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County Offices
Newland
Lincoln
LN1 1YL

14 July 2017

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 24 July 2017 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), A J Spencer (Vice-Chairman), P E Coupland, A P Maughan, R B Parker, P A Skinner and A N Stokes

Voting Added Member

Mr P D Finch, Independent Added Person

AUDIT COMMITTEE AGENDA
MONDAY, 24 JULY 2017

Item	Title	Pages
1	**Apologies for Absence**	
2	**Declarations of Member's Interests**	
3	**Minutes of the Meeting held on 26 June 2017**	5 - 12
4	**Draft Statement of Accounts 2016/17** *(To receive a report from Claire Machej, Head of Finance (Corporate), which provides the Committee with the opportunity to consider the draft Statement of Accounts for Lincolnshire County Council for the financial year 2016/17)*	13 - 190
5	**Internal Audit Annual Report** *(To receive a report from Lucy Pledge, Audit and Risk Manager, which gives the Head of Internal Audit opinion on the adequacy of the Council's Governance, Risk and Control environment and delivery of the Internal Audit Plan for 2016/17)*	191 - 222
6	**Counter Fraud Annual Report 2016/2017** *(To receive a report from Dianne Downs, Team Leader – Audit, which provides information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviews the delivery of the 2016/17 counter fraud work plan)*	223 - 246
7	**Work Plan** *(To receive a report from Lucy Pledge, Audit and Risk Manager, which provides the Committee with information on the core assurance activities currently scheduled for the 2017/18 work plan)*	247 - 254

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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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www.lincolnshire.gov.uk/committeerecords

Lincolnshire COUNTY COUNCIL
Working for a better future

AUDIT COMMITTEE
26 JUNE 2017

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

Councillors A J Spencer (Vice-Chairman), P E Coupland, A P Maughan, R B Parker, P A Skinner and A N Stokes

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

Councillors: attended the meeting as observers

Officers in attendance:-

Rachel Abbott (Audit Team Leader), John Cornett (External Auditor, KPMG), Dianne Downs (Team Leader - Audit), David Forbes (County Finance Officer), Pete Moore (Executive Director, Finance and Public Protection), Mike Norman (External Auditor, KPMG), Lucy Pledge (Audit and Risk Manager), Heather Sandy (Chief Commissioning Officer for Learning), Pete Sidgwick, Fiona Thompson (Service Manager - People), Richard Wills (Executive Director, Environment and Economy) and Rachel Wilson (Democratic Services Officer)

Announcement by the Chairman

Members were advised that it was proposed to hold the annual training session on the Statement of Accounts separately to the meeting, on 17 July 2017. It was agreed that the meeting of the Audit Committee would still take place on Monday, 24 July 2017 as scheduled.

It was also agreed that this training should be opened up to all councillors.

1 APOLOGIES FOR ABSENCE

There were no apologies for absence.

2 DECLARATION OF MEMBERS' INTEREST

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

3 MINUTES OF THE MEETING HELD ON 27 MARCH 2017

RESOLVED

That the minutes of the meeting held on 27 March 2017 be received and signed by the Chairman.

4 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report which provided the Committee with details of the audit work undertaken during the period 12 March to 12 June 2017 and also advised on the completion of the 2016/17 Audit Plan and progress with the 2017/18 plan.

It was reported that during this period, 18 County audits had been completed, 7 to final report (including a consultancy assignment) and 10 to draft report stage as well as finalising 1 school audit. It was also noted that there were a further 6 audits in progress.

Members were advised that 3 final reports had been issued with limited assurance – HR Recruitment Processes in Schools; Adult Care Assessments and Heritage Site Financial Controls – and that senior managers would be in attendance for this item to answer any queries from the Committee and provide an update on progress since the audit was carried out.

It was acknowledged that the performance against timescales was quite disappointing, but some causal analysis had been carried out which had identified a number of factors both within and outside of the control of the Internal Audit Team. The Committee was advised that an action plan had been developed to address some of the identified issues. It was hoped that an improvement would be seen as the Team worked through the 2017/18 work plan.

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:

- Concerns were expressed regarding some of the language used in the executive summaries of completed audits which had received substantial assurance such use of the word 'adequate' as it was suggested that this did not reflect a high enough standard. Members were advised that words such as this were used differently in audit terminology, 'adequate' would reflect that required needs were being fulfilled. Officers agreed to take this point into consideration and would look at more consistent use of language.
- In relation to those audits given limited assurance, members were advised that senior officers would be in attendance at this meeting to provide an update on work carried out since the audits took place.
- It was queried whether officers were satisfied that the action plan put in place would lead to improvements in performance. Members were advised that officers were confident that there would be improvements, but were not certain that 100% would be achieved as there would always be factors which were outside the control of the team. It was noted that officers were working on some key areas of business, for example, on how meetings were scheduled, as there were often a lot of delays associated with the starting and finishing of the audit through not being able to get into senior officers diaries.
- It was noted that the indicator in relation to a draft report issued within 2 months of fieldwork commencing was an indicator which was added in by the Audit and Risk Manager to ensure that there was oversight of work underway.

- It was commented there was often the good intentions to do things, but the evidence was not always there and it was queried whether this needed to be an area of concern.
- In relation to the action plan for internal audit, it was queried when the 80% target would be achieved and whether this was realistic. Members were advised that the target was realistic when it was set, but there was an increasing complexity to the audits which were being carried out, and it was now more appropriate for officers to have longer to carry out the more complex work.
- In relation to the actual performance of 39% of the draft report issued within 2 months of fieldwork commencing, it was queried when it was thought that this performance would start improving. It was reported that an improvement was expected immediately and should be seen in the September progress report.
- It was queried whether the 39% performance was an indication of a training need and that managers needed to take requests for meetings with audit more seriously. Members were assured that officers did consider these requests as important. However, they were maybe not as important as other aspects of work.
- It was noted that some audits were more complex than others and so it would take more time to produce the draft report. There were also other times when a service area had had other priorities and so the timeline had slipped. It was suggested that this may be something that the Executive Directors would need to discuss with senior managers.
- It was also noted that a lot of time was lost as meetings would be regularly cancelled and rearranged without being escalated. When there was a difference of opinion between management and audit, this could also cause delays. It was suggested that there may be scope for interim recommendations and action plans to be presented to the Committee before the final report was signed off.
- It was suggested that this could be an opportunity for the Audit and Risk Manager to express the disappointment of the Audit Committee to senior managers, and advise that the Committee thought more priority needed to be given to meetings with internal audit. It was also noted that there had been some turnover and reduction of senior managers which may have had an impact. It was important to help senior managers to see Audit in a different light.
- Members were reassured that senior managers did not perceive the Audit Committee as being there to catch them out.

HR Recruitment Processes in Schools (Fiona Thompson – Service Manager, People Management and Heather Sandy – Chief Commissioning Officer, Learning were in attendance)

- Following the audit, the management team completed a detailed policy review to clarify the guidance to schools.
- The majority of communication with schools took place in September, and it was planned to share the revised policy with schools during this time, it would also be reiterated through the head teacher briefings.

- It was reported that a self-audit tool was being developed which schools would be requested to complete.
- Managers had liaised with those schools where issues had been identified, and a further audit was planned for spring/summer 2018.
- Concerns were raised that it could take time for the message about the revised guidance to get through to all schools as the authority was a large organisation.
- Members were advised that Ofsted had recently inspected the employment processes of 54 schools as part of the schools inspection framework and no concerns had been raised.
- It was noted that it was important that the Council worked with Serco around the contract that they sold to schools, and the minimum standards which were expected in the contract schools could buy from Serco.
- The Council did not have oversight of the employment and recruitment processes in academies. It could only intervene in those academies where there were safeguarding issues which had been referred through the designated officer to the County Council.
- It was queried whether there was any way of asking schools to acknowledge receipt of the communication regarding recruitment processes. Members were informed that the leadership from the Head Teachers and governors would be key in moving forward.
- It was noted that there had been significant changes in schools HR legislation in recent years, which was where some of the gaps had occurred, and now officers were ensuring that head teachers were responding to these changes.
- Members were advised that requirements around DBS had changed, and currently 98% of DBS checks were in place. It was noted that the system for registering was not very user friendly. There had also been an extensive turnover of staff within schools including new administrative staff.
- It was confirmed that the sample size for the audit had been 19 schools.
- In relation to the proposed self-assessment, it was queried whether schools would need to have an evidence base so it did not become a 'box ticking' exercise. Members were advised that the self-assessment would be a rigorous process and uploading it would be the job of the school governors as they would be looked upon to provide challenge where necessary.
- Concerns were raised that the authority had responsibility for something that was not completely visible, and it was queried what assurance there was that checks were now being undertaken properly. Members were advised that officers had gone back to those schools where issues had been identified to ensure that the right check and policies were in place. It was also clarified that the Council was not responsible for recruitment checks in schools. However, what the authority needed to do was assure itself that the risks were being managed, the responsibility and accountability were with the head teachers and governors.
- It was requested that an update on this be brought back in six months.
- Members were assured that work would be put in place to follow up on those schools where problems were identified.
- If the self – audit tool was to be sent out in September, it was queried whether the committee could be updated on how many schools had completed it.

Heritage Sites (Will Mason, County Heritage Manager was in attendance)

- The service was in the process of making a lot of changes, including staffing changes which should lead to improvements in the future.
- The audit identified that stock management was one area where more could be done.
- A risk register for heritage sites had now been set up
- It was queried whether there were targets in relation to money and balancing expenditure with income. Members were advised that previous years had been looked at in terms of setting targets, however, with the recent re-launch of the castle there has not yet been a typical year, and with a programme of events for coming years this target would be difficult to set. There would be a need to review this over a slightly longer term basis, but it would be about stretching these targets and identifying where costs could be controlled.
- It was queried whether officers were looking robustly at cost control and food wastage, as food outlets always had problems with people over ordering food stock.
- It was reported that the area of most risk was Lincoln Castle, and so an external stock taker had been brought in on a temporary basis. There was a need for simple and robust processes for stock management.

Adult Care – Initial and Annual Care Assessments (Pete Sidgwick, Assistant Director – Adult Frailty and Long Term Conditions was in attendance)

- In relation to the potential key risks which were identified for this audit, it was reported that targets had been put in place which were stretching targets. It was also noted that there was no evidence that the service was not hitting the target for the 6-8 week review.
- The new IT system Mosaic would help managers to manage information better and then be able to log where gaps were occurring
- Members were advised that there were activities that officers needed to prioritise, and there was also a limited workforce. Members were advised that the assessments were being undertaken, but they were not always recorded on the system.
- Concerns were raised about whether assessments were being recorded as carried out on the system.
- It was highlighted that one of the key controls was policies and processes, and that the audit was not just looking for a box to tick, but what management oversight there was.
- It was noted that it was planned to schedule an audit of the Mosaic system.
- It was commented that this Committee was not assured that the risks were being managed, and it was queried when internal audit would be able to come back to this Committee and give assurance. Members were advised that a revised opinion should be able to be given when the audit of Mosaic had been carried out.
- It was suggested that it seemed appropriate that Glen Garrod, Executive Director Adult Care and Community Wellbeing should be asked to attend a future meeting of the Committee

- Members were informed that there would not be any other authority which would achieve 100% in terms of 12 month and 28 days assessments. What was needed was to decide what level of performance was acceptable.

RESOLVED

1. That an update on HR Recruitment Processes in schools be brought back to the Committee in six months.
2. That the Executive Director for Adult Care and Community Wellbeing be asked to attend the Committee in relation to the Adult Care – Initial and Annual Care Assessments audit to provide assurance that risks were being managed.

5 EXTERNAL AUDIT: PROGRESS REPORT AND TECHNICAL UPDATE

Consideration was given to a report from KPMG which provided the Audit Committee with an overview on progress on delivery of their responsibilities as the Council's external auditors.

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

- It was queried how confident KPMG were that the accounts would be completed on time, and it was reported that at this time the previous year the external auditors had been flagging up issues around the Council's ability to produce a set of accounts. The external auditors were not flagging up any concerns at this stage for this year.
- It was commented that it was important that the right opinion was given rather than getting it completed on time.
- It was noted that there were improvements in the accounts payable, but there were still issues with payroll.
- It was recognised that there were still some issues around systems controls, but these more on a systems basis than the scale of errors.
- It was reported that the Council was still going through management discussions in relation to the opinion, and the control regime transactions were being tested.

RESOLVED

That the progress report presented be received.

6 DRAFT COUNTER FRAUD WORK PLAN

Consideration was given to a report which provided the Committee with information on the proposed Counter Fraud activities for 2017/18 and the draft Counter Fraud work plan.

On consideration of the draft Counter Fraud Work Plan for 2017/18, members commented that they were assured that the authority was following good procedures.

It was also noted that there had been a successful prosecution of a case which had been to court the previous Friday.

RESOLVED

That the Counter Fraud Work plan for 2017/18 be approved as presented.

7 REVIEW OF GOVERNANCE FRAMEWORK & DEVELOPMENT OF ANNUAL GOVERNANCE STATEMENT 2017

Consideration was given to a report which provided the Committee with an opportunity to consider and approve the Annual Governance Statement (AGS) 2017. It was reported that the Council was required to reflect on how well the Council's governance framework had operated during the year and identify any governance issues that needed to be drawn to the attention of Lincolnshire's residents.

Members were advised that good governance underpinned everything that the Council did and how services were delivered often came under close scrutiny. A 'good' Annual Governance Statement was an open and honest self-assessment of how well the Council had run its business across all activities with a clear statement of the actions being taken or required to address any areas of concern.

The 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:

- Work had been carried out to make the AGS more readable in plain English.
- Several issues had been identified as needing a watching brief, but they were not significant issues.
- In relation to the overall assurance status for 2015/16 and 2016/17 (as listed on p.105 of the report) it was queried whether a lower level of assurance would be offered for 2016/17, and members were advised that this was correct.
- The effective implementation of Agresso was given very low assurance last year, but improvements were being seen in some areas but not others.
- Each risk was very different in its nature and control regime. For example, safeguarding would always be an amber risk, but there was substantial assurance that risks were being managed and controls were in place. It was suggested whether including a link to the risk register in the Statement would be helpful, and members agreed that it would be.
- It was queried whether the Effective implementation of Agresso system – finance and HR systems risk could be separated out as the problems in the HR systems were being hidden by the improvements on the finance side.
- It was noted that the resilience and business continuity was an emerging risk and so had a watching brief. It was commented whether, in light of events which had happened in London in recent months, there was a need for some assurance that any lessons learned were being taken account of. Members were advised that checks were being made on all buildings and schools, and so far no safety issues had been identified. It was also reported that the

Emergency Planning Team had been instructed to look at the lessons learned following the Grenfell Tower fire, and Lincolnshire's emergency planning approach was far ahead of what had been seen in some other areas. it was queried whether, as this was now a national issue whether it needed to be include in the Statement, however, members were advised that officers would prefer to review this in due course as there would be some very significant issues for some authorities.

- It was clarified that the section in relation to Managing Our Resources (Value for Money) would need to be completed before the external auditors could issue their opinion.

RESOLVED

1. That the contents of the Annual Governance Statement 2017 accurately reflected how the Council was run
2. That the Statement included the significant governance issues/key risks the Committee would expect to be published
3. That officers look into whether the risk in relation to the Effective Implementation of Agresso system – Finance and HR systems could be separated to reflect the improvements in the finance systems.

8 WORK PLAN

The Committee received a report which provided information on the core assurance activities currently scheduled for the 2017/18 work plan.

It was clarified that the External Audit Plan due to be submitted to the Committee at its meeting on 26 March 2018 would be the 2017/18 plan rather than the 2018/19 plan as stated in the report.

It was also noted that Glen Garrod, Executive Director for Adult Care and Community Wellbeing would be requested to attend the meeting in July 2017, and the Audit and Risk Manager would contact him regarding getting assurance in relation to the audit carried out on Adult Care – Initial and Annual Care Assessments.

The Chairman advised that the draft Annual Report on the work of the Audit Committee would cover the last six months' work of the Committee. The report would come to this Committee for comments and approval and would then be submitted to Full Council in September 2017.

RESOLVED

1. That the actions identified in the Action plan be agreed.
2. That the Executive Director Adult Care and Community Wellbeing be asked to attend the meeting of the Committee scheduled to take place on 24 July 2017 in relation to the Audit on Adult Care – Initial and Annual Assessments.

The meeting closed at 12.30 pm

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:	**24 July 2017**
Subject:	**Draft Statement of Accounts 2016/17**

Summary:

The draft Statement of Accounts for Lincolnshire County Council for the financial year 2016/17 is attached to this report (APPENDIX A). Members of the Audit Committee are asked to scrutinise and comment on the draft Statement of Accounts. The final Statement of Accounts for 2016/17 will be presented to the Audit Committee in Spetember for approval.

Actions Required:

Members of the Audit Committee are asked to scrutinise and comment on the draft Statement of Accounts, within the framework set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and other statutory guidance.

1. Background

1.1 The County Council prepares its annual Statement of Accounts in line with the proper accounting practices required by section 21(2) of the Local Government Act 2003 and set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

1.2 In addition to this guidance the County Council's accounts are prepared using the accounting policies set out at note one on pages 18 to 37 of the accounts. The accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are reflected in the Statement of Accounts. These policies are reviewed annually to ensure they remain current and were reported to this committee at its meeting on 27 March 2017.

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

1.4 Councillors may wish to initially focus on the Narrative Report in 2016/17 on pages 3 to 12. This attempts to provide a straight forward overview of the Council's financial health and performance and highlights the significant areas of financial activity during the year.

1.5 Councillors should note that separate reporting takes place on expenditure incurred over 2016/17 relative to the approved budget. This review of financial performance has been considered by the Overview and Scrutiny Management Board on 29 June and presented to Executive on 4 July. Recommendations arising in terms of the treatment and use of over and underspendings was considered by full Council on 21 July.

2. Conclusion

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

2.2 The statements are subject to external audit and the Council's External Auditor (KPMG) will give an opinion on whether the accounts give a 'true and fair' view. The results of the external audit will be reported back to the Audit Committee in September. The Audit Committee will then be asked to approve the final Statement of Accounts for 2016/17.

2.3 The accounts and supporting information are available for inspection by the public during the period 3 July 2017 to 11 August 2017 inclusive.

3. Consultation

a) Have Risks and Impact Analysis been carried out??

No

b) Risks and Impact Analysis

N/A

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Statement of Accounts 2016/17

5. Background Papers

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

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

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Lincolnshire County Council
Statement of Accounts
2016-17

Contents

Narrative Report

Introduction to the Accounts

The Statement of Accounts for the year 2016-17 is set out on pages 13 to 17.

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

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

Content

The Statement of Responsibilities for the Statement of Accounts

This details the financial responsibilities of the Council and the Executive Director – Finance & Public Protection.

Review of 2016-17 (Narrative Statement)

This provides a general introduction to the Accounts, initially focusing on explaining the more significant features of the Council's financial activities during the period 1 April 2016 to 31 March 2017, followed by a review of non-financial performance indicators and an assessment of future financial and economic developments that could affect the Council. Together these statements provide evidence of the economy, efficiency and effectiveness of the Council's use of resources over the financial year.

Expenditure and Funding Analysis for the period 1 April 2016 to 31 March 2017

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates, services and departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Comprehensive Income and Expenditure Statement for the period 1 April 2016 to 31 March 2017

The Comprehensive Income and Expenditure 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 statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Movement in Reserves Statement for the period 1 April 2016 to 31 March 2017

The Movement in Reserves Statement shows the movement from the start of the year to the end 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 'unusable reserves'. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and movement in the year following those adjustments.

Balance Sheet as at 31 March 2017

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 is 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 2016 to 31 March 2017

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.

Audit Opinion

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

Annual 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.

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 scheduled and 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.

Executive Director – Finance and Public Protection Review of 2016-17

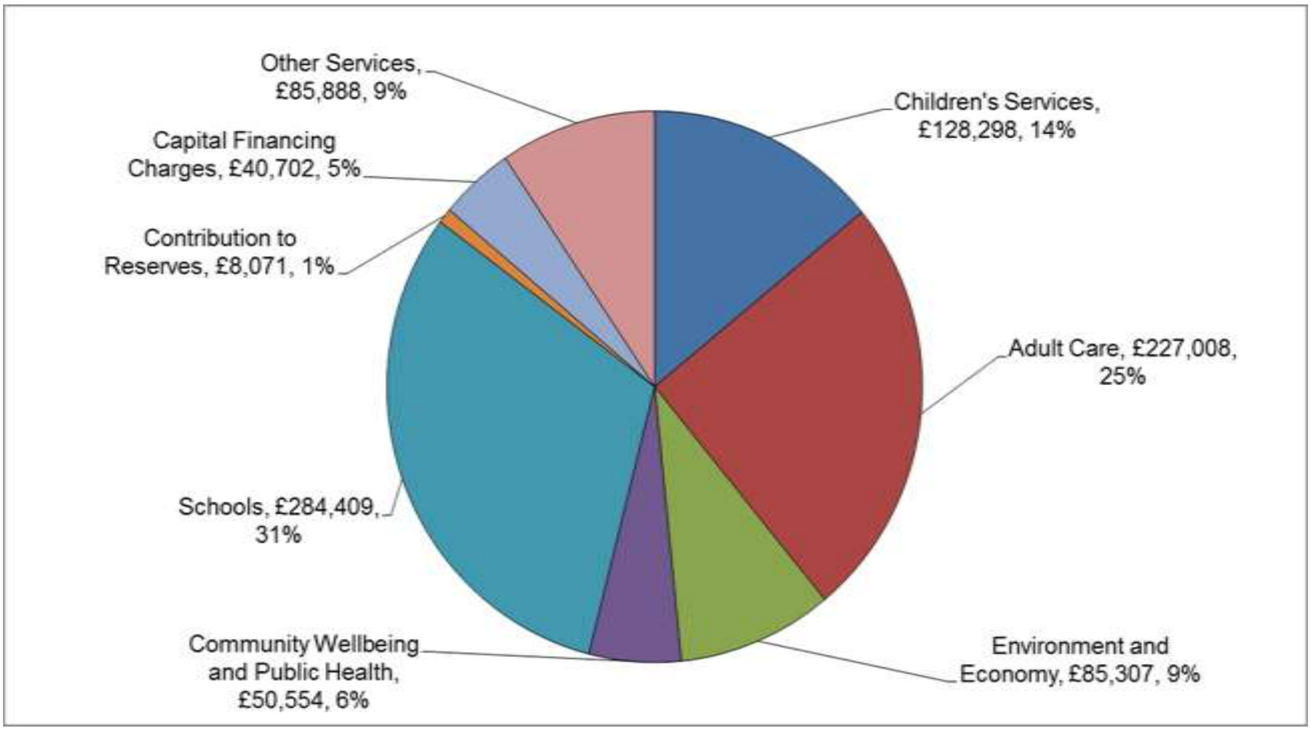
The County Council set its spending plans for 2016-17 against a backdrop of continued significant reductions in government funding, growing cost pressures from demand led services such as adult and children's social care, waste disposal and the Council's responsibility to pay the National Living Wage. In developing its financial plan the Council considered all areas of current spending to identify cost pressures which must be funded and savings which could be made, through efficiencies and by reducing the level of service provided. The budget proposals also included an increase in Council Tax levels of 3.95% (1.95% general increase, plus 2.00% for Adult Social Care Services) and one off use of reserves.

Annual Revenue Spending

The Council spent £910.237m in 2016-17 on providing public services – £1,244.34 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.

Gross Expenditure Service Analysis £'000k (£910,237k)



Children's Services Includes: Readiness for School, Learn and Achieve, Children are Safe & Healthy and Readiness for Adult Life.

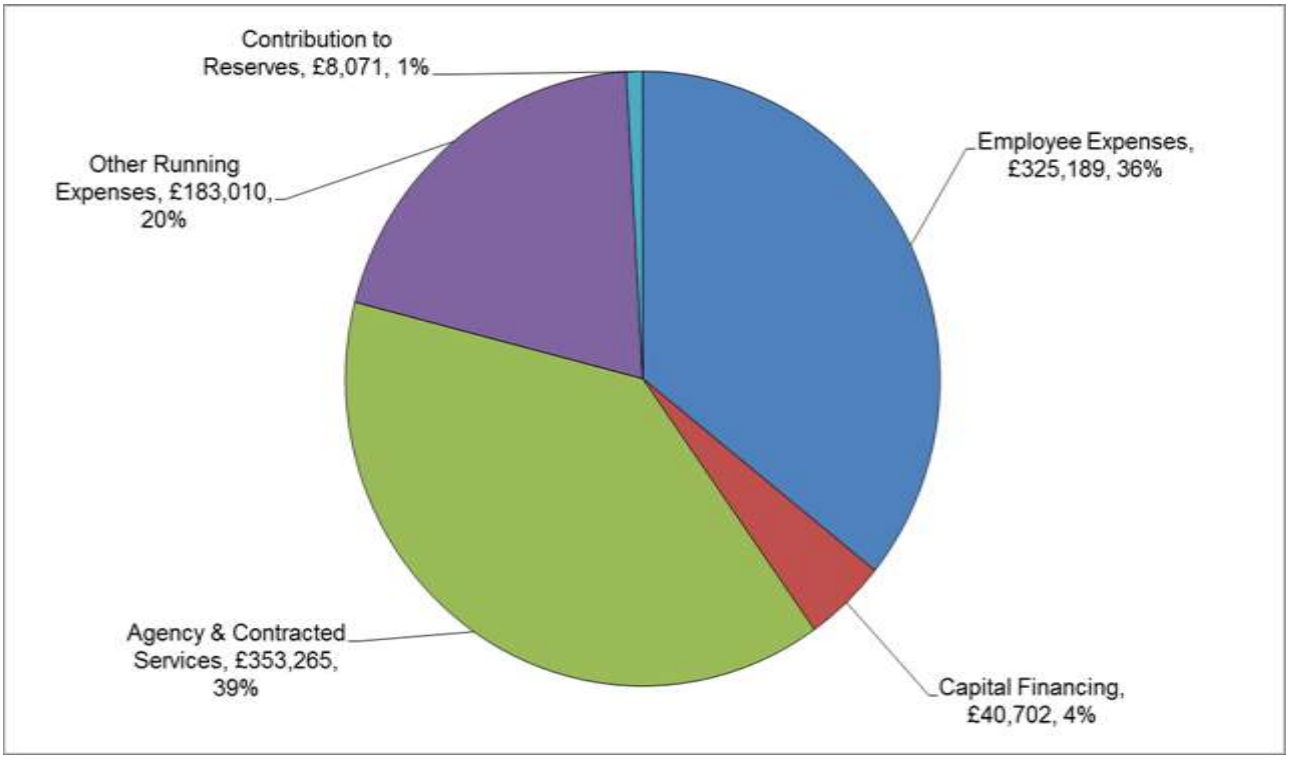
Adult Care Includes: Adult Safeguarding, Adult Frailty, Long Term Conditions and Physical Disability, Carers and Adult Specialities.

Community Wellbeing and Public Health Includes: Community Resilience & Assets and Wellbeing.

Environment and Economy Includes: Sustaining & Developing Prosperity Through Infrastructure, Protecting & Sustaining the Environment and Sustaining & Growing Business & the Economy.

Other Services Includes: Protecting the Public, How We Do Our Business and Enablers & Support to Council Outcomes, Contingency Budgets, Transfer to/from Earmarked Reserves and General Reserves.

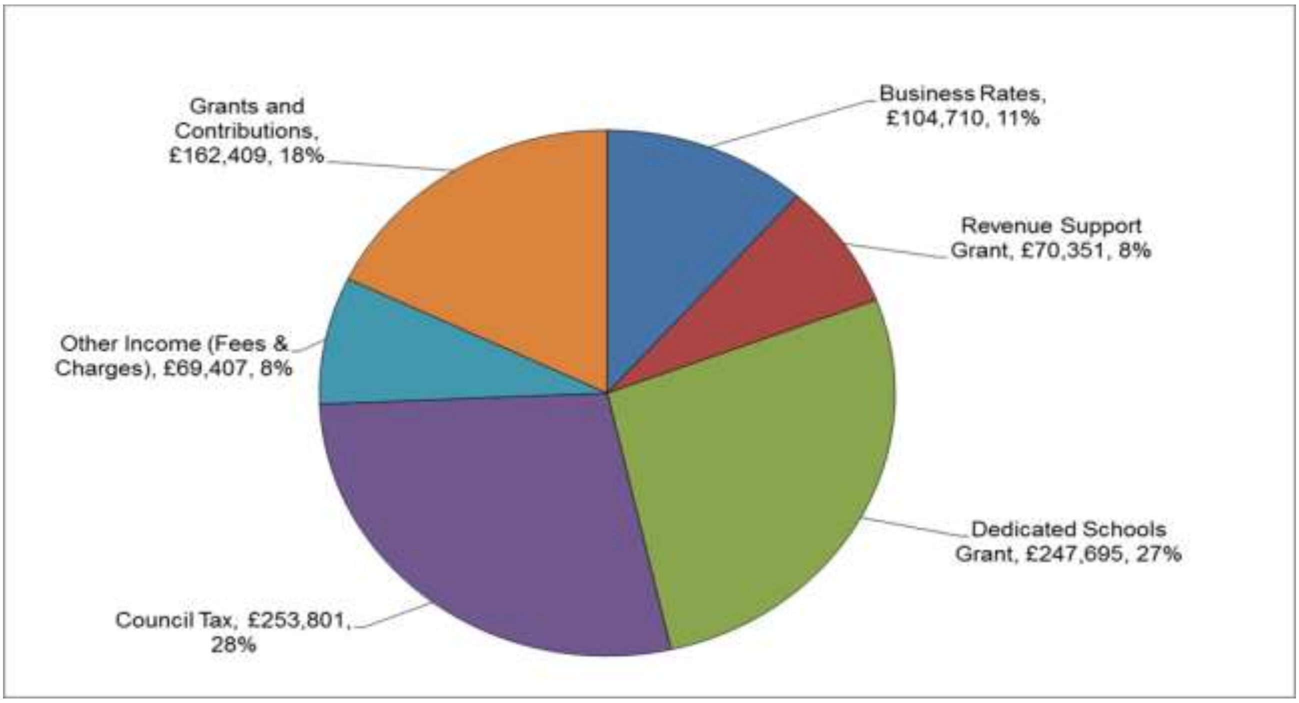
Gross Expenditure Subjective Analysis £'000k (£910,237k)



The distribution of expenditure type differs significantly between different services. For example employee expenses compromises 61% of budgeted expenditure in schools, for other (non-schools) budgets it is only 25% of expenditure and contract payments comprises 55% of total expenditure. These differences reflect how Council services are provided.

Annual income

The Council's revenue spending was funded by:



In 2016-17 the Council increased Council Tax by 3.95% and also saw growth of 2.34% on the number of band D equivalent properties in Lincolnshire. This in total generated an additional income for the Council of £14.886m. The Council Tax collection funds in Lincolnshire also generated a surplus in 2016-17, of a further £5.609m to the County Council.

Business Rates generated £104.710m. This is made up of a number of elements, £18.693m collected from businesses in Lincolnshire, £82.427m received as a top up from central government, £2.458m as section 31 compensation grants for relief's offered by central government to businesses and an estimated £1.132m from the County Council pooling with six of the Lincolnshire District Councils.

Funding from Revenue Support Grant (RSG) in 2016-17 has provided the County Council with £70.351m. The value of this grant continues to fall. On a like for like basis this has decreased by £27.578m or 28.2% from the grant received in 2015-16.

In addition to RSG the Council also receives specific government grants. The most significant of these was £247.695m of Dedicated Schools Grant which is used for funding education in Lincolnshire and £31.371m for Public Health Grant.

Revenue Outturn

The revenue budget outturn for 2016/17 is summarised below:

- Total service revenue spending, excluding schools, was under spent by £7.006m or 1.7%.
- Schools were underspent by £12.683m or 5.1% of the schools budget.
- Other Budgets underspent by £24.681m or 35.9%.
- The Council received £1.574m or 0.4% more general funding income than originally budgeted for.
- This gives the Council an overall underspend of £45.944m.

