(2,800)
Total Financial Liabilities	**(2,800)**	**(8,527)**	**-**	**(11,327)**
Net Financial Assets	**1,215,999**	**166,174**	**209,249**	**1,593,943**

Values at 31st March 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit & loss	1,117,893	155,117	209,208	1,482,218
Loans and receivables	28,243			28,243
Financial liabilities measured at amortised cost				
Total Financial Assets	**1,146,136**	**155,117**	**209,208**	**1,510,461**
Financial Liabilities				
Fair value through profit & loss		(10,745)		(10,745)
Loans and receivables				
Financial liabilities measured at amortised cost	(4,671)			(4,671)
Total Financial Liabilities	**(4,671)**	**(10,745)**		**(15,416)**
Net Financial Assets	**1,141,465**	**144,372**	**209,208**	**1,495,045**

27 Nature and Extent of Risks Arising from Financial Instruments

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the Fund. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows.

Market Risk

Market risk is the loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices and yield movements and the asset mix.

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken advice from the Fund's Investment Consultant. The management of the assets is split between a number of managers with different performance targets and investment strategies. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to the Pensions Committee where they are monitored and reviewed.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instrument. To mitigate this price risk, each manager is expected to maintain a diversified portfolio within their allocation.

Price risk - sensitivity analysis

Following analysis of historical data and expected investment return during the financial year, in consultation with a fund manager, the Fund has determined that the following movements in market price are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential market movements (+/-)
UK Equities	12.2%
Overseas Equities	8.9%
UK Bonds	5.7%
UK Index Linked	7.7%
Overseas Bonds	6.8%
Private Equity	14.6%
Alternative Investments	10.0%
Property	5.8%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits would have been as follows (the prior year comparative is shown below):

Asset Type	Value at 31/03/2014 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	38,836	0.0	38,836	38,836
UK Equities	389,530	12.2	437,053	342,007
Overseas Equities	556,212	8.9	605,715	506,709
UK Bonds	68,353	5.7	72,249	64,457
UK Index Linked	29,623	7.7	31,904	27,342
Overseas Bonds	100,617	6.8	107,459	93,775
Private Equity	83,313	14.6	95,477	71,149
Alternative Investments	125,936	10.0	138,530	113,342
Property	174,702	5.8	184,835	164,569
Dividends Accrued	2,991	0.0	2,991	2,991
Recoverable Tax	888	0.0	888	888
Outstanding FX	(40)	0.0	(40)	(40)
Outstanding Stock Lending	19	0.0	19	19
Unsettled Purchases	(1,024)	0.0	(1,024)	(1,024)
Unsettled Sales	1,531	0.0	1,531	1,531
Total assets available to pay benefits	1,571,487		1,716,423	1,426,551

Asset Type	Value at 31/03/2013 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	14,696	0.0	14,696	14,696
UK Equities	393,151	15.2	452,910	333,392
Overseas Equities	523,690	12.7	590,199	457,181
UK Bonds	67,577	5.8	71,496	63,658
UK Index Linked	29,525	7.0	31,592	27,458
Overseas Bonds	87,963	7.2	94,296	81,630
Private Equity	95,595	14.6	109,552	81,638
Alternative Investments	113,613	10.0	124,974	102,252
Property	155,117	5.8	164,114	146,120
Dividends Accrued	2,868	0.0	2,868	2,868
Recoverable Tax	691	0.0	691	691
Outstanding FX	(767)	0.0	(767)	(767)
Unsettled Purchases		0.0	-	-
Unsettled Sales	2,450	0.0	2,450	2,450
Total assets available to pay benefits	1,486,169		1,659,071	1,313,267

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes to market interest rates. The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Asset Type	31/03/2013 £000	31/03/2014 £000
Cash deposits	14,696	38,836
Cash balances	3,954	4,630
Pooled Fixed Interest Securities	185,065	198,594
Total	203,715	242,060

Interest rate risk - sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Value at 31/03/2014 £000	Change in Year +1% £000	Change in Year -1% £000
Cash deposits	38,836	388	(388)
Cash balances	4,630	46	(46)
Pooled Fixed Interest Securities	198,594	1,986	(1,986)
Total	242,060	2,420	(2,420)

Asset Type	Value at 31/03/2013 £000	Change in Year +1% £000	Change in Year -1% £000
Cash deposits	14,696	147	(147)
Cash balances	3,954	40	(40)
Pooled Fixed Interest Securities	185,065	1,851	(1,851)
Total	203,715	2,037	(2,037)

Currency risk

Currency risk represents the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling.
To assist in managing this risk and to reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

The following table summarises the Fund's currency exposure at 31 March 2014 and 31 March 2013.

Currency Exposure - Asset Type	31/03/2013 £000	31/03/2014 £000
Overseas Equities (quoted)	523,690	556,212
Pooled Investments:		
Overseas Property	27,618	23,779
Overseas Private Equity	93,564	82,091
Overseas Fixed Interest	87,962	100,617
Total	732,834	762,699

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

A 10% fluctuation in the currency is considered reasonable based on an analysis of long term historical movements in month-end exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Value at 31/03/2014 £000	Change in Year +10% £000	-10% £000
Overseas Equities (quoted)	556,212	611,833	500,591
Pooled Investments:			
Overseas Property	23,779	26,157	21,401
Overseas Private Equity	82,091	90,300	73,882
Overseas Fixed Interest	100,617	110,679	90,555
Total	762,699	838,969	686,429

Currency Exposure - Asset Type	Value at 31/03/2013 £000	Change in Year +10% £000	-10% £000
Overseas Equities (quoted)	523,690	576,059	471,321
Pooled Investments:			
Overseas Property	27,618	30,380	24,856
Overseas Private Equity	93,564	102,920	84,208
Overseas Fixed Interest	87,962	96,758	79,166
Total	732,834	806,117	659,551

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk through securities lending, forward currency contracts and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, JPMorgan, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, JPMorgan provide an indemnity to cover borrower default, overnight market risks, fails on return of loaned securities and entitlements to securities on loan. Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 25% of eligible assets can be on loan at any one time.

Forward currency contracts are undertaken by the Fund's two currency overlay managers - Record and HSBC Trinkaus & Burkhardt. The responsibility for these deals therefore rests with the appointed managers. Full due diligence was undertaken prior to the appointment of these managers and they are regularly monitored and reviewed. Both managers are FSA regulated and meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009.

The Pension Fund's bank account is held at Barclays, which holds an A long term credit rating (or equivalent) across three ratings agencies and it maintains its status as a well capitalised and strong financial organisation. The management of the cash held in this account is carried out by the Council's Treasury Manager, in accordance with an agreement signed by the Pensions Committee and the Council. The agreement stipulates that the cash is pooled with the Council's cash and managed in line with the policies and practices followed by the Council, as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services and detailed in its Treasury

Management Practices.

Liquidity risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31 March 2014, these assets totalled £1,153m, with a further £38.8m held in cash. Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

An additional area of risk is in the outsourcing of services to third party service organisations.

The main service areas that the Pension Fund outsources, and the controls in place to monitor them, are:

Pensions Administration
This service is performed by Mouchel, alongside a Council wide contract. In addition to the contract management that the Council undertakes, regular meetings are held between Fund Officers and the Pensions Manager at Mouchel. The Pension Fund is also a member of the CIPFA benchmarking club for Pensions Administration, to allow service comparisons to be made with other Funds.

Custody, Accounting and Performance Measurement

JPMorgan are the Pension Fund's appointed Custodian, with responsibility for safeguarding the assets of the Fund. JPMorgan are a global industry leader, with more than $19 trillion in assets under custody. They have been the Fund's Custodian since 2004, and were reappointed at the end of their seven year contract in March 2011. Monthly reconciliations of holdings are performed to ensure that the Custodians records match those of the Managers. Regular meetings and conference calls are held to discuss performance, and quarterly key performance indicators are produced.