The table below shows the outturn of expenditure in 2016-17 compared with the budgets approved by the Council:

	Revised Net Revenue Budget £'000	Expenditure £'000	Under or Over Spending £'000	Percentage Under or Over Spent %
COMMISSIONING STRATEGIES				
Readiness for School	5,308	**5,090**	(218)	(4.1)%
Learn & Achieve	34,237	**35,205**	968	2.8%
Readiness for Adult Life	4,367	**5,081**	714	16.4%
Children are Safe and Healthy	65,635	**63,866**	(1,769)	(2.7)%
Adult Safeguarding	2,295	**2,571**	276	12.0%
Adult Frailty & Long Term Conditions	95,249	**94,097**	(1,152)	(1.2)%
Carers	2,247	**2,225**	(21)	(1.0)%
Adult Specialities	51,099	**51,478**	379	0.7%
Wellbeing	30,744	**30,764**	20	0.1%
Community Resilience & Assets	11,907	**11,567**	(340)	(2.9)%
Sustaining & Developing Prosperity Through Infrastructure	45,226	**44,584**	(642)	(1.4)%
Protecting & Sustaining the Environment	23,103	**22,869**	(234)	(1.0)%
Sustaining & Growing Business & the Economy	1,462	**1,211**	(251)	(17.2)%
Protecting The Public	23,240	**23,034**	(205)	(0.9)%
How We Do Our Business	8,409	**7,803**	(606)	(7.2)%
Enablers & Support To Council's Outcomes	37,184	**33,260**	(3,924)	(10.6)%
Public Health Grant Income	(34,371)	**(34,371)**	0	0.0%
Enablers & Support To Key Relationships (Devolution)	20	**20**	(0)	(0.0)%
TOTAL COMMISSIONING STRATEGIES	**407,362**	**400,355**	**(7,006)**	**(1.72)%**
Other Budgets	68,711	**44,030**	(24,681)	(35.92)%
Schools Budgets (Other Funding)	10,240	**(2,443)**	(12,683)	(123.86)%
TOTAL EXPENDITURE	**486,312**	**441,942**	**(44,370)**	**(9.12)%**
TOTAL INCOME	**(448,440)**	**(450,014)**	**(1,574)**	**0.35%**
TOTAL USE OF RESERVES	**(37,872)**	**(37,872)**	**0**	**(0.00)%**
TOTAL	**(0)**	**(45,944)**	**(45,944)**	

Significant variances include:

- Children are Safe and Healthy (£1.769m underspend) due to: a delay in the development and therefore operation of four additional disabled children's beds at the Beacon, plus a fall in legal and insurance costs and some staff vacancies;
- Adult Frailty and Long Term Conditions (£1.152m underspend) due to: a reduction in the number of homecare hours, increased service user income and some staff vacancies in the performance, brokerage and quality assurance team;
- Enablers and Support to Council's Outcomes (£3.924m underspend) due to: Serco abatement contract performance penalties, staffing vacancies in business support and commissioning, and additional income generated by legal shared services;
- Other Budgets (£24.681m underspend). Capital financing charges were underspent by £16.009m due to the change in calculating minimum revenue provision from 2016-17, use of internal borrowing and slippage in the capital programme. Additionally, at the end of the

year £1.840m of the Council's contingency remained unused as did the £4.681m corporate national living wage budget.
- Schools Budgets (£12.683m underspend). Schools budgets are ring-fenced and carried into the next financial year for schools.

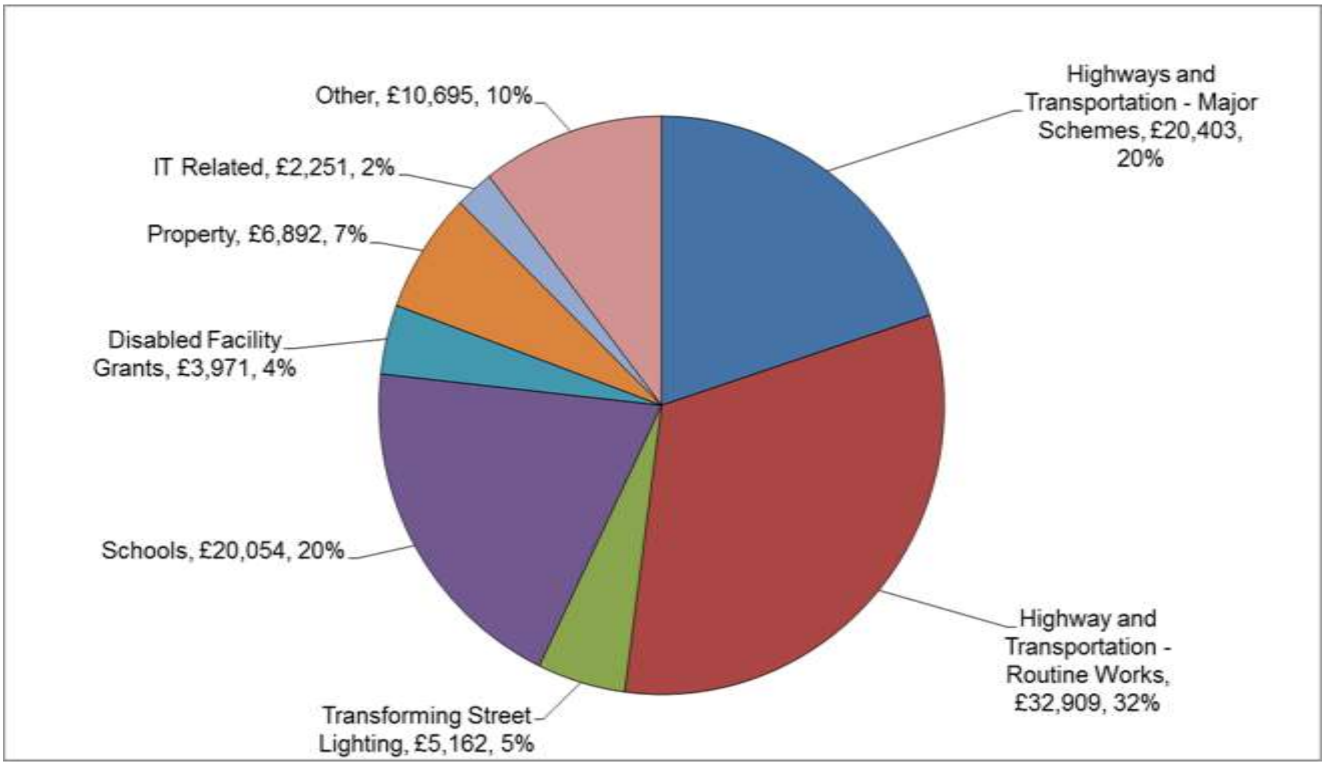
Further information on revenue budget spending and outturns can be found in the Review of Financial Performance 2016-17, which is available on the Council's website.

Investment in Major Projects

The Council spent £102.337m on the County's assets, in particular on roads and schools. The net capital spend was £38.320m which was £37.990m or 49.8% under budget. Explanations of the variances can be found in the Council's Review of Financial Performance Report for 2016-17.

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

Gross Expenditure on Major Investment Projects £'000k (£102,337k)



Other includes: Adults Care, Fire and Rescue and Protecting & Sustaining the Environment.

In 2016-17 expenditure was incurred on the following schemes:

- Maintenance of roads, bridges, safety fencing, street lighting, signs and lines, and traffic signals;
- Integrated Transport Schemes across the Council including: minor capital improvements, rights of way, road safety, public transport and town/village enhancements;
- Construction of three new road schemes, two in Lincoln and another in Grantham;
- A programme to integrate new technology into Street Lighting; and
- Programme of modernisation to meet the statutory responsibility for provision of educational places and a programme to improve the condition of school buildings.

The Council has received grants from central government and other bodies (£83.6m) to fund: maintenance work on roads, the Council's programme of modernisation and improvement of condition of school buildings and provision of education places. £15.3m of funding for the capital programme came from temporary internal and external borrowing and £3.0m from revenue funding and use of earmarked reserves.

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 2016/17 was 5.27%. 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.

Cash Flow

The major influences on the authority's cash position are the level of reserves held and the impact of the capital programme. The Council holds net current assets of £186.9m (£152.0m at 31 March 2016). Although the Council holds a negative cash balance of £18.5m at 31 March 2017, this is covered by short term investments and the overall situation is managed as part of the pooling arrangements with the County Pension Fund. The net current assets are primarily generated by the level of reserves held by the council.

The Council has a long history of producing balanced budgets over time as evidenced by the level of usable reserves held. The most significant challenge to this position is the Government's plan for fiscal consolidation which will result in reduced Government Grant funding in future years. In meeting this challenge the Council's budget for 2016-17 plans for £20.165m to be released from reserves.

The Council's decisions on capital spending are taken in the light of the impact on the revenue budget and corresponding borrowing limits. The impact of the capital programme on cash flow is therefore minimised by the use of borrowing, however, the authority does make use of its available net current asset position by avoiding external borrowing where appropriate. Historic use of such "internal borrowing" is primarily reflected in the difference between usable reserve and net current assets. The capital programme spend of £102.3m in 2016-17 is mainly financed by Government Grants and contributions of £83.6m or 81.8%. Any future reductions in the availability of this funding may therefore restrict the Council's ability to undertake new large scale projects.

The Council's Pension Fund liability

The Local Government Pension Scheme and the Fire-fighters' Pension Scheme both have a liability balance at year end. That is, the present value of fund obligations exceeds the fair value of employer assets in the fund. The total reported pension liability of the two schemes (which is off set in the Balance Sheet by the Pensions Reserve) has increased over the past year from £745.6m to £870.7m.

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.

Financial health and performance

The Council's revenue budget remains under pressure from reduced funding and service cost pressures. For 2017-18 the Council has again only set a one year budget, rather than the normal three year plans. Further work is required for the Council to develop long term sustainable budget plans.

In developing the financial plan for 2017-18, the Council has considered all areas of current spending, levels of income and council tax plus use of one off funding to set a balanced budget. The Council continues to plan to use a mixed approached, funding unavoidable cost pressures and reducing service spending where savings were identified. The Council has also set a Council Tax increase in 2017-18 of 3.95%, 1.95% general increase plus a further 2.00% for Adult Care responsibilities (including demographic pressure and the impact of the national living wage) and using £17.970m from reserves (£17.870m from the Financial Volatility Reserve and £0.100m which can be released from the general fund).

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 2017, as proposed in this report, would be £15.300m 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 mixed approach to meeting the current financial challenges will ensure the Council can withstand the immediate pressures in local government funding, whilst implementing the arrangements for delivering services at the reduced level of government funding.

<u>Economic Climate and future revenue and capital budgets and future financing</u>

The finance settlement from government for 2017-18 places additional funding pressures on the County Council when compared to 2016-17 - Revenue Support Grant reduces by £22.1m (31.4%) between the two years. Current indications are that further significant reductions in RSG will continue until at least the end of decade. In preparation for further funding reductions; the Council has undertaken review of its service priorities and related budgets.

This has already identified significant savings will need to be delivered over the next two years, but more work needs to be done in the coming year to ensure the Council can optimise its service delivery within the available funding. In the short term, extensive use of earmarked reserves will be made to smooth the transition to a new service delivery model. 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 decision to leave the European Union and recent parliamentary elections will have both long and short term consequences for the UK economy. It is too early to assess how this might impact on the Council at this stage.

<u>Non Financial Performance Indicators</u>

In 2016 the Council published a Business Plan for the period 2016-17 to make sure services are delivered that meet priorities for the people of Lincolnshire. The Business Plan includes a range of measures and a number of related targets, that will help indicate whether the Council is on track to meet the outcomes in its commissioning strategies. Of the 17 commissioning strategies reported for 2016-17:

- 7 have performed really well (all measures achieved);
- 5 have performed well (all but 1 measure achieved); and
- 5 have had mixed performance (some but not all measure have been achieved).

Further information on the Councils performance can be found in the Council Business Plan 2016-17 Performance Report which is available on the Council's website.

Like all large and complex organisations, the Council has 'risks' that could prevent us from achieving our aims. The Council monitors these strategic risks on an on-going basis as part of the risk management approach which also looks at opportunities that may arise. The strategic risk register in 2016-17 contains 11 risks. Over the period of 2016-17, 6 of these risks had limited assurance, these include: recruitment and staffing and ensuring strategic contracts are fit for purpose.

Further information on the Councils risks can be found in the Risk Management Progress Report, which is available on the Council's website.

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities are 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 Statement of Accounts were be approved at a meeting of Lincolnshire County Council Audit Committee in September 2017 and signed below by the Chair of Audit Committee:

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

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 this 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 2017 and of its expenditure and income for the year ended on that date.

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

Lincolnshire County Council: Movement: Expenditure and Funding Analysis for the period 1 April 2016 to 31 March 2017

2015/16				2016/17		
Net Expenditure chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
			COMMISSIONING STRATEGIES			
7,673	584	8,257	Readiness for School	5,090	462	5,552
35,764	462	36,226	Learn and Achieve	35,205	274	35,479
5,633	1,156	6,789	Readiness for Adult Life	5,081	932	6,013
54,263	2,300	56,563	Children are Safe and Healthy	63,866	1,683	65,549
3,018	91	3,109	Adult Safeguarding	2,571	42	2,613
95,647	1,244	96,891	Adult Frailty and Long Term Conditions	94,097	(952)	93,145
1,735	8	1,743	Carers	2,225	3	2,228
44,941	577	45,518	Adult Specialties	51,478	675	52,153
13,943	1,775	15,718	Community Resilience and Assets	11,567	1,876	13,443
35,931	(372)	35,559	Wellbeing	30,764	486	31,250
56,965	40,746	97,711	Sustaining and Developing Prosperity through Infrastructure	44,584	41,467	86,051
23,610	7,666	31,276	Protecting and Sustaining the Environment	22,869	11,136	34,005
1,206	21	1,227	Sustaining and Growing Business and the Economy	1,211	1,557	2,768
24,713	7,023	31,736	Protecting the Public	23,034	7,192	30,226
8,309	(70)	8,239	How we do our Business	7,803	(240)	7,563
35,139	9,870	45,009	Enablers and Support to Council's Outcomes	33,260	7,725	40,985
0	0	0	Enablers and Support to Key Relationships	20	2	22
(30,723)	0	(30,723)	Public Health Grant	(34,371)	0	(34,371)
58,040	(46,971)	11,069	Other Budgets	44,030	(35,435)	8,595
(3,445)	41,765	38,320	Schools Budgets	(2,443)	36,900	34,457
472,362	**67,875**	**540,237**	**Net Cost of Services**	**441,943**	**75,784**	**517,726**
(452,538)	21,396	(431,142)	Other Income & Expenditure	(450,014)	(37,033)	(487,046)
19,824	**89,271**	**109,095**	**(Surplus)/Deficit**	**(8,071)**	**38,751**	**30,680**
(19,524)			Movement to/(from) Earmarked Reserves	**8,371**		
300			**(Surplus) or Deficit on General Fund Balance**	**300**		
15,900			Opening General Fund balance at 1 April 2016	15,600		
(300)			Less Deficit on General Fund in Year	(300)		
15,600			**Closing General Fund balance at 31 March 2017**	**15,300**		

Lincolnshire County Council: Comprehensive Income and Expenditure Statement for the period 1 April 2016 to 31 March 2017

2015/16					2016/17		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Note	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			Cost of Services				
8,319	(62)	8,257	Readiness for School		5,604	(53)	5,552
40,452	(4,226)	36,226	Learn and Achieve		39,377	(3,898)	35,479
10,683	(3,894)	6,789	Readiness for Adult Life		9,889	(3,876)	6,013
68,097	(11,534)	56,563	Children are Safe and Healthy		76,778	(11,228)	65,550
3,212	(103)	3,109	Adult Safeguarding		3,205	(592)	2,613
159,447	(62,556)	96,891	Adult Frailty and Long Term Conditions		148,043	(54,898)	93,145
1,843	(100)	1,743	Carers		2,345	(117)	2,228
72,873	(27,355)	45,518	Adult Specialties		78,055	(25,901)	52,153
16,637	(919)	15,718	Community Resilience and Assets		14,009	(566)	13,443
45,936	(10,378)	35,558	Wellbeing		38,907	(7,657)	31,250
109,997	(12,285)	97,712	Sustaining and Developing Prosperity through Infrastructure		96,141	(10,090)	86,051
32,539	(1,263)	31,276	Protecting and Sustaining the Environment		35,925	(1,920)	34,005
5,956	(4,729)	1,227	Sustaining and Growing Business and the Economy		8,109	(5,341)	2,768
37,086	(5,350)	31,736	Protecting the Public		36,157	(5,931)	30,226
8,977	(738)	8,239	How we do our Business		8,164	(601)	7,563
57,358	(12,349)	45,009	Enablers and Support to Council's Outcomes		47,240	(6,255)	40,985
0	0	0	Enablers and Support to Key Relationships		87	(65)	22
0	(30,723)	(30,723)	Public Health Grant		0	(34,371)	(34,371)
11,438	(369)	11,069	Other Budgets		12,636	(4,041)	8,595
328,141	(289,821)	38,320	Schools Budgets		322,458	(288,000)	34,457
1,018,993	**(478,754)**	**540,239**	**Cost of Services**		**983,128**	**(465,402)**	**517,727**
57,145	0	57,145	Other Operating Expenditure	(11)	25,322	-	25,322
49,047	(8,037)	41,011	Financing and Investment Income and Expenditure	(12)	44,143	(4,308)	39,835
0	0	0	Surplus or Deficit on Discontinued Operations	(30)	0	0	0
0	(529,297)	(529,297)	Taxation and Non-Specific Grant Income	(13, 39)	0	(552,204)	(552,204)
1,125,185	**(1,016,088)**	**109,098**	**(Surplus)/Deficit on Provision of Services**		**1,052,593**	**(1,021,914)**	**30,680**
		(53,864)	(Surplus)/Deficit on Revaluation of Property, Plant and Equipment Assets	(26)			(19,604)
		(204)	(Surplus)/Deficit on Revaluation of Available for Sale Financial Assets				(293)
		(185,347)	Remeasurement of the Net Defined Benefit Liability/(Asset)	(26)			94,111
		49	Other Recognisable (Gains)/ Losses				292
		(239,366)	**Other Comprehensive Income and Expenditure**				**74,506**
		(130,268)	**Total Comprehensive Income and Expenditure**				**105,186**

Lincolnshire County Council: Movement in Reserves Statement for the period 1 April 2016 to 31 March 2017

2016/17		Total Usable Reserves					
		General Fund Balance	Earmarked GF Reserves (Note 10)	Capital Grants Unapplied	Total Usable Reserves (Note 25)	Unusable Reserves (Note 26)	Total Council Reserves
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2016		**15,600**	**150,150**	**62,677**	228,427	**136,048**	364,475
Movement in Reserves during 2016/17							
Total Comprehensive Income and Expenditure		(30,680)	292	-	(30,388)	(74,802)	(105,190)
Adjustments between accounting basis & funding basis under regulations	(9)	38,750	-	29,736	68,486	(68,486)	-
Transfers between Reserves		(8,370)	8,387	(17)	-	-	-
Increase/(Decrease) in Year 2016/17		**(300)**	**8,679**	**29,719**	**38,098**	**(143,288)**	**(105,190)**
Balance as at 31 March 2017 Carried Forward		**15,300**	**158,829**	**92,396**	**266,525**	**(7,240)**	**259,285**

2015/16		Total Usable Reserves					
		General Fund Balance	Earmarked GF Reserves (Note 9)	Capital Grants Unapplied	Total Usable Reserves (Note 24)	Unusable Reserves (Note 25)	Total Council Reserves
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2015		**15,900**	**169,822**	**52,674**	238,396	**(4,189)**	234,207
Movement in Reserves during 2015-16							
Total Comprehensive Income and Expenditure		(109,361)	214	-	(109,147)	239,415	130,268
Adjustments between accounting basis & funding basis under regulations	(9)	89,133	-	10,045	99,178	(99,178)	-
Transfers between Reserves		19,928	(19,886)	(42)	-	-	-
Increase/(Decrease) in Year 2015/16		**(300)**	**(19,672)**	**10,003**	**(9,969)**	**140,237**	**130,268**
Balance as at 31 March 2016 Carried Forward		**15,600**	**150,150**	**62,677**	**228,427**	**136,048**	**364,475**

N.B. The Council does not have a Capital Receipts Reserve as it is the Council's policy to fully utilise all capital receipts in the year they are generated.

Lincolnshire County Council: Balance Sheet as at 31 March 2017

31 March 2016 £'000		Note	31 March 2017 £'000
1,269,306	Property, Plant and Equipment	(14)	1,235,128
66,989	Heritage Assets	(15)	65,101
96,507	Investment Property	(16)	101,175
7,605	Intangible Assets	(17)	11,994
214	Long Term Investments	(18)	5,214
7,275	Long Term Debtors	(20)	9,289
1,447,896	**Long Term Assets**		**1,427,901**
225,106	Short Term Investments	(18)	250,846
1,302	Assets Held for Sale	(21)	10,156
2,384	Inventories	(19)	1,956
58,035	Short Term Debtors	(20)	64,939
286,827	**Current Assets**		**327,897**
(12,829)	Cash and Cash Equivalents		(18,467)
(19,604)	Short Term Borrowing	(18)	(19,525)
(94,671)	Short Term Creditors	(22)	(94,883)
(7,684)	Short Term Provisions	(23)	(8,090)
(134,788)	**Current Liabilities**		**(140,965)**
(7,525)	Long Term Creditors	(22)	(6,941)
(3,994)	Long Term Provisions	(23)	(3,629)
(466,130)	Long Term Borrowing	(18)	(462,599)
(757,814)	Other Long Term Liabilities	(24)	(882,379)
(1,235,463)	**Long Term Liabilities**		**(1,355,548)**
364,472	**Net Assets**		**259,285**
228,424	Usable Reserves	(25)	266,525
136,048	Unusable Reserves	(26)	(7,240)
364,472	**Total Reserves**		**259,285**

Lincolnshire County Council: Cashflow Statement as at 31 March 2017

31 March 2016 £'000		31 March 2017 £'000
109,098	Net (surplus) or deficit on the provision of services	30,680
(233,396)	Adjustments to net surplus or deficit on the provision of services for non - cash movements	(116,466)
80,353	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	105,461
(43,945)	**Net cash flow from Operating Activities (Note 27)**	**19,675**
70,645	Investing Activities (Note 28)	(18,117)
(17,716)	Financing Activities (Note 29)	4,080
8,984	**Net (increase) or decrease in cash and cash equivalents**	**5,638**
3,845	Cash and cash equivalents as at 1 April	12,829
12,829	**Cash and cash equivalents as at 31 March**	**18,467**

Note 1. Statement of Accounting Policies.

General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year 2016-17 and the position at the year-end 31 March 2017. The Statement of Accounts has been prepared in accordance with the Accounts and Audit Regulations 2015.

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 2016-17 and Service Reporting Code of Practice 2016-17, 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.

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.

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.

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.

Initial Recognition

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

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

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

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

De minimis level

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

De-recognition associated with asset enhancements

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

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 current 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 current value. These are determined to have short asset lives and historic cost is used as a proxy for current value;

- Land, Property and Equipment associated with the Energy from Waste Plant shall be measured at current 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) have their current value measured at fair value which is estimated at the highest and best use from a market participant's perspective. Surplus assets are 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 current 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 current value.

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).

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.

<u>Component Accounting for Property, Plant and Equipment</u>

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:

- Depreciated Replacement Cost (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).

<u>Disposal of Property, Plant and Equipment</u>

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.

Under a Direction issued pursuant to sections 16 and 20 of the Local Government Act 2003 these receipts will be fully used to fund expenditure that is designed to generate ongoing revenue savings or transform services to reduce costs and is properly incurred for the financial years commencing on 1 April 2016, 2017 and 2018.

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.

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.

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, in the absence of an active market to determine 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 1 and 10 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.

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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, Investment Properties are measured at 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.

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.

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 are revalued immediately before reclassification to Held for Sale and then 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.

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 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, and 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.

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.

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.

For pre 2008 debt this is based on a standard asset life of 50 years equating to a 2% flat charge. For 2009/10 debt onwards, asset life of differing categories of assets is estimated and a charge based on an annuity method is used for Infrastructure Assets, where the benefit of these assets are expected to increase in later years. A charge based on Equal Instalments of Principal is used for all other categories of assets. The Council does not charge MRP until assets become operational.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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 the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When considering the valuation of long term provisions, the Council has set a £50k de minimis limit. Below this amount long term provisions are measured using carrying value.

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 £500k.

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 £500k.

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.

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.

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.

Costs of Support Services

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

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.

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.

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 Council's (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).

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.

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.

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.

Employee Benefits – Post Employment Benefits (Pensions)

The Council participates in four 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 employers' contributions payable to teachers' pensions in the year are treated as expenditure on the School's service line in the Comprehensive Income and Expenditure Statement.

- National Health Service Pension Scheme (NHSPS): This is a notional funded scheme administered nationally 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 employers' contributions payable to the National Health Service Pension Scheme in the year are treated as expenditure in the Wellbeing service line in the Comprehensive Income and Expenditure Statement.
- Uniformed Fire-fighters Pension Scheme (FPS): From 1 April 2015, a new pension fund for Fire-fighters was set up. This scheme replaced the 1992 Fire-fighters scheme for new Fire-fighters. The 2015, 2006 and1992 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 3.2% - to be updated once information is available (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 pension's 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 Other Budgets in the Comprehensive Income and Expenditure Statement.

<u>Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves</u>

In Lincolnshire, Local Authority education is provided in: Foundation, Voluntary Aided, Voluntary Controlled and Community Schools (all known as 'maintained schools').

a) Income and Expenditure All income and expenditure relating to maintained schools in Lincolnshire is shown in the Council's Comprehensive Income and Expenditure Statement.

b) 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 is 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.

c) 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.

d) 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.

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.

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 and 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.

The comparative measures used in the valuation techniques for fair value are categorised in accordance with the following three levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 – comparators other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 – unobservable comparators for the asset.

Where fair value cannot be measured reliably, the instrument is carried at cost (less impairment losses).

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.

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.

There have been no additional changes to Accounting Standards and the Code of Practice that are not expected to have a material impact on the Council's accounts in 2016-17.

Note 3. Critical judgements in applying accounting policies.

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 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 43 Private Finance Initiatives (PFI) and Similar Contracts.

On 11 November 2011, the school buildings belonging to St Botolph's County Primary School in Sleaford (a Voluntary Controlled School) were transferred to the Diocese Trust. This school has been accounted for in accordance with the Authority's Accounting Policy of School Assets.

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 Council and the Academy to reflect the effects of the conversion. This lease is accounted for in accordance with the Council's Accounting Policies on Leases.

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), and as such these have been recognised as assets of the Council's in the balance sheet.

School Assets

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 these criteria to be met, and therefore the assets are included within the Council's balance sheet.

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 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.

Investment Properties

The Council has assessed its portfolio of property assets and has identified a small number of assets held for investment purposes (including the Council's County Farms Estate). These assets are held purely for the purposes of capital appreciation, income generation or both, and have been accounted for under the Council's policy on investment properties. Further details are contained in Note 16 Investment Properties.

Classification of Leases

The Council has entered into numerous leases for property and equipment, both as lessee and lessor. All new arrangements are assessed on an annual basis and whether it meets the indicators set out in IAS 17 Leases. The Council has set certain criteria for these indicators and has to be met for the lease to be considered as a finance lease. Details of all leases held by the Council are set out in Note 42 Leases.

Note 4. Assumptions made about the future and other major sources of estimation uncertainty.

The Statement of Accounts contain a number of estimated figures that are based on assumptions made by the Council, about the future or where there is a degree of uncertainty about outcomes. Estimates made take into account: historical experience, current trends and relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates included in the Statement of Accounts.

The Council's balance sheet as at 31 March 2017 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 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 2016-17 was £84.706m (2015-16 was £80.352m) and the gross book value of these assets was £1,847m (2015-16 £1,749.063m). Note 1 on accounting policies and Note 14 Property, Plant and Equipment, details the current policy on valuation methods, asset lives and depreciation applied by the Council.
Pensions	- The Council's accounts contain an estimate of the future liability to pay pensions on the retirement of employees. This liability is estimated by the Council's actuary who applies a number of assumptions relating to: salary projections, retirement ages, changes in mortality rates and expected rates of return on pension assets and the discount rates used.	Changes to the actuaries assumptions may materially affect the value of the pension fund liability, however, these changes are difficult to predict as the assumptions interact in complex ways. During 2016-17 the Council's actuaries advised that the net pension liability had increased by £88.043m (£149.673m decrease in 2015-16). Details of the pension fund liabilities are set out in Note 45 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 20 (Debtors) and Note 22 (Creditors).	The most significant accrual as at 31 March 2017 relates to the employee leave earned but not taken £5.080m (£5.103m in 2015-16).
Fair Value Measurements	- When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (eg discounted cashflow model or independent appraisal of company valuations). Where Level 1 input is not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine the fair value (for example the Investment Properties, the Council's Valuer). Details of the fair value of the Council's assets and liabilities are set out in Notes 16 and 18.	The Council uses market value and term and reversion approach for some to measure the fair value of some of its Investment Properties. The significant unobservable inputs used in the fair value measurement include assumptions regarding rent that any tenant/s is/are capable of meeting its/their obligations, and that there are no rent arrears or undisclosed breaches of covenant. Significant changes in the unobservable inputs would result in a significantly lower fair value measurement for the investment properties.
Provisions	The Council's accounts contain an estimate of future expenses where a past event has created a legal or constructive current obligation and it is probable that it will be required to settle the obligation based on reliable estimate. Details of the County Council's provisions are set out in Note 23.	The provisions have been estimated to current claims or court cases and results of these legal challenges can materially change the obligation of the Council. This can result to a significantly lower or higher settlement of the obligation depending on the outcome of these challenges.

Note 5. Material items of income and expenditure.

The Council is required to disclose any material amounts of income or expenditure which are not disclosed on the face of the Comprehensive Income and Expenditure Statement or in other supporting notes to the accounts. Material items over £10m have been reviewed and no items have been identified which are not reported on the face of the Comprehensive Income and Expenditure Statement or in the supporting notes.

Note 6. Events after the balance sheet date.

a) Authorisation of Accounts for Issue

The Statement of Accounts were authorised for issue by Pete Moore, CPFA (Executive Director of Finance & Public Protection) in accordance with the Accounts and Audit Regulations 2011 (England).

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

b) Post Balance Sheet Events

In accordance with IAS 10 'Events after the Reporting Period' have been considered on the following basis:

- Events taking place after the date the Accounts were authorised for issue (28th June 2016) 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 2016-17 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 2016-17 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 7. Note to the Expenditure and Funding Analysis.

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments between Funding and Accounting Basis 2016/17			
	Adjustments for Capital Purposes	Net change for the Pension Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
COMMISSIONING STRATEGIES				
Readiness for School	423	43	(4)	462
Learn & Achieve	26	227	21	274
Readiness for Adult Life	815	122	(5)	932
Children are Safe & Healthy	741	892	51	1,684
Adult Safeguarding	0	40	2	42
Adult Frailty & Long Term Conditions	(1,505)	512	41	(952)
Carers	0	5	(2)	3
Adult Specialties	531	139	5	675
Community Resilience & Assets	1,789	105	(18)	1,876
Wellbeing	269	222	(6)	485
Sustaining & Developing Prosperity Through Infrastructure	40,891	577	(1)	41,467
Protecting & Sustaining the Environment	11,621	143	(628)	11,136
Sustaining & Growing Business & the Economy	1,521	51	(15)	1,557
Protecting The Public	6,989	262	(59)	7,192
How We Do Our Business	1	207	(449)	(241)
Enablers & Support To Council's Outcomes	5,114	966	1,644	7,724
Enablers & Support To Key Relationships	0	2	0	2
Public Health Grant	0	0	0	0
Other Budgets	5,883	(2,465)	(38,853)	(35,435)
Schools Budgets	36,239	2,760	(2,099)	36,900
Net Cost of Services	**111,348**	**4,810**	**(40,374)**	**75,784**
Other Income and Expenditure from the Expenditure and Funding Analysis	(79,574)	26,223	16,317	(37,033)
Difference between General Fund surplus and deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**31,774**	**31,033**	**(24,057)**	**38,750**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments between Funding and Accounting Basis 2015/16 (Restated)			
	Adjustments for Capital Purposes	Net change for the Pension Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
COMMISSIONING STRATEGIES				
Readiness for School	468	136	(20)	584
Learn & Achieve	111	323	28	462
Readiness for Adult Life	820	345	(9)	1,156
Children are Safe & Healthy	543	1,816	(58)	2,300
Adult Safeguarding	0	88	3	91
Adult Frailty & Long Term Conditions	469	824	(49)	1,244
Carers	0	5	3	8
Adult Specialties	318	252	7	577
Community Resilience & Assets	1,646	410	(280)	1,775
Wellbeing	(570)	208	(10)	(372)
Sustaining & Developing Prosperity Through Infrastructure	39,724	1,044	(23)	40,746
Protecting & Sustaining the Environment	8,071	242	(646)	7,666
Sustaining & Growing Business & the Economy	(41)	80	(18)	21
Protecting The Public	6,458	623	(59)	7,023
How We Do Our Business	1	382	(453)	(70)
Enablers & Support To Council's Outcomes	8,250	1,644	(25)	9,870
Public Health Grant	0	0	0	0
Other Budgets	(26,721)	22,323	(42,573)	(46,971)
Schools Budgets	38,970	4,930	(2,135)	41,765
Net Cost of Services	**78,518**	**35,674**	**(46,316)**	**67,877**
Other Income and Expenditure from the Expenditure and Funding Analysis	(24,613)	0	46,010	21,397
Difference between General Fund surplus and deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**53,905**	**35,674**	**(306)**	**89,273**

Adjustments for Capital Purposes

The column for adjustments for capital purposes adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- Financing and investment income and expenditure – the statutory charges for capital Financing i.e. Minimum Revenue Provision and other Revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

The Net change for the removal of pension contributions also includes the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences take into account differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and any amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Segmental Income
Income received on a segmental basis is analysed in the below table:

	Income from Services	
	2015/16	2016/17
	£'000	£'000
COMMISSIONING STRATEGIES		
Readiness for School	(62)	(53)
Learn & Achieve	(4,226)	(3,898)
Readiness for Adult Life	(3,894)	(3,876)
Children are Safe & Healthy	(11,534)	(11,228)
Adult Safeguarding	(103)	(592)
Adult Frailty & Long Term Conditions	(62,556)	(50,026)
Carers	(100)	(117)
Adult Specialties	(27,355)	(25,901)
Community Resilience & Assets	(919)	(566)
Wellbeing	(6,837)	(7,657)
Sustaining & Developing Prosperity Through Infrastructure	(12,286)	(10,092)
Protecting & Sustaining the Environment	(1,263)	(1,920)
Sustaining & Growing Business & the Economy	(4,207)	(4,631)
Protecting The Public	(5,350)	(5,931)
How We Do Our Business	(738)	(601)
Enablers & Support To Council's Outcomes	(6,134)	(5,954)
Enablers & Support To Key Relationships	0	(65)
Public Health Grant	(30,723)	(34,371)
Other Budgets	(369)	(5,892)
Schools Budgets	(288,163)	(286,852)
Total Income Analysed on a Segmental Basis	**(466,819)**	**(460,223)**

Note 8. Expenditure and Income Analysed by Nature.

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

	2015/16	2016/17
	£'000	£'000
Expenditure		
Employee benefits expenses	371,791	356,593
Other service expenses	580,079	548,823
Depreciation, amortisation and impairment	95,872	101,140
Interest payments	20,314	20,828
Precepts and Levies	1,092	1,089
Gain on the disposal of assets	56,037	24,121
Total expenditure	**1,125,185**	**1,052,594**
Income		
Fees, charges and other service income	(77,219)	(69,407)
Interest and investment income	(8,036)	(1,865)
Income from Council Tax, Non-domestic Rates	(338,982)	(354,437)
Government Grants and Contributions	(591,850)	(596,205)
Total income	**(1,016,087)**	**(1,021,914)**
Surplus or Deficit on the Provision of Services	**109,098**	**30,680**

Note 9. Adjustments between accounting basis and funding basis under regulations.

This Note details the adjustments that are made to total Comprehensive Income and Expenditure Statement to adjust proper accounting practice for statutory provisions to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against:

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

	Note	2016/17		
		Usable Reserves		Movements in Unusable Reserves £'000
		General Fund Balance £'000	Capital Grants Unapplied £'000	
<u>Adjustments to Revenue Resources</u>				
Amount by which income and expenditure included in the CI&ES are different from revenue for the year calculated in accordance with statutory requirements.				
Pension Costs (transferred to (or from) the Pension Reserve):				
Reversal of items relating to retirement benefits debited or credited to the CI&ES	(45)	(71,050)	0	71,050
Employer's pensions contributions and direct payments to pensioners payable in the year		40,018	0	(40,018)
Financial Instruments (transferred to (or from) the Financial Instruments Adjustment Account):		1	0	(1)
Council Tax and Business Rates (transferred to (or from) the Collection Fund Adjustment Account):		(1,616)	0	1,616
Holiday Pay (transferred to (or from) the Accumulated Absences Account):		23	0	(23)
Reversal of entires included in the Surplus or Deficit on the Provision of Services in relation to **Capital Expenditure** (these items are charged to the Capital Adjustment Account)				
Charges for depreciation and impairment of non-current assets		(84,698)	0	84,698
Revaluation losses on Property Plant and Equipment		(13,757)	0	13,757
Revaluation losses on Heritage Assets		0		0
Revaluation losses on Held for Sale Assets		(112)	0	112
Movements in the market value of Investment Properties		3,696	0	(3,696)
Amortisation of intangible assets		(1,930)	0	1,930
Capital grants and contributions applied		54,529	0	(54,529)
Capital Receipts applied		0	0	0
Income in relation of Donated Assets		0	0	0
Revenue expenditure funded from capital under statute (net of Grants and Contributions)		(10,320)	0	10,320
Amounts of Non Current Assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES		(24,129)	0	24,129
Total Adjustments to Revenue Resources		**(109,345)**	**0**	**109,345**
<u>Adjustments between Revenue and Capital Resources</u>				
Statutory provision for the repayment of debt (transferred to (or from) the Capital Adjustment Account):		17,560	0	(17,560)
Capital expenditure charged against the General Fund (transferred to (or from) the Capital Adjustment Account):		3,756	0	(3,756)
Total Adjustments between Revenue and Capital Resources		**21,316**	**0**	**(21,316)**
<u>Adjustments to Capital Resources</u>				
Capital grants and contributions unapplied credited to the CI&ES		49,279	(49,279)	0
Application of grants to capital financing transferred to the Capital Adjustment Account		0	19,543	(19,543)
Total Adjustments to Capital Resources		**49,279**	**(29,736)**	**(19,543)**
Total Adjustments		**(38,750)**	**(29,736)**	**68,486**

	Note	2015/16		
		Usable Reserves		Movements in Unusable Reserves £'000
		General Fund Balance £'000	Capital Grants Unapplied £'000	
<u>Adjustments to Revenue Resources</u>				
Amount by which income and expenditure included in the CI&ES are different from revenue for the year calculated in accordance with statutory requirements.				
Pension Costs (transferred to (or from) the Pension Reserve):				
Reversal of items relating to retirement benefits debited or credited to the CI&ES	(45)	(77,061)	0	77,061
Employer's pensions contributions and direct payments to pensioners payable in the year		41,387	0	(41,387)
Financial Instruments (transferred to (or from) the Financial Instruments Adjustment Account):		58	0	(58)
Council Tax and Business Rates (transferred to (or from) the Collection Fund Adjustment Account):		331	0	(331)
Holiday Pay (transferred to (or from) the Accumulated Absences Account):		109	0	(109)
Reversal of entires included in the Surplus or Deficit on the Provision of Services in relation to **Capital Expenditure** (these items are charged to the Capital Adjustment Account)				
Charges for depreciation and impairment of non-current assets		(80,353)	0	80,353
Revaluation losses on Property Plant and Equipment		(13,154)	0	13,154
Revaluation losses on Held for Sale Assets		(18)	0	18
Movements in the market value of Investment Properties		4,536	0	(4,536)
Amortisation of intangible assets		(2,347)	0	2,347
Capital grants and contributions applied		52,470	0	(52,470)
Capital Receipts applied		2,634	0	(2,634)
Revenue expenditure funded from capital under statute (net of Grants and Contributions)		(12,199)	0	12,199
Amounts of Non Current Assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES		(58,641)	0	58,641
Total Adjustments to Revenue Resources		**(142,248)**	**0**	**142,248**
<u>Adjustments between Revenue and Capital Resources</u>				
Statutory provision for the repayment of debt (transferred to (or from) the Capital Adjustment Account):		22,196	0	(22,196)
Capital expenditure charged against the General Fund (transferred to (or from) the Capital Adjustment Account):		7,259	0	(7,259)
Total Adjustments between Revenue and Capital Resources		**29,455**	**0**	**(29,455)**
<u>Adjustments to Capital Resources</u>				
Capital grants and contributions unapplied credited to the CI&ES		23,660	(23,660)	0
Application of grants to capital financing transferred to the Capital Adjustment Account		0	13,615	(13,615)
Total Adjustments to Capital Resources		**23,660**	**(10,045)**	**(13,615)**
Total Adjustments		**(89,133)**	**(10,045)**	**99,178**

Note 10. Transfer to/from earmarked reserves.

Balance at 1 April 2015 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2016 £'000		Balance at 1 April 2016 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2017 £'000
31,568	16,587	(21,553)	26,602	**Balances from dedicated schools budget including those held by schools under a scheme of delegation**	26,602	293	(15,075)	11,820
				Other Earmarked Reserves:				
2,167	4,295	(2,167)	4,295	Other Services	4,295	-	(4,295)	0
-	-	-	0	Earmarked Reserves Temporary Holding code	0	45,444	-	45,444
1,000	-	-	1,000	Adverse Weather	1,000	-	(500)	500
6,220	175	-	6,395	Insurance	6,395	-	(1,500)	4,895
788	355	-	1,143	Schools Sickness Insurance	1,143	-	(148)	995
2,177	14	(1,036)	1,155	Health and Well Being	1,155	-	(247)	908
2,792	538	(1,135)	2,195	Shared Services Reserves (Legal & Procurement)	2,195	-	(537)	1,658
21,871	20,165	(21,871)	20,165	Financial Volatility - Budget Shortfall	20,165	17,870	(20,165)	17,870
31,634	12,195	(20,165)	23,664	Financial volatility	23,664	6,217	(17,870)	12,011
2,632	-	(922)	1,710	Support Services contract	1,710	-	(909)	801
-	1,000	-	1,000	Waste Management	1,000	-	(1,000)	0
11,659	3,339	(3,465)	11,533	Other Service Earmarked Reserves	11,533	1,312	(1,611)	11,234
				Revenue Grants & Contributions Unapplied Reserves:				
4,791	7,273	(4,433)	7,631	Schools	7,631	7,011	(7,200)	7,442
4,552	3,496	(1,591)	6,457	Children Services	6,457	2,736	(2,582)	6,611
26,464	16,815	(16,601)	26,678	Adult Care and Communtiy Wellbeing	26,678	6,637	(3,360)	29,955
17,590	103	(10,786)	6,907	Environment and Economy	6,907	564	(2,204)	5,267
1,843	700	(1,016)	1,527	Finance and Public Protection	1,527	26	(212)	1,341
73	19	-	92	Chief Executive	92	-	(15)	77
169,822	**87,069**	**(106,741)**	**150,150**	**Total**	**150,149**	**88,110**	**(79,430)**	**158,829**

The note above 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 2016-17.

The **balance held by schools under the scheme of delegation**, represents the net underspending of school budget shares in 2016-17. 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 carried forward from prior years on services other than schools (i.e. Children's Services, Adult Care, Public Health, Communities, and Corporate Services) and has been fully utilised in 2016-17.

The **Earmarked Reserves – Holding Code** is used to manage the year end transfer to specific earmarked reserves in advance of the decision-making process by full County Council.

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 **Schools Sickness Insurance Reserve** provides reimbursement to schools, who are members of the scheme, when staff are absent from work.

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 **Legal Services Reserve** represents what the Practice carried forward from 2016-17. The Legal Services Management Board will agree on what proportion of the surplus should be distributed to the shared service partners in 2016-17. The Procurement Reserve represents Procurement Lincolnshire's underspend at the end of 2016-17. The underspend relates to both Council money and partners money. This amount will be carried into 2016-17 for schemes for mutual benefit to all the partners.

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 **Support Services Contract Reserve** will be used to fund the specialist services required to enable the support service contract to be re-let.

The **Waste Management Reserve** was created at the end of 2015-16 and met the anticipated waste volumes and disposal costs in 2016-17.

The **Other Service Earmarked Reserves** represents numerous reserves held by service areas of specific purposes.

The **Revenue Grants and Contributions Unapplied Reserves** are used where the Council has received funding but the expenditure has not yet taken place. The funding will be used for the schemes that it was awarded for in future accounting periods.

Note 11. Other operating expenditure.

2015/16 £'000		2016/17 £'000
1,092	Precepts paid to non-principal authorities and levies	1,089
56,035	Gain or Loss on the disposal of non-current assets	24,121
18	Revaluation losses on assets held for sale	112
57,145	**TOTAL**	**25,322**

Note 12. Financing and Investment Income and Expenditure.

2015-16 £'000		2016/17 £'000
20,314	Interest payable and similar charges	20,828
28,731	Net Interest on the net defined benefit liability (asset)	26,223
(1,881)	Interest receivable and similar income	(1,865)
(6,153)	Income, expenditure and changes in the fair values of investment properties	(5,350)
41,011	**TOTAL**	**39,836**

Note 13. Taxation and Non Specific Grant Income.

2015/16 £'000		2016/17 £'000
(239,223)	Council tax income	(251,348)
(99,759)	Business Rates - Districts	(103,089)
	Non-ring-fenced government grants:	
(94,670)	Revenue Support Grant	(70,351)
0	Rural Service Delivery Grant	(6,892)
(5,600)	Education Services Grant	(4,899)
(4,433)	Care Act Implementation Grant	0
(3,853)	New Homes Bonus Grant & Returned Top slice	(4,519)
(2,621)	Section 31 Grant - Business Rates	(2,458)
(1,386)	Independent Living Fund Grant	(1,755)
0	Partners in Practice S31 Grant	(1,501)
(1,060)	Local Services Support Grant *(1)	0
(563)	Other Non Specific Grant	(1,586)
(76,129)	Capital grants and contributions (Note 39)	(103,806)
(529,297)	**TOTAL**	**(552,204)**

*(1) The Local Services Support grant was disbanded into two separate grants in 2016-17, both of which are included within the Other Non Specific Grant figure.

Note 14. Property, Plant and Equipment.

a) Movement on Non-Current Assets

Movement in Property, Plant & Equipment As at 31 March 2017	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure	Surplus Assets	Assets Under Construction	Total	PFI Assets Included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2016	676,056	126,111	807,517	15,673	35,431	**1,660,787**	21,309
Additions	6,143	3,448	25,062	4,701	40,960	**80,314**	215
Donations	0	0	0	0	0	**0**	0
Revaluation Increase to RR	14,562	0	0	3,150	0	**17,712**	0
Revaluation Decrease to RR	(20,138)	(556)	0	(921)	0	**(21,615)**	(1,279)
Revaluation Increase/(Decrease) to SDPS	(11,505)	(2,047)	0	(4,590)	0	**(18,142)**	0
Derecognition - Disposals	(21,623)	(20,513)	(908)	(861)	0	**(43,905)**	(4,888)
Derecognition to RR	(449)	0	0	0	0	**(449)**	0
Derecognition to SDPS	(1,224)	0	0	0	0	**(1,224)**	0
Reclassified to/from Held for Sale	(1,257)	0	0	(8,365)	(134)	**(9,756)**	0
Reclassified to/from Investment Property	(81)	0	0	(725)	(168)	**(973)**	0
Reclassifications - Other	13,843	39	23,803	(3,162)	(38,491)	**(3,968)**	0
At 31 March 2017	**654,327**	**106,481**	**855,474**	**4,902**	**37,597**	**1,658,781**	**15,357**
Depreciation and Impairment							
At 1 April 2016	**(18,241)**	**(40,431)**	**(332,754)**	**(64)**	**0**	**(391,490)**	**(613)**
Depreciation Charge for 2016/17	(28,872)	(9,737)	(45,986)	(111)	0	**(84,706)**	(529)
Depreciation written out on upward revaluation	3,149	0	0	18	0	**3,167**	0
Depreciation written out on downward revaluation	20,307	2,115	0	4	0	**22,426**	517
Depreciation written out to the SDPS	1,996	2,322	0	40	0	**4,358**	0
Impairment losses/(reversals) recognised in the RR	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the SDPS	0	0	0	0	0	**0**	0
Derecognition - Disposals	1,131	20,506	908	3	0	**22,548**	0
Derecognition to RR	0	0	0	0	0	**0**	0
Derecognition - SDPS	43	0	0	0	0	**43**	0
Reclassifications to Asset Held for Sale	0	0	0	0	0	**0**	0
Reclassifications - Other	(39)	0	0	39	0	**0**	0
At 31 March 2017	**(20,526)**	**(25,224)**	**(377,832)**	**(71)**	**0**	**(423,653)**	**(625)**
Net Book Value							
At 31 March 2017	**633,801**	**81,257**	**477,642**	**4,831**	**37,597**	**1,235,128**	**14,732**
At 1 April 2016	657,815	85,680	474,763	15,609	35,431	1,269,297	20,696

RR - Revaluation Reserve **SDPS - Surplus or Deficit on the Provision of Services**

Movement in Property, Plant & Equipment As at 31 March 2016	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure	Surplus Assets	Assets Under Construction	Total	PFI Assets Included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2015 (*1)	717,304	126,992	752,394	21,911	28,230	**1,646,831**	20,699
Additions	8,502	1,991	24,522	3,659	45,007	**83,681**	189
Revaluation Increase to RR	24,060	0	0	526	0	**24,586**	614
Revaluation Decrease to RR	(12,554)	(556)	0	(4,007)	0	**(17,117)**	(281)
Revaluation Increase/(Decrease) to SDPS	(14,559)	(1,881)	0	(3,090)	0	**(19,530)**	0
Derecognition - Disposals	(52,455)	(799)	0	(4,852)	0	**(58,106)**	0
Derecognition to RR	0	0	0	0	0	**0**	0
Derecognition to SDPS	(502)	0	0	0	0	**(502)**	88
Reclassified to/from Held for Sale	0	0	0	0	0	**0**	0
Reclassifications - Other	6,260	364	30,601	1,526	(37,806)	**945**	0
As at 31 March 2016	**676,056**	**126,111**	**807,517**	**15,673**	**35,431**	**1,660,788**	**21,309**
Depreciation and Impairment							
At 1 April 2015	(23,263)	(34,903)	(291,725)	(453)	0	**(350,344)**	(1,007)
Depreciation Charge for	(28,731)	(10,480)	(41,029)	(113)	0	**(80,353)**	(492)
Depreciation written out on upward revaluation	27,552	0	0	22	0	**27,574**	886
Depreciation written out on downward revaluation	2,605	1,897	0	0	0	**4,502**	0
Depreciation written out to the SDPS	3,352	2,321	0	453	0	**6,126**	0
Impairment losses/(reversals) recognised in the RR	0	0	0	0	0	**0**	0
Impairment losses/(reversals) recognised in the SDPS	0	0	0	0	0	**0**	0
Derecognition - Disposals	237	734	0	25	0	**996**	0
Derecognition to RR	0	0	0	0	0	**0**	0
Derecognition - SDPS	9	0	0	0	0	**9**	0
Reclassifications to Asset Held for Sale	0	0	0	0	0	**0**	0
Reclassifications - Other	(2)	0	0	2	0	**0**	0
As at 31 March 2016	**(18,241)**	**(40,431)**	**(332,754)**	**(64)**	**0**	**(391,490)**	**(613)**
Net Book Value							
As at 31 March 2016	**657,815**	**85,680**	**474,763**	**15,609**	**35,431**	**1,269,298**	**20,696**
As at 1 April 2015	694,041	92,089	460,669	21,458	28,230	1,296,487	19,692

b) Depreciation and Asset Lives

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
Site works, including playground, hard standing, 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, and Drainage	40
Signs and Lines	30
Safety Fencing	25
Traffic Signals, Other Street Furniture (Ornamental structures), Junction Improvements, Bus Stop Infrastructure, Carriageway Works, Footways, Materials Testing, Verges, Rights of Way and Reactive Signs	20
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, Instrumentation, Control and Automation (ICA), and Admin Equipment	10 to 25
IT Equipment	4
Furniture and Equipment	5
Vehicles	3 to 18

c) Capital Commitments

At 31 March 2017, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017-18 and future years budgeted to cost £74.645m.

Detail	Gross £'000
Lincoln Eastern Bypass - a major scheme to improve the flow of traffic around Lincoln City Centre	64,800
Holbeach Peppermint Junction	2,985
Lancaster House	2,650
Eastgate Centre Sleaford - New Build	2,600
Children's Care Facility in Grantham - New Build	1,610
	74,645

d) Valuations

The Council undertakes a five year rolling programme of revaluations to ensure that land and buildings are measured at fair value. All valuations are carried out by the Council's appointed Valuers - Vinci 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.

The significant assumptions applied in estimating the fair values are:

Non-Current Assets carried at historic cost	2015/16 £'000	2016/17 £'000
Vehicles, Plant, Furniture and Equipment	85,680	81,257
Infrastructure	474,763	477,642
Assets Under Construction	35,431	37,597
Total Cost of Valuation	**595,874**	**596,497**

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 and 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				
Balance at 1 April 2016	5,000	19,989	42,000	66,989
Additions - In House construction/Improvement	20	92	-	112
Additions - Purchase/Acquisition	-	-	-	0
Revaluations recognised in the Revaluation Reserve	-	-	(2,000)	(2,000)
At 31 March 2017	**5,020**	**20,081**	**40,000**	**65,101**
Cost or Valuation				
Balance at 1 April 2015	4,932	19,965	27,727	52,625
Additions - In House construction/Improvement	-	-	-	0
Additions - Purchase/Acquisition	3	24	-	27
Revaluations recognised in the Revaluation Reserve	64	-	14,273	14,337
At 31 March 2016	**5,000**	**19,989**	**42,000**	**66,989**

b) Total Heritage Assets Five Year Summary of Transactions

	2012-13	2013-14	2014-15	2015-16	2016/17
	£000	£000	£000	£000	£000
Balance at Start of the Year	35,022	36,356	36,443	52,625	66,989
Cost of Acquisitions	14	7	8,003	27	113
Revaluations	(4)	(38)	-	14,337	(2,000)
Carrying Amount of Disposals/Proceeds	-	-	-	-	-
Reclassifications	1,324	118	8,179	-	-
Total at Year End	**36,356**	**36,443**	**52,625**	**66,989**	**65,102**

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

	County Farm Estates		Other General Fund Properties	
	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	£'000	£'000
Rental Income from Investment Property	(2,326)	(2,410)	(22)	(33)
Direct Operating Expenses arising from Investment Property	720	732	9	56
Net (Income)/Expenditure	**(1,606)**	**(1,678)**	**(13)**	**23**

There are no restrictions on the Council's ability to realise the value inherent in its Investment Properties, 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

	County Farm Estates		Other General Fund Properties	
	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	£'000	£'000
Balance at 1 April	91,879	95,827	646	680
Additions - Acquisitions (Purchase and Construction)	166	397	2	2
Additions - Subsequent expenditure	0	0	0	0
Disposals	(722)	(440)	0	0
Net Gains/(Losses) from fair value adjustments	4,504	3,698	32	38
Transfers to/from Property, Plant and Equipment	0	168	0	806
Balance at 31 March	**95,827**	**99,650**	**680**	**1,525**

Nature of asset holding	County Farm Estates		Other General Fund Properties	
	2015/16	2016/17	2015/16	2016/17
Owned	95,637	99,526	680	1,525
Leased	190	124	0	0
Balance at 31 March	**95,827**	**99,650**	**680**	**1,525**

c) Revaluations

The Council re-values Investment Properties annually to ensure that they are carried at fair value. All valuations are carried out by the Council's appointed Valuers - Savills (L&P Ltd) for the County Farms Estate and Vinci 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.

d) Valuation Techniques Used to Determine Level 2 Fair Values for Investment Properties

The fair value measurement of the Council's Investment Properties is categorised as Level 2 on the fair value hierarchy. It uses the market value approach for the County Farms and the term and reversion for the other properties.

The market value approach takes into account the similar assets in the market, existing lease terms and rentals and market evidence, which comes from numerous sources. If there are more than one value is available for the same property on different bases the highest valuation figure is used.

The term and reversion approach takes into account the existence of an occupational lease, having regard to lease terms and conditions and assessing the Council's Valuer opinion of the market rental value of the each individual property and then capitalising the market rent adopting a suitable yield, which again reflects the market evidence of property investment yields. This approach takes into account market circumstances and comparable market evidence.

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, licences and internally generated software.

a. Movement on intangible assets:

	Software	Software Licenses	Total
	£'000	£'000	£'000
Balance at 1 April 2016			
- Gross carrying amount	16,490	2,682	19,171
- Accumulated amortisation	(10,864)	(702)	(11,566)
Net carrying amount at 1 April 2016	**5,626**	**1,980**	**7,606**
Additions:			
- Purchases	2,354	0	2,354
Asset classified as held for sale			
- Other disposals	(1)	0	(1)
- Amortisation for the period	(1,663)	(267)	(1,930)
- Other changes - reclassifications	3,966	0	3,966
Net carrying amount at 31 March 2017	**10,282**	**1,713**	**11,994**
Comprising:			
- Gross carrying amounts	22,809	2,682	25,490
- Accumulated amortisation	(12,527)	(969)	(13,496)
Balance Sheet amount at 31 March 2017	**10,282**	**1,713**	**11,994**

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 £1.930m (£2.347m in 2015-16) charged to revenue in 2016-17 was charged to the IT cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of 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 2017, the Council has capitalised material items of software (with a value over £1m):

Detail	Gross £'000
Information Management Portal (IMP) Upgrade	1,177
Agresso Software	2,584
Agresso Licences	2,371

d. Capital Commitments

At 1 April 2017, the Council has entered into contracts for future years budgeted to cost £15.123m. The major commitments are:

Detail	Gross £'000
Superfast Broadband - A programme to install high speed internet infrastructure in communities and businesses, particularly in rural areas.	15,123
TOTAL	**15,123**

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 2016	31 March 2017	31 March 2016	31 March 2017
	£'000	£'000	£'000	£'000
Borrowings				
Financial Liabilities At Amortised Cost	466,130	462,599	19,603	19,525
Financial Liabilities at Fair Value Through Profit and Loss	0	0	0	0
Total Borrowings	**466,130**	**462,599**	**19,604**	**19,525**
PFI & Finance Lease Liabilities				
PFI and Finance Lease Liabilities	12,232	11,654	0	0
Total PFI & Finance Lease	**12,232**	**11,654**	**0**	**0**
Creditors & Other Long Term Liabilities				
Financial Liabilities Carried at Contract Amount	7,525	9,042	85,051	85,893
Total Creditors	**7,525**	**9,042**	**85,051**	**85,893**
Investments				
Loans and Receivables	200	5,200	131,625	199,563
Available for Sale Financial Assets	0	0	93,481	51,826
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**	**5,214**	**225,106**	**251,389**
Debtors				
Loans and Receivables	7,275	9,076	0	0
Financial Assets Carried at Contract Amount	0	0	48,645	53,485
Total Debtors	**7,275**	**9,076**	**48,645**	**53,485**

b. Financial Instruments Income, Expense, Gains or Losses

The Council's Financial Liabilities are all valued at amortised cost. There have been no gains or losses on derecognition or impairment losses during the year on the financial liabilities held by the Council.

The Council's Financial Assets are predominantly loans and receivables valued at amortised cost; although its investments held in Stable Net Asset Value Money Market Funds are classed as Available for Sale Financial Assets; which are valued at fair value that equates to the carrying value, as 1 unit held in these funds = £1 fair value. Investments held in Certificate of Deposits or Bonds are also classed as Available for Sale which are also valued at fair value based on the prevailing price at 31st March 2017. The Council has a small shareholding of £14,000, acquired for Economic Regeneration reasons. Shares are held to the nominal value of £14,000 and are classed as Unquoted Equity Investments and are valued at cost. No income is received from these investments.

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:

	2015/16 £'000	2016/17 £'000
Unrealised Reduction in Fair Value - Available for Sale Financial Assets held at 31st March	**3**	**0**
Financial Liabilities At Amortised Cost	19,991	20,368
Financial Liabilities at Fair Value Through Profit and Loss	0	0
Total Interest Expense	**19,991**	**20,368**
Total Fee Expense	60	19
Total Expense in Surplus or Deficit on the Provision of Services	**20,051**	**20,387**
Unrealised Increase in Fair Value -Available for Sale Financial Assets held at 31st March	**(447)**	**(154)**
Loans and Receivables at Amortised Cost	(398)	(439)
Available for Sale Financial Assets	(1,135)	(951)
Unquoted Equity Investments At Cost	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0
Total Interest Income	**(1,533)**	**(1,390)**
Total Fee Income	0	0
Interest Received	**(1,533)**	**(1,390)**

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 cash flows that take place over the remaining life of the investments using the following assumptions:

b) For loans from the PWLB, equivalent borrowing rates available from the PWLB at 31 March 2017 have been applied to provide the fair value under the PWLB debt redemption procedures.
c) For non PWLB loans and loans receivable prevailing benchmark market rates have been used to provide the fair value.
d) No early repayment or impairment is recognised.
e) 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.
f) The fair value of trade and other payables and receivables, taken to be the invoiced or billed amount, are not shown in the following table.

The fair values calculated are as follows:

	31 March 2016		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB Debt (Long Term > 12 Months)	436,130	530,315	432,599	567,446
Non PWLB Debt (Long Term > 12 Months)	30,000	35,501	30,000	43,481
PWLB Debt (Short Term < 12 Months)	15,543	18,890	15,531	20,353
Non PWLB Debt (Short Term < 12 Months)	74	74	65	65
Long-Term Creditors & Other Long Term Liabilities	7,525	7,525	6,941	6,941
Total Financial Liabilities at Amortised Cost	**489,272**	**592,305**	**485,136**	**638,286**

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 2016 to 31 March 2017 highlights the reduction or increase in market rates over this period.

The fair value of the PWLB Debt shown above is calculated using the PWLB New Borrowing Concessionary rates available at the 31 March 2017. However if the Council were to repay any of this PWLB Debt early at this time, then the PWLB would calculate the Fair Value of this debt using a set of Early Redemption rates. The fair value calculated on this basis would be £689,638k, some £101,839k higher than the market fair value stated above. This represents the penalty charge by the PWLB of redeeming the loans early to cover the additional interest that would no longer be paid if that were the case.

Loans and Receivables	31 March 2016		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables (Long Term > 12 Months)	200	200	5,200	5,197
Loans and Receivables (Short Term < 12 Months)	131,625	131,625	199,020	199,020
Long-Term Debtors	7,275	7,488	9,076	9,076
Financial Assets at Amortised Cost	**139,100**	**139,313**	**213,296**	**213,293**

The fair value is greater than the carrying amount when 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.

Where estimated rates available for similar loans at the Balance Sheet date are higher than the Council's long term investments, the opposite is true.

Available for Sale Investments not included in the table above are carried on the Balance Sheet at their Fair Value already. These investments are measured in accordance with the following fair value hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets at the Balance Sheet Date.
- Level 2 - comparators other than quoted prices included in Level 1 that are observable for that asset, either directly or indirectly.
- Level 3 - unobservable comparators for the asset.

Details of these investments are shown in the table below:

Available for Sale Investments	Fair Value Hierarchy Measurement	31 March 2016 Carrying Amount £000	31 March 2016 Fair Value £000	31 March 2017 Carrying Amount £000	31 March 2017 Fair Value £000
Certificates of Deposit	Level 1	60,675	61,081	28,500	28,595
Bonds	Level 1	6,050	6,091	10,132	10,191
Money Market Funds	Level 1	26,309	26,309	13,040	13,040
Available For Sale Financial Assets		**93,034**	**93,481**	**51,672**	**51,826**

As with Loans and Receivables, the Fair Value of the Certificate of Deposits and Bonds is higher than the original purchase amount due to them having a higher coupon than those available for similar Certificate of Deposits/Bonds 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.

There has been no change to the valuation technique or the Hierarchy Level of these instruments during the year.

d. Nature and Extent of Risks Arising From Financial Instruments and How the Authority Manages Those Risks.

(i) Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

(ii) Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The procedures for risk management are laid down in a legal framework set out in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
    - maximum and minimum exposures to fixed and variable rates;
    - maximum and minimum exposures to the maturity structure of its debt;
    - maximum annual exposures to investments maturing beyond one year.

- by approving an investment strategy for the forthcoming year, setting out its criteria for both investing and selecting investment counterparties in compliance with Government Guidance.

These items are required to be reported and approved at or before the Council's Annual Council Tax setting budget; and are also reported as part of the Council's annual treasury management strategy and investment strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported quarterly to Councillors.

These treasury management policies are implemented by a central treasury management team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash through its Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

(iii) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. To minimise this risk, deposits are not made with banks and financial institutions unless they meet the minimum requirements of the Council's investment criteria (based on independent credit rating assessments of institutions and countries, their credit watches and outlooks from credit rating agencies and their credit default spreads), as outlined in its investment strategy. A summary of the minimum requirements are outlined below:

Minimum Acceptable Long-Term Credit Rating:	Bank or Building Society: A+
	Money Market Fund: AAA
	UK Government: Not Applicable
Minimum Acceptable Sovereign (Country) Credit Rating: (UK excepted).	AA-

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.

Deposits With Banks and Financial Institutions	**Amount at 31 March**		**Amount at 31 March 2017**	
	£'000	**%**	**£'000**	**%**
AAA Rated Counterparties	26,309	11.70%	13,040	5.10%
AA Rated Counterparties	140,350	62.41%	142,275	55.60%
A Rated Counterparties	15,825	7.04%	42,245	16.51%
BBB+ Rated Counterparties (*1)	37,175	16.53%	20,132	7.87%
Other Counterparties (*2)	5,214	2.32%	38,214	14.93%
Total Investments	**224,873**	**100.00%**	**255,906**	**100.00%**

(*1) Counterparties in this category are Part Nationalised Banks and hence the Council adopts the credit risk of the UK Government rather than the individual Counterparties concerned when placing investments.

(*2) 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.

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 2017 can be analysed by age as follows:

Analysis of Debts by Age	Amount at 31 March		Amount at 31 March 2017	
	£'000	%	£'000	%
Less than 3 months	1,429	24.89%	2,985	39.03%
3 to 6 months	584	10.17%	631	8.25%
6 months to 1 year	617	10.75%	808	10.57%
More then 1 year	3,111	54.19%	3,223	42.15%
Total Outstanding Debt	**5,741**	**100.00%**	**7,647**	**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 Council's (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 strategies 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 2016 £'000	31 March 2017 £'000
Less than one year	19,604	19,525
Between one and two years	15,531	35,675
Between two and five years	74,656	50,141
Between five and ten years	44,795	50,016
Between ten and fifteen years	49,599	38,218
Between fifteen and twenty-five years	34,000	29,000
Between twenty-five and thirty-five years	36,822	36,823
Between thirty-five and forty-five years	190,726	194,726
Maturing in more than forty-five years	20,000	28,000
Total	**485,733**	**482,124**

Investments Outstanding - Financial Assets	31 March 2016 £'000	31 March 2017 £'000
Less than one year	225,106	251,389
Between one and two years	0	5,200
Between two and three years	200	0
Maturing in more than three years	14	14
Total	**225,320**	**256,603**

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 £1.568m 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 2017 £'000**
Increase in interest payable on variable rate borrowings	(1)
Increase in interest receivable on variable rate investments	1,569
Impact on Income and Expenditure Account	**1,568**

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 2017 £'000	**Fair Value at 1% Higher £'000**	**Fair Value at 1% Lower £'000**
County Council	629,666	537,443	752,881
Schools	1,614	1,537	1,696
Long Term Fixed Borrowing:	**631,280**	**538,980**	**754,577**
Long Term Fixed Investments:	**4,987**	**4,891**	**5,089**

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 under the Fair Value of Assets and Liabilities Carried at Amortised Cost section.

The impact on fair value of the Council's Available for Sale Investments already carried on the Balance Sheet at fair value on 31 March 2017, 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 2017	Fair Value at 1% Higher	Fair Value at 1% Lower
	£'000	£'000	£'000
Available For Sale Investments	51,826	51,662	51,984

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) held for Economic Regeneration purposes. 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.