Fund Management
The Fund appoints a number of segregated and pooled fund managers to manage portions of the Pension Fund. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Managers report performance on a monthly basis to officers and performance is reported to the Pensions Committee on a quarterly basis. All segregated managers present in person to the Committee at least once a year. Regular meetings and discussions are held between officers and managers.

28 Scheduled & Admitted Bodies Contributing to the Fund

County and District Councils
Lincolnshire County Council
(incl. LCC schools)
Boston Borough Council
East Lindsey District Council
City of Lincoln Council
North Kesteven District Council
South Holland District Council
South Kesteven District Council
West Lindsey District Council

Internal Drainage Boards
Black Sluice
Lindsey Marsh
North East Lindsey
South Holland
Upper Witham
Welland and Deeping
Witham First
Witham Fourth
Witham Third

Parish and Town Councils
Billinghay PC
Bourne TC
Bracebridge Heath PC
Crowland PC
Deeping St James PC
Gainsborough TC
Greetwell PC
Heighington PC
Horncastle TC
Ingoldmells PC
Langworth PC
Louth TC
Mablethorpe and Sutton TC
Market Deeping TC

Parish and Town Councils
Metheringham PC
Nettleham PC
North Hykeham TC
Skegness TC
Skellingthorpe PC
Sleaford TC
Stamford TC

Academies
Alford Queen Elizabeth
Boston Grammar
Boston High School
Boston West Academy
Boston Witham Federation
Bourne Abbey C of E
Bourne Academy
Bourne Grammar
Bourne Westfield Primary
Bracebridge Infant and Nursery
Branston Community
Branston Junior Academy
Caistor Grammar
Caistor Yarborough
Carlton Academy
Charles Read Academy
Cordeaux Academy
Ellison Boulters Academy
Ermine Primary
Fosse Way
Gainsborough Benjamin Adlard
Gainsborough Parish Church
Giles Academy
Gipsey Bridge Academy
Grantham Kings School
Grantham Walton Girls
Harrowby C of E Infants
Hartsholme Academy
Heighington Millfield Academy
Hillcrest EY Academy
Hogsthorpe Primary Academy
Horncastle QE Grammar
Huntingtower Community Primary
Huttoft Primary Academy
Ingoldmells Academy
John Spendluffe Tech. College

Academies
Kesteven & Sleaford High
Kesteven and Grantham Academy
Kidgate Primary Academy
Kirkby La Thorpe
Lincoln Castle Academy
Lincoln Christs Hospital School
Lincoln Our Lady of Lincoln

Phoenix Family Academy
Priory Federation of Academies
Rauceby C of E
Ruskington Academy
Sir John Gleed
Sir Robert Pattinson Academy
Sir William Robertson
Skegness Academy
Skegness Grammar
Skegness Infant Academy
Skegness Junior Academy
Sleaford Carres Grammar
Sleaford Our Lady of Good Counsel
Sleaford St Georges Academy
Sleaford William Alvey
Spalding Grammar
Splisby Eresby
Spilsby King Edward Academy
St John's Primary Academy
Stamford Malcolm Sargent
Stamford Queen Eleanor
Stamford St Augustine's
Stamford St Gilberts
The Deepings Academy
The Phoenix School
Thomas Cowley Academy
Tower Road Academy
Trent Valley Academy
University Academy Holbeach
Utterby Primary
Washingborough Academy
Welton St Mary's C of E
Welton William Farr CE
West Grantham Federation
White's Wood Academy
William Lovell Academy

Academies
Witham St Hughs Academy
Woodhall Spa Academy

Admitted Bodies
Acis Group
Active Nation
Adults Supporting Adult

Sudbrooke PC
Washingborough PC
Woodhall Spa PC

FE Establishments
Bishop Grosseteste College
Boston College
Grantham College
Lincoln College
Stamford College

Other Scheduled Bodies
Acorn Free School
Compass Point
BG (Lincoln) Ltd
Lincolnshire Police Authority
Lincolnshire Probation Service

Lincoln St Hugh's
Lincoln St Peter & St Paul's
Lincoln Westgate Academy
Ling Moor Academy
Little Gonerby C of E
Long Bennington C of E
Mablethorpe Primary Academy
Manor Leas Infant Academy
Manor Leas Junior Academy
Market Rasen De Aston School
Mercer's Wood Academy
Mount Street Academy
National C of E Juniors
Nettleham Infants Academy
North Kesteven School
North Thoresby Primary

Boston Mayflower
CfBT
Edwards & Blake
G4S
Heritage Trust for Lincs
Lincoln Arts Trust
Lincoln BIG
Lincs HIA
Lincs Sports Partnership
Kier Group (May Gurney)
Mouchel Connextions
New Linx Housing
Rentokil Initial

29 Exchange Rates Applied

The exchange rates used at 31 March 2014 per £1 sterling were:

Australian Dollar	1.7987
Brazilian Real	3.7619
Canadian Dollar	1.8401
Swiss Franc	1.4727
Danish Krone	9.0310
Euro	1.2096
Hong Kong Dollar	12.9322
Indonesian Rupiah	18,938.8237
Israeli Shekel	5.8186
Japanese Yen	171.6914
Korean Won	1,774.5978
Mexican Peso	21.7542
Norwegian Krone	9.9813
New Zealand Dollar	1.9212
Polish Zloty	5.0371
Swedish Krona	10.8091
Singapore Dollar	2.0965
Thai Baht	54.0823
Turkish Lira	3.5664
Taiwan Dollar	50.7689
US Dollar	1.6671
South African Rand	17.5349

Lincolnshire Fire & Rescue Pensions Fund for the year ended 31 March 2014

2012-13 £'000	Fund Account	Note	2013-14 £'000
	Contributions Receivable		
	From employer:		
(1,591)	Contributions in relation to pensionable pay	4	(1,625)
(229)	Early Retirements - Ill Health	4	(59)
	From members		
(969)	Fire-fighters' contributions	4	(1,112)
0	From CLG (commutations special income)		0
	Transfers in:		
(5)	Individual transfers from other schemes from Local Authorities	7	0
(23)	Individual transfers from other schemes other than Local Authorities	7	(74)
	Benefits payable:		
4,128	Pensions	5	4,340
835	Commutations and lump sum retirement benefits	5	951
0	Lump sum death benefits	5	106
	Payments to and on account of leavers:		
0	Individual transfer out to other schemes	7	0
1	Refunds of contributions	7	2
2,147	**Sub Total Net amount payable for the year before top up grant receivable**		**2,529**
(2,147)	Top up grant receivable from sponsoring department	6	(2,529)
0	**net amount payable/receivable**		**0**

31 March 2013 £'000	Net Asset Statement as at:	31 March 2014 £'000
	Current Assets	
346	Pensions paid in Advance	363
0	Amounts due from LCC	0
740	Pensions top up grant due	1,045
1,086	**Total Current Assets**	**1,408**
	Current Liabilities	
(1,086)	Amounts payable to LCC	(1,295)
0	Unpaid pension benefits	(113)
0	Pension payable to central government	0
(1,086)	**Total Current Liabilities**	**(1,408)**
0	**Total**	**0**

Notes to the Fire & Rescue Pension Fund Account

1 Basis of Preparation

The Financial Statements have been prepared in accordance with the main recommendations of the code of practice on Local Authority Accounting issued by the Chartered Institute of Finance & Accountancy.

There is no separate bank account for the Pension Fund, therefore the Council's General Fund is shown as a debtor/creditor in the Net Asset Statement.