	Balance outstanding at 1 April 2016	Purchases	Recognised as an expense in the year	Written off balances	Reversals of write-off in previous years	Balance outstanding at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Salt Stores	2,383	314	(742)	0	0	1,956
Total Inventories	**2,383**	**314**	**(742)**	**0**	**0**	**1,956**

Note 20. Debtors.

31 March 2016 £'000	Amounts falling due within one year:	31 March 2017 £'000
16,619	Central government bodies	18,878
1,907	Other local authorities	6,636
4,305	NHS bodies	5,702
14,288	Bodies external to general government	19,557
15,538	Council tax agency and business rates agency arrangements	14,166
5,378	Payments in advance	0
58,035	**Total Short Term Debtors**	**64,939**

31 March 2016 £'000	Amounts falling due after one year:	31 March 2017 £'000
2,425	Central government bodies	2,193
34	Other local authorities	282
115	NHS bodies	102
4,701	Bodies external to general government	6,712
7,275	**Total Long Term Debtors**	**9,289**

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

Note 21. Assets Held for Sale.

	Current	
	2015/16 £'000	2016/17 £'000
Balance outstanding at 1 April	2,545	1,301
Assets newly classified as held for sale:		
- Property, Plant and Equipment	53	9,757
Revaluation Decrease to RR	(18)	(97)
Revaluation Increase/(Decrease) to SDPS	(18)	(112)
Assets declassified as held for sale:		
- Property, Plant and Equipment	(945)	0
Assets Sold	(316)	(693)
Balance Outstanding at 31 March	**1,301**	**10,156**

RR - Revaluation Reserve **SDPS - Surplus or Deficit on the Provision of Services**

Note 22. Creditors.

2015-16 £'000	Amounts falling due within one year:	2016/17 £'000
(1,213)	Central government bodies	(3,776)
(1,675)	Other local authorities	(8,681)
(5,762)	NHS bodies	(4,123)
(76,366)	Other entities and individuals	(69,261)
(9,655)	Council tax agency and business rates agency arrangements	(9,042)
(94,671)	**Total Short Term Creditors**	**(94,883)**

2015-16 £'000	Amounts falling due after one year:	2016/17 £'000
(1,270)	Central government bodies	(1,145)
0	Other local authorities	(426)
(6,255)	Other entities and individuals	(5,370)
(7,525)	**Total Long Term Creditors**	**(6,941)**

Note 23. Provisions.

Summary of Provisions	Balance at 1 April 2016 £'000	Additional Provisions made in 2016/17 £'000	Amounts Used in 2016/17 £'000	Unused amounts reversed in 2016/17 £'000	Unwinding of discounting in 2016/17 £'000	Balance at 31 March 2017 £'000
Social Services - Section 117 Deposits	(307)					(307)
Insurance Claims	(5,543)		781		193	(4,569)
Business Rates Appeals	(2,079)	(856)				(2,935)
Waking Nights Provision	(463)			125		(338)
Fire Fighters ill Health Pensions Provision	(389)		389			0
CSC Volume Fees Provision	(2,623)	(283)				(2,906)
Wellbeing Monitoring Service	(275)					(275)
Teal Park Funding Provision	0	(390)				(390)
TOTAL	**(11,679)**	**(1,529)**	**1,170**	**125**	**193**	**(11,720)**

The County Council’s accounting policy on provisions includes a de-minimis of £100k.

Analysis of short and long term provisions

	Balance at 1 April 2016	Additional Provisions made in 2016/17	Amounts Used in 2016/17	Unused amounts reversed in 2016/17	Unwinding of discounting in 2016/17	Balance at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Short Term Provisions:						
- Insurance Claims	(1,856)		609			(1,247)
- Business Rates Appeals	(2,079)	(856)				(2,935)
- Waking Nights Provision	(463)			125		(338)
- Fire Fighters ill Health Pensions	(389)		389			0
- CSC Volume Fees	(2,623)	(283)				(2,906)
- Wellbeing Monitoring Service	(275)					(275)
- Teal Park Funding	0	(390)				(390)
	(7,685)	**(1,529)**	**998**	**125**	**0**	**(8,091)**
Long Term Provisions:						
- Social Services - Section 117	(307)					(307)
- Insurance Claims	(3,687)		172		193	(3,322)
	(3,994)	**0**	**172**	**0**	**193**	**(3,629)**
TOTAL	**(11,679)**	**(1,529)**	**1,170**	**125**	**193**	**(11,720)**

S117 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. In March 2013, a review of the provision was carried out and a decision was to maintain the provision at its current level.

The **Insurance** provision represents all estimated outstanding claims under the excess clauses of the Council's external insurance policies. 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	Met by the County Council: Maximum for all such claims £'000
Public & employer's liability	150	3,000
School property	150	500
Other property	10	100

The **Business Rates Appeal Provision** has been created because the Council, under the new funding regime receives 10% of the business rates collected in Lincolnshire. Under this arrangement the Council is liable for 10% of any provision for business rates appeals.

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 **Fire Fighters Ill Health Pensions Provision** refers to firefighters employed from before 6th April 2006 rights incorrectly paid from the Firefighters pension account.

The **Contract Volume Fees Provision** represents an estimate of outstanding payments due on a number of contractual arrangements where the Council is uncertain or in dispute as to the volume or value of the final payment due.

The final price of the **Wellbeing Monitoring Service** contract is dependent on the costs incurred by the provider. These will not be known until the provider's accounts are settled. A provision has been set up to cover these costs.

The **Teal Park Funding Provision** relates to the potential recovery of European Regional Development Fund (ERDF) grant awarded to the Teal Park project.

Note 24. Other Long Term Liabilities.

31 March 2016 £'000		31 March 2017 £'000
(12,232)	Outstanding Liabilities on PFI and Finance Leases	(11,654)
(745,582)	Pension Reserve	(870,725)
(757,814)		**(882,379)**

Note 25. Usable Reserves.

Balance at 31 March 2016 £'000		Balance at 31 March 2017 £'000
(62,676)	Capital Grants Unapplied	(92,396)
(150,150)	Earmarked Reserves	(158,829)
(15,600)	General Fund	(15,300)
(228,426)	**Total**	**(266,525)**

Note 26. Unusable Reserves.

Balance at 31 March 2016 £'000		Note	Balance at 31 March 2017 £'000
(314,712)	Revaluation Reserve	(26a)	(311,249)
(567,863)	Capital Adjustment Account	(26b)	(555,068)
96	Financial Instruments Adjustment Account	(26c)	95
745,582	Pension Reserve	(26d)	870,725
(3,805)	Collection Fund Adjustment Account	(26e)	(2,189)
5,103	Accumulated Absences Account	(26f)	5,080
(447)	Available for Sale Financial Instrument Reserve	(26g)	(154)
(136,046)	**Total**		**7,240**

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.

2015/16 £'000		2016/17 £'000	2016/17 £'000
(289,143)	**Balance at 1 April**		**(314,712)**
(66,497)	Upward revaluation of assets	(25,796)	
12,633	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	6,192	
(53,864)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(19,604)	
10,665	Difference between fair value depreciation and historical cost depreciation	13,028	
17,630	Accumulated gains on assets sold or scrapped	10,039	
28,295	Amount written off to the Capital Adjustment Account	23,067	
(314,712)	**Balance at 31 March**		**(311,249)**

b) Capital Adjustment Account.

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties 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.

2015/16 £'000		2016/17 £'000
(603,570)	**Balance at 1 April**	**(567,863)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
80,353	Charges for depreciation and impairment of non-current assets	84,698
13,154	Revaluation losses on Property, Plant and Equipment	13,757
18	Revaluation Losses on Held for Sale Assets	112
2,347	Amortisation of intangible assets	1,930
12,199	Revenue expenditure funded from capital under statute (net of Grants and Contributions)	10,320
58,641	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	24,129
(28,295)	Adjusting amounts written out of the Revaluation Reserve	(23,067)
138,417	Net written out amount of the cost of non-current assets consumed in the year	**111,879**
	Capital financing applied in the year:	
(2,634)	Use of Capital Receipts to finance new capital expenditure	0
(52,470)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(54,529)
(13,615)	Application of grants to capital financing from the Capital Grants Unapplied Account	(19,543)
(22,196)	Statutory provision for the financing of capital investment charged against the General Fund	(17,560)
(7,259)	Capital expenditure charged against the General Fund	(3,756)
(98,174)		**(95,388)**
(4,536)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(3,696)
0	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	0
(4,536)		**(3,696)**
(567,863)	**Balance at 31 March**	**(555,068)**

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.

2015/16 £'000		2016/17 £'000
154	**Balance at 1 April**	**96**
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
(73)	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	(16)
96	**Balance at 31 March**	**95**

d) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2015/16 £'000		2016/17 £'000
895,255	**Balance at 1 April**	**745,582**
(185,347)	Actuarial gains or losses on pensions assets and liabilities	94,111
77,061	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CI&ES	71,050
(41,387)	Employer's pensions contributions and direct payments to pensioners payable in the year	(40,018)
745,582	**Balance at 31 March**	**870,725**

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.

2015/16 £'000		2016/17 £'000
(3,474)	**Balance at 1 April**	**(3,805)**
(331)	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	1,616
(3,805)	**Balance at 31 March**	**(2,189)**

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.

2015/16		2016/17	
£'000		£'000	£'000
5,212	**Balance at 1 April**		**5,103**
(5,212)	Settlement or cancellation of accrual made at the end of the preceding year	(5,103)	
5,103	Amounts accrued at the end of the current year	5,080	
(109)	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		(23)
5,103	**Balance at 31 March**		**5,080**

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.

2015/16 £'000		2016/17 £'000
(243)	**Balance at 1 April**	**(447)**
(204)	Change in the value of investments not charged to the Surplus/Deficit on the Provision of Services	293
(447)	**Balance at 31 March**	**(154)**

Note 27. Operating Activities.

The cash flow operating activities include the following items:

2015/16 £'000		2016/17 £'000
(1,679)	Interest received	(1,572)
20,324	Interest paid	20,772
(2)	Dividends received	(2)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2015/16 £'000		2016/17 £'000
(80,353)	Depreciation	(84,706)
(19,548)	Impairment and downward valuations	(18,254)
(2,347)	Amortisation	(1,930)
(1,415)	Increase/(decrease) in impairment for bad debts	(1,427)
(44,866)	Increase/decrease in creditors	28,203
555	Increase/decrease in debtors	9,724
1,774	Increase/decrease in inventories	(428)
(35,674)	Movement in pension liability	(31,032)
(51,793)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(18,872)
271	Other non-cash items charged to the net surplus or deficit on the provision of services	2,255
(233,396)	**Net surplus/(deficit) on provision of services for non cash movements**	**(116,468)**

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2015/16 £'000		2016/17 £'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
76,129	- Capital Grants credited to Surplus or deficit on the provision of services	103,806
2,605	- Proceeds from sale of property, plant and equipment, investment property and intangible assets	0
1,619	- Any other items for which the cash effects are investing or financing cash flows	1,655
80,353	**Net surplus/(deficit) on provision of services for Investing & Financing activities**	**105,461**

Note 28. Investing Activities.

The cash flow investing activities include the following items:

2015/16 £'000		2016/17 £'000
88,140	Purchase of property, plant and equipment, investment property and intangible assets	55,459
851,519	Purchase of short-term and long- term investments	1,064,550
729	Other payments for investing activities	788
(2,605)	Proceeds from sale of property, plant equipment, investment property and intangible assets	0
(786,086)	Proceeds from short-term and long-term investments	(1,033,517)
(78,704)	Capital Grants Received (Government)	(102,952)
(2,348)	Other receipts from investing activities	(2,443)
70,645	**Net cash flow from investing activities**	**(18,115)**

Note 29. Financing Activities.

The cash flow financing activities include the following items:

2015/16 £'000		2016/17 £'000
(30,456)	Cash receipts of short and long-term borrowing	(34,082)
630	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance-Sheet PFI Contracts	470
12,111	Repayments of short and long-term borrowing	37,691
(17,715)	**Net cash flow from Financing activities**	**4,079**

Note 30. Acquired and Discontinued Operations.

The Council has no Acquired and Discontinued Operations to report for 2016-17.

Note 31. Agency Services.

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 (CCG's).

The Council paid £7.230m (£5.508m in 2015-16) acting as an agent of the CCG's in order to simplify the payment arrangements to the homes. The total amount paid is recovered from the CCG's.

Note 32. Pooled Budgets.

Under Section 31 of the Health Act 1999 (superseded by Section 75 of the Health Act 2006), the Council has entered into pooled budget arrangements.

From 1st April 2016 the Better Care Fund (BCF) Section 75 agreement of £125m, whereby the Council is the host Authority for the pooled budgets; relates to Proactive Care, Specialties including Learning Disabilities, Corporate, Integrated Community Equipment Service, and Child & Adolescent Mental Health Services; and is responsible for their financial administration. Outside this Better Care Fund Section 75 agreement is a stand-alone Section 75 agreement for Sexual Health which was signed in 2015-16 but only commenced in 2016-17.

a. Proactive Care

The primary purpose of the Proactive Section 75 agreement is to support delivery of prevention and early intervention strategies and to secure the necessary shift from acute to community provision. Performance against the key national targets around Non-Elective Admissions (NEA) and Delayed Transfers of Care (DTOC) are crucial areas that the various Boards, including Health and Wellbeing Board, Joint Delivery Board and the Council's Corporate Management Board, are responsible for reviewing.

2015/16 £'000		2016/17 £'000
48,978	Gross Partnership Expenditure	46,946
(48,978)	Gross Partnership Income	(46,946)
0	**Surplus(-)/Deficit(+)**	**0**
26,700	**Contribution from Lincolnshire County Council**	**24,884**

This was split across both Lincolnshire Clinical Commissioning Group's (CCG's) and the Council's Social care expenditure in 2016-17. The funding was supporting post 30 day discharge, intermediate Care, 7 day hospital working and other early prevention and intervention strategies in order to assist the shift from acute to community provisions in 2016-17.

b. Learning Disability

In 2001-02 the Council and CCG's established a pooled budget Partnership Arrangement for the provision of Learning Disability (LD) services. This has now been extended to include LD Carers, Personal Health Budgets and Adult Care Section 256s.

2015/16 £'000		2016/17 £'000
62,761	Gross Partnership Expenditure	65,386
(64,167)	Gross Partnership Income	(63,666)
(1,406)	**Surplus(-)/Deficit(+)**	**1,720**
45,970	**Contribution from Lincolnshire County Council**	**47,290**

This commissioning strategy aims to ensure that eligible Adults with Learning Disability, Autism and/or Mental Health needs receive appropriate care and support that enables them to feel safe and live independently. LD Services are administered via a Section 75 agreement between the Council and NHS commissioners in Lincolnshire, in addition to a small in-house element that sits outside the Section 75 agreement. The Mental Health service is run on behalf of the Council by the Lincolnshire Partnership Foundation Trust, also by way of a Section 75 agreement. Specialist Adult Services finished 2016-17 with an overspend of £1.719m for the year, which has been borne by the Council as an overspend for the year.

The service has seen growth in Supported Living and Direct Payments costs from a combination of high cost discharges from in-patient provision and school/college leavers requiring packages of care. There has also been an increase in residential placement costs this year. Service user income has increased due to direct payment audit income and the successful conclusion of a number of long standing legal dispute in respect out of county placements by other Local Authorities within the County.

c) Corporate

The Corporate Section 75 agreement provides the 'enablers' to the delivery of health and wellbeing of Lincolnshire essentially focused around BCF-funded activity. So this Section 75 agreement funds (a) the risk framework, the contingency reserve, and provides the mechanism for pooling underspends from other Section 75 agreements; and (b) provides the funds to support Lincolnshire Health and Care (LHAC) review and development.

2015/16 £'000		2016/17 £'000
5,842	Gross Partnership Expenditure	4,402
(8,990)	Gross Partnership Income	193
(3,148)	**Surplus(-)/Deficit(+)**	**4,595**
5,350	**Contribution from Lincolnshire County Council**	**0**

It was agreed between the Council and the CCG's that £1.17m funding for LHAC that was underspent in 2015-16 and carried forward as a reserve into 2016-17 would be utilised in this financial year to continue the integration of the CCG's and the Council's Social care activities. The final figure for 2016-17 was expenditure of £1.363m. The difference of £0.193m was agreed to be paid by the 4 CCG's and invoiced accordingly in March 2017. The remainder was paid out to CCG's in 2016-17 from a risk reserve held in the Council's reserves due to non elective admissions to hospitals not being reduced accordingly in 2016.17.

d. Integrated Community Equipment Service (ICES)

From 1st April 2015 the Council entered into a Section 75 agreement with the four Lincolnshire CCG's for the provision of an Integrated Community Equipment Service (ICES).

2015/16 £'000		2016/17 £'000
5,390	Gross Partnership Expenditure	5,800
(5,390)	Gross Partnership Income	(5,800)
0	**Surplus(-)/Deficit(+)**	**0**
2,400	**Contribution from Lincolnshire County Council**	**2,668**

This is a 46:54 shared responsibility budget between the Council and the CCG's and there is a risk share agreement regarding any under or over spends in year. This year there was a £0.300m BCF contingency reserve which was released in 2016-17 to offset the overspend in year.

e. Child & Adolescent Mental Health Services

In 2012-13 the Council and Lincolnshire CCG's established a pooled budget Partnership Arrangement for the provision of Child & Adolescent Mental Health Service (CAMHS). The size of this pooled budget increased in 2016-17 following variations made which incorporated additional functions in to the Section 75 Agreement.

CAMHS is designed to meet a wide range of mental health needs in children and young people. These include mild to moderate emotional well-being and mental health problems, as well as moderate, acute and severe, complex and/or enduring mental health problems or disorders that are causing significant impairments in their lives including: anxiety, depression, trauma, eating disorders and self-harm.

The service also provides a 24 hour, 7 day a week Crisis and Home Treatment Service to provide crisis intervention for young people actively displaying suicidal ideation or following suicide attempts, severe symptoms of depression with suicidal ideation, life threatening harm to self, harm to others as a result of a mental health concern, acute psychotic symptoms or presentation of anorexia with severe physical symptoms.

A CAMHS Professional Advice Line is also available to help with uncertainty of whether to refer, or if help is needed on how to refer.

2015/16 £'000		2016/17 £'000
7,163	Gross Partnership Expenditure	6,090
(7,163)	Gross Partnership Income	(5,365)
0	**Surplus(-)/Deficit(+)**	**725**
725	**Contribution from Lincolnshire County Council**	**725**

The figures within the CAMHS comes mostly from the Child and Adolescent Mental Health services but now also includes promoting Independence for Children and other services that work towards the delivery of Mental Health issues amongst children and the young. The funding was all fully utilised in 2016-17, however as the Council's contribution was not included within the Section 75 agreement then this is shown as a deficit against the income received in year which has been fully borne by the Council.

f. Sexual Health

During 2015-16 the Council jointly procured a new contract with NHS England to provide sexual health treatment and prevention services around the county. The new contract commenced on 1st April 2016 and includes provision for HIV services which are the responsibility of NHS England, as well as other treatment and preventative services which remain the responsibility of the Council.

2015/16 £'000		2016/17 £'000
0	Gross Partnership Expenditure	1,268
0	Gross Partnership Income	(1,268)
0	**Surplus(-)/Deficit(+)**	**0**
	Contribution from Lincolnshire County Council	

The Council will be responsible for the contract but will receive a contribution from NHS England in respect of the HIV services. As such a Section 75 agreement has been agreed between the Council and NHS England that came into force in April 2016.

Note 33. Members Allowances.

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

2015/16 £'000		2016/17 £'000
793	Basic Allowances	791
450	Special Responsibility Allowances	424
1,243		1,215
104	Expenses	87
1,347		**1,302**

Note 34. 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, and 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:

2015/16 Number of Staff			2016/17 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	£120,000- £124,999	0	0
0	0	£115,000- £119,999	0	0
0	0	£110,000- £114,999	0	1
0	0	£105,000- £109,999	2	1
3	1	£100,000- £104,999	2	2
1	1	£95,000- £99,999	2	0
4	1	£90,000- £94,999	5	0
6	1	£85,000- £89,999	9	0
5	6	£80,000- £84,999	4	1
9	1	£75,000- £79,999	7	2
15	5	£70,000- £74,999	26	0
38	5	£65,000- £69,999	36	1
49	5	£60,000- £64,999	53	4
78	6	£55,000- £59,999	65	0
133	8	£50,000- £54,999	119	1
342	**40**	**Total**	**330**	**13**

A breakdown of the numbers between schools and other services can be found at Appendix A at the back of this document.

The above table excludes all employees who are included within the Senior Officer remuneration table on the next table.

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). Other Emoluments include the profit element of car hire and medical insurance.

Senior Officers with a salary over £150,000	**Year**	**Salary**	**Employer's Pension Contribution**	**Any Other Emoluments**	**Total**
		£	£	£	£
Job Title					
Tony McArdle - Chief Executive	2016/17	172,612	34,125	-	*206,737*
	2015/16	*173,392*	*34,125*	*-*	*207,517*

Senior Officers with a salary over £50,000 and less than £165,000	**Year**	**Salary**	**Employer's Pension Contribution**	**Any Other Emoluments**	**Total**
		£	£	£	£
Director of Adult Social Services	2016/17	129,740	25,067	-	*154,807*
	2015/16	*126,872*	*24,132*	*-*	*151,004*
Executive Director of Children's Services	2016/17	134,319	26,077	-	*160,396*
	2015/16	*128,149*	*24,819*	*-*	*152,968*
Executive Director - Finance & Public Protection	2016/17	127,243	25,184	3,172	*155,599*
	2015/16	*125,983*	*24,936*	*2,586*	*153,505*
Executive Director - Communities	2016/17	128,281	25,067	-	*153,348*
	2015/16	*127,027*	*24,819*	*-*	*151,846*
Chief Information and Commissioning Officer (*1)	2016/17	*116,380*	*22,882*	-	*139,262*
	2015/16	*115,262*	*22,655*	*-*	*137,917*
Chief Fire Officer	2016/17	115,582	12,709	-	*128,291*
	2015/16	*73,869*	*16,029*	*82*	*89,980*
Acting Chief Fire Officer (*2)	2016/17	-	-	-	-
	2015/16	*9,435*	*1,132*	*-*	*10,567*
Director of Public Health (*3)	2016/17	*88,888*	*11,435*	-	*100,323*
	2015/16	*163,860*	*21,036*	*-*	*184,896*
Interim Director of Public Health	2016/17	*5,107*	*651*	-	*5,758*
	2015/16	-	-	-	-

(*1) The Chief Information & Commissioning Officer role was dis-established on 31st March 2017.

(*2) The Acting Chief Fire Officer role was not needed as a Chief Fire Officer was appointed during 2016-17

(*3) The Director of Public Heath retired during October 2016.

Note 35. 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	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £	2016/17 £
£0 - £20,000	109	83	22	5	131	88	£953,857	£751,343
£20,001 - £40,000	33	32	16	4	49	36	£1,477,883	£967,778
£40,001 - £60,000	15	7	9	2	24	9	£1,187,797	£435,600
£60,001 - £80,000	1	6	2	1	3	7	£203,366	£450,917
£80,001 - £100,000	3	3	0	0	3	3	£278,731	£268,343
£100,001 - £150,000	1	2	1	1	2	3	£253,910	£686,195
Total	**162**	**133**	**50**	**13**	**212**	**146**	**£4,355,544**	**£3,560,176**

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 36 Termination Benefits. The difference between the values reported in this note and the Termination Benefits note arise due to provisions and any variances between year end accruals and the actual payments made in the next financial year.

Note 36. Termination Benefits.

As a result of further reductions to local government funding the Council is undertaking a review and reshaping of services. In 2016-17 the Council has incurred liabilities of £1.956m (£5.483m in 2015-16) in relation to termination benefits.

- £0.794m for redundancy payments (£4.541m in 2015-16); and
- £1.162m for pension strain (£0.942m in 2015-16).

Further information on termination benefits can be found in Note 35 on Exit Packages, which details the number of exit packages and total cost over bands, and Note 45 on Defined Benefit Pension Schemes which details the effect termination benefits have had on pensions in 2016-17.

Note 37. External Audit Costs.

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

2015/16 £'000		2016/17 £'000
107	Fees payable with regards to external audit services carried out by the appointed auditor	107
(3)	Fees payable to the Appointed Auditor for the certification of grant claims and returns	0
18	Fees payable in respect of other services provided by the Appointed Auditor	67
122	**Total**	**174**

Note 38. 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 2016-17 are as follows:

Schools Budget Funded by Dedicated Schools Grant	**Central Expenditure £'000**	**Individual Schools Budget £'000**	**Total £'000**
Final DSG for 2016/17 before Academy recoupment			497,279
Academy Figure Recouped for 2016/17			(249,519)
Total DSG after Academy Recoupment for 2016/17			247,760
Brought Forward from 2015/16			13,882
Agreed Initial Budgeted Distribution in 2016/17	30,802	230,840	261,642
In Year Adjustments	264	75	339
Final Budget Distribution for 2016/17	**31,066**	**230,915**	**261,981**
less Actual central expenditure	(29,060)		(29,060)
less Actual ISB deployed to schools		(218,839)	(218,839)
Total actual expenditure in 2016/17	**(29,060)**	**(218,839)**	**(247,899)**
Local Authority Contribution 2016/17	**0**	**0**	**0**
Carry forward to 2017-18	**2,006**	**12,076**	**14,082**

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.

Included within the In Year Adjustments is the 2016-17 Early Years Block adjustment which was received from the Department for Education in May 2017.

Note 39. Grant Income.

The Council credited the following grants and contributions and donations to the Comprehensive Income and Expenditure Statement in 2016-17; for grants and contributions where the conditions have been met, or no conditions existed:

2015/16 £'000	a) Credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement	2016/17 £'000
	Non-ring-fenced government grants:	
94,670	Revenue Support Grant	70,351
0	Rural Services Delivery Grant	6,892
5,600	Education Services Grant	4,899
3,853	New Homes Bonus Grant	4,519
2,621	Section 31 Grant - Business Rates	2,458
1,386	Independent Living Fund Grant	1,755
0	Partners in Practice S31 Grant	1,501
4,433	Care Act Implementation Grant	0
1,060	Local Services Support Grant	0
563	Other Non Specific Grant	1,586
	Capital Grants and Contributions:	
31,013	DfT Asset Protection Grant	31,973
8,499	Growth Deal Grant (LEP)	25,496
0	DFT LTP Lincoln Eastern Bypass	16,177
11,434	DfE Basic Need Grant	14,266
5,421	DfE Schools Condition Capital Maintenance Grant	5,028
3,312	DfT Integrated Transport Grant	3,312
1,338	Devolved Formula Grant	2,860
1,105	Heritage Lottery Fund	256
8,216	Single L Growth Fund (LEP)	0
1,875	Adult Care Capital Grant	0
1,848	Community Capacity Grant	0
1,100	DfE Universal Infant Free School Meals Capital Grant	0
968	Other Capital Grants and Contributions	2,637
190,315	**Total**	**195,966**

Details of capital grants unapplied during the financial year and transferred to reserves can be found in the Movement on Reserves Statement and Note 25 Usable Reserves.

2015/16 £'000	b) Credited to Revenue Service Accounts in the Comprehensive Income and Expenditure	2016/17 £'000
248,872	Dedicated Schools Grant	247,695
30,723	Public Health Grant	34,371
13,310	Pupil Premium	13,147
4,765	Universal Infant Free School Meals	4,434
4,473	YPLA 16-19 Funding	4,182
2,971	Disabled Facilities Grant	4,884
1,479	Adult Safeguarding Learning	2,273
1,787	Troubled Families Grant	1,954
1,892	EFA and Sport Grant	1,830
5,867	Department of Culture, Media and Sport Broadband Grant	1,800
1,187	Fire New Burdens	1,216
1,158	The Private Finance Initiative	1,158
1,094	Asylum Seekers	1,209
1,071	ERDF Grant Income	(24)
7,198	Other Revenue Grants	4,632
327,846		**324,761**

Details of Revenue Grants unutilised during the financial year and transferred to Earmarked Reserves are set out in Note 10.

Note 40. 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).

Further details of the grants received by the Council in 2016-17 are set out in Note 13 Taxation and Non Specific Grant Income and Note 39 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 2016-17 are shown in Note 33.

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.

Nine Councillors have not submitted the declaration of interest form this year. Relevant information relating to these Councillors has been used from other sources for the purpose of this note.

During 2016-17 the following have been declared:

Councillors

- Twenty Seven Councillors' or their immediate families have provided goods/services to the Council to the value of £0.305m;
- Thirty Three Councillors' or their immediate families are associated with Public Bodies which have provided goods/services to the Council to the value of £30.808m;
- Twenty Councillors are associated with voluntary organisations which have provided goods/services to the Council to the value of £0.366m.

No Councillors or Chief Officers have declared related party transactions for providing services to other entities through the Council.

c. Other Public Bodies

The Council has entered into Pooled Budget arrangements with Lincolnshire Clinical Commissioning Groups (CCG's) for Specialties including Learning Disabilities, Integrated Community Equipment, Proactive Care, Corporate, and Child & Adolescent Mental Health Service; which are all included within a framework schedule to summarise and share the risk. Outside of this schedule there is also a pooled budget for Sexual Health. All Pooled Budgets are shown in Note 32.

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 £0.226m was recharged from the Council to the pension fund for scheme administration and management. The pension fund earned a total interest of £0.061m 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 controls Transport Connect LTD through its ownership of 100% of the shares in the company. 2016-17 was the first year of operation. The Council has provided 2 fixed loans and 1 revolving credit facility. The breakdown is as follows:

- Loan 1 totalled £547,000. Interest rate 4.5%. Outstanding amount totals £431,891.
- Loan 2 totalled £137,000. Interest rate 4.5%. Outstanding amount totals £108,131.

A revolving credit facility is available of £300,000 which is repayable at 4% plus base.

Note 41. Capital Expenditure and Capital Financing.

The table below shows the financing of the £103.088m capital expenditure (including revenue expenditure financed from capital under statute and finance leases (REFCUS)), 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 2016-17 expenditure is provided in the Narrative Report, with details of the asset acquired.

2015/16 £'000		2016/17 £'000
561,065	**Opening Capital Financing Requirement**	**559,751**
	Capital Investment:	
83,708	Property, Plant and Equipment	80,427
168	Investment Property	399
756	Intangible Assets	2,354
0	Loans and Advances Treated as Capital Expenditure	0
24,134	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	19,806
	Sources of Finance:	
(2,605)	Capital Receipts	0
(66,085)	Government Grants and Contributions	(74,072)
(11,935)	Government Grants and Contributions funding REFCUS	(9,486)
	Sums set aside from Revenue:	
(7,259)	Direct Revenue Contributions	(3,756)
(22,196)	Minimum Revenue Provision/Loans fund principal	(17,560)
559,751	**Closing Capital Financing Requirement**	**557,863**
(1,314)	**Movement in Year:**	**(1,888)**
	Explanation of movement in year:	
0	Increase in underlying need to borrow (supported by government financial assistance)	0
(1,534)	Increase in underlying need to borrow (unsupported by government financial assistance)	(2,103)
31	Assets acquired under finance leases	0
189	Assets acquired under PFI/PPP contracts	215
(1,314)	**Increase/(Decrease) in Capital Financing Requirement**	**(1,888)**

Note 42. Leases.

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 holds 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 £0.112m (£0.116m in 2015-16) were made during the year. £0.026m was charged to the Comprehensive Income and Expenditure Statement as interest payable and £0.086m 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		**Vehicles, Plant & Equipment**	
	2015/16	**2016/17**	**2015/16**	**2016/17**
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 April	15,556	14,486	250	175
Additions	23	23	31	31
Revaluations	(157)	(157)	0	0
Depreciation	(415)	(415)	(106)	(106)
Disposals	(521)	(521)	0	0
Reclassifications	0	0	0	0
Net Book Value at 31 March	**14,486**	**13,416**	**175**	**100**

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.

	2015/16		**2016/17**	
	Minimum Lease Payments	**Finance Lease Liabilities**	**Minimum Lease Payments**	**Finance Lease Liabilities**
Land and Buildings:	**£'000**	**£'000**	**£'000**	**£'000**
Not later than one year	7	13	6	13
Between one year and not later than five years	27	50	34	62
Later than five years	192	316	186	304
Total Committed Liabilities as at 31 March	**226**	**379**	**226**	**379**

Vehicles, Plant & Equipment:	2015/16 Minimum Lease Payments £'000	2015/16 Finance Lease Liabilities £'000	2016/17 Minimum Lease Payments £'000	2016/17 Finance Lease Liabilities £'000
Not later than one year	91	28	25	6
Between one year and not later than five years	58	15	25	4
Later than five years	0	0	0	0
Total Committed Liabilities as at 31 March	**149**	**43**	**50**	**10**

The Council sub-lets County Farm holdings held under finance leases. At 31 March 2017 the minimum payments expected to be received under non-cancellable sub-leases was £0.357m.

ii) Operating Leases

The Council has acquired the following assets under operating leases:

Land and Buildings:

- The Council lease various properties for use in delivering services. The rentals paid during 2016-17 amounted to £1.415m (£1.378m in 2015-16).

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 £3.164m in 2016-17 (£3.956m in 2015-16).

As at 31 March 2017, the Council is committed to making payments of £17.878m under operating leases, comprising the following elements:

	2015/16 £'000	2016/17 £'000
Not later than one year	3,305	3,402
Between one year and not later than five years	7,486	7,355
Later than five years	7,619	7,121
Total Committed Liabilities as at 31 March	**18,410**	**17,878**

<u>Lincolnshire County Council as Lessor</u>

i) Finance Leases

The Council has granted a small number of long-term leases for Adult Care properties and a Heritage site, 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 £2.410m in 2016-17 (£2.326m in 2015-16). The Council also received rental income from other properties; where the value of the lease is material, the income amounted to £0.709m in 2016-17 (£1.125m in 2015-16).