The Net Asset Statement does not take account of liabilities to pay pensions and other benefits after the period end.

Note 54 to the Council's Financial Statements shows the Council's long term pension obligations in accordance with International Accounting Standards (IAS19).

2 Lincolnshire Fire and Rescue Pension Fund Account

The Fund was established at 1 April 2006 and covers both the 1992 and 2006 Fire-fighters' Pension Schemes. It was established by the Fire-fighters' Pension Scheme (Amendment) (England) Order 2006 (SI2006 No1810) and is administered by Lincolnshire County Council. Employee and employer contributions are paid into the fund, from which payments to pensioners are made with any difference being met by top up grant from Central Government.

3 Accounting Policies

The Principal Accounting Policies are as follows:

Contributions

For employees who are members of the pension schemes contributions are receivable from the employer (Council) and the members (employees) throughout the year based on a percentage of pensionable pay. The rates are set nationally by the DCLG/Government Actuary Department and subject to triennial revaluation by the Government Actuary's Department.

If ill health retirements are granted the Council is required to make a contribution to the pension fund in accordance with the regulations. This contribution is spread over a 3 year period to deal with financial volatility as the number of Fire-fighters' who retire on grounds of ill health varies from year to year.

No provision is made in the accounts for contributions on pay awards not yet settled .

Benefits

Benefits include recurring payments that are paid in advance of the month for which they relate. An accrual is made at year end so that the payments are accounted for in the year to which they relate and this is shown in the net asset statement. Lump Sum payments are paid as they become due.

The accounts do not take account of liabilities to pay pensions and other benefits after the year end.

Transfer Values

The value of accrued benefits transferred from or to another pension arrangement, including Fire-fighters' pension schemes outside England, are recorded in the accounts on a receipts and payments basis.

Top up Grant

Central Government pay an instalment of top up grant during the year based on estimated activity. The balance is included within the amount of grant receivable and identified in the Net asset statement under current assets or liabilities.

The accounts do not take account of liabilities to pay pensions and other benefits after the year end.

4 Contribution Rates

Under the Fire-fighters pension regulations the contribution rates are set nationally and are subject to triennial revaluation by the Governments Actuary's Department. During 2013/14 the contribution rates for the 2006 scheme were a minimum of 19.5% of pensionable pay (11% employers and tiered contribution of 8.5% to 11.1% based employees' pensionable pay banding) and the contribution rates for the 1992 scheme were a minimun of 32.3% of pensionable pay (21.3% employers and tiered contribution of 11% to 15% based on employees' pensionable pay banding). Contribution tiers for part time and retained firefighters to be based on whole time equivalent pay for their role. Contributions, by the employer for fire-fighters who retire due to ill health are also paid into the Pension Fund in accordance with the regulations.

5 Benefits paid

Lump sum and ongoing pensions are paid to retired officers, their survivors and others who are eligible for benefits under pension schemes. The recurring payments are usually paid monthly in advance at the beginning of the period for which they relate.

6 Central Government pension top up grant

This is an unfunded scheme and consequently there are no investment assets. The fund is balanced to zero each year by receipt of a top up grant from the Central Government Department for Communities and Local Government (DCLG) if contributions are insufficient to meet the cost of benefits payable, or by paying over any surplus to the DCLG. The difference between grant received during the year and grant required to balance to zero is set up as an accrual and shown in the Net Asset Statement.

7 Transfers in and out

The value of accrued benefits of members that are transferred from or to another pension arrangement, if a member joins or leaves the scheme.

Audit Opinion

Independent auditor's report to the members of Lincolnshire County Council

We have audited the financial statements of Lincolnshire County Council for the year ended 31 March 2014 on pages 12 to 156. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director (Finance and Public Protection) and auditor

As explained more fully in the Statement of the Executive Director (Finance and Public Protection) Responsibilities, the Executive Director (Finance and Public Protection) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's and the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director (Finance and Public Protection)); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 160 to 174 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

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

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Lincolnshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Certificate

We certify that we have completed the audit of the financial statements of Lincolnshire County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Mr Tony Crawley
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
1 Waterloo Way
Leicester
LE1 6LP

26 September 2014

Annual Governance Statement

Lincolnshire County Council in statistics

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

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

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

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

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

7,454 free home fire-safety checks were undertaken

8,360 people attended adult learning courses.

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

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

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

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

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

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

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

Annual Governance Statement for Lincolnshire County Council 2014

How has this Statement been prepared?

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

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

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

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

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

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

Introduction by Pete Moore
Executive Director, Finance and Public Protection

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

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

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

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

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

Pete Moore
Executive Director – Finance and Public Protection

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

What is Corporate Governance?

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

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

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

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

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

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

Whose responsibility is it?

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

Figure 1 - Our governance framework

Assurance Required Upon

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

Code of Corporate Governance

Source of Assurance

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

Assurances Received

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

Opportunities to Improve – our key risks

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

Annual Governance Statement

The Council – How it works

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

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

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

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

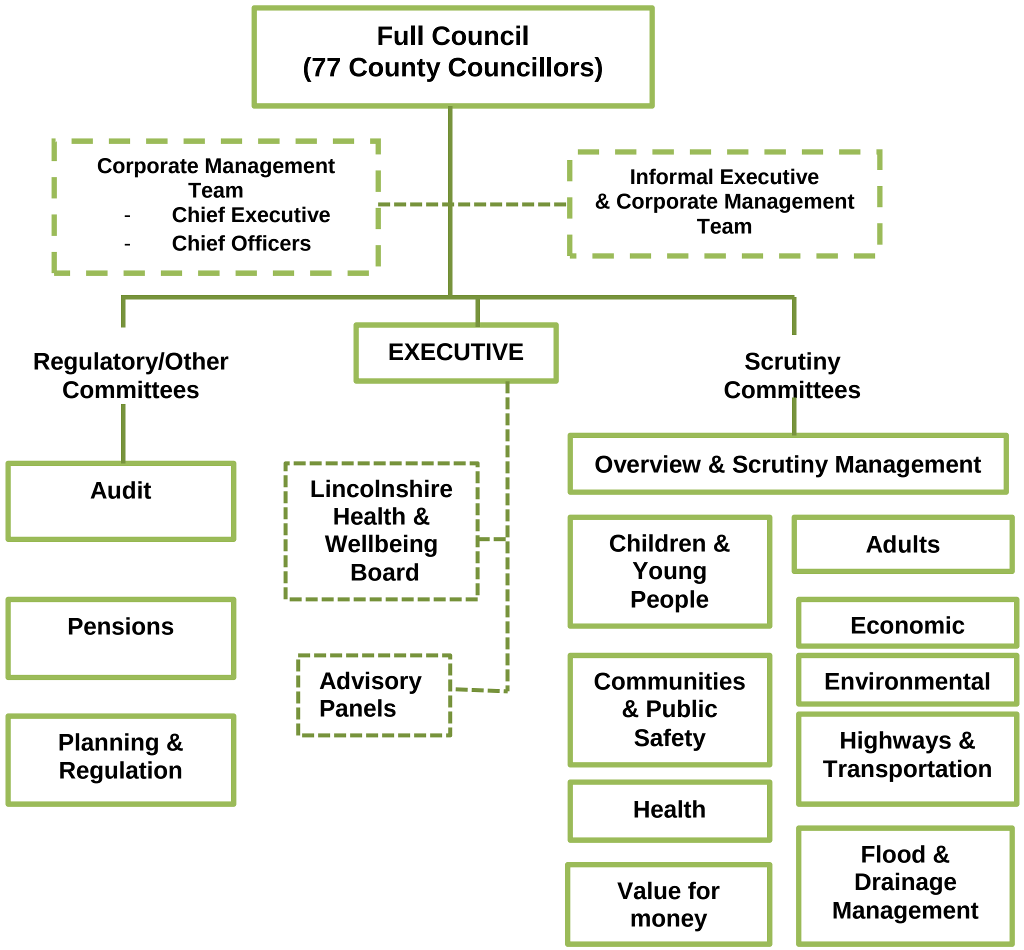
Council elections were held on the 2nd May 2013. This resulted in a change in the Lincolnshire Administration – which is now a coalition of Conservatives, Liberal Democrats and Independents.

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

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

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

Figure 2 – Council Committee Structure



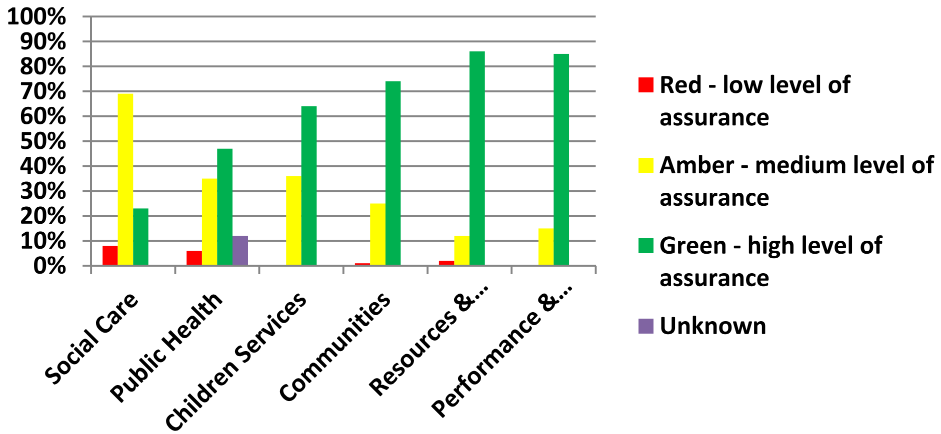
How do we know our arrangements are working?

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

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

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

Figure 3 – Overall Assurance Levels 2014



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

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

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

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

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

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

Role of Monitoring Officer

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

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

Effective Scrutiny and Review

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

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

Managing our Risks

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

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

For more information go to: Risk Management Strategy

Tackling Fraud Locally

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

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

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

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

Chief Financial Officer

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

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

Our Audit Committee

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

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

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

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

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

Internal Audit

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

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

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

External Audit

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

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

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

Governance Issues

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

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

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

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

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

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

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

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

Conclusion

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

The original documents were signed on 22 September 2014 by Pete Moore, CPFA (Executive Director - Finance and Public Protection),Tony McArdle (Chief Executive) and Councillor M Hill OBE (Leader, Lincolnshire County Council).

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

SCHOOLS	2012-13 Number of Staff		2013-14 Number of Staff	
Pay Band	Remuneration received (excl those receiving termination payments)	Staff who received termination payments	Remuneration received (excl those receiving termination payments)	Staff who received termination payments
£150,000- £154,999	0	0	0	0
£145,000- £149,999	0	0	0	0
£140,000- £144,999	0	0	0	0
£135,000- £139,999	0	0	0	0
£130,000- £134,999	0	0	0	0
£125,000- £129,999	0	0	0	0
£120,000- £124,999	0	0	0	0
£115,000- £119,999	0	0	0	0
£110,000- £114,999	0	0	0	0
£105,000- £109,999	0	0	0	0
£100,000- £104,999	0	0	0	0
£95,000- £99,999	0	0	1	0
£90,000- £94,999	2	0	0	0
£85,000- £89,999	3	2	3	0
£80,000- £84,999	1	0	1	0
£75,000- £79,999	3	0	4	0
£70,000- £74,999	5	1	7	1
£65,000- £69,999	7	1	6	0
£60,000- £64,999	20	0	27	0
£55,000- £59,999	55	1	48	0
£50,000- £54,999	62	1	59	0
Total	**158**	**6**	**156**	**1**

OTHER SERVICES	2012-13 Number of Staff		2013-14 Number of Staff	
Pay Band	Remuneration received (excl those receiving termination payments)	Staff who received termination payments	Remuneration received (excl those receiving termination payments)	Staff who received termination payments
£150,000- £154,999	0	0	0	0
£145,000- £149,999	0	0	0	0
£140,000- £144,999	0	0	0	0
£135,000- £139,999	0	0	0	0
£130,000- £134,999	0	0	0	0
£125,000- £129,999	1	0	0	0
£120,000- £124,999	0	0	1	0
£115,000- £119,999	0	0	0	0
£110,000- £114,999	0	1	0	1
£105,000- £109,999	0	0	2	1
£100,000- £104,999	0	0	1	1
£95,000- £ 99,999	0	0	1	0
£90,000- £94,999	1	1	1	1
£85,000- £89,999	4	1	3	1
£80,000- £84,999	4	1	5	0
£75,000- £79,999	3	0	2	1
£70,000- £74,999	3	1	3	0
£65,000- £69,999	17	0	29	3
£60,000- £64,999	27	0	19	0
£55,000- £59,999	40	0	31	3
£50,000- £54,999	44	5	41	1
Total	**144**	**10**	**139**	**13**

STATEMENT OF ACCOUNTS GLOSSARY OF TERMS

Academy Schools
Academy schools are directly funded by central government (the Department for Education) and are independent of local Council control.

Accounting Period
The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accounting Policies
The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its Financial Statements.

Accruals
Sums included in the final accounts to recognise revenue and capital income and expenditure attributable to the accounting period, but for which payment has not been received or made by 31 March.

Acquired Operations
Operations comprise services and division of service as defined in SERCOP. Acquired operations are those operations of the local Council that are acquired in the period.

Amortisation
The term used to describe the charge made for the cost of using intangible fixed assets. The charge for the year will represent the amount of economic benefits consumed (e.g. wear and tear).

Appropriation
The transfer of sums to and from reserves, provisions and balances.

Assets
An item having value to the Council in monetary terms, categorised as:

· Current assets are assets that are intended to be sold within the normal operating cycle; the assets are held primarily for the purpose of trading or the Council expects to realise the assets within 12 months after the reporting date.

· Non–current assets are assets that do not meet the definition of a current asset and can be tangible (e.g. school buildings) or intangible (e.g. computer software licences).

Audit of Accounts
An independent examination of the Council's financial affairs.

Balances
The total revenue reserves required to provide a working balance during the financial year, for example in periods when expenditure exceeds income.

Balance Sheet
Shows all balances including reserves, long-term debt, fixed and net current assets, together with summarised information on the fixed assets held.

Borrowing costs
Are interest and other costs that an entity incurs in connection with the borrowing of funds.

Budget
The forecast of net revenue and capital expenditure over the accounting period.

Capital Adjustment Account
Capital reserve largely consisting of resources applied to capital financing and not available to the Council to support new investment.

Capital Charges
This is a general term used for the notional charges made to service expenditure accounts for the use of fixed assets. The term covers depreciation and impairment charges (included in gross expenditure).

Capital Grants Unapplied Account
Grants that have been recognised as income in the Comprehensive Income and Expenditure Statement but where the expenditure has not yet been incurred.

Capital Expenditure
Expenditure on assets which have a long term value. Includes the purchase of land, purchase or cost of construction of buildings and the acquisition of plant, equipment and vehicles.

Capital Financing Costs
These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

Capital Financing Requirement

Statutory requirement to ensure that over the medium term the net borrowing by the Council will only be for capital purposes.

Capital Receipts
Proceeds received from the sale of property and other fixed assets.

Carrying Amount
The amount of an asset that is recognised on the Balance Sheet after all costs have been charged for the accounting period (e.g. accumulated depreciation and impairment losses).