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

	2015/16	2016/17
	£'000	£'000
Not later than one year	2,297	2,103
Between one year and not later than five years	5,980	5,791
Later than five years	16,438	16,177
Total future minimum lease payments receivable as at 31 March	**24,715**	**24,071**

Note 43. Private Finance Initiatives (PFI) and Similar Contracts.

Lincolnshire - Schools PFI Arrangement

a. Background

On 27 September 2001 Lincolnshire County 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 2016-17. These assets are included in the fixed assets shown in Note 14 Property, Plant and Equipment.

	Land & Buildings		Furniture & Equipment	
	2015/16	2016/17	2015/16	2016/17
	£'000	£'000	£'000	£'000
Balance at 1 April	20,250	21,256	30	27
Additions	179	202	10	13
Revaluations	1,218	(762)	0	0
Depreciation	(479)	(517)	(13)	(12)
Disposals	0	(4,888)	0	0
Reclassifications	0	0	0	0
De-recognition	88	0	0	0
Net Book Value at 31 March	**21,256**	**15,291**	**27**	**28**

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 2016-17:

	PFI Lease Liability	
	2015/16	2016/17
	£'000	£'000
Liability as at 01 April	12,485	11,850
Principal Repayments	(635)	(470)
Liability as at 31 March	**11,850**	**11,380**

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	Financing Costs (Interest)	Service Charges	Total Estimated Payments
	£'000	£'000	£'000	£'000
Payable in 2017-18	609	800	1,915	**3,324**
Payable between 2018-19 and 2020-21	2,276	2,091	5,945	**10,312**
Payable between 2021-22 and 2025-26	3,817	2,346	11,348	**17,511**
Payable between 2026-27 and 2030-31	4,258	834	10,674	**15,766**
Payable between 2031-32 and 2032-33	420	24	2,248	**2,692**
Total Committed Liabilities as at 31 March 2017	**11,380**	**6,095**	**32,130**	**49,605**

e. School Assets

On 1 August 2016, the Lady Jane Franklin School in Spilsby converted to Academy status (now called Woodlands Academy). 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 Council's Accounting Policies on Leases and Accounting for Schools.

The figures shown in Section d above, include £1.716m of principal lease liability and £0.919m of interest liability that relate to the Lady Jane Franklin School.

On 1 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 Council's Accounting Policies on Leases and Accounting for Schools.

The figures shown in Section d above, include £1.727m of principal lease liability and £0.925m of interest liability that relate to the Phoenix School.

On 11 November 2011, the school buildings belonging to St Botolph's County Primary School in Sleaford (a Voluntary Controlled School) were transferred to the Diocese Trust. This school has been accounted for in accordance with the Council's Accounting Policy of School Assets.

The figures shown above in Section d include £1.881m of principal lease liability and £1.007m of interest liability that relate to St Botolph's County Primary School.

Note 44. 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 this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2016-17 the Council paid £12.734m to the administrators of the TPS in respect of employer’s pension contributions. The Council contribution rate to the teacher's pension fund in 2016-17 is 16.48%. 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 £4.13m in 2016-17 and have an ongoing liability to the Council.

National Health Service Pension Scheme (NHSPS)

Staff that transferred to the 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 2016-17 the Council paid £0.143m to the administrators of the NHS Pension Scheme in respect of employer contributions. The employer's contribution rate to the scheme is 14.3% in 2016-17.

Note 45. 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 £28.199m into the Lincolnshire Pension Fund in 2016-17, based on 19.7% of scheme employees' pensionable pay and a lump sum payment of £1.166m.

Under the Council's early retirement policy, additional contributions of £1.163m 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 £6.133m. Further information can be found on **pages 110 to 145** and in the Council's Pension Fund Annual Report which is available on request.

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 its Pension Committee. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the fund are appointed by the committee - See the list in the Pension Fund statements on **page 123**.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, and 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 2016-17 the Council paid employer's contributions of £5.3m to the Lincolnshire Fire and Rescue Pension Fund.

There are currently three schemes: the 1992 and 2015 schemes, where the employer contribution rate is 21.7% and the 2006 scheme, where the contribution rate is 12%. A further £0.6m was paid in respect of ill health retirements and £0.343m in respect of injury benefits. Further information on the Lincolnshire Fire and Rescue Pension fund can be found on **pages 146 to 148**.

Transactions Relating to Post-Employment Benefits (IAS 19 Retirement Benefits accounting entries).

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The unfunded FPS employer's contributions have been defined by the actuary as benefits expenditure reduced by employee contributions. These are gross contributions and have been adjusted by the DCLG government grant.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

a. Pension Assets and Liabilities Recognised in the Balance Sheet, Service Costs & Other Comprehensive Income for the Local Government Pension Fund as at 31 March 2017:

	Assets	**Obligations**	**Net liability/asset**
	£'000	**£'000**	**£'000**
Fair value of employer assets	950,084	0	950,084
Present value of funded liabilities	0	(1,405,155)	(1,405,155)
Present value of unfunded liabilities	0	(94,711)	(94,711)
Opening position as at 31 March 2016	**950,084**	**(1,499,866)**	**(549,782)**
Service cost:			
Current service cost	0	(34,448)	(34,448)
Past service costs (including curtailments)	0	(679)	(679)
Effect of settlements	0	0	0
Total Service Costs	**0**	**(35,127)**	**(35,127)**
Net Interest:			
Interest income on planned assets	33,121	0	33,121
interest cost on defined benefit obligation	0	(52,344)	(52,344)
Impact on asset ceiling	0	0	0
Total net Interest	**33,121**	**(52,344)**	**(19,223)**
Total defined benefit cost recognised in Profit or (Loss)	**33,121**	**(87,471)**	**(54,350)**

	Assets	Obligations	Net liability/asset
	£'000	£'000	£'000
Cash flows:			
Plan participants' contributions	8,440	(8,440)	0
Employer contributions	29,285	0	29,285
Contributions re unfunded benefits	6,133	0	6,133
Benefits paid	(44,025)	44,025	0
Unfunded benefits paid	(6,133)	6,133	0
Expected closing position	**976,905**	**(1,545,619)**	**(568,714)**
Remeasurements:			
Changes in demographic assumptions	0	26,952	26,952
Changes in financial assumptions	0	(277,336)	(277,336)
Other experience	0	(5,005)	(5,005)
Return on assets excluding amounts included in net interest	186,278	0	186,278
Changes in asset ceiling	0	0	0
Total remeasurements recognised in Other Comprehensive Income(OCI)	**186,278**	**(255,389)**	**(69,111)**
Exchange differences	0	0	0
Effect of business combinations or disposals	0	0	0
Total Exchange and business	0	0	0
Fair value of employer assets	1,163,183	0	1,163,183
Present value of funded liabilities	0	(1,698,181)	(1,698,181)
Present value of unfunded liabilities	0	(102,827)	(102,827)
Closing position as at 31 March 2017	**1,163,183**	**(1,801,008)**	**(637,825)**

This liability comprises of approximately £27.3m in respect of LPGS unfunded pensions and £75.5m in respect of Teachers unfunded pensions.

From the table above, below is an analysis of the present value of funded liabilities for the Local Government Pension Scheme:

	Liability Split		Duration
	£000	%	
Members	606,197	35.7%	24.1
Deferred Members	428,117	25.2%	23.0
Pensioners	663,867	39.1%	11.5
	1,698,181	**100.0%**	

b. Pension Assets and Liabilities Recognised in Balance Sheet, Service Costs & Other Comprehensive Income for the Local Government Pension Fund as at 31 March 2016.

	Assets £'000	Obligations £'000	Net liability/asset £'000
Fair value of employer assets	942,454	0	942,454
Present value of funded liabilities	0	(1,507,965)	(1,507,965)
Present value of unfunded liabilities	0	(103,944)	(103,944)
Opening position as at 31 March 2015	**942,454**	**(1,611,909)**	**(669,455)**
Service cost:			
Current service cost	0	(41,505)	(41,505)
Past service costs (including curtailments)	0	(925)	(925)
Effect of settlements	0	0	0
Total Service Costs	**0**	**(42,430)**	**(42,430)**
Net Interest:			
Interest income on planned assets	30,111	0	30,111
interest cost on defined benefit obligation	0	(51,642)	(51,642)
Impact on asset ceiling	0	0	0
Total net Interest	**30,111**	**(51,642)**	**(21,531)**
Total defined benefit cost recognised	**30,111**	**(94,072)**	**(63,961)**
Cash flows:			
Plan participants' contributions	8,618	(8,618)	0
Employer contributions	29,380	0	29,380
Contributions re unfunded benefits	6,207	0	6,207
Benefits paid	(41,011)	41,011	0
Unfunded benefits paid	(6,207)	6,207	0
Expected closing position	**969,552**	**(1,667,381)**	**(697,829)**
Remeasurements:			
Changes in demographic assumptions	0	0	0
Changes in financial assumptions	0	143,556	143,556
Other experience	0	23,959	23,959
Return on assets excluding amounts included in net interest	(19,468)	0	(19,468)
Changes in asset ceiling	0	0	0
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(19,468)**	**167,515**	**148,047**
Exchange differences	0	0	0
Effect of business combinations or disposals	0	0	0
Total Exchange and business	0	0	0
Fair value of employer assets	950,084	0	950,084
Present value of funded liabilities	0	(1,405,155)	(1,405,155)
Present value of unfunded liabilities	0	(94,711)	(94,711)
Closing position as at 31 March 2016	**950,084**	**(1,499,866)**	**(549,782)**

c. Pension Assets and Liabilities Recognised in the Balance Sheet, P & L & OCI for the Fire Fighters Pension Fund as at 31 March 2017

	Assets £'000	Obligations £'000	Net liability/asset £'000
Fair value of employer assets	0	0	0
Present value of funded liabilities	0	(181,900)	(181,900)
Present value of unfunded liabilities	0	(13,900)	(13,900)
Opening position as at 31 March 2016	**0**	**(195,800)**	**(195,800)**
Service cost:			
Current service cost	0	(4,600)	(4,600)
Past service costs (including curtailments)	0	(5,100)	(5,100)
Effect of settlements	0	0	0
Total Service Costs	**0**	**(9,700)**	**(9,700)**
Net Interest:			
Interest income on planned assets	0	0	0
interest cost on defined benefit obligation	0	(7,000)	(7,000)
Impact on asset ceiling	0	0	0
Total net Interest	**0**	**(7,000)**	**(7,000)**
Total defined benefit cost recognised in Profit or (Loss)	**0**	**(16,700)**	**(16,700)**
Cash flows:			
Plan participants' contributions	1,300	(1,300)	0
Employer contributions	4,300	0	4,300
Transfers to/from other authorities	0	0	0
Contributions in respect of injury benefits	300	0	300
Benefits paid	(5,600)	5,600	0
Backdated commutation payments	0	0	0
Injury award expenditure	(300)	300	0
Expected closing position	**0**	**(207,900)**	**(207,900)**
Remeasurements:			
Changes in demographic assumptions	0	(1,200)	(1,200)
Changes in financial assumptions	0	(41,000)	(41,000)
Other experience	0	17,200	17,200
Return on assets excluding amounts included in net interest	0	0	0
Changes in asset ceiling	0	0	0
Total remeasurements recognised in Other Comprehensive Income (OCI)	**0**	**(25,000)**	**(25,000)**
Exchange differences	0	0	0
Effect of business combinations or disposals	0	0	0
Total Exchange and business combinations & disposals	**0**	**0**	**0**
Fair value of employer assets			
Present value of funded liabilities	0	(216,300)	(216,300)
Present value of unfunded liabilities	0	(16,600)	(16,600)
Closing position as at 31 March 2017	**0**	**(232,900)**	**(232,900)**

The current service cost shown in the table above includes the cost for both the non-injury benefits and injury benefits. This is split £4.2m for the non-injury benefits and £0.4m 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 £6.5m for the non-injury benefits and £0.5m for the injury benefits.

Analysis of the present value of the defined obligation - Fire Fighters Scheme

	Liability Split		**Duration**
	£000	**%**	
Members	98,000	45.31%	24.2
Deferred Members	8,100	3.74%	27.5
Pensioners	110,200	50.95%	11.4
	216,300	**100.0%**	
Contingent injuries	9,800	59.04%	24.2
Injury pension liabilities	6,800	40.96%	12.0
	16,600	**100.0%**	

The durations are effective as at the previous valuations as at 31 March 2016.

d. Pension Assets and Liabilities Recognised in the Balance Sheet, P&L & OCI for the Fire Fighters Pension Fund as at 31 March 2016:

	Assets	**Obligations**	**Net liability/asset**
	£'000	**£'000**	**£'000**
Fair value of employer assets	**0**	**0**	0
Present value of funded liabilities	**0**	(208,200)	(208,200)
Present value of unfunded liabilities	0	(17,600)	(17,600)
Opening position as at 31 March 2015	**0**	**(225,800)**	**(225,800)**
Service cost:			
Current service cost	0	(5,900)	(5,900)
Past service costs (including curtailments)	0	0	0
Effect of settlements	0	0	0
Total Service Costs	**0**	**(5,900)**	**(5,900)**
Net Interest:			
Interest income on planned assets	0	0	0
interest cost on defined benefit obligation	0	(7,200)	(7,200)
Impact on asset ceiling	0	0	0
Total net Interest	**0**	**(7,200)**	**(7,200)**
Total defined benefit cost recognised in Profit or (Loss)	**0**	**(13,100)**	**(13,100)**

	Assets	Obligations	Net liability/asset
	£'000	£'000	£'000
Cash flows:			
Plan participants' contributions	1,200	(1,200)	0
Employer contributions	5,500	0	5,500
Transfers to/from other authorities	100	(100)	0
Contributions in respect of injury benefits	300	0	300
Benefits paid	(6,000)	6,000	0
Backdated commutation payments	(800)	800	0
Injury award expenditure	(300)	300	0
Expected closing position	**0**	**(233,100)**	**(233,100)**
Remeasurements:			
Changes in demographic assumptions	0	600	600
Changes in financial assumptions	0	22,900	22,900
Other experience	0	13,800	13,800
Return on assets excluding amounts included in net interest	0	0	0
Changes in asset ceiling	0	0	0
Total remeasurements recognised in Other Comprehensive Income (OCI)	**0**	**37,300**	**37,300**
Exchange differences	0	0	0
Effect of business combinations or disposals	0	0	0
Total Exchange and business combinations & disposals	**0**	**0**	**0**
Fair value of employer assets	0	0	0
Present value of funded liabilities	0	(181,900)	(181,900)
Present value of unfunded liabilities	0	(13,900)	(13,900)
Closing position as at 31 March 2016	**0**	**(195,800)**	**(195,800)**

	Liability Split		Duration
	£000	%	
Members	75,500	41.5%	25.5
Deferred Members	4,100	2.3%	29.8
Pensioners	102,300	56.2%	11.5
	181,900	**100.0%**	**17.7**
Contingent injuries	7,600	54.7%	25.5
Injury pension liabilities	6,300	45.3%	10.2
	13,900	**100.0%**	**22.1**

The durations are effective as at the previous valuation as at 31 March 2015.

e. Pension Fund Assets Comprise

The Local Government Pension schemes comprise the following assets:

Asset Class	Fair value of scheme assets			
	2015/16		2016/17	
	£'000	%	£'000	%
Equities (b)				
- Consumer	196,831	20.7%	130,772	11.2%
- Manufacturing	21,097	2.2%	17,094	1.5%
- Energy & Utilities	51,477	5.4%	30,158	2.6%
- Financial	102,493	10.8%	80,333	6.9%
- Health & Care	0	0.0%	0	0.0%
- Information Technology	35,241	3.7%	44,777	3.8%
- Other	105,412	11.1%	95,490	8.2%
Total Equities	**512,551**	**53.8%**	**398,624**	**34.3%**
Bonds:				
- Corporate (Investment)	35,549	3.7%	108,119	9.3%
- Corporate (Non-Investment Grade)	60,111	6.3%	0	0.0%
- Government (Fixed)	19,652	2.1%	37,553	3.2%
- Other	13,292	1.4%	0	0.0%
Total Bonds	**128,604**	**13.4%**	**145,672**	**12.5%**
Total Private Equity	**34,710**	**3.6%**	**26,861**	**2.3%**
Property				
- UK	101,105	10.7%	105,841	9.1%
- Global	10,314	1.1%	3,540	0.3%
Total Property	**111,419**	**11.7%**	**109,381**	**9.4%**
Investment Funds & Unit Trusts:				
- Equities	53,604	5.6%	319,575	27.5%
- Bonds	0	0.0%	0	0.0%
- Infrastructure	0	0.0%	17,485	1.5%
- Other	101,937	10.7%	137,351	11.8%
Total Investment Funds	**155,541**	**16.3%**	**474,411**	**40.8%**
Cash and Cash Equivalents	**10,259**	**1.1%**	**8,234**	**0.7%**
Total Derivatives	**0**	**0.0%**	**0**	**0.0%**
Total Assets	**953,084**	**100.0%**	**1,163,183**	**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 22.8% (2016-17).

f. Basis for estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Council Fund being based on the latest full valuation of the scheme as at 1 April 2014.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Fire-fighters' Pension Scheme	
	2015/16	2016/17	2015/16	2016/17
	%	%	%	%
Price Increases	3.2	3.4	3.2	3.2
Salary Increases	3.7	2.8	3.2	3.2
Pension Increases (CPI)	2.2	2.4	2.2	2.2
Discount Rate	3.5	2.6	3.5	3.5
Equity investments	1.1	22.8	N/A	N/A
Take up of option to convert annual pension to lump sum prior to 1 April 2008	25	50	N/A	N/A
Take up of option to convert annual pension to lump sum post 1 April 2008	63	75	N/A	N/A

The table below shows the life expectancy of future and current pensioners and is based on the CMI 2013 model, assuming the current rate of improvement has peaked and will converge to a long term rate of 1.25% p.a. Life expectancy is based on pensioners of 65 in the LGPS and 60 in the Fire-fighters' scheme.

	Local Government Pension Scheme		Fire-fighters' Pension Scheme	
	Male	Female	Male	Female
Current Pensioners	22.1	24.4	29.7	31.6
Future Pensioners (*1)	24.1	26.6	31.2	33.2

(*1) Figures assume members aged 45 as at the last formal valuation.

g. 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 an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 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%	169,342	9.0%	21,700
0.5% increase in the Salary Increase Rate	1.0%	21,091	1.0%	3,400
0.5% increase in the Pension Increase Rate	8.0%	146,180	8.0%	18,000

The Fire Fighters'' pension arrangements have no assets to cover its liabilities.

Asset and Liability Matching (ALM) Strategy

The 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 (34.3% of scheme assets) and Investment Funds (40.3%). 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 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.

h. Projected defined benefit cost for the period to 31 March 2017

Local Government Pension Scheme:

	Assets	Obligations	Net (liability) /asset	% of pay
	£000	£000	£000	
Projected Current Service Cost		55,483	(55,483)	-41.1%
Past service cost including curtailments		0	0	0.0%
Effect of settlements		0	0	0.0%
Total Service Cost	0	55,483	(55,483)	-41.1%
Interest income on plan assets	30,169	0	30,169	22.3%
Interest cost on defined benefit obligation	0	47,008	(47,008)	-34.8%
Total Net Interest Cost	30,169	47,008	(16,839)	-12.5%
Total included in Income and Expenditure	**30,169**	**102,491**	**(72,322)**	**-53.6%**

The weighted average duration of the defined benefit obligation for scheme members is 18.5 years in 2016-17.

The authority expects to pay £29.585m in contributions to the LGPS in 2016-17.

Fire Fighters Pension Scheme:

	Assets	Obligations	Net (liability) /asset	% of pay
	£000	£000	£000	
Projected Current Service Cost		(5,300)	5,300	-58.8%
Past service cost including curtailments		0	0	0.0%
Effect of settlements		0	0	0.0%
Total Service Cost	0	(5,300)	5,300	-58.8%
Interest income on plan assets		0	0	0.0%
Interest cost on defined benefit obligation		(6,100)	6,100	-67.7%
Total Net Interest Cost	0	(6,100)	6,100	-67.7%
Total included in Income and Expenditure	**0**	**(11,400)**	**11,400**	**-126.5%**

The weighted average duration of the defined benefit obligation for scheme members is 17.7 years in 2016-17.

Note 46. Contingent Liabilities.

At 31 March 2017 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 employer's liability remain, due to a significant increase in disease related claims, particularly relating to hearing loss. It is expected that most types of public liability claims for this period are likely to have been submitted. However, in light of recent historic sexual abuse claims and with The Independent Inquiry into Child Sexual Abuse (IICSA) focusing in this area, it is still possible that claims under the Public Liability policy will still be submitted. The position is independently reviewed 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 Council, however, a contingency liability still exists due to potential future claims depending upon the future solvency requirements of MMI. The levy applicable to the scheme members has recently been increased to 25% with indications that this may rise to 34%.

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. 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. As 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 is one authority who is challenging this process on the basis that the Service User is now deemed as an ordinary resident of the County and as such, funding responsibility lies with the Council. There is 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.

c. Wrangle Sea Banks Flood Scheme Funding Claw Back

The Council is underwriting Witham 4th District Drainage Board's risk of European Structural and Investment Funds (ESIF) funding clawback in respect of the Wrangle Sea Banks Flood Scheme. The scheme will raise the level of flood protection in the area.

The liability is in the range of nil to £0.500m as this is the level of funding expected from the ESIF.

Note 47. Contingent Assets.

At 31 March 2017 the Council has no material contingent assets.

Lincolnshire County Council's Pension Fund 2016/17

Pension Fund Account - For the year ended 31 March 2017

2015/16 £000		Note	2016/17 £000
	Contributions and Benefits		
(85,292)	Contributions Receivable	(6)	(90,083)
(7,077)	Transfers in	(7)	(5,170)
(92,369)			**(95,253)**
80,745	Benefits Payable	(8)	80,219
2,649	Leavers	(9)	3,209
83,394			**83,428**
(8,975)	**Net additions from dealings with fund members**		**(11,825)**
11,035	Management Expenses	(10)	11,841
2,060	**Net additions including management expenses**		16
	Returns on Investments		
(27,895)	Investment Income	(11)	(29,264)
18,004	Profit (Loss) on Forward Foreign Exchange	(14)	37,156
5,058	Change in Market Value of Investments	(13a)	(364,274)
(4,833)	**Net returns on investments**		**(356,382)**
2,773	Net increase in the Fund during the year		356,366
1,756,283	Opening net assets of the Fund		1,759,056
1,759,056	**Closing net assets of the Fund**		**2,115,422**

Net Asset Statement as at 31 March 2017

2015/16 £000		Note	2016/17 £000
1,747,802	Investment Assets	(13)	2,104,148
(3,661)	Investment Liabilities	(13)	(4,383)
1,744,141	**Total Net Investments**		**2,099,765**
18,450	Current Assets	(20)	19,188
(3,536)	Current Liabilities	(21)	(3,531)
1,759,056	**Net Assets of the Fund at 31st March**		**2,115,422**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Pension Note 19.

Notes to the Pension Fund Account

Note 1. Description of the Pension Fund

The Lincolnshire Pension Fund (the Fund) is part of the Local Government Pension Scheme and Lincolnshire County Council is the Administering Authority. Benefits are administered by West Yorkshire Pension Fund (WYPF) in a shared service arrangement.

The following information is a summary only, and further detail can be found in the Lincolnshire Pension Fund Annual Report 2016-17 (available on the Fund's shared website at www.wypf.org.uk), and in the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit 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 firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee and Local Pension Board.

Membership

Membership of the LGPS is automatic for eligible employees, but they are free to choose whether to remain in the scheme or make their own personal arrangements outside 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 225 contributing employer organisations in the Fund including the Council (a list of employers is shown in Pension Fund Note 29) and over 70,000 members as detailed below:

	31 March 2016	31 March 2017
Number of employers with active members	197	225 (*)
Number of employees in the scheme:		
- Lincolnshire County Council	12,868	11,467
- Other employers	12,583	13,383
Total	**25,451**	**24,850**
Number of pensioners:		
- Lincolnshire County Council	12,232	*12,778*
- Other employers	6,049	*6,434*
Total	**18,281**	**19,212**
Number of deferred pensioners:		
- Lincolnshire County Council	20,752	19,735
- Other employers	6,866	7,172
Total	**27,618**	**26,907**

(*) The number of employers will differ from those listed in Pension Fund Note 24 due to Academies within MAT's and prime account schools.

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2016, and employer contribution rates were set ranging from 15.9% to 29.1% of pensionable pay. In addition, the majority of employers are paying deficit contributions as cash payments.

Benefits

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Price Index.

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre April 2008	**Service post April 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. For more details, please refer to our shared pensions website at www.wypf.org.uk.

Note 2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2016-17 financial year and its position at year end as at 31 March 2017.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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 end of the financial year. 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.

Note 3 Significant Accounting Policies

Fund account - revenue recognition

Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the day on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than due date.

Employer augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

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

i) Interest income.
Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income.
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the

net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

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.

Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its Pension Fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and Governance

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with the governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment expenses

All investment management expenses are accounted for on an accruals basis.

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

- 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 costs of the Council's in-house fund management team are charged to the Fund.

Fees on investments where the cost is deducted at source have been included within investment expenses and an adjustment made to the change in market value of investments.

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 as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Pension Fund Note 15). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31 March 2017 are shown in Pension Fund Note 30.

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 (see Pension Fund Note 15).

Cash and cash equivalents

Cash comprises of cash in hand, deposits and includes amounts held by external managers. 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.

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.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see Pension Fund Note 19).

Additional voluntary contributions

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see Pension Fund Note 22).

Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the Pension Fund notes.

Note 4 Critical Judgements in Applying Accounting Policies

Pension Fund liability

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Pension Fund Note 18.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Note 5 Assumptions Made About the Future and Major Sources of Estimation Uncertainly

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the accounts for the year ended 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
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 £303m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £35m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £262m. 4) a one-year increase in assumed life expectancy would increase the liability by approximately £131m.
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 £43m. There is a risk that these may be over or understated in the accounts.

Note 6 Contributions Receivable

Contributions receivable are analysed below:

	2015/16 £000	2016/17 £000
Employers		
Normal	57,734	60,252
Deficit Funding	7,793	9,401
Additional - Augmentation	1,119	1,198
Members		
Normal	18,551	19,001
Additional years	95	231
	85,292	**90,083**

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

	2015/16 £000	2016/17 £000
Lincolnshire County Council	36,864	36,193
Scheduled Bodies	42,713	47,975
Admitted Bodies	5,715	5,915
	85,292	**90,083**

Note 7 Transfers In From Other Pension Funds

	2015/16 £000	2016/17 £000
Individual transfers from other schemes	7,077	5,170
Group transfers from other schemes	0	0
	7,077	**5,170**

There were no material outstanding transfers due to the Pension Fund as at 31 March 2017.

Note 8 Benefits Payable

	2015/16	2016/17
	£000	£000
Pensions	64,624	66,666
Commutations & Lump Sum Retirement Benefits	14,405	11,920
Lump Sum Death Benefits	1,716	1,633
	80,745	**80,219**

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

	2015/16	2016/17
	£000	£000
Lincolnshire County Council	43,281	43,169
Scheduled Bodies	34,512	33,758
Admitted Bodies	2,952	3,292
	80,745	**80,219**

Note 9 Payments to and on account of leavers

	2015/16	2016/17
	£000	£000
Individual transfers to other schemes	2,574	2,988
Group transfers from other schemes	0	0
Refunds to members leaving service	75	221
	2,649	**3,209**

There were no material outstanding transfers due from the Pension Fund as at 31 March 2017.

Note 10 Management Expenses

This analysis of the costs of managing the Lincolnshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The external Audit fee for the year was £0.024m (£0.028m in 2015-16):

	2015/16	2016/17
	£000	£000
Administrative Costs	1,654	1,130
Investment Management Expenses	9,030	10,038
Oversight and Governance Costs	351	673
Total Management Expenses	**11,035**	**11,841**

A further breakdown of the investment management expenses is shown below:

	2015/16 £000	2016/17 £000
Transaction Costs	664	837
Management Fees	7397	6,883
Performance Related Fees	531	1,499
Custody Fees	438	819
Total Investment Management Expenses	**9,030**	**10,038**

Note 11 Investment Income

	2015/16 £000	2016/17 £000
Equities	26,458	27,954
Pooled Investments:		
- Property	899	912
- Alternatives	0	(2)
Cash deposits	55	78
Stock Lending	483	322
	27,895	**29,264**

Note 12 Taxes on Income

	2015/16 £000	2016/17 £000
Withholding tax - Equities	1,057	1,283
	1,057	**1,283**

Note 13 Investments

	2015/16	2016/17
	£000	£000
Equities	951,839	726,451
Pooled Investments:		
- Property	199,306	218,419
- Private Equity	56,338	43,334
- Bonds	227,600	262,168
- Equities	99,033	577,302
- Alternatives	183,434	245,375
Cash Deposits	24,570	26,609
Investment income due	5,183	4,189
Amount receivable for sales	499	301
Total Investment Assets	**1,747,802**	**2,104,148**
Open Forward Foreign Exchange (FX)	(2,354)	(3,668)
Investment Income payable	-	(1)
Amount payable for purchases	(1,307)	(714)
Total Investment Liabilities	**(3,661)**	**(4,383)**
Net Investment Assets	**1,744,141**	**2,099,765**

Reconciliation of Movements in Investments

	Market Value at 31 March 2016	and derivative payments	Sales and derivative receipts	Change in Market Value	Market Value at 31 March 2017
	£000	£000	£000	£000	£000
Equities	951,839	321,843	(789,482)	242,251	726,451
Pooled Investments:					
- Property	199,306	16,223	(8,072)	10,962	218,419
- Private Equity	56,338	774	(19,838)	6,060	43,334
- Bonds	227,600	159,941	(142,904)	17,531	262,168
- Equities	99,033	436,053	(2,654)	44,870	577,302
- Alternatives	183,434	88,467	(69,126)	42,600	245,375
	1,717,550	**1,023,301**	**(1,032,076)**	**364,274**	**2,073,049**
Cash Deposits	24,570				26,609
Other Investment Balances:					
- Open Forward FX	(2,354)				(3,668)
- Amount receivable for sales	499				301
- Investment income due	5,183				4,188
- Amount payable for purchases	(1,307)				(714)
	1,744,141				**2,099,765**

	Market Value at 31 March 2015 £000	Purchases and derivative £000	Sales and derivative receipts £000	Change in Market Value £000	Market Value at 31 March 2016 £000
Equities	972,857	302,531	(280,881)	(42,668)	951,839
Pooled Investments:					
- Property	189,640	2,766	(8,972)	15,872	199,306
- Private Equity	73,692	3,450	(32,271)	11,467	56,338
- Bonds	228,549	1,926	(2,986)	111	227,600
- Equities	88,445	0	(906)	11,494	99,033
- Alternatives	164,801	81,006	(61,039)	(1,334)	183,434
	1,717,984	**391,679**	**(387,055)**	**(5,058)**	**1,717,550**
Cash Deposits	25,695				24,570
Other Investment Balances:					
- Open Forward FX	(4,825)				(2,354)
- Amount receivable for sales	2,134				499
- Investment income due	4,960				5,183
- Amount payable for purchases	(1,796)				(1,307)
	1,744,152				**1,744,141**

Analysis of Investments

Geographical Analysis of Fund Assets as at 31 March 2017:

	UK £'000	Non-UK £'000	Global £'000	Total £'000
Equities	398,290	489,866	415,597	1,303,753
Bonds	262,168	0	0	262,168
Alternatives incl. PE & Property	199,260	40,769	267,099	507,128
Cash and Equivalents	26,609	0	0	26,609
Total as at 31 March 2017	**886,327**	**530,635**	**682,696**	**2,099,658**
Equities	325,544	364,828	360,500	1,050,872
Bonds	35,858	23,774	167,967	227,599
Alternatives incl. PE & Property	181,013	71,757	186,309	439,079
Cash and Equivalents	24,570	0	0	24,570
Total as at 31 March 2016	**566,985**	**460,359**	**714,776**	**1,742,120**

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

	2015/16	2016/17
	£000	£000
Property:		
- Unit Trusts	145,608	161,526
- Other managed funds (LLP's)	56,698	56,893
Private Equity - Other managed funds (LLP's)	56,338	43,334
Bonds - Other managed funds	227,600	262,168
Equities - Other managed funds	99,033	577,302
Alternatives - Other managed funds	183,434	245,375
Total Pooled Vehicles	**768,711**	**1,346,598**

Investments Analysed by Fund Manager

	31 March 2016		31 March 2017	
Fund Manager	£m	%	£m	%
Externally Managed				
Invesco	367	21	496	24
Neptune	82	5	0	0
Schroders	88	5	118	6
Columbia Threadneedle	95	5	122	6
Morgan Stanley (Global Brands)	99	6	179	8
Morgan Stanley (Alternatives)	187	10	246	12
Morgan Stanley (Private Equity)	61	4	45	2
Blackrock	120	7	262	12
Legal & General	0	0	398	19
BMO	108	6	0	0
Internally Managed				
Property	202	12	226	11
UK Equity	333	19	0	0
Total	**1,742**	**100**	**2,092**	**100**

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 investments that fall into this category as follows:

	31 March 2016		31 March 2017	
Investment	Value	%	Value	%
BMO Absolute Return Bond Fund	108,036	6.2	0	0
Legal & General UK Equity Fund	0	0	398,286	18.8
Blackrock 1-5 year Corporate Bond Fund	0	0	125,928	6.0
Morgan Stanley Alternative Investments	183,434	10.7	245,375	11.6
Morgan Stanley Global Brands	99,033	5.7	179,016	8.5

Stock Lending

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JPMorgan. The total amount of stock on loan at the year-end was £20.761m (£38.866m at 31 March 2016) 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 £22.876m (£42.486m at 31 March 2016), which represented 110.2% of the value of securities on loan.

Stock-lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. Income received from stock lending activities, before costs, was £0.362m for the year ending 31 March 2017 (£0.477m at 31 March 2016) and is included within the 'Investment Income' figure detailed on the Pension Fund Account. There are no liabilities associated with the loaned assets.

Note 14 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 in place between the Fund and 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.

Open forward Currency Contracts

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month						
	GBP	16	AUD	25	-	-
	USD	505	GBP	405	-	(1)
Over one month						
	CHF	19,400	GBP	15,676	-	(90)
	EUR	96,500	GBP	82,972	-	(189)
	GBP	1,171	CAD	1,947	3	-
	GBP	17,557	CHF	21,800	36	-
	GBP	101,684	EUR	118,581	-	(34)
	GBP	106,069	JPY	14,968,000	-	(1,534)
	GBP	763,567	USD	965,881	-	(6,466)
	JPY	13,909,000	GBP	98,438	1,536	-
	USD	679,800	GBP	538,425	3,071	-
Total					**4,646**	**(8,314)**
Net forward currency contracts at 31 March 2017						**(3,668)**

Prior year comparative		
Open forward currency contracts at 31 March 2016	**19,276**	**(21,630)**
Net forward currency contracts at 31 March 2016		**(2,354)**

Profit (Loss) of Forward Currency Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of normal trading of the Fund's managers who manage multi-currency portfolios. The total of £37,156m also includes the unrealised loss of £4.1m (unrealised loss of £3.8m in 2015-16) from the Fund's two currency overlay managers.

Note 15 Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivitites affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Private Equity	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2012)	EBITDA multiple Revenue mulitple Discount for lack of marketability Control premium	Valuations could be affected by material events occuring between the date of the financial statements provided and the pensions fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors and investment managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

	Assessed valuation range (+/-)	Value as at 31 March 2017 £'000	Value on increase £'000	Value on decrease £'000
Private Equity	21%	43,334	52,434	34,234
Total				

Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities 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 securities, quoted index linked securities and unit trusts.

Level 2

Assets and liabilities at level 2 are those where quoted market 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.

Level 3

Assets and liabilities 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.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2017	Quoted Market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservabl Level 3 £'000	Total £'000
Financial Assets				
Fair value through profit and loss	1,570,410	218,419	288,709	2,077,538
Loans and receivables	45,797	-	-	45,797
Total of Financial Assets	1,616,207	218,419	288,709	2,123,335
Financial Liabilitites				
Fair value through profit and loss	-	(4,382)	-	(4,382)
Measured at amortised cost	(3,531)	-	-	(3,531)
Total of Financial Liabilities	(3,531)	(4,382)	-	(7,913)
Net Investment Assets	**1,612,676**	**214,037**	**288,709**	**2,115,422**

Values at 31 March 2016	Quoted Market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservabl Level 3 £'000	Total £'000
Financial Assets				
Fair value through profit and loss	1,303,429	199,306	239,773	1,742,508
Loans and receivables	43,021	-	-	43,021
Total of Financial Assets	1,346,450	199,306	239,773	1,785,529
Financial Liabilitites				
Fair value through profit and loss	-	(22,937)	-	(22,937)
Measured at amortised cost	(3,536)	-	-	(3,536)
Total of Financial Liabilities	(3,536)	(22,937)		(26,473)
Net Investment Assets	**1,342,914**	**176,369**	**239,773**	**1,759,056**

Reconciliation of Fair Value Measurements within Level 3

	Private Equity		Alternatives	
	2015-16	2016-17	2015-16	2016-17
	£'000	£'000	£'000	£'000
Market Value as at 31 March	73,692	56,338	164,801	183,434
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Purchases and derivative payments	3,450	774	81,006	88,467
Sales and derivative receipts	(32,271)	(19,838)	(61,039)	(69,126)
Unrealised gains/(losses)	11,328	(10,486)	(13,557)	18,230
Realised gains/(losses)	139	16,546	12,223	24,370
Market Value as at 31 March	**56,338**	**43,334**	**183,434**	**245,375**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and change in market values line of the Fund account.

Note 16 Financial Instruments

Classification of Financial Instruments

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial assets were reclassified during the accounting period.

	31 March 2016			31 March 2017		
	Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost	Fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
Financial Assets						
Equities	951,839			726,451		
Pooled Investments:						
- Property	199,306			218,419		
- Private Equity	56,338			43,334		
- Bonds	227,600			262,168		
- Equities	99,033			577,302		
- Alternatives	183,434			245,375		
Cash	-	33,898		-	37,490	
Other Investment Balances	24,958	-		4,489	-	
Debtors	-	9,123		-	8,307	
	1,742,508	**43,021**	**0**	**2,077,538**	**45,797**	**0**
Financial Liabilities						
Other Investment Balances	(22,937)			(4,382)		
Creditors			(3,536)			(3,531)
	(22,937)		**(3,536)**	**(4,382)**		**(3,531)**
	1,719,571	**43,021**	**(3,536)**	**2,073,156**	**45,797**	**(3,531)**

Net Gains and Losses on Financial Instruments

	2015/16	2016/17
	£000	£000
Financial Assets		
Designated at fair value through profit & loss	(5,058)	364,274
Loans and receivables	0	
Financial Liabilities		
Fair value through profit & loss	(2,354)	(3,668)
Financial liabilities at amortised cost	0	
	(7,412)	**360,606**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 17. Nature and Extent of Risks Arising from Financial Instruments.

Risk and Risk Management

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 cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

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.

Other 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 and derivative 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. The Fund’s investment managers mitigate this price risk through diversification, and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other Price Risk - Sensitivity Analysis

Following analysis of historical data and expected investment return during the financial year, the Fund, in consultation with a fund manager, has determined that the following movements in market price are reasonably possible for the 2016-17 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor’s most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	Potential market movement (+/-)
UK Bonds	8%
UK Equities	13%
Overseas Equities	12%
Property	13%
Private Equity	21%
Alternatives	8%

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits would have been as follows (the prior year comparative is shown below):

Asset Type	Value at 31 March 2017 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Bonds	262,168	8%	283,141	241,195
UK Equities	398,290	13%	450,068	346,512
Overseas Equities	905,463	12%	1,014,119	796,807
Property	218,419	13%	246,813	190,025
Private Equity	43,334	21%	52,434	34,234
Alternatives	245,375	8%	265,005	225,745
Total assets available	**2,073,049**		**2,311,580**	**1,834,518**

Asset Type	Value at 31/03/2016 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
UK Bonds	119,564	8%	129,129	109,999
Overseas Bonds	108,036	4%	112,357	103,715
UK Equities	347,676	13%	392,874	302,478
Overseas Equities	703,195	12%	787,578	618,812
Property	199,306	13%	225,216	173,396
Private Equity	56,339	21%	68,170	44,508
Alternatives	183,434	8%	198,109	168,759
Total assets available	**1,717,550**		**1,913,433**	**1,521,667**

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 cash flows 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 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

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.

Assets Exposed to Interest Rate Risk

Asset Type	Value at 31 March 2017 £000	Percentage movement on 1% change in interest rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	26,609	-	26,609	26,609
Cash balances	10,881	-	10,881	10,881
Bonds	262,168	2,622	264,790	259,546
Total	**299,658**	**2,622**	**302,280**	**297,036**

Asset Type	Value at 31 March 2016 £000	Percentage movement on 1% change in interest rates	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	24,570	-	24,570	24,570
Cash balances	9,328	-	9,328	9,328
Bonds	227,599	2,276	229,875	225,323
Total	**261,497**	**2,276**	**264,732**	**260,162**

Income Exposed to Interest Rate Risk

Asset Type	Value at 31 March 2017 £000	Percentage movement on 1% change in interest rates	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	76	8	84	68
Total	**76**	**8**	**84**	**68**

Asset Type	Value at 31 March 2016 £000	Percentage movement on 1% change in interest rates	Value on Increase £000	Value on Decrease £000
Cash deposits, cash and cash equivalents	55	6	61	49
Total	**55**	**6**	**61**	**49**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows 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. The Fund holds both monetary and non-monetary assets denominated in currencies other than UK 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.

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 13%, as measured by one standard deviation (10% in 2015-16).

A 13% fluctuation in the currency is considered reasonable based on an analysis of historical movements in volatility of exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% 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:

Assets Exposed to Currency Risk

	Value at 31 March 2017	Percentage Market movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas/Global Equities	726,447	94,438	820,885	632,009
Pooled Investments:				
Overseas/Global Equity	179,016	23,272	202,288	155,744
Overseas/Global Property	19,159	2,491	21,650	16,668
Overseas/Global Private Equity	43,335	5,634	48,969	37,701
Total	**967,957**	**125,835**	**1,093,792**	**842,122**

	Value at 31 March 2016	Percentage Market movement	Value on Increase	Value on Decrease
	£000	£000	£000	£000
Overseas/Global Equities	604,163	78,541	682,704	525,622
Pooled Investments:				
Overseas/Global Equity	88,445	11,498	99,943	76,947
Overseas/Global Property	18,747	2,437	21,184	16,310
Overseas/Global Private Equity	55,886	7,265	63,151	48,621
Oversea Bonds	108,036	14,045	122,081	93,991
Total	**875,277**	**113,786**	**989,063**	**761,491**

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 market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund is additionally exposed to credit risk through securities lending, forward currency contracts and its daily treasury activities.

The securities lending programme is run by the Fund's custodian, JPMorgan, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, JPMorgan provide an indemnity to cover borrower default, overnight market risks, fails on return of loaned securities and entitlements to securities on loan.

Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 25% of eligible assets can be on loan at any one time.

Forward currency contracts are undertaken by the Fund's two currency overlay managers - Record and HSBC Trinkaus & Burkhardt. The responsibility for these deals therefore rests with the appointed managers. Full due diligence was undertaken prior to the appointment of these managers and they are regularly monitored and reviewed. Both managers are FSA regulated.

The Pension Fund's bank account is held at Barclays, which holds an 'A' long term credit rating (Fitch Credit Rating Agency) and it maintains its status as a well-capitalised and strong financial organisation. The management of the cash held in this account is carried out by the Council's Treasury Manager, in accordance with an agreement signed by the Pensions Committee and the Council. The agreement stipulates that the cash is pooled with the Council's cash and managed in line with the policies and practices followed by the Council, as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services and detailed in its Treasury Management Practices.

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31st March 2017, these assets totalled £1,566m, with a further £37m 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.

Outsourcing risk

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 West Yorkshire Pension Fund (WYPF), through a shared service agreement. WYPF present to the Pensions Committee on a quarterly basis and both the County Finance Officer and the Pension Fund Manager sit on the Collaboration Board which meets quarterly.

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 $22 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 Custodian's 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. Manager's 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.

Note 18 Funding Arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where reasonable to do so, and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates, where possible. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

At the 2016 actuarial valuation, the Fund was assessed as 76.9% funded (71.5% at the March 2013 valuation). This corresponded to a deficit of £529m (2013 valuation: £597m) at that time.

The table below summarises the whole Fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (% of pay)	**Secondary Rate £000**		
	2017/18	**2018/19**	**2019/20**
17.40%	18,004	20,539	23,222

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 Actuarial Valuation report on the Fund's website.

The market value of the Fund's assets as at the valuation date are compared against the value placed on the Fund's liabilities in today's terms (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. The calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases. The principal assumptions were as follows:

Financial Assumptions

Future Assumed Returns as at 2017	%
UK Equities	5.9
Overseas Equities	5.5
Fixed Interest GILTS	2.2
Index Linked GILTS	2.2
Corporate Bonds	3.4
Property	3.8
Cash	2.5

Other Financial Assumptions	31 March 2013	31 March 2016
	% p.a	% p.a
Discount rate	4.6	4.0
Price inflation (RPI)	3.3	3.2
Pay Increases (*)	3.8	2.6
Pension Increases	2.5	2.1
Revaluation of deferred pension	2.5	2.1
Revaluation of accrued CARE pension	2.5	2.1
Expenses	0.4	0.5

(*) An allowance is also made for promotional pay increases

Demographic Assumptions

The baseline longevity assumptions are a bespoke set specifically tailored to fit the membership profile of the Fund. These base tables are then projected using the CMI 2013 Model, allowing for a long-term rate of improvement of 1.25% per year. The assumed life expectancy from age 65 is as follows:

	31 March 2013	31 March 2016
	Years	
Males:		
Current Pensioners	22.2	22.1
Future pensioners	24.5	24.1
Females:		
Current Pensioners	24.4	24.4
Future pensioners	26.8	26.6

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post-April 2008 service.

50:50 option

It is assumed that 2% of active members (evenly distributed across age, service length and salary range) will take up the 50:50 option in the LGPS 2014 scheme.

Note 19 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 2017 for IAS19 purposes' referred to in the note can be obtained from the Pensions section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016-17 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. I have been instructed by the Administering Authority to provide the necessary information for the Lincolnshire Pension Fund ("the Fund").

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 the 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 Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2017	31 March 2016
Active members (£m)	1,347	1,373
Deferred members (£m)	755	491
Pensioners (£m)	1,174	900
Total	**3,276**	**2,764**

The promised retirement benefits at 31 March 2017 (2016) have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016 (2013). The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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 and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £507m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £52m.

Financial assumptions

Year ended (% p.a.)	31 March 2017	31 March 2016
Pension Increase Rate	2.4%	2.2%
Salary Increase Rate	2.8%	3.7%
Discount Rate	2.6%	3.5%

Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.1 years	24.4 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	24.1 years	26.6 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	262
0.5% p.a. increase in the Salary Increase Rate	2%	70
0.5% p.a. decrease in the Real Discount Rate	10%	338

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. The covering report identifies the appropriate reliance's and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Anne Cranston

Anne Cranston AFA

12 May 2017

For and on behalf of Hymans Robertson LLP

Note 20 Current Assets

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. 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. Debtors includes £4.701m relating to contributions due from employers (£4.018m in 2015-16) and £1.411m for contributions due from employees (£1.306m in 2015-16).

	31 March 2016	31 March 2017
	£000	£000
Debtors	7,417	7,028
Long term debtors	1,705	1,279
Cash balances	9,328	10,881
	18,450	**19,188**

Analysis of Debtors

	31 March 2016	31 March 2017
	£000	£000
Debtors:		
Central Government Bodies	1,512	345
Other Local Authorities	5,079	6,007
NHS Bodies	0	0
Public Corporations and Trading Funds	133	0
Other Entities and individuals	693	676
	7,417	**7,028**
Long Term Debtors:		
Central Government Bodies	1,705	1,279
	1,705	**1,279**

Note 21 Current Liabilities

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.

	31 March 2016	31 March 2017
	£000	£000
Creditors	(3,536)	(3,531)

Analysis of Liabilities

	2015/16	2016/17
	£000	£000
Creditors:		
Central Government Bodies	(560)	9
Other Local Authorities	(1,291)	(4)
NHS Bodies	0	0
Public Corporations and Trading Funds	(1,664)	-
Other Entities and individuals	(21)	(3,536)
	(3,536)	**(3,531)**

Note 22 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 (excluding any final bonus) amounted to £8.902m (£9.095m in 2015-16). Member contributions of £1.020m (£0.993m in 2015-16) were received by the Prudential in the year to 31st March and £1,954m (£1.513m in 2015-16) was paid out to members. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

Note 23 Related Party Transactions

The Lincolnshire Pension Fund is administered by Lincolnshire County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

During the reporting period, the council incurred costs of £226,278 in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The council is also the single largest employer of members of the Pension Fund and contributed £25.6m to the Fund in 2016-17. All monies owing to and due from the Fund were paid in year.

The Treasury Management section of the Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £10.4m and interest of £61k was earned over the year.

Governance

Under legislation introduced in 2003-04, Councillors have been entitled to join the Scheme, however this changed from the 1st April 2014 and no new Councillors are now able to join the scheme. Councillors who are current members will cease to be in the scheme following the end of their current term as Councillor. Committee members M Allan, R Phillips, P Wood and A Antcliff are contributing members of the Pension Fund as at 31st March 2017. Each member of the Pension Fund Committee is required to declare their interests at each meeting.

Note 24 Key Management Personnel

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 34. This can be found on the Council's website at www.lincolnshire.gov.uk.

Note 25 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 19 investment vehicles amounted to £20.9m.

Note 26 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.

Note 27 Impairment Losses

The Fund has no recognised impairment losses.

Note 28 Dividend Tax Claims

The Council has lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. Claims relate to Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The Council is participating with other pension funds in progressing a legal test case to support the claims.

The table below summarise the position of the claims as at 31st March 2017. 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.

Territory	Claim Period	Amount (local currency)	Submitted	Status
FID - Mannimen Claims	1994-1998	£793,497	Aug 2006	The test case is being progressed by Pinsent Masons. Following the Court of Appeal's decision in June 2015, the case was referred to the CJEU on the substantive issue. The CJEU hearing took place on 9 November 2016 and the Advocate General (a legal expert of the CJEU) issued a positive Opinion in respect to the FID claim, however, we await the final CJEU decision. The negative decision issued by the Court of Appeal on the time limit issue was appealed to the Supreme Court however this has been rejected. The next step is to appeal to the High Court however it is proposed to wait until the substantive issue has been resolved.
Stock lending claims	2004-2014	£1,422,421	Feb 2010, Feb 2011, Jul 2012, Aug 2016	The test case is being progressed by Pinsent Masons. The test case was heard at the First Tier Tribunal in November 2015. The Tribunal rejected the claim to recover withholding tax on MODs. The Tribunal compared the receipt of a manufactured dividend to a foreign dividend, whereas we believe it should have been compared to a UK manufactured dividend. Permission to appeal to the Upper Tribunal was granted. The test claimant also submitted a request to refer the case to the CJEU however this request has been denied.
Total		**£2,215,918**		

Territory	Claim Period	Amount (local currency)	Submitted	Status
Fokus Bank				
Netherlands	2004-2006	€ 130,076	Jan 2010	Claims repaid in Jan 2010
Germany	2007-2010	€ 191,946	Dec 2011	Awaiting response from German tax authorities
Spain	Q4 2007- Q4 2009	€ 85,072	Jan 2012	Claim repaid except for Q4 2007 (claim amount 10,545 euros) awaiting decision from Spanish tax authorities
Total		**€ 407,094**		

Note 29 Scheduled & Admitted Bodies

Analysis of Active and Ceased Employers in the Fund:

	Active	Ceased	Total
Scheduled Body	186	17	203
Admitted Body	17	12	29
Total	**203**	**29**	**232**

Scheduled & Admitted Bodies Contributing to the Fund as at 31 March 2017:

County and District Councils	Stamford TC	Boston John Fielding
Lincolnshire County Council	Sutton Bridge PC	Boston West Academy
(incl. LCC Schools)	Sudbrooke PC	Boston Witham Federation
Boston Borough Council	Washingborough PC	Bourne Abbey Academies Trust
East Lindsey District Council	Woodhall Spa PC	Bourne Academy
City of Lincoln Council		Bourne Grammar
North Kesteven District Council	**FE Establishments**	Bourne Westfield Primary
South Kesteven District Council	Bishop Grosseteste University	Bracebridge Infant and Nursery
South Holland District Council	Boston College	Branston Community Academy
West Lindsey District Council	Grantham College	Branston Junior Academy
	Lincoln College	Browns CofE Academy
Internal Drainage Boards	Stamford College	Caistor Grammar Academy
Black Sluice		Caistor Yarborough
Lindsey Marsh	**Other Scheduled Bodies**	Carlton Academy
North East Lindsey	Acorn Free School	Castle Wood Academy
South Holland	BG Lincoln	Charles Read Academy
Upper Witham	Compass Point	Cordeaux Academy
Welland and Deeping	Lincs Police Chief Constable	Edenham CofE Academy
Witham First	Police & Crime Commissioner	Ellison Boulters Academy
Witham Fourth		Ermine Primary
Witham Third	**Admitted Bodies**	Fosse Way Academy
	Acis Group	Gainsborough Benjamin Adlard

Parish and Town Councils	Active Lincolnshire	Gainsborough Parish Church
Billinghay PC	Active Nation	Giles Academy
Bourne TC	Adults Supporting Adults	Gipsey Bridge Academy
Bracebridge Heath PC	Boston Mayflower	Gosberton House Academy
Cherry Willingham PC	Edwards & Blake	Grantham Ambergate
Crowland PC	G4S	Grantham Isaac Newton Primary
Deeping St James PC	GLL	Grantham Kings School
Gainsborough TC	Lincoln Arts Trust	Grantham Sandon
Gedney PC	Lincoln BIG	Grantham Walton Girls
Greetwell PC	Lincs HIA	Harrowby CofE Infants
Heighington PC	Kier Group	Hartsholme Academy
Horncastle TC	Making Space	Heighington Millfield Academy
Ingoldmells PC	Magna Vitae	Hillcrest EY Academy
Langworth PC	New Linx Housing	Holbeach Primary
Louth TC	Serco	Hogsthorpe Primary Academy
Mablethorpe & Sutton TC	Vinci	Horncastle Banovallum
Market Deeping TC		Horncastle QE Grammar
Metheringham PC	**Academies**	Huntingtower Community Primary
Nettleham PC	Aegir Community Academy	Huttoft Primary Academy
North Hykeham TC	Alford Queen Elizabeth	Ingoldsby Primary Academy
Pinchbeck PC	Barnes Wallis Academy	Ingoldmells Academy
Skegness TC	Beacon Primary	John Spendluffe Tech College
Skellingthorpe PC	Boston Grammar	Keelby Primary Academy
Sleaford TC	Boston High School	Kesteven & Sleaford High
Academies (cont.)	Phoenix Family Academy	St Lawrence Academy Horncastle
Kesteven & Grantham Academy	Priory Federation of Academies	The Deepings Academy
Kidgate Primary Academy	Rauceby CofE	The Gainsborough Academy
Kirkby La Thorpe	Ruskington Chestnut Street	The Garth School
Lincolns Anglican Academies	Sir Robert Pattinson Academy	The Priory School
Lincoln Castle Academy	Sir William Robertson	The Phoenix School
Lincoln Christs Hospital School	Skegness Academy	Theddlethorpe Primary Academy
Lincoln Our Lady of Lincoln	Skegness Grammar	Thomas Cowley Academy
Lincoln St Hugh's Catholic	Skegness Infant Academy	Thomas Middlecott Academy
Lincoln St Peter & St Paul's	Skegness Junior Academy	Tower Road Academy
Lincoln UTC	Sleaford Carres Grammar	University Academy Holbeach
Lincoln Westgate Primary	Sleaford Our Lady of Good Counsel	Utterby Primary Academy
Ling Moor Academy	Sleaford St Georges	Wainfleet Magdalene Primary
Little Gonerby CofE	Sleaford William Alvey	Warren Wood Specialist Academy
Long Bennington CofE	Somercotes Academy	Washingborough Academy
Louth King Edward VI Grammar	South Witham Community	Welton St Mary's CofE
Mablethorpe Academy	Spalding Academy	Welton William Farr CE
Manor Farm Academy	Spalding Grammar	West Grantham Federation
Manor Leas Infant Academy	Spilsby Eresby	Weston St Mary
Manor Leas Junior Academy	Spilsby King Edward Academy	White's Wood Academy
Market Rasen De Aston	Spilsby Primary Academy	William Lovell Academy
Mercer's Wood Academy	St Giles Academy	Witham St Hugh's Academy
Morton CofE Academy	St John's Primary Academy	Woodhall Spa St Andrews
Mount Street Academy	Stamford Malcolm Sargent	Woodlands Academy Spilsby
National CofE Junior	Stamford St Augustine's	
Nettleham Infants Academy	Stamford St Gilberts	
North Kesteven School	Stamford Welland Academy	
North Thoresby Primary	St Bernard's Academy Louth	

Note 30 Exchange Rates Applied

The exchange rates used at 31 March 2017 per £1 sterling were:

Australian Dollar	1.63915
Brazilian Real	3.9701
Canadian Dollar	1.66765
Swiss Franc	1.2516
Danish Krone	8.69405
Euro	1.1691
Hong Kong Dollar	9.7179
Indonesian Rupiah	16,662.87
Israeli Shekel	4.53975
Japanese Yen	139.3377
Korean Won	1,398.378
Mexican Peso	23.55115
Norwegian Krone	10.73995
New Zealand Dollar	1.7888
Polish Zloty	4.95425
Swedish Krona	11.1644
Singapore Dollar	1.74725
Thai Baht	42.9686
Turkish Lira	4.5537
Taiwan Dollar	37.9418
US Dollar	1.25045
South African Rand	16.76695

Lincolnshire Fire & Rescue

Pensions Fund 2016-17

2015/16 £'000	Fund Account	Note	2016/17 £'000
	Contributions Receivable:		
	From employer:		
(1,631)	Contributions in relation to pensionable pay	4	(1,336)
(19)	Early Retirements - Ill Health	4	0
	From members		
(1,399)	Fire-fighters' contributions	4	(1,561)
0	From CLG (commutations special income)		0
	Transfers in:		
(88)	Individual transfers from other schemes from Local Authorities	7	0
0	Individual transfers from other schemes other than Local Authorities	7	0
	Benefits payable:		
5,031	Pensions	5	5,319
1,812	Commutations and lump sum retirement benefits	5	598
0	Lump sum death benefits	5	0
	Payments to and on account of leavers:		
0	Individual transfer out to other schemes	7	15
0	Refunds of contributions	7	0
3,706	**Sub Total Net amount payable for the year before top up grant receivable**		**3,035**
(3,706)	Top up grant receivable from sponsoring department	6	(3,035)
0	**net amount payable/receivable**		**0**

31 March 2016 £'000	Net Asset Statement as at:	31 March 2017 £'000
	Current Assets:	
1,411	Pensions top up grant due	996
1,411	**Total Current Assets**	**996**
	Current Liabilities:	
(1,411)	Amounts payable to LCC	(996)
(1,411)	**Total Current Liabilities**	**(996)**
0	**Total**	**0**

Notes to the Fire & Rescue Pension Fund Account

Note 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 45 to the Council's Financial Statements shows the Council's long term pension obligations in accordance with International Accounting Standards (IAS19).

Note 2 Lincolnshire Fire and Rescue Pension Fund Account

The Fund was established at 1 April 2006 and covers the 1992, 2006 and 2016 Fire-fighters' Pension Schemes. It was established by the Fire-fighters' Pension Scheme (Amendment) (England) Order 2006 (SI2006 No1810), amended by the Fire-fighters' Pension Scheme (England) Regulations 2014; 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.

Note 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.

Note 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 2016-17 the contribution rates for the 2006 scheme were a minimum of 20.5% of pensionable pay (12% employers and tiered contribution of 8.5% to 12.5%, based on employees' pensionable pay banding). The contribution rates for the 1992 scheme were a minimum of 32.7% of pensionable pay (21.7% employers and tiered contribution of 11% to 17%, based on employees' pensionable pay banding). The contribution rates for the 2015 scheme were a minimum of 31.7% of pensionable pay (21.7% employers and tiered contribution of 10.0% to 14.5%, 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. This also applies to protected rights whole time equivalent compensatory payments paid to retained firefighters who were employed from 6th April 2006 and who had been ill health retired due to a qualifying injury.

Note 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.

Note 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.

Note 7 Transfers in and out

The value of accrued benefits of members that are transferred from or to another pension arrangement, if a member joins or leaves the scheme.

Audit Opinion

Annual Governance Statement 2017 DRAFT

Executive Summary

The Leader of the Council (Cllr Martin Hill OBE) and Chief Executive (Tony McArdle) both recognise the importance of having good management, effective processes and other appropriate controls in place to run the Council in delivering services to the communities of Lincolnshire.

Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how its corporate governance arrangements have been working. To help us do this the Council's Audit Committee undertakes a review of our governance framework and the development of the AGS.

On the 26th June 2017 the Audit Committee considered and challenged the content and the significant governance issues identified in the Statement – ensuring that the Statement properly reflects how the Council is run – identifying any improvement actions.

The final statement was formally approved by the Audit Committee on the 25th September 2017 - where it was recommended for signing by the Leader of the Council, Chief Executive and the Executive Director – Finance and Public Protection.

Significant Governance Issues

Overall we can confirm that the Council has the appropriate systems and processes in place to ensure good governance is maintained. Whilst we are satisfied that these generally work well our review has identified a number of areas for improvement, namely:

Key improvement Area	Lead Officer	To be delivered by
IT Governance	Executive Director – Environment and Economy	September 2017
Financial Sustainability	Executive Director – Finance & Public Protection	February 2018
Financial Control Environment	Executive Director – Finance & Public Protection Executive Director – Children Services (HR/ Payroll)	December 2017 December 2017
Market Supply	Executive Director – Adult Services	March 2018
SERCO contract – Lessons Learnt (KPMG report)	Chief Executive	September 2017
Delivery of Support Services and Improvement - SERCO	Chief Executive	September 2017

Key improvement Area	Lead Officer	To be delivered by
Collaborative Working - Governance Arrangements	Executive Director – Finance & Public Protection	December 2017

Progresses made dealing with the governance issues identified in the 2015/16 Annual Governance Statement are contained on page 12 This shows that the planned improvements in the Council's financial control environment and in the information management team (SERCO) have yet to be addressed. They have therefore been included in the current statement.

We are satisfied that steps are being taken to address the above issues and will monitor implementation and operation as part of performance management. The Audit Committee will also help us with independent assurance during the year.

Councillor Martin Hill OBE
Leader of the Council

Tony McArdle
Chief Executive

Pete Moore
Executive Director – Finance and Public Protection

(oversight responsibility for Governance and the Council's Section 151 Officer)

Signed on behalf of Lincolnshire County Council

What is Corporate Governance?

Good Governance can mean different things to people – in the public sector it means:

"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"

Corporate governance generally refers to the processes by which an organisation is directed, controlled, led and held to account.

The Councils governance framework aims to ensure that in conducting its business it:

- operates in a lawful, open, inclusive and honest manner
- makes sure public money is safeguarded, properly accounted for and spent wisely
- has effective arrangements in place to manage risk
- meets the needs of Lincolnshire communities - secures continuous improvements in the way it operates.

Our governance framework comprises of the culture, values, systems and processes by with the Council is directed and controlled. It brings together an underlying set of legislative and regulatory requirements, good practice principles and management processes.

The Principles

A summary

Principle A	Principle B	Principle C
Integrity and Values	Openness & Engagement	Working Together
How we do this:	**How we do this:**	**How we do this:**
Staying true to our strong ethical values and standards of conduct Respecting the rule of law Creating a culture where statutory officers and other key post holders are able to fulfil their responsibilities Ensuring fraud, corruption and abuse of position are dealt with effectively Ensuring a safe environment to raise concerns and learning from our mistakes	Keeping relevant information open to the public and continuing their involvement Consultation feedback from the public is used to support service and budget decisions Providing clear rationale for decision making – being explicit about risk, impact and benefits. Having effective scrutiny to constructively challenge what we do and the decisions made	Having a clear vision and strategy to achieve intended outcomes - making the best use of resources and providing value for money Being clear about expectations - working effectively together within the resources available Developing constructive relationships with stakeholders Having strong priority planning and performance management processes in place Taking and active and planned approach to consult with the public Regularly consult with employees and their representatives

The Council aims to achieve good standards of governance by:

A. behaving with integrity and in accordance with our core values
B. being open and ensuring effective engagement takes place
C. working together to achieve our intended outcomes
D. setting goals for economic, social and environmental benefits and reaching them
E. growing our capacity - including our leadership and the people who work with us
F. managing risks and perfomance through robust internal control and strong financial management

Principle D	Principle E	Principle F	Principle G
Making a Difference	Capability	Managing Risk & Performance	Transparency & Accountability
How we do this:	**How we do this:**	**How we do this:**	**How we do this:**
Having a clear vision and strategy setting out our intended outcome for citizens and service users	Clear roles and responsibilities for Council leadership Maintaining a development programme that allows Councillors and Officers to gain the skills and knowledge they need to perform well in their roles. Evaluating Councillor and Officers' performance Regular oversight of performance, compliments and complaints to enable results (outcomes) to be measured and enable learning	Ensuring that effective risk management and performance systems are in place. That these are integrated in our business systems / service units Having well developed assurance arrangements in place Having an effective Audit Committee Effective counter fraud arrangements in place	Having rigorous and transparent decision making processes in place Maintaining and effective scrutiny process Publishing up to date and good quality information on our activities and decisions. Maintaining an effective internal and external function

The Council – How it works

The Annual Governance Statement covers the period 1st April 2016 to 31st March 2017. The information below relates to this period. A new Executive and Scrutiny structure will come into effect from May 2017.