Cash equivalents
Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (e.g. bank balances).

Cash Flow Statement
This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes

CIPFA
The Chartered Institute of Public Finance and Accountancy.

Comprehensive Income and Expenditure Statement (CI&ES)
This statement reports the net cost of all the services which the Council is responsible for, and demonstrates how that cost has been financed.

Contingent Liability
Potential costs that the Council may incur in the future because of something that happened in the past, but there is no certainty that a cost will occur.

Contingent Asset
Is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council.

Corporate Democratic Core
The corporate and democratic management costs are the costs of activities which Local Authorities undertake specifically because they are elected multi-purpose Authorities. They cover corporate policy making, representing local interests, services to elected members as local representatives and duties arising from public accountability.

Creditors
Amounts owed by the Council for work done, goods received or services rendered but for which payment has not been made at 31 March.

Debtors
Sums of money owed to the Council but unpaid at 31 March.

Defined Benefit Scheme
Also known as a final salary scheme. Pension scheme arrangement where the benefits payable to the members are determined by the scheme rules. In most cases there is a compulsory member's contribution but over and above this all costs of meeting the quoted benefits are the responsibility of the employer.

Depreciation
The allocation of the cost of the useful economic life of the Council's non-current assets for the accounting period through general wear and tear, consumption or obsolescence.

Depreciated replacement cost (DRC)
Is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

Discontinued Operations
Operations comprise services and division of service as defined in SERCOP. Discontinued operations are those operations of the Council that are discontinued in the period. Responsibilities that are transferred from one part of the public sector to another are not discontinued operations.

Donated assets
These are assets which are transferred to the Council at nil value or acquired at less than fair value.

Earmarked Reserves
Those elements of total Lincolnshire County Council reserves which are retained for specific purposes.

Employee benefits
Are all forms of consideration (both monetary and in-kind) given by the Council in exchange for service rendered by employees.

Exceptional Items

Events which are material in terms of the County's overall expenditure and are not expected to recur frequently or regularly.

Fair Value
The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length deal.

Finance Costs

Reflects the element of annual payment for PFI or Leased assets which is in relation to interest payable on the loan liability.

Financial Assets
A right to future economic benefits controlled by the Council.

Financial Instrument
A contract that gives rise to a financial asset of one entity and a financial liability of another entity; for example, at its simplest, a contractual right to receive money (debtor) and a contractual obligation to pay money (creditor).

Financial Liability
An obligation to transfer economic benefits controlled by the Council.

Foundation Schools
Schools run by their own governing body, which employs the staff and sets the administrations criteria. Land and buildings are usually owned by the governing body or a charitable foundation.

General Fund
The main revenue fund of the Council. Income from the council tax precept and government grants is paid into the fund, from which the costs of providing services are met.

Going Concern
The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

Government Grants
Payments by central government towards Council expenditure. They are receivable in respect of both revenue and capital expenditure.

Grants and Contributions
Assistance in the form of transfers of resources to the Council in return for past or future compliance with certain conditions relating to the operation of activities.

Heritage Assets
Assets that are held by the Council which are of historic nature including buildings and collections.

Impairment
A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet, due to damage, obsolescence or a general decrease in market value.

Intangible Asset
Is an asset without physical substance examples include: computer software and licences.

International Accounting Standard (IAS)
Regulations outlining the method of accounting for activities, IASs are currently being replaced with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board.

International Financial Reporting Standards (IFRS)
Regulations outlining the method of accounting for activities, issued by the International Accounting Standards Board.

Inventories
Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

Landfill Allowance Trading Scheme (LATS)

Cap and trade scheme aimed at reducing the level of waste taken to landfill and encouraging alternative refuse processes.

Leases
A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment, the right to use an asset for an agreed period of time.

- Finance Lease – a lease whereby all the risks and rewards of ownership of an asset are with the lessee. In substance the asset belongs to the lessee.
- Operating Lease – a lease where the risks and rewards, and therefore ownership, of the asset remains with the lessor.

Lessee
The person or organisation that is using or occupying an asset under lease (tenant).

Lessor
The person or organisation that owns an asset under lease (landlord).

Liabilities
A present obligation to transfer economic benefits. Current liabilities are payable within one year.

Liquid Resources
Cash and current asset investments that can be easily converted to known amounts of cash without penalty, or can be traded in an active market.

Long-Term Contract
A contract entered into for the design, manufacture or construction of a single substantial asset, or the provision of a service (or a combination of assets and services which together constitute a single project), where the project life falls into more than one accounting period.

Long Term Debtors
Sums of money due to the Council originally repayable within a period in excess of twelve months but where payment is not due until future years.

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Minimum Revenue Provision (MRP)
A minimum amount, set by law, which the Council must charge to the income & expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).

Net Book Value
The value of fixed assets included on the Balance Sheet, being the historical cost or a current revaluation less the cumulative amounts provided for depreciation.

Net Debt
The Council's borrowings less liquid resources.

Non Distributed Costs
These are overhead costs from which no user now benefits. They include the costs associated with unused assets and certain pension costs.

Off Balance Sheet
Accounting category not shown or recorded on a Balance Sheet, such as an operating lease or a deferred or contingent asset or liability which is shown only when it becomes 'actual.'

Pension fund accounts
This covers accounting and reporting by pension funds to all fund participants as a group rather than being concerned with determination of the cost of retirement benefits in the Financial Statements of employers.

Precept
The amount levied by one Authority which is collected by another e.g. Lincolnshire County Council is the precepting Authority and the District Councils are the collecting Authorities. Water Authorities also precept on the Council for land drainage purposes.

Previous Year Adjustments
These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.

Principal
The amount of repayment to a lender which relates to the reduction in the loan, rather than the interest paid on the loan.

Private Finance Initiative (PFI)
A government initiative that enables Authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

Projected Unit Method
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners and their dependants, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

Property, Plant & Equipment
Are tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

- Land and buildings.
- Vehicles, plant, furniture and equipment.
- Infrastructure assets that form part of the economic or social framework of the area and whose function is not transferable (e.g. highways, bridges and footpaths).
- Community assets are assets that the Council intends to hold in perpetuity, that have no determinable useful life and may have restrictions on their disposal (e.g. nature reserves, country & coastal parks and picnic sites).
- Surplus assets are non-current assets held by the Council but not directly occupied, used or consumed in the delivery of services.
- Investment properties are properties (land or buildings) held to earn rentals or for capital appreciation or both.
- Assets under construction are non-current assets which include expenditure capitalised for work in progress in respect of activities to develop, expand or enhance items of property, plant and equipment, intangible assets and exploration assets.
- Non-current assets held for sale and discontinued operations. These are non-current assets that are either going to be sold or disposed of within the next twelve months.

Provision
This is an amount which is put aside to cover future liabilities or losses which are considered to be certain or very likely to occur, but the amounts and timing are uncertain.

Prudential Indicators

Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that Councils' capital investment plans are affordable, prudent and sustainable. They are outlined in the CIPFA Prudential Code of Practice. The code was introduced in 2004, to underpin the system of capital finance in local government. All Councils must adhere to this.

There are 11 prudential indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A Council may also choose to use additional voluntary indicators.

Public Works Loan Board (PWLB)
A central government agency, which provides loans for one year and above to Authorities at favourable rates which are only slightly higher than the Government can borrow itself.

Recognition
The process upon which assets are deemed to belong to the Council either by purchase, construction or other forms of acquisition.

Related party

These are parties which are considered to be related if one party has the ability to control the other party, or exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related party transactions are transfers of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the Council or the Government of which it forms part.

Reserves
The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the Revaluation Reserve and Capital Adjustment Account cannot be used to meet current expenditure.