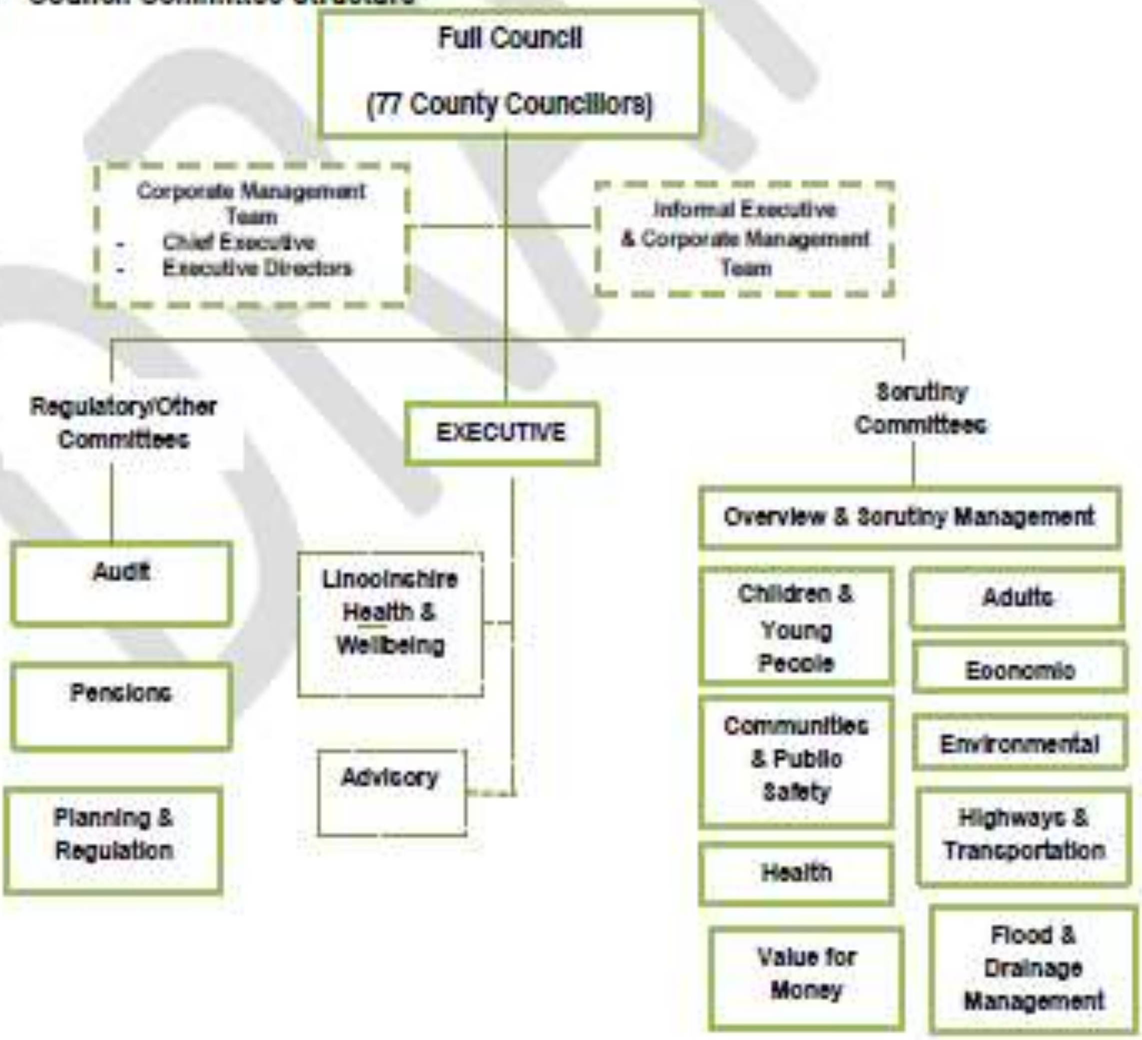
The Council is made up of 77 Councillors and operates a Leader and Executive model of decision making.

All 77 Councillors meet at full Council to agree the budget and policy framework. In 2016/17 ten Councillors form the Executive. The Executive make the decisions that deliver the budget and policy framework of the Council.

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.

We have reviewed our scrutiny arrangements during 2016 – aiming to make them more effective. The new scrutiny structure for the new Council started in May 2017. We will assess how well they are working later in the Autumn.

Figure 2 – Council Committee Structure



Outcomes and Value for money

Our Plan and Performance Dashboard

We want to support a society where people contribute to their communities and are willing and able to look after themselves and others; a county where:

Managing our Resources (Value for Money)

Note: Performance and Value for Money Information will be populated once the final data is available and External Audit opinion received

How do we know our arrangements are working?

There are a number of ways we do this:-

The role of management

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.

Our Corporate Management Team and Governance Group oversee the review and the Council's governance arrangements and the development the Annual Governance Statement.

This year, a review of our governance arrangements was undertaken by Internal Audit – commissioned by our Governance Group. The outcome of this confirmed that we comply with current best practice – with strong governance arrangements in place that are up to date and relevant to the environment we work in. The review did suggest a number of improvements around:

- **Ethics** – One key area of the new governance guidance is demonstrating the 'ethical mind set' in how decisions are made. An Internal Audit is planned for 2017/18 seeking to provide the Corporate Management Board with assurance on how well our governance arrangements work in practice.
- **Partnerships** - better accountability and transparency is required over contract and partnership risks and their assurance arrangements. The Council's financial procedures and guidance in this will be updated during 2017.

Our Governance Framework

The role of the Audit Committee

The Council's Audit Committee plays a vital role overseeing and promoting good governance, ensuring accountability and reviewing the ways 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 Governance Framework

Combined Assurance

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 were reviewed by the Audit Committee in January 2017.

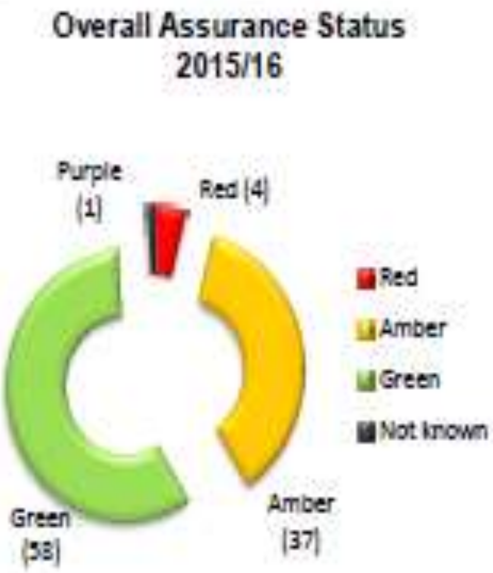
The Council adopts the 'three lines of assurance methodology;-

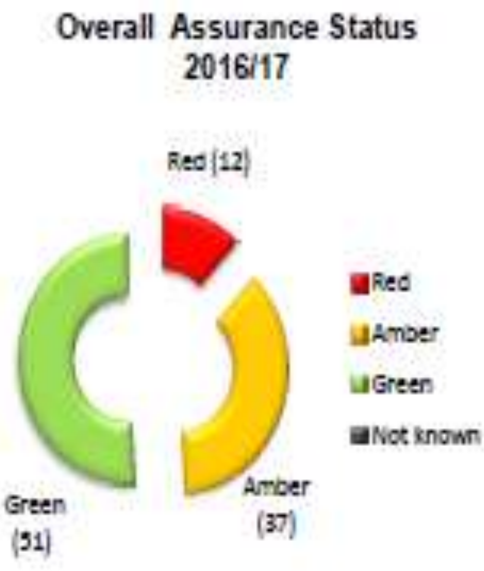
We did this by:

- Speaking to senior and operational managers who have the day to day responsibility for managing and controlling their service activities.
- Working with corporate functions and using other third party inspections to provide information on performance, successful delivery and organisational learning.
- Using the outcome of internal Audit work to provide independent insight and assurance opinions.
- Considering other information and business intelligence that feed into and has potential to impact on assurance

Overall it gives a positive assurance picture for the Council but does reflect the complex environment in which we operate. The future will mean that the Council will need to be comfortable with taking more high risk decisions and accepting that there may be service failures as a consequence of budget and service reductions

Our assurance levels





Key

Red	High impact on resources, significant costs likely, high impact on service delivery
Amber	Medium or short term impact on resources, costs covered within existing financial plans, low impact on service delivery
Green	Monitor and be aware, activity to mitigate risk within existing service delivery plans
Purple	Not known

Our Strategic Risks

Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability. This 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 our risks are being effectively managed.

Risk	Mitigating Actions	Risk Rating	Level of Assurance
Safeguarding Children	*Good and effective management arrangements in place with controls working effectively*	Amber	Substantial
Safeguarding Adults	*Ongoing work to implement the new case management system*	Amber	Limited
Good Business Continuity and Resilience	*Programme in place to review and test continuity and recovery plans*	Amber	Limited
Funding and maintaining financial resilience	*Balanced budget and Medium Term Financial Strategy in place*	Amber	Substantial
Ability to deliver our programme of designated projects	*Project management arrangements in place*	Amber	Substantial
Adequacy of market supply to meet eligible needs for adults	*Ongoing work with market and suppliers to stimulate market in target areas*	Amber	Limited
Ability to recruit and retain staff in high risk areas	*Proactive work continuing in this area*	Amber	Limited
Maintenance of effective governance arrangements	*Benchmarked against good practice and review of scrutiny structure implemented*	Green	Substantial
Ensuring contracts are fit for purpose in the Commission Agenda / significant contracts	*Commercial team supports he business with ongoing work to strengthen contract management (intelligent client) and learning from procurement / existing contracts*	Amber	Limited
Effective implementation of Agresso system – Finance and HR systems	*Ongoing work to improve systems, processes and controls.*	Amber / Red	Limited / Low
Cyber Security	*Ongoing work to identify and manage the ever changing risk presented by cyber threats. ISO/IEC 27001:13 accreditation attained*	Red	Limited

Key	Risk	Assurance
Red =	High impact on resources, significant costs likely, high impact on service delivery	Low level of confidence over the design and operation of controls, performance or management of risk
Amber =	Medium or short term impact on resources, cost covered within existing financial plans, low impact on service delivery	Medium level of confidence over the design and operation of controls, performance or management of risk
Green =	Monitor and be aware , activity to mitigate the risk within existing service delivery plans / management arrangements	High level of confidence over the design and operation of controls, performance or management of risk

Looking Back on 2015/16

A number of improvement actions were identified as part of the 2015/16 Annual Governance Statement. The table below shows progress with these actions:

Action Identified	Progress
Financial Challenges Ahead – medium term financial strategy in place and the Council will submitted a 4 year efficiency plan to help secure Government funding in future years.	On track
Financial Control Environment – implementation of improvement plan by SERCO	Behind Plan
Implementation of Case Management System (Mosaic)	On track
Information Management Team (SERCO) - Delivery IMT transformation projects is behind schedule which is delaying improvements to the Council's IT operations and service efficiencies across the Council. Various dates for projects tracked through the Governance Board.	Behind Plan
Establishing the Combined Authority	No longer applicable
Governance Arrangements – Review risk culture	Complete
Governance Arrangements – Review strategic risk register	On track

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

2015/16 Number of Staff		SCHOOLS	2016/17 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
-	-	£120,000- £124,999	-	-
-	-	£115,000- £119,999	-	-
-	-	£110,000- £114,999	-	1
-	-	£105,000- £109,999	-	-
-	-	£100,000- £104,999	-	-
1	-	£95,000- £99,999	2	-
2	-	£90,000- £94,999	1	-
1	-	£85,000- £89,999	2	-
3	2	£80,000- £84,999	3	-
3	-	£75,000- £79,999	1	-
3	1	£70,000- £74,999	8	-
19	-	£65,000- £69,999	16	-
26	-	£60,000- £64,999	30	1
43	-	£55,000- £59,999	30	-
55	2	£50,000- £54,999	46	-
156	**5**	**Total**	**139**	**2**

2015/16 Number of Staff		OTHER SERVICES	2016/17 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	-	£120,000- £124,999	-	-
-	-	£115,000- £119,999	-	-
-	-	£110,000- £114,999	-	-
-	-	£105,000- £109,999	2	1
3	1	£100,000- £104,999	2	2
-	1	£95,000- £ 99,999	-	-
2	1	£90,000- £94,999	4	-
5	1	£85,000- £89,999	7	-
2	4	£80,000- £84,999	1	1
6	1	£75,000- £79,999	6	2
12	4	£70,000- £74,999	18	-
19	5	£65,000- £69,999	20	1
23	5	£60,000- £64,999	23	3
35	6	£55,000- £59,999	35	-
78	6	£50,000- £54,999	73	1
186	**35**	**Total**	**191**	**11**

Statement of Accounts Glossary of Terms

A

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 for use or to be sold within the normal operating cycle; the assets are held for the purpose of current service provision, 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.

B

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.

C

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.

D

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.

E

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.

F

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.

G

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.

H

Heritage Assets

Assets that are held by the Council which are of historic nature including buildings and collections.

I

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.

L

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.

M

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).

N

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.

O

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.'

P

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 for the collection of Council Tax. 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 pension benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a 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.

R

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 holds 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.

S

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 cannot be spent on anything else.

Straight Line basis

The method of calculating depreciation by charging the same amount each year over the assets life.

T

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.

U

Useful Life

The period with which an asset is expected to be useful to the Council in its current state.

V

Value Added Tax (VAT)

VAT is an indirect tax levied on most business supplies of goods and services.

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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 for Finance and Public Protection

Report to:	**Audit Committee**
Date:	**24 July 2017**
Subject:	**Internal Audit Annual Report**

Summary:

This report gives the Head of Internal Audit opinion on the adequacy of the Council's Governance, Risk and Control environment and delivery of the Internal Audit plan for 2016/17.

Recommendation(s):

That the Committee consider the content of the Audit and Risk Manager's Head of Internal Audit Annual Report and any actions it may wish to take.

Background

1. The Annual Internal Audit Report aims to present a summary of the audit work undertaken over the past year. In particular:

   - Include an opinion on the overall adequacy of and effectiveness of the governance framework and internal control system and the extent to which the Council can rely on it;

   - Inform how the plan was discharged and of overall outcomes of the work undertaken;

   - Draw attention to any issues particularly relevant to the Annual Governance Statement.

2. The detailed report is attached in Appendix A.

Conclusion

3. Our internal audit service continues to work with the Audit Committee and Management to help the Council maintain effective governance, risk and control processes.

4. In forming my opinion I have also drawn upon other assurance intelligence in the Council.

5. During 2016/17 there have been a number of areas where we have identified the need for improved compliance and strengthening of the control processes. Overall the Council's control environment has remained inadequate due to the impact of the on-going issues with Payroll and the level of assurance over the Council's IMT function.

6. Taking all the information into account - I have assessed the:

   - Governance as **green/amber** – performing well with some improvements identified over the Council's governance, risk and control framework or to manage medium risks across the Council

   - Risk as green – Performing well with no concerns that significantly affect the risk management framework

   - Internal control environment as **red/amber**. Inadequate Performance **–** urgent management action identified (in progress) on major governance issue or high risk in a key system / process area which has a negative impact throughout the Council.

   - Financial control as amber – performing adequately with some improvement required to manage a high risk in a specific business area and medium risks across the Council.

5. The content of the Internal Audit Annual report has also informed the development of the Councils' Annual Governance Statement 2017 – due to be presented to this Committee.

6. We have also delivered 99% of the revised audit plan to agreed performance of 100% target.

7. Audit Lincolnshire conforms to the UK Public Sector Internal Audit Standards. This has been assessed through our Quality Assurance Framework and self-assessment as well as an external quality assessment completed autumn of 2016.

8. A quality assurance improvement plan is in place to help us continually improve and develop.

Consultation

a) Have Risks and Impact Analysis been carried out??

No

b) Risks and Impact Analysis

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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Lincolnshire County Council

Internal Audit Annual Report – 2016/17

What we do best…

Innovative assurance services
Specialists at internal audit
Comprehensive risk management
Experts in countering fraud

...and what sets us apart

Unrivalled best value to our customers
Existing strong regional public sector partnership
Auditors with the knowledge and expertise to get the job done
Already working extensively with the not-for-profit and third sector

Contents

The contacts at Audit Lincolnshire for this report are:

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This report has been prepared solely for the use of Members and Management of Lincolnshire County Council. Details may be made available to specified external organisations, including external auditors, but otherwise the report should not be used or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our work – there may be weaknesses in governance, risk management and the system of internal control that we are not aware of because they did not form part of our work programme, were excluded from the scope of individual audit engagements or were not bought to our attention. The opinion is based solely the work undertaken as part of the agreed internal audit plan.

Distribution List
Corporate Management Board
Audit Committee
External Audit

Page No

Management Summary

Purpose of Annual Report

1. The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. In particular:-

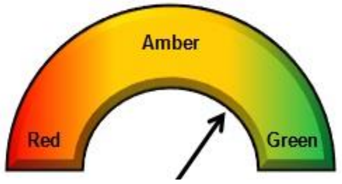
   - Include an opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it;
   - Inform how the plan was discharged and the overall outcomes of the work undertaken that supports the opinion;
   - A statement on conformance with the PSIAS and the results of the internal audit quality assurance and improvement programme (QAIP);
   - Draw attention to any issues particularly relevant to the Annual Governance Statement.

Annual Opinion

2. For the twelve months ended 31 March 2017, based on the work we have undertaken and information from other sources of assurance, my opinion on the adequacy and effectiveness of Lincolnshire County Council's arrangements for governance, risk management and control is shown in **Figure 1**

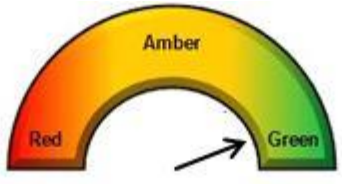
Figure 1 – Head of Internal Audit Opinion

Governance



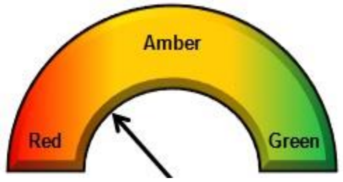
Performing Well – Some improvements identified over the Council's governance, risk and control framework or to manage medium risks across the Council

Risk



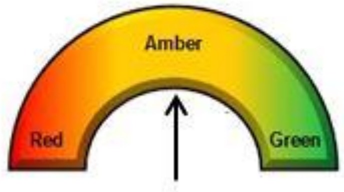
Performing Well – No concerns that significantly affect the risk management framework.

Internal Control



Inadequate Performance – performing inadequately in some key systems / process areas which have a wide negative impact on internal control throughout the Council.

Financial Control



Performing Adequately – Some improvement required to manage a high risk in a specific business area and medium risks across the Council.

How we came to our opinion

Governance

3. Good Governance can mean different things to people – in the public sector it means:

"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"

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

5. Each year the Council is required to reflect on how its governance arrangements have worked – identifying any significant[1] governance issues that it feels should be drawn to the attention of the public – in the interests of accountability and transparency. Significant governance issues identified by the Council in the 2017 statement are:

   - IT Governance
   - Financial sustainability
   - Market Supply in Adult Care
   - SERCO Contract – lessons learnt (KPMG report)
   - SERCO - delivery of support services and improvement
   - Collaborative working – Governance arrangements

6. The Audit Committee helps to ensure that these arrangements are working effectively. They regularly review the governance framework and consider the draft and final versions of the Annual Governance Statement.

7. In April 2016, CIPFA / SOLACE published an updated 'Delivering Good Governance in Local Government – Framework and Guidance'. This sets out the latest good practice operating in the current public sector environment. It defines seven core principals by which a Council can test out their governance arrangements. In December 2016 the Council reviewed and assessed its arrangements and confirmed that the Council conforms with the Framework – with governance arrangements in place that are up to date and relevant to the environment it operates in.

8. The review did suggest a number of improvements around:

   - **Ethics** – One key area of the new governance guidance is demonstrating the 'ethical mind set' in how decisions are made. An Internal Audit is planned for 2017/18 seeking to provide the Corporate Management Board with assurance on how well our governance arrangements work in practice.

   - **Partnerships** - better accountability and transparency is required over contract and partnership risks and their assurance arrangements. The Council's financial procedures and guidance in this will be updated during 2017.It is crucial to the Council's success that its governance arrangements are applied in a way that demonstrates the sprit and ethos of good governance – this cannot be achieved by rules and procedures alone – the Council is expected to have a culture that places the public and integrity at the heart of its business. One key area of the new governance guidance is demonstrating the 'ethical mind set' in how decisions are made.

9. Taking the above information into account we have assessed the governance framework as **Green / Amber -** Some improvements identified over the Council's governance, risk and control framework or to manage medium risks across the Council.

[1] Significance = The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact.

Risk Management

10. During the year the Council's risk management arrangements were independently reviewed by Kerberos Risk - the outcome was reported to Audit Committee in November 2016.

11. The report concluded that risk management is embedded and integrated within the Council. The review found many examples of very good, even exemplary, risk management practice – it also suggested some improvements, namely:

    - updating the strategic risk register and risk appetite
    - continue raising awareness of good risk management practice through regular communication and training.

12. The Audit Committee continues to receive regular updates on how the Council manages its strategic risks – seeking assurance over the effectiveness of Council's risk management arrangements. No issues have been identified.

13. Taking all of the above information into account we have assessed the risk management as **Green** **–** performing well, with no concerns that significantly affect the risk management framework and successful delivery of the Council priorities

Internal Control

14. We took account of the outcome of our internal audit work during the year. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment. Positive assurance levels have improved again compared to last year for the Council's systems – the Payroll modules of Agresso remains a significant issue with the assurance opinion - '**low** assurance'.

15. We also gave some areas a '**limited** assurance' opinion. These were:

Accounts payable – We noted general improvement since the 2015/16 audit, but further action needs to be taken to improve system access security and processing of tasks to ensure timely payment.

Adult Care Annual Assessments – Our recommendations focused on delivery of assessments timeframes. Management are reviewing and refocusing the assessment process to provide effective and proportionate management oversight**.**

Debtors – Our audit makes recommendations around debt reporting and timely recovery of all debt

Heritage Sites – We recommended implementation of consistent financial processes across all heritage sites.

HR Processes in Schools – We advised on revision of policy and communication with schools to improve knowledge and understanding to ensure consistency in retaining evidence of employee recruitment checks.

Integrated Community Assessment Scheme – our audit made several recommendations in managing this contract to ensure it delivers expected outcomes.

Joint Waste Management Strategy – We advised on improvements in the Waste Partnership to help improve relationships and move development of a new joint strategy forward.

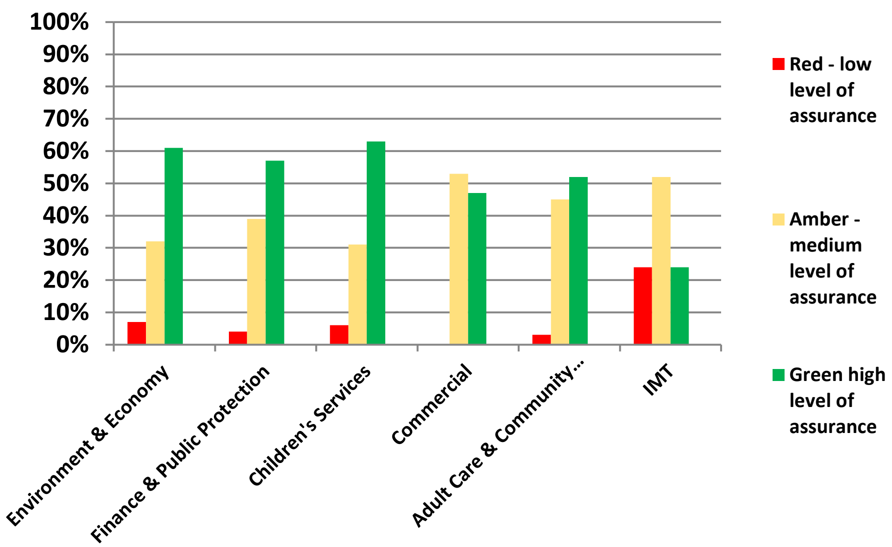
Workforce Development (Adult Care) – Recommendations to improve tracking through Agresso and effective evaluations of training provided were made.

Combined Status Report

16. A Combined Assurance Status report is produced by each Director on the level of confidence they can provide on service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. These reports are reviewed by the Audit Committee and provide key assurance evidence to support the Head of Internal Audit opinion.

17. **Figure 2** shows the current assurance levels for each Executive Director.

Figure 2 – Overall Assurance Levels 2016/17



18. Areas where management assurance provided gave a low level of assurance and / or high risk currently facing the service have reduced compared to 2015/16 Key areas where management action is still required: are:-

Childrens' Services

- HR and Payroll Transformation
- Inclusion for all project
- Partners in Practice project
- Supported Accommodation project

IMT & Commissioning

- IMT led project governance
- IMT Governance – service improvement plans
- Service reviews and improvements
- Problem Management
- Service Asset and Configuration Management
- Capacity Management
- IT service continuity management

Environment & Economy

- Waste Management Strategy
- Heritage
- Total Transport project

19. Taking all of the above evidence and information into account we have assessed Internal Control as **Red / Amber** – performing inadequately in some key systems / process areas which have a wide negative impact on internal control throughout the Council.

Financial Control

20. Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts. During the year we reviewed:

- Key Control & Substantive Testing, including data analytics
- Accounts Payable - **Limited Assurance**
- Bank Reconciliation - **High Assurance**
- Debtors - **Limited Assurance**
- Income – **Substantial Assurance**
- Payroll **– Low Assurance**
- Treasury Management - **High Assurance**

21. Issues and risks around the Council's finance system (Agresso) continue to figure regularly in our reports to the Audit Committee during 2016/17 and are well documented. There remains a significant number of recommendations / actions yet to be fully implemented on the Payroll system.

22. The overall outcome of our work identified some improvements since last year but unfortunately not sufficient to move the assurance opinion over the Accounts Payable or Payroll system.

23. Management assurances have obtained through the combined assurance process also showed and improving position in budget management and the close down process. Financial strategy and budget preparation processes continue to be assessed at a high level of assurance.

24. Taking the above evidence and information into account we have assessed the financial control environment as **Amber –** performing adequately with inadequacy in certain key financial systems flowing directly from issues arising from the control design and operation of Agresso system. This is an improved position from 2015/16.

Counter Fraud

25. The Council continues to have effective counter fraud arrangements in place. The delivery and outcome of proactive counter fraud plan is monitored by the Audit Committee.

26. We co-ordinate the Lincolnshire Counter Fraud Partnership whose key aim is to 'Fight Fraud Locally' and co-ordinate counter fraud resources effectively.

27. Where our Counter Fraud work identifies control failures we provide improvement actions plans for management to strengthen systems and / or raise awareness of fraud risks.

28. During the year there have been 16 fraud cases. We recovered £68k – with scope to recover a further £83k.

29. Our data analytics work also supported the Finance Team in identifying £1.6m duplicate payments to suppliers. Controls have been tightened in this area and recoveries are in progress.

30. A separate Counter Fraud Annual report is provided to the Audit Committee – this provides more detail on delivery of the approved Counter Fraud work plan.

Roles and Responsibilities

31. The Council is responsible for establishing and maintaining risk management processes, control systems and governance arrangements. Internal Audit plays a vital role in providing *independent risk based and objective assurance* and *insight* on how these arrangements are working. Internal Audit forms part of the Council's assurance framework.

32. Where Internal Audit work has identified improvements, we have worked with management to agree appropriate corrective actions and a timescale for improvement. It is the responsibility of management to implement the agreed actions.

33. The Council is responsible for developing and publishing an Annual Governance Statement – reporting how they have monitored the effectiveness of the governance arrangements during the year – providing information on any significant governance issues.

Annual Governance Statement

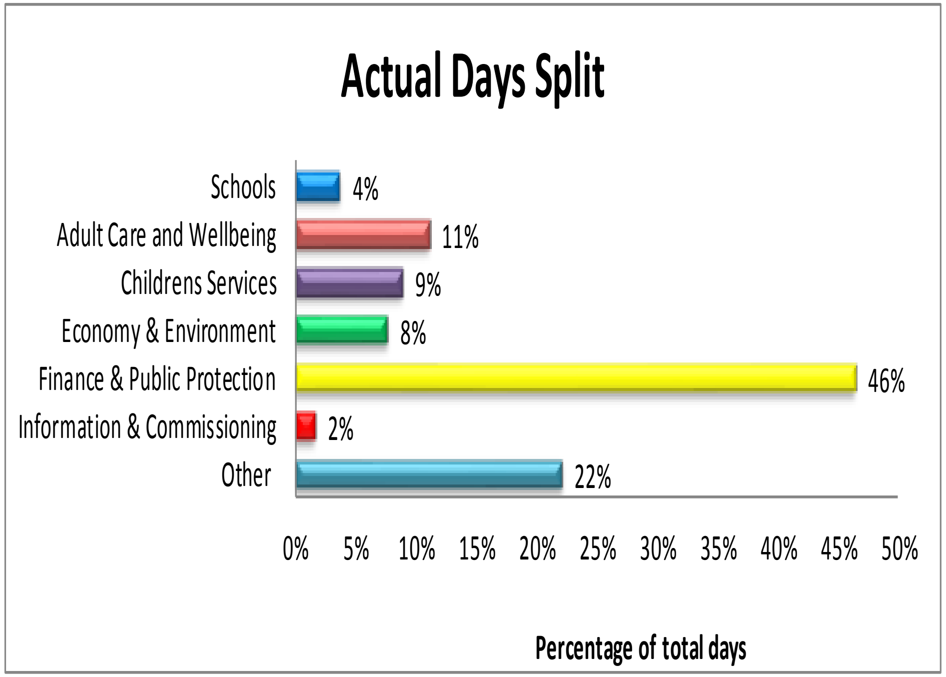
34. The outcome of our internal audit work and the Annual Internal Audit Report has helped inform the Annual Governance Statement – we recommend the following areas to be considered during the development of the Statement :
    - Improving the financial control environment
    - Improving IMT / IT Governance .

Scope of Work

35. Our risk based internal audit plan was prepared taking into account the critical activities and key risks to support the basis of my annual opinion. It has remained flexible to enable us to respond to emerging risks and maintain effective focus

36. The Audit Committee approved the 2016/17 original audit plan of **1330 days** days on the 21st March 2016. We have delivered 99% of the revised plan by the end of the year - **50** pieces of work). **Figure 3** shows the audit areas we covered during the year and page 9 of the report provides more information on the changes to the original plan that occurred during the year.

Figure 3– Audit Areas covered in 2016/17 Plan

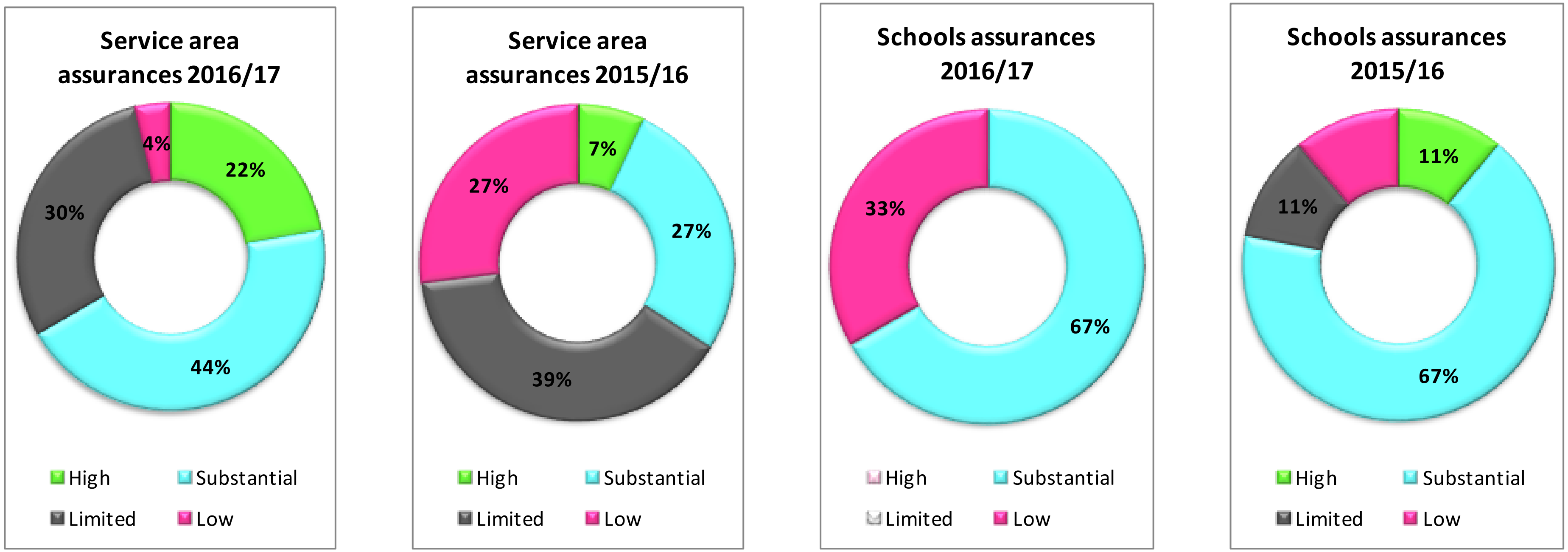


Benchmarking – Comparison of Assurances

37. **Figure 4** below shows the assurance opinions given in 2016/17 compared to those in 2015/16. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment and forms part of the evidence that helped inform the overall annual opinion.