Retirement Benefits
· Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.
· Actuarial basis is the estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the Financial Statements of an organisation.
· Actuarial gains and losses for a defined benefit pension scheme are the changes in actuarial deficits or surpluses that arise because:

· Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or

· The actuarial assumptions have changed.
· Current service cost is the increase in the present value of a defined benefit obligation resulting from employee service in the current period.
· Defined benefit plans are post-employment benefit plans other than defined contribution plans.

· Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

· Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.
· Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Retrospective application

This is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Revaluation Gain
The increase to the fair value of an asset following a valuation.

Revaluation Reserve

This reserve contains revaluation gains on assets recognised since 1 April 2007 only, the date of its formal implementation.

Revenue Contributions
This refers to the financing of capital expenditure directly from revenue rather than from loans or other sources.

Revenue Expenditure
The day to day expenditure of the Council on such items as employees and equipment.

Revenue Expenditure Funded from Capital under Statute (REFCUS)
Expenditure which may be funded from capital, but which does not result in fixed assets owned by the Council. These costs are included in the net cost of services shown in the Income and Expenditure Account.

Revenue Support Grant (RSG)
Grant paid by central government to Local Authorities in aid of service provision.

Service Reporting Code of Practice (SERCOP)
Details standard definitions of service and total cost which enables spending comparisons to be made with other Local Authorities.

Short-term employee benefits
These are employee benefits (other than termination benefits) that fall due wholly within 12 months after the end of the period in which the employees render the related service.

Specific Grant
A grant awarded to a Council for a specific purpose or service that can not be spent on anything else.

Straight Line basis
The method of calculating depreciation via charging the same amount each year over the life of the assets.

Termination Benefits
Employee benefits paid upon termination of employment such as redundancy.

Treasury Management
The utilisation of cash flows through investments and loans.

Trust Funds

Funds administered by the Council for such purposes as prizes, charities and specific projects or on behalf of minors.

Useful Life
The period with which an asset is expected to be useful to the Council in its current state.

Value Added Tax (VAT)
VAT is an indirect tax levied on most business supplies of goods and services.

Statement of Accounting Policies

1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year 2014-15 and the position at the year-end 31 March 2015. 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 2014-15 and Service Reporting Code of Practice 2014-15, supported by International Financial Reporting Standards and statutory guidance.

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

2. Changes in Accounting Policies

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

3. Prior period adjustments – estimates and errors

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

The following disclosures will be made:

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

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

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

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

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

Classification

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

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

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

a) Initial Recognition

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

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

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

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

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

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

b) Measurement after Recognition – Valuation Approach

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

The code requires the following valuation approaches to be adopted:

Operational Assets

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

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

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

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

Non-Operational Assets

- Surplus assets (i.e. assets which the Council no longer operates/are no longer used for service delivery, but are not Investment Properties or meet the definition held for sale) are valued, measured and depreciated in line with the operational asset class; and

- Assets under Construction are held at cost. When these assets are operationally complete, they are reclassified into the appropriate asset class and valued under the adopted approach.

Valuation Programme

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

c) Revaluation Gains and Losses

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

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

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

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

d) Depreciation

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

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

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

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

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

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

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

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

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

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

Component Accounting for Property, Plant and Equipment

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

- DRC assets (including fire stations, schools, libraries and museums where the building is of a specialised nature): land, structures, services, roof and externals;
- Office Accommodation / Admin Buildings: land; structures, services, roof and externals;
- Other market value and existing use value assets (including economic regeneration units): land and buildings; and
- Energy from Waste Plant: Civils, Mechanicals and Instrumentation, Control and Automation (for each significant part of the plant).

e) Disposal of Property, Plant and Equipment

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

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

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

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

f) Impairment of non-Current Assets

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

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

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

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

5. Intangible Assets

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

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

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

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

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

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

6. Investment Properties

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

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

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

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

d) Depreciation is not charged on Investment Properties.

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

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

7. Heritage Assets

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

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

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

a) Initial Recognition

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

b) Measurement after recognition:

- Historic Buildings – Windmills: will be valued at existing use value by the Council's Valuer. These valuations will be included on the Council's rolling programme and will be valued every 5 years.

- Historic Buildings – Lincoln Castle and Temple Bruer: will continue to be carried at historic cost as the Council does not consider that a reliable valuation can be obtained for these assets. This is because of the nature of the assets held and the lack of comparable market values.

- Collections: will be valued based on the insurance valuations held by the Council. Insurance valuations will be reviewed and updated on an annual basis.

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

d) Depreciation is not charged on Heritage Assets.

8. Non-Current Assets Held for Sale

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

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

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

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

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

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

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

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

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

9. Donated Assets

Donated assets are non-current assets which are given to the Council at no cost or at below market value. These assets are initially recognised in the Balance Sheet at this value and then measured at fair value. The difference between the fair value and any consideration paid is credited to the Taxation and Non-Specific grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally.

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

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

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

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

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

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

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

11. Minimum Revenue Provision

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

12. Revenue Expenditure Financed through Capital under Statute

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

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

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

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

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

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

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

- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment on the Balance Sheet.

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

14. Borrowing Costs

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

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

15. Classification of Leases

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

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

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

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

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

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

a) Finance Leases

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

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

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

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

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

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

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

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

b) Operating Leases

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

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

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

16. Government Grants and Contributions

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

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

- The grant or contribution will be received.

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

Capital Grants and Contributions (non-current assets)

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

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

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

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

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

Revenue Government Grants and Contributions

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

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

17. Debtors

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

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

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

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

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

18. Creditors

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

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

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

19. Provision for Bad and Doubtful Debt

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

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

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

20. Inventories

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

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

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

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

21. Cash and Cash Equivalents

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

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

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

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

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

22. Provisions

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

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

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

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

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

23. Contingent Liabilities

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

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

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

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

24. Contingent Assets

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

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

25. Events after the Reporting Date

These are events that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. The Council will report these in the following way if it is determined that the event has had a material effect on the Council's financial position.

- Events which provide evidence of conditions that existed at the end of the reporting period will be adjusted and included within the figures in the accounts; and

- Events that are indicative of conditions that arose after the reporting will be reported in the narrative notes to the accounts.

Events which take place after the authorised for issue date are not reflected in the Statement of Accounts.

26. Recognition of Revenue (Income)

Revenue shall be measured at the fair value of the consideration received or receivable.

Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, with the exception of non-exchange transactions (such as Council Tax and general rate) where it is assumed there is no difference between the delivery and payment date.

27. Exceptional Items

Exceptional items are material amounts of income or expenditure which occur infrequently in the course of the Council's normal business and are not expected to arise at regular intervals. When these items of income or expense are material, their nature and amount will be disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts depending on how significant the items are to an understanding of the Council's financial performance.

28. Costs of Support Services

The costs of overheads and support services are charged to those who benefit from the supply of services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013-14 (SeRCOP). The costs are recharged to services on the following basis:

Costs	**Basis of Apportionment**
Accommodation	staff numbers
Accountancy services	estimated time
Business support	budget amount
Communications	gross expenditure and sales
Creditor payments	number of payments
Customer service centre	number and length of calls
Debtor services and income collection	number of debtor invoices
IT services	number of PC's
Payroll services	number of employees
People Management	number of employees
Programme and Programmes Service	gross expenditure and sales
Property services	number of properties
Adult Social Care (Assessments Team and associated Swift IT)	number of Adult Social Care clients

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation; and

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

29. Acquired and Discontinued Operations

Where the Council takes on new activities or ceases providing services, the costs relating to these activities will be identified in the Comprehensive Income and Expenditure Statement, on the surplus or deficit on discontinued operations line. These items will not form part of the net cost of services in the Comprehensive Income and Expenditure Statement in the year they occur.

30. Value Added Tax (VAT)

The Council's Comprehensive Income and Expenditure Statement excludes VAT. All VAT must be passed on (where output tax exceeds input tax) or repaid (where input tax exceeds output tax) to HM Revenue and Customs.

The net amount due to or from HM Revenue and Customs for VAT at the year-end shall be included as part of creditors or debtors balance.

31. Council Tax and Business Rates Income

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

The Council Tax and Business Rates income is included in the Comprehensive Income and Expenditure Statement on an accruals basis and includes the precept for the year plus the Council's share of Collection Fund surpluses and deficits from the billing Authorities.

The difference between the income reported in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund, shall be taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

The year-end Balance Sheet includes the Council's share of debtors (arrears and collection fund surpluses), creditors (prepayments, overpayments and collection fund deficits) and provisions (business rate appeals).

32. 'Cap and Trade' Schemes

Carbon Reduction Commitment Scheme – CRC

The Council is required to participate in the CRC Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances.

The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Authority is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption.

33. Reserves

a) Useable Reserves

The Council's general revenue balances are held in the General Fund. The Council also maintains a number of specific 'earmarked' reserves for future expenditure on either policy purposes or to cover contingencies. When expenditure is financed from an earmarked reserve, it is charged to the relevant revenue service account in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back to the General Fund Balance via the Movement in Reserves Statement, so that there is no net charge against council tax.

b) Unusable Reserves

Certain reserves are kept to maintain the accounting processes for non-current assets, financial instruments and employee benefits. These accounts do not represent usable resources for the Council. These include:

- Capital Adjustment Account;
- Revaluation Reserve;
- Financial Instruments Adjustment Account;
- Pension Reserve;
- Collection Fund Adjustment Account; and
- Accumulated Absences Reserve.

34. Employee Benefits – Benefits Payable during Employment

a) Benefits Payable During Employment – Short Term Benefits

These are amounts expected to be paid within 12 months of the Balance Sheet date. These include:

- Salaries, wages and expenses accrued up to the Balance Sheet date. These items are charged as an expense to the relevant service revenue account in the year the employees' services are rendered; and

- Annual leave and flexi hours earned, but not yet taken at the Balance Sheet date. An accrual is made for items at the wage and salary rate payable. The accrual is charged to the relevant service revenue account, but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account, so this does not have an impact on council tax.

Teacher Leave Accrual

The accrual for short term benefits for teachers is calculated using a standard methodology, reflecting the fact that teachers across the Council are subject to standard terms and conditions of employment. This methodology is based on the number of days of the Spring Term (both term-time and holiday) that fall within the financial year and the leave entitlement of the teacher (which varies according to whether an individual has left the teaching profession at the end of the Spring term).

b) Long Term Benefits

These are amounts which are payable beyond 12 months. The Council does not have any material long term benefits to be declared within the Financial Statements.

35. Employee Benefits – Termination Benefits

Employee termination benefits arise from the Council's obligation to pay redundancy costs to employees. These costs will be recognised in the Council's Financial Statements at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for a restructuring. For example; when there is a formal plan for redundancies (including the location, function and approximate number of employees affected; the termination benefits offered, and the time of implementation).

These items will be accrued in the Balance Sheet at the year end and charged to the relevant service revenue account. If payments are likely to be payable in more than 12 months from the year end, then these costs will be discounted at the rate determined by reference to market yields.

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

36. Employee Benefits – Post Employment Benefits (Pensions)

Lincolnshire County Council participates in three different pension schemes which provide scheme members with defined benefits related to pay and service. The schemes are as follows:

- Teachers' Pension Scheme: This is a notionally funded scheme administered nationally by Capita Teachers' Pensions on behalf of the Department for Education (DFE). The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to teachers' pensions in the year are treated as expenditure on the education service line in the Comprehensive Income and Expenditure Statement.

- National Health Service Pension Scheme (NHSPS): This is a notional funded scheme administered national by NHS Pensions on behalf of the Department of Health (DoH) The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to the National Health Service Pension Scheme in the year are treated as expenditure in the Public Health service line in the Comprehensive Income and Expenditure Statement.

- Uniformed Fire-fighters Pension Scheme (FPS): From 1 April 2006, a new pension fund for Fire-fighters was set up. This scheme replaced the 1992 Fire-fighters scheme for new Fire-fighters. Both the 1992 and 2006 schemes remain unfunded but there are differences in the contributions payable into each scheme and the benefits paid to members. Both employee and employer contributions are paid into each fund, against which pension payments are made. Each fund is topped up by additional government funding if contributions are insufficient to meet the cost of the pension payments. Any surplus in each fund at the end of each year will be repaid back to the Department for Communities and Local Government (DCLG). Contributions in respect of ill health retirements are still the responsibility of the Council.

- Local Government Pension Scheme (LGPS): Other employees are eligible to join the LGPS. The Council pays contributions to a funded pension scheme from which employee pension benefits are paid out.

The pension costs included in the Statement of Accounts in respect of both the LGPS and the FPS have been prepared in accordance with IAS 19 Employee Benefits. The pension costs in respect of both the LGPS and FPS have been estimated by the Pension Fund actuary adviser and have incorporated an actual valuation of the accrued pension liabilities attributable to the Council as the scheme employer.

<u>The Local Government Pension Scheme (LGPS)</u>

The LGPS is accounted for as a defined benefits scheme:

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

- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on long term UK Government bonds greater than 15 years).

- The assets of Lincolnshire Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

    - quoted securities – current bid or last traded price;
    - unquoted securities – professional estimates;
    - unitised securities – current bid price.

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

- Service cost comprising:

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

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debit to the Pensions Reserve as Other Comprehensive Income and Expenditure; and

- contributions paid to the Lincolnshire Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Council also pays any costs arising in relation to unfunded elements of pensions, paid to certain employees that have retired early and have been awarded discretionary compensation under the provisions of the Council's early retirement policy. These costs are charged to Non-Distributed Costs in the Comprehensive Income and Expenditure Statement.

37. Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves

In Lincolnshire, Local Authority education is provided in: Foundation, Voluntary Aided, Voluntary Controlled and Community Schools (all known as 'maintained schools').

Income and Expenditure

All income and expenditure relating to maintained schools in Lincolnshire is shown in the Council's Comprehensive Income and Expenditure Statement.

Non-Current Assets

Schools non-current assets will be accounted for under IAS 16 Property, Plant and Equipment. The standard 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 governing body of the school, or the future economic benefits are identified to sit with the Council, then the non-current assets will be recorded in the Balance Sheet.

The exception to this is for any finance leases for IT equipment taken out by the Council on behalf of a school; these remain within the Council’s Balance Sheet as the Council retains the liability.

Assets and Liabilities

All assets and liabilities, excluding non-current assets which are covered above, relating to maintained schools are included within the Council’s Balance Sheet.

Reserves

The Council maintains specific earmarked reserves for schools balances. At year end balances from dedicated schools budgets, including those held by schools under a scheme of delegation, are transferred into the reserve to be carried forward for each school to use in the next financial year. This ensures that any unspent balances at the end of the financial year are earmarked for use by those schools as required by the Council’s scheme for financing schools approved by the Secretary of State for Education.

38. Group Relationships

The Council assesses on an annual basis relationships with other bodies to identify the existence of any group relationships. A de-minimis level of £1.000m has been set for considering bodies to be included within group accounts.

The Council has not identified, and does not in aggregate have any material interests in subsidiaries, associated companies or joint ventures and therefore is not required to prepare group accounts.

39. Financial Instruments

a) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. All the Council's borrowings are carried at amortised cost and the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

No repurchase has taken place as part of a restructuring of the loan portfolio that included the modification or exchange of existing instruments. Therefore gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement and spread over future years under statutory regulation.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over ten years or the term that was remaining on the loan if less than ten years. The reconciliation of premiums / discounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

b) Financial Assets

Financial Assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and

- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

i) Loans and Receivables

Loans and Receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the majority of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

The Council has set a £50k de minimis limit to the value of soft loans or the discounting of interest rates. Below this amount the above accounting treatment for soft loans is not applied and the soft loans are shown in the accounts at their carrying value.

Where assets are identified as impaired, because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement or the relevant service (for receivables specific to that service). The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of the assets are credited/debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

ii) Available-for-sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis; and
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Where fair value cannot be measured reliably, the instrument is carried at cost (less impairment losses).

The Council holds a small equity holding of 14,000 of shares at £1 par value, in a company called 'Investors for Lincoln Ltd'. These shares do not have a quoted market price in an active market and therefore their fair value cannot be measured reliably, consequently they are shown in the Balance Sheet at cost.

Changes in fair value are balanced by an entry in the Available-For-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on revaluation of Available-for-Sale Assets. The exception is where impairment losses have been incurred and these are debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-For-Sale Reserve.

Where assets are identified as impaired, because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-For-Sale Reserve.

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Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**30 March 2015**
Subject:	**Work Plan**

Summary:

This report provides the Committee with information relevant to the core assurance activities currently scheduled for the 2014/15 work plan.

Recommendation(s):

Review and amend the Audit Committee's work plan ensuring it contains the assurances necessary to approve the Annual Governance Statement 2015.

Background

1 The work plan has been pulled together based on the core assurance activities of the Committee as set out in its terms of reference and best practice (see Appendix A).

2 A training workshop is being held on the afternoon of the 30th March 2015. The Committee will also take this opportunity to review its work plan for 2015/16 – considering any key areas of assurance it wishes to seek in the coming year.

3 Appendix B shows the Committee's action plan – which helps keep track of actions agreed during meetings.

Conclusion

1. The work plan helps the Committee ensure that the Committee effectively delivers its terms of reference and keep track of areas where it requires further work and/or assurance.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Work Plan to March 2015

Background Papers

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

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

Appendix A

Audit Committee Work Plan – 2014/15		
30th March 2015	**Assurances Required / Being Sought**	**Relevancy – Terms of Reference**
Core Business		
• Internal Audit Progress Report	Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment. Ensure management action is taken to improve controls / manage risks identified encouraging ownership of the internal control framework by appropriate managers Encouraging ownership of the internal control framework by appropriate managers Confirm appropriate progress being made on the delivery of the audit plan and performance targets	To consider reports dealing with the management and performance of internal audit To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
• Draft Internal Audit Plan 2015/16	That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion. Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year. Ensure that the Internal Audit Resource has sufficiently capacity and capability to deliver the plan. Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.	To consider reports dealing with the management and performance of internal audit

Audit Committee Work Plan – 2014/15		
30th March 2015	**Assurances Required / Being Sought**	**Relevancy – Terms of Reference**
• Draft Counter Fraud Plan 2015/16	Gain assurance that the Council has effective arrangements in place to fight fraud locally. Ensure that counter fraud resources are targeted to the Council's key fraud risks.	To monitor Council policies on confidential reporting code, anti-fraud and anti-corruption policy and the Council's compalints process.
• International Audit Standards on the risks associated with the impact of potential fraud and error on the Financial Statements	Seek assurance that the statements made against the standard accurately reflect the Council's counter fraud arrangements.	To monitor Council policies on confidential reporting code, anti-fraud and anti-corruption policy and the Council's complaints process.
• Risk Management Progress Report	Gain assurance that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept. That there has been on big surprises for the Council where it suffered significant financial loss or reputational damage.	To monitor the effective development and operation of risk management and corporate governance in the Council
• External Audit Grant Certification Report **– No report this year**	Seek assurances that claims and returns have been managed appropriately and that there are no significant errors that would result in loss of funding.	
• External Audit Plan	Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed. Note: Further assurance needed around impact / risks associated with early close down.	To comment on the scope and depth of external audit work and to ensure it gives value for money
• Update on action re Annual Governance Statement 2014 **– deferred to June 2015**	Gain assurance that management have progressed the agreed actions associated with the significant issues / key risks identified in the Annual Governance Statement.	To oversee the production of the Council's Annual Governance Statement and to recommend its adoption To consider the Council's arrangments for

Audit Committee Work Plan – 2014/15		
		corporate governance and agreeing necessary actions to ensure compliance with best practice
30th March 2015	**Assurances Required / Being Sought**	**Relevancy – Terms of Reference**
Other Assurance • Library Review – Organisational Learning	Gain assurance that management have developed an agreed action plan to address the issues identified in the Internal Audit Report on Libraries issued in January 2015.	To consider the Council's arrangments for corporate governance and agreeing necessary actions to ensure compliance with best practice

Appendix B

Audit Committee Action Plan – 2014/15			
Action	**Terms of Reference Outcome**	**Key Delivery Activities**	**Who by and When**
Understanding the role and remit of the VfM Scrutiny Committee and being clear about what and how the Audit Committee will seek assurance from it.	Provides insight and assurance which will support the development of the Annual Governance statement and review of the Council's governance arrangements. Confirm that Audit Committee has all the assurance it needs from the Scrutiny function – from whom and in what form the assurance will be. That it's working well.	Establish joint working protocol between scrutiny and audit committees. **Update Audit Report to Committee on 26.01.15**	Audit & Risk Manager December 2014 **Completed – update session arranged for March 2015**
Clarify who should attend the Audit Committee and expectations on the information being presented.	Ensure that relevant and focussed reports are presented. Provides more certainty that assurance is relevant & reliable Promote constructive challenge during meetings Strengthen accountability arrangements and the effectiveness of the Audit Committee	Reporting protocol developed	Audit and Risk Manager January 2015 **Revised date March 2015**
Undertake a skills and knowledge survey to review and establish any training and development needs as a whole Committee.	Enhance the effectiveness of the Audit Committee	Development of skills and knowledge survey	Audit and Risk Manager / KPMG February 2015

Action	Terms of Reference Outcome	Key Delivery Activities	Who by and When
Reviewing and encouraging transparency in partnership decision making. Understand and seek assurance over the governance and risks associated with our key partners.	Promoting Good Governance	Agree with Chairman when and how to include this on the agenda	Audit & Risk Manager **2015/16 Work Plan**
Facilitate risk management training and awareness for members and staff. To clarify the understanding of the level of risk the Council is prepared to accept across its key activities / business units.	Confidence that the risks management arrangements for the Council are operating effectively	Deliver risk management awareness session to the Audit Committee Deliver risk management training and awareness: • Thinking about Risk – risk culture and strategy • A practical guide to risk management	Audit & Risk Manager January 2015 Audit & Risk Manager January 2015 **Scheduled for March 2015**
Ensure that the 'independent' member is provided with same information as elected members	n/a	Confirm that independent member has: ~ access to GEORGE (intranet) ~ is included on Councillor circulation lists ~ is included on an Councillor briefing events	Audit & Risk Management November 2014 **Completed follow up March 2015**
How the Committee meets its terms of reference re: • Overview of the constitution • Monitoring the Council's complaint process	Enhance governance arrangements	Agree with Chairman when and how to include these agenda items **Revised date March 2015**	Audit & Risk Manager November 2014
Review of the Committee's Terms of Reference in light of revised CIPFA guidance	n/a	Agree with Chairman when and how to include this agenda item. **To be included in Work Plan 2015/16**	Audit & Risk Manager November 2014

Other areas that the Committee may wish to consider including within its work plan are:

- Compliance with the transparency code
- Outcome of whistleblowing commission