38. We can see that overall assurance levels over service areas have improved again during 2016/17. We no longer undertake cyclical audits of schools – our work is specifically requested by children services or the school and therefore the data below is given for information only and relates to a small - we visited 6 schools compared to 9 in the previous year . The detail of audit work completed during 2016/17 is shown in **Appendices 1 and 2.**

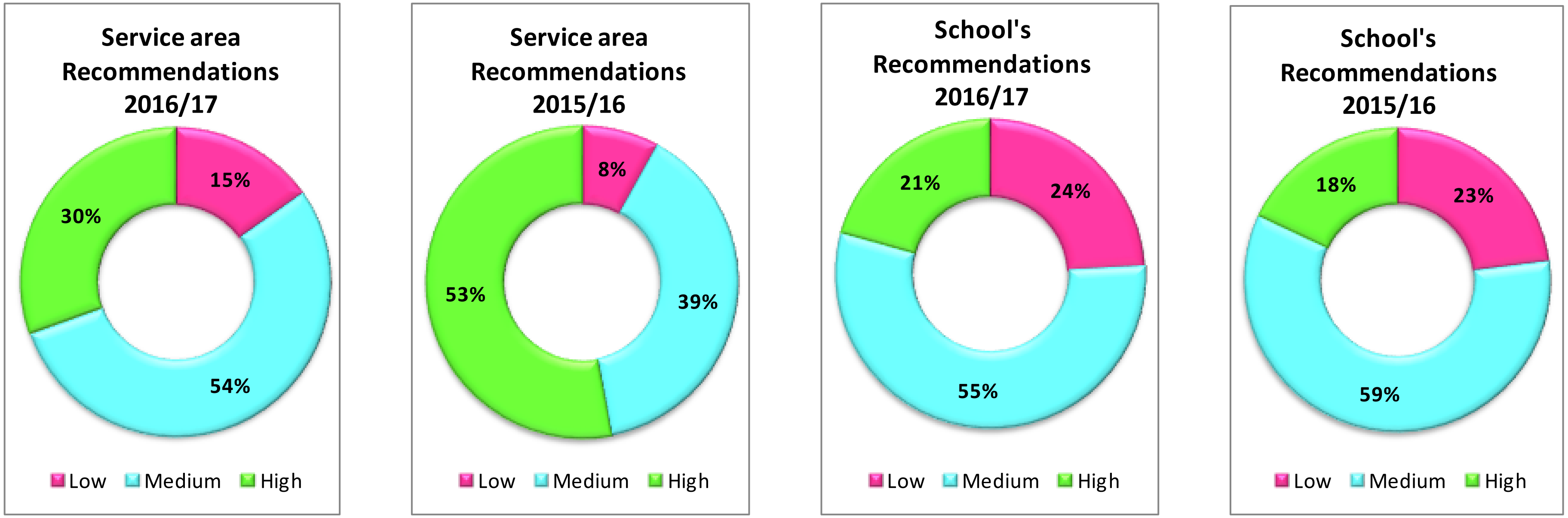
Figure 4 – Comparison of Assurances



Benchmarking – Comparison of Recommendations

39. **Figure 5** - below shows the comparison of internal audit recommendations made 2016/17 and 2015/16. We can see that the priority of recommendation are less urgent than the previous year, with a reduction in high priority and more medium and low priority actions agreed in the service. Schools have remained very similar. Details of systems reviewed can be found in **Appendices 1 & 2**. This information forms part of the evidence that helped inform the overall annual opinion.

Figure 5 – Recommendations made



40. We track the implementation of agreed management actions. Over the past year management have implemented **83%** of recommendations due by 31st March 2017. A significant amount of outstanding recommendations relate to the delays in Serco integrating Agresso with Lincs 2 Learn. Details of outstanding recommendations can be found in **Appendix 3.**

Restrictions on Scope / Changes to Plan

41. In carrying out our work we identified no unexpected restrictions to the scope of our work. We have had difficulties in gaining access to staff which resulted in some delay or inability to deliver planned work within the expected timescales.

42. A key area where we have had to defer our internal audit work is around IT Audit – we have been unable to progress the agreed work plan. Improving working relationships with IT Management was identified as a key improvement area in our External Quality Assessment. I'm pleased to report that good progress has been made in this area - with audits in 2017/18 commenced, agreed and scheduled .

43. The original approved plan was 1330 days – the revised plan was 966 days.

44. A number of audits were removed from the audit plan – these were due to a combination of:

   - changes being requested by management - so the timing of the audit adds more value
   - the system was not in an appropriate 'state' to be audited e.g. not implemented
   - management could not accommodate the audit in their work plan before the end of the year
   - re-prioritising audit resources to those of highest risk eg payroll– taking into account the increase in substantive testing and reduced resources.

45. Outlined below are the areas that have been removed from the original plan:
   - Schools Admissions (10 days)
   - SEND Reform (10 days)
   - Careers Advice (10 days)
   - Transfer of Attendance Allowance (10 days)
   - Client Contributions Policy (10 days)
   - Integration with Health (15 days)
   - Adult Safeguarding – Peer review follow up (15 days)
   - Domestic Homicide Review (5 days)
   - ICT Audit (60 days)
   - Business Support (15 days)
   - Service Transformation (30 days)
   - Corporate Complaints (10 days)
   - Performance Management (15 days)
   - Pension Fund (10 days)
   - Budget Management (10 days)
   - General Ledger (10 days)
   - Lincolnshire Archives (10 days)
   - Partnership Management (15 days)
   - Devolution (20 days)

   Reduction of 290

46. Many have been included in the 2017/18 plan, although due to changes in circumstances, risk and priorities some have been removed completely.

47. During the year we were also requested to undertaken the following additional work:
   - Additional Payroll, Accounts Payable and General Ledger substantive testing at the start of the year (120 days)
   - Adult Safeguarding Referrals (20 days)
   - HR Processes within Schools (20 days)
   - Infrastructure Asset Revaluation (10 days)
   - Procontract – replacement procurement and contract management system (10 days)
   - Transport Teckal Company (10days)
   - GLLEP Capital grant sign off (3 days)
   - GLLEP Assurance Framework (5 days)
   - Good governance audit (30 days)

   Addition of 228 days

48. As well as these changes a number of audits required additional resources to complete – approximately **85 days**. The main area related to financial systems which required additional substantive testing.

49. Additional time was also required to induct, develop and support newly recruited auditors to the team.

50. I do not consider the restrictions and changes to the plan to have had an adverse effect on my ability to deliver my overall opinion. The combined assurance model adopted by the Council helped in this regard.

51. We have not experienced any impairment to our independence or objectivity during the conduct and delivery of the Internal Audit Plan.

Other Significant Work

52. CIPFA / SOLACE updated its 'Delivering Good Governance in Local Government: Framework' and associated guidance in April 2016. The Governance Group commissioned an Internal Audit review - benchmarking the Council's arrangements to this best practice guidance and to ascertain how well the Council's Governance arrangements work in practice. This work has been split into 2 phases:

Phase One	Examination of the structures, processes, values and systems put in place by the Council and comparing our current governance arrangements to the Framework
Phase Two	It is proposed to establish how the governance arrangements work in practice

53. We have completed **Phase One** – Overall we can confirm that the Council conforms to this Framework and has strong governance arrangements in place that are up to date and relevant to the environment it operates in.

54. It is not surprising that strong governance arrangements are in place for an established Council. We have provided some insight on the arrangements and suggested some areas of improvement compared to good practice. The areas include Ethics, Partnerships and the Transparency Code.

55. We have completed our annual refresh and coordination of Combined Assurance which maps all assurance across the authority using the 'three lines of assurance' model. This provided the Council with insight over the assurances present on its critical activities, key risks, projects and partnerships.

56. During the year we have undertaken some consultancy work – this is where we give advice on governance, risk and control but do not provide an assurance opinion - generally proactive work : -
    - **Customer Service Centre – Carers Team** – Help and advice on formulating a report on service delivery, performance and contract compliance of the carers team
    - **Adult Safeguarding Referrals** – Review, advice and support on the current process for logging and working through safeguarding referrals and how these may be improved upon with the use of Mosaic
    - **ICT Audit – Mosaic** – review of the project's current position and recommendations to move the project towards successful go live
    - **Planning Software Replacement** – advice and support on the planning and procurement of a replacement planning applications system
    - **Transport Teckal Company** – support and advice on the set up of the Council owned passenger transport company – Transportconnects
    - **Greater Lincolnshire Local Enterprise Partnership (GLLEP) Assurance Framework** – Assessment of how well the GLLEP has applied the new National Assurance Framework and advice on any improvements that can be made.

Delivery of Internal Audit Plan 2016/17

57. Internal Audit's performance is measured against a range of indicators. The table **Figure 6** shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement delivery of the revised plan and the added value of our work. An area of improvement is around contemporary reporting (timescales).

58. Performance around delivery timescales were affected by a number of reasons, namely:-

- our performance has been affected by the restructure undertaken in November 2015. People have moved into new roles and responsibilities – which has taken time to embed and mobilise.
- finalising the report taking longer than expected
- availability of client and timely provision of information and evidence
- larger and more complex audits in the plan which take longer to complete than 2 months
- auditors scheduling and priority planning creating lapsed time
- more time and support needed for new recruits.

59. The following steps have been or will be taken to improve timescales:

- strengthening our process around planning & scheduling audit work across our team,
- working with management help support the audit process – we have a slot on the September 2017 Senior Leadership
- being clear and firmer about expectations on scheduling and timing of fieldwork.
- ensuring earlier escalation of issues causing delay.
- piloting different approaches to gathering information and actions from auditees to ensure work remains timely
- specifying SMART appraisal targets for all our auditors as part of the appraisal process.

Figure 6 – Performance on key indicators

Performance Indicator	Target	Actual @ 31/03/2017
Productivity & Efficiency		
Actual audits versus planned (by number of audits) – revised plan	100%	99%
% of recommendations agreed	100%	98%
% of overdue recommendations implemented	100% or escalated	83%
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%	 57% 74% 40%
Quality of Service		
Client questionnaire scoring better than average for all categories Good to Excellent	100%	100%

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Assurance Lincolnshire Partnership

60. The County Council is part of an Internal Audit collaborative partnership, consisting of the following in-house internal audit teams:
    - County Council
    - City of Lincoln
    - East Lindsey District Council

61. By working together the partnership aims to be:

'the best audit assurance provider for Lincolnshire public sector agencies'

62. We improve the overall quality of the services 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.
    - Resource swaps – which strengthen resilience and sustainability – keeping local talent.

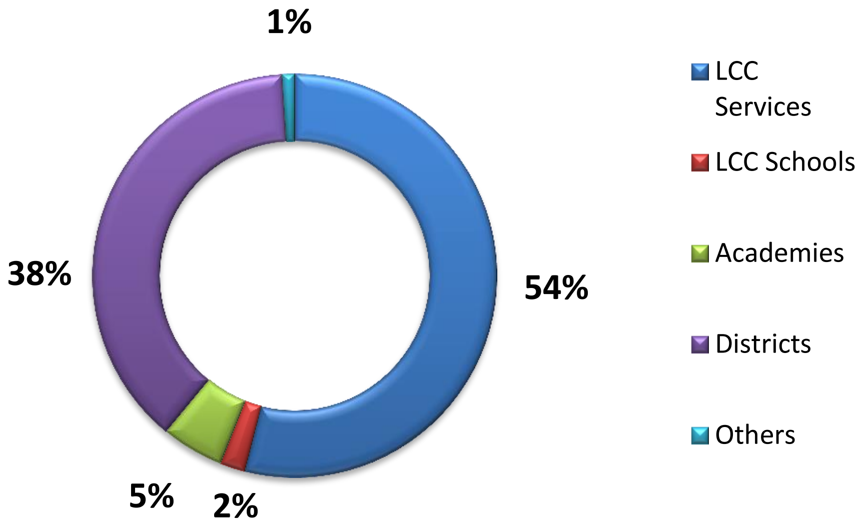
63. The County Council has a number of significant external clients:

    - North Kesteven District Council
    - West Lindsey District Council
    - Newark and Sherwood District Council
    - Lincolnshire Academies
    - Gainsborough Town Council
    - Charity

64. Our external clients help Corporate Audit and Risk Management operate within existing budgets and deliver the required 'savings'. In 2016/17 the internal audit service generated income of £214,455 – with the whole service operating within the revised budget.
    The audit team actual expenditure (net) is £541,254 compared to a budget of £510,365.

65. **Figure 7** below shows the breakdown of audit days across our client base:-

Figure 7 – Days delivered across client base



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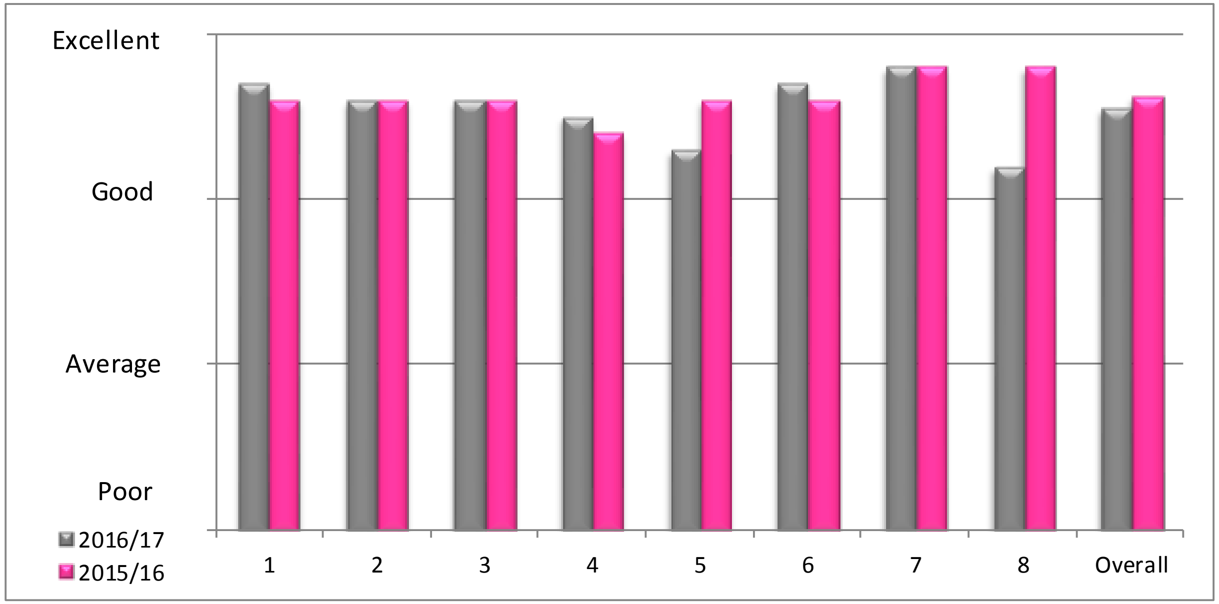
Effectiveness of Internal Audit

66. We regularly canvass opinions on audit planning, report and communication from management responsible for activities under review. They score the effectiveness of our service as excellent, good, adequate or poor.

67. The table in **Figure 8** outlines the responses by management on our service. For 2016/17 there was a 45% questionnaire return rate (Schools 33% and Service Areas 48%), the overall average rating for the service was good to excellent. Work is underway to improve the process for collecting feedback from clients.

Figure 8 – Client Feedback



Questions

A. Audit Planning

1. Consultation on audit coverage
2. Fulfilment of scope and objectives

B. Audit Report

3. Quality of report
4. Accuracy of findings
5. Value of report

C. Communication

6. Feedback of finds during audit
7. Helpfulness of auditor(s)
8. Prompt delivery of the audit report

Quality Assurance

68. We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards (PSIAS). We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.

69. Our commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.

70. Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.

71. Our Quality Assurance Framework (**Appendix 4**) includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment.

72. There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings. A training programme has been developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.

73. Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards. An External Quality Assessment was undertaken in September 2016. No areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity was identified. One area of partial non-compliance on the lack of a specific audit of ethics and values was identified. This area has been included in the 2017/18 plan. We have implemented all other agreed advisory recommendations.

74. Our quality assurance framework helps us maintain a continuous improvement plan, which includes the following:

- Update Internal Audit Charter and practice manual following revision of PSIAS in April 2017
- Undertake planned Ethical Audits at each client
- Working with management improve progress and delivery monitoring / audit scheduling
- Continuing professional development around new and emerging practice guidance.

A copy of the detailed action plan can be found in **Appendix 5**.

75. Although internal and external auditors carry out their work different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work where it is appropriate.

Appendix 1 Assurances Given 2016/17

Data is for audits completed during 2016/17

Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
Finance and Public Protection					
Serco / Agresso Post Implementation Review	Consultancy	-	-	-	-
Business Support	Removed	-	-	-	-
Service Transformation	Removed	-	-	-	-
Contracts – Children's Services	Substantial	2	-	2	-
Corporate Complaints	Removed	-	-	-	-
Corporate Policies & Procedures	High	4	0	2	2
Scrutiny Functions	High	0	0	0	0
Performance Management	Carried forward to 2017/18	-	-	-	-
Pension Fund	Carried forward to 2017/18	-	-	-	-
Budget Management	Carried forward to 2017/18	-	-	-	-
Bank Reconciliation	High	4	0	2	2
General Ledger	Replaced with control testing	-	-	-	-
Payroll	Low	52	25	27	-
Income	Substantial	11	1	9	1
Accounts Payable	Limited	11	3	5	3
Debtors	Limited	11	2	5	4
Treasury Management	High	2	1	0	1
VAT	In progress	-	-	-	-
Key controls – Debtors	Substantial	2	1	1	0
Key controls – Pension Fund	High	2	0	1	1
Key controls – General Ledger	Substantial	8	0	7	1
Key controls – Property Plant & Equipment	In progress	-	-	-	-
Infrastructure Asset Revaluation	Concluded	-	-	-	-
Trading Standards	Substantial	4	1	3	0
Total		**113**	**34**	**64**	**15**

Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
Environment and Economy					
European Regional Development Fund	Substantial	2	0	2	0
Joint Waste Management Strategy	Limited	15	2	10	3
Highways Maintenance Restructure	Carried forward to 2017/18	-	-	-	-
Planning Software Replacement	Consultancy	-	-	-	-
Transport Teckal Company	Consultancy	-	-	-	-
GLLEP Capital Grant Sign Off	Grant Audit	-	-	-	-
GLLEP Assurance Framework	Consultancy	10	1	9	0
Hertitage sites	Limited	4	3	1	0
Lincolnshire Archives	Removed	-	-	-	-
Total		**31**	**6**	**22**	**3**

Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
Children's Services					
Families working Together	Grant Audits	-	-	-	-
Child Sexual Exploitation Joint Working	Substantial	4	2	1	1
Missing Children	Substantial	1	0	1	0
Social Care & SEND transport	High	0	0	0	0
School Admissions	Carried forward to 2017/18	-	-	-	-
Inclusion	Finalising	-	-	-	-
Sector Led Approach to School Improvement	Substantial	4	0	4	0
SEND Reform	Carried forward to 2017/18	-	-	-	-
Careers Advice	Carried forward to 2017/18	-	-	-	-
HR processes in Schools	Limited	7	4	3	0
Total		**16**	**6**	**9**	**1**

Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
Adult Care and Community Wellbeing					
Transfer of Attendance Allowance	Removed	-	-	-	-
Customer Service Centre – Carers Team	Consultancy	-	-	-	-
Workforce Development	Limited	17	9	6	2
Annual Care Assessments	Limited	6	2	1	3
Provider Payments	Substantial	3	1	2	0
Client Contributions Policy	Carried forward to 2017/18	-	-	-	-
Better Care Fund	Substantial	3	3	0	0
Integration with Health	Carried forward to 2017/18	-	-	-	-
Adult Safeguarding Referrals	Consultancy	11	0	9	2
Adult Safeguarding – Peer Review follow up	Carried forward to 2017/18	-	-	-	-
Domestic Homicide Action review	Carried forward to 2017/18	-	-	-	-
Substance Misuse procurement and contract management	Substantial	3	0	1	2
Integrated Community Equipment Scheme	Limited – On hold	13	6	5	2
Total		**58**	**22**	**24**	**12**

Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
ICT and Commissioning					
ICT Audit - Agresso	Removed	-	-	-	-
ICT Audit – Mosaic	Consultancy	-	-	-	-
ICT Audit	Carried forward to 2017/18	-	-	-	-
Partnerships	Carried forward to 2017/18	-	-	-	-
Devolution	Removed	-	-	-	-
Procontract new contract system	Substantial	5	0	2	3
Total		**5**	**0**	**2**	**3**
Total for LCC		**223**	**68**	**121**	**34**
Due by 31 March 2017		**63**	**5**	**24**	**34**
After the 31 March 2017		**160**	**63**	**97**	**0**

Appendix 2 Details of School Audits 2016/17

School	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Grantham St Mary's RC School	Substantial	20	2	11	7
Horncastle Primary School	Low	22	10	9	3
Lincoln St Faiths and St Martin Junior School	Substantial	21	2	16	3
Mareham Le Fen CE Primary School	Substantial	10	0	7	3
Lincoln St Christopher's School	Low	30	13	15	2
South Rauceby Ash Villa School	Substantial	13	1	6	6
Total for Schools		**116**	**28**	**64**	**24**

Appendix 3 Outstanding Audit Recommendations for 2016/17 audits at 31/03/17

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Finance and Public Protection								
Corporate Policies and Procedures	Jan 17	High	3	2	0	1	0	0
Debtors	Nov 16	Limited	11	6	2	2	0	1
Income	Sept 17	Substantial	11	5	0	1	0	5
Environment and Economy								
Waste Management	Nov 16	Limited	15	3	1	0	0	11
Adult Care and Community Wellbeing								
Workforce Development	Jan 17	Limited	17	12	4	0	0	1
Total			**57**	**28**	**7**	**4**	**0**	**18**

Outstanding Audit Recommendations for All prior year audits at 31/03/17

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Finance and Public Protection								
Coroners	Jun 14	Limited	52	49	3	0	0	0
Payroll Audit 1 2016	Mar 16	Low	27	26*	1	0	0	0
Pension Audit 2016	Jul 16	Low	24	2*	18	4	0	0
Payroll Audit 2 2016	Jul 16	Low	46	21*	19	6	0	0
Children's Services								
Ethnic Minority and Traveller Education	May 15	Substantial	4	2	0	2	0	0
Adult Care and Community Wellbeing								
Coroners	Jun 14	Limited	52	45	5	2	0	0
Information Governance	Mar 15	Limited	15	12	3	0	0	0
Adult Safeguarding		Substantial	8	6	0	2	0	0
Environment & Economy								
Home to School Transport	Jan 15	Substantial	14	12	0	2	0	0
Chief Information Officer								
Business Continuity	Feb 16	Limited	4	1	3	0	0	0
Total			**127**	**84**	**28**	**15**	**0**	**0**

* Reported as implemented by Serco

Appendix 4 – Quality Assurance Framework

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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
- External Quality Assessment – completed in September 2016 and confirmed that our practice conforms to the Public Sector Internal Audit Standards

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

Appendix 5 – Continuous Improvement Plan

	Opportunities for Improvement	Actions	Timescale for tasks to be achieved	Person Responsible	Status
Governance					
1.	Ethical Audits	Complete phase 2 of the ethical audit at LCC	Phase 2 – March 2017	Head of Audit	Phase 2 – draft terms of reference to CMB November 2016 – scheduled May 2017
		Undertake governance audit at each client and discuss value and timing of an ethical audit – are the governance arrangements working well	March 2016 2016/17 audit plan	Head of Audit / Team leaders	Phase 1 completed at LCC – phase 2 scheduled.
2.	PSIAS	Regular practice discussions at team meetings – including: • Code of ethics • Audit process • Communicating results • Hot topic	Ongoing	Management Team	Audit process covered through Pentana training
3.	Progress and Delivery Reporting	Improve in year reporting on the outcome of internal audit work and performance (as necessary)	Immediate	Head of Audit / Team Leaders	Progress reports will be shared with Management Teams
Practice					
4.	Practice notes	Review and update: • Charter • Audit Process • Health Check and VfM practice note	September 2017	Head of Audit	Not Due

Opportunities for Improvement		Actions	Timescale for tasks to be achieved	Person Responsible	Status
		– review and sign off			
Communication					
5.	Contemporary reporting	Improve timescales for delivery of audit and investigations from time fieldwork commences to issue of draft and final reports	Monitored through progress reports	Team Leaders	Revised targets and scheduling approaches agreed. An area where a watching brief is required.
6.	LCC only Managing client relationship	Take the opportunity given by the Senior Management restructure to rebuild relationship with IT service manager.	November 2016	Head of Audit	In progress

Appendix 5 – Continuous Improvement Plan

Continuing Professional Development (Service / Team)				
	Area / Activity	**Outcome**	**Date Planned**	**Status**
1.	IT Audit Awareness / Training General	Greater understanding of Computer Aided Auditing Techniques – benefits and use in determining testing strategies / analysing data	October 2017	Further guidance on CAAT's required after IdEA upgrade
2.	Internal Audit Update: • Horizon Scanning • Practice updates		CIPFA Audit Conference – May 2017 CIPFA Audit Update – November 2017 Team briefings: • PSIAS 2017 • Ethical Audits • Thinking about Risk • Added Value and Insight • Good Governance – 2016 • Effective Audit Committees • Counter Fraud • Improving customer experience / the politics of Internal Audit	Scheduled throughout the year

Appendix 6 - Glossary of Terms

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Head of Internal Audit Annual Opinion

The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.

Governance

Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management - plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Impairment

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

Assurance Definitions

High	**Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.**
Substantial	**Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.**
Limited	**Our critical review or assessment on the activity gives us a The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.**
Low	**Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.**

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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:	**24 July 2017**
Subject:	**Counter Fraud Annual Report 2016/2017**

Summary:

This report provides information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviews the delivery of the 2016/17 counter fraud work plan.

Recommendation(s):

To assess the overall effectiveness of the Council's arrangements to counter fraud and corruption and the progress made to implement policy.

Background

The Counter Fraud Annual Report provides an overview of the investigation and proactive counter fraud work completed in 2016/17.

This summary provides information to enable the Committee to review the outcomes and overall effectiveness of the Council's arrangements. The progress reports submitted throughout the year and this annual report are the key sources of assurance for the Committee on the adequacy of Council's counter fraud activities.

The report supports the Committee in discharging its terms of reference around:

- To review the assessment of fraud risks and the potential harm to the council from the risk of fraud
- To monitor the counter fraud strategy, actions and resources.

In accordance with its responsibility for ensuring good governance and accountability, the Audit Committee may wish to consider:

- How the Council's counter-fraud strategy measures against best practice?
- How confident is the Committee that good counter fraud practice is adopted in the Council and its partners?
- Has the Committee an awareness of the major fraud risks faced by Lincolnshire County Council?

- Does the Committee receive assurance on the delivery of counter-fraud plans to address its fraud risks?
- Does the Committee oversee major areas of fraud identified and the implementation of consequential action plans to address the issues raised?

Conclusion

With its dedicated counter fraud and investigation resource, the Council has continued to maintain its commitment to preventing and detecting fraud during 2016/17. The arrangements in place to counter fraud remain effective and this is demonstrated by the significant increase in value of losses recovered from investigations during the year.

The number of fraud referrals received and subsequently the level of investigation activity increased during 2016/17. This impacted on the Counter Fraud and Investigations team's ability to deliver all areas of the Counter Fraud Work Plan. However, the team were able to ensure the strongest possible sanctions were taken in cases where fraud has been identified – where the evidence has met the requirements for criminal proceedings we have referred cases to Lincolnshire Police with a view to prosecution taking place. Several such cases with a total value of £83k are currently being investigated.

Our drive to increase awareness of fraud has continued in 2016/17. We focus our promotion of fraud awareness in areas of high risk to ensure potential indicators of fraud can be recognised. It is pleasing that we have seen fraud attempts prevented in areas where we have completed extensive awareness work with teams.

The Lincolnshire Counter Fraud Partnership has continued its successful collaboration with its partner authorities. LCFP is enhancing fraud resilience and fraud proofing across Lincolnshire through its co-ordination of targeted fraud awareness campaigns; sharing fraud intelligence and best practice; delivering savings and making effective use of resources. Notable achievements of the partnership in 2016/17 include the development and launch of a fraud awareness e-learning package and its promotion of whistleblowing facilities has seen a significant increase in reports made.

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 Annual 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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COUNTER FRAUD
Services

Lincolnshire County Council

Counter Fraud Annual Report 2016/17

Lincolnshire
COUNTY COUNCIL
Working for a better future

Assurance LINCOLNSHIRE

For all your assurance needs

What we do best ....

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

..... And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

COUNTER FRAUD
Services

Contents

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Key Messages

1. The purpose of the annual report is to provide assurance to the Audit Committee on the effectiveness of the Council's arrangements to counter fraud and corruption. The report also informs the committee of performance against the 2016/17 Counter Fraud Work Plan and the outcomes of proactive counter fraud work and investigations conducted.

2. The Counter Fraud and Investigation Team has delivered 70% of the planned work included within the 2016/17 Counter Fraud Work Plan. This is less than the proportion of work delivered in the previous year (86%) – however, this should be considered in conjunction with the significant increase (45%) in investigations undertaken (some of which were complex and therefore time consuming). This has inevitably impacted on the team's ability to deliver all the work included in the 2016/17 plan, but demonstrates flexibility to respond to emerging risks and priorities.

3. Our recoveries increased to over £68k in 2016/17 compared to £31k reported in 2015/16. Our work in 2016/17 identified scope for further recoveries of £83k, which we will continue to pursue.

4. Our data analysis skills have also played a major role in the identification and recovery of £1.6m in duplicate payments made to suppliers.

5. We continued to focus heavily on enhancing fraud awareness in 2016/17. We have taken a significant step forward by developing and launching an e-learning course aimed at Lincolnshire County Council managers and officers. The team has broadened the use of media channels to reinforce our message to a wider audience. Methods of reporting fraud concerns have been promoted across the county and this has resulted in a significant increase in whistleblowing activity and consequently, investigations undertaken.

6. We delivered fraud awareness sessions and liaised with the Serco Masterdata Team. As a direct result of our work and strengthened internal controls, the Serco Team successfully stopped an attempted bank mandate fraud. This prevented a payment of £107k from being made to the fraudsters.

7. A Fraud Health Check review has been completed to evaluate the counter fraud arrangements at Lincolnshire County Council against best practice guidance. The outcome of the review was encouraging as the authority has many of the components for a robust counter fraud framework already. Some areas for future development were identified and have been incorporated into future planning. Once implemented, this will improve the council's resilience and response to fraud and corruption.

Referrals

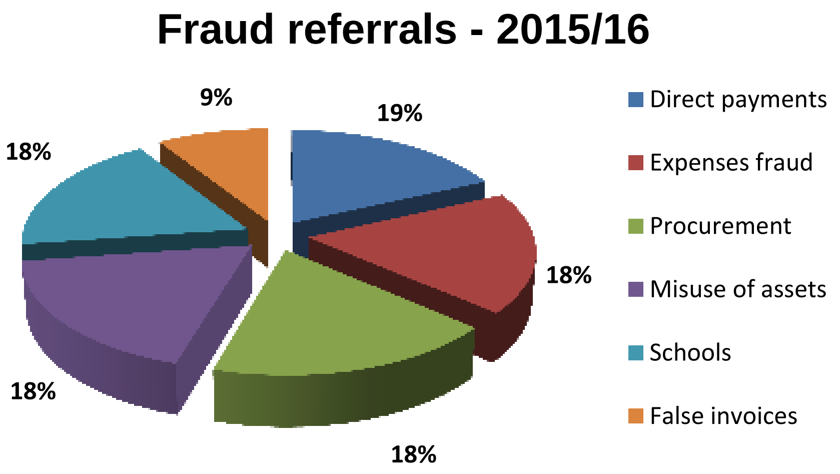
8. We received 16 new referrals of suspected fraud during 2016/17 – this represents a significant increase (45%) on the previous year.

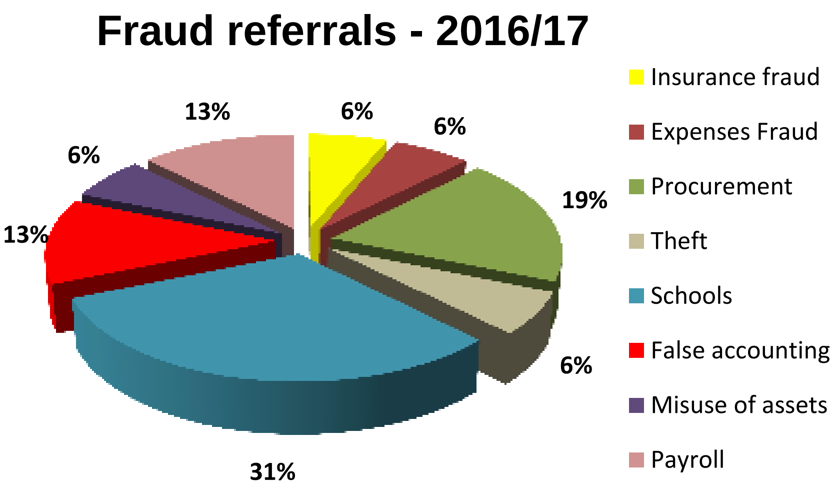
9. In 2016/17, we continued to receive referrals relating to schools, procurement and expenses fraud – this is demonstrated in Table 1 below. In 2017/18 we plan to reinforce our recent drive against procurement and contract fraud. This category of fraud remains a major threat to local authorities and we will continue our proactive efforts in this area. Expenses fraud is a long standing risk area and we regularly obtain and analyse expenses data to identify potentially fraudulent claims.

10. Analysis of the referrals made (see Table 1) reveals that the upwards trend in cases at schools has continued in 2016/17 – the issues involved in these cases are varied. We have included time in the Counter Fraud Work Plan 2017/18 to escalate our proactive work with schools and respond to this area of risk. The charts show that no Direct Payment or Financial Abuse cases were referred in 2016/17 – we intend to refresh our awareness work on social care fraud to ensure the risks in this area remain on the radar.

11. A summary of referrals received over the last 5 years can be found at Appendix B

TABLE 1





.Investigations

12. We carried out 9 investigations during the year – again this was an increase on the amount of investigation activity in 2015/16.

13. Results from investigations during 2016/17:

- We investigated a case of theft of monies at a school. Although the amount involved was not significant, the offence was perpetrated by one member of staff against another and therefore the case involved issues of trust and reputation. We referred the matter to Lincolnshire Police and they decided not to pursue criminal proceedings. However, the individual was summarily dismissed after a disciplinary investigation.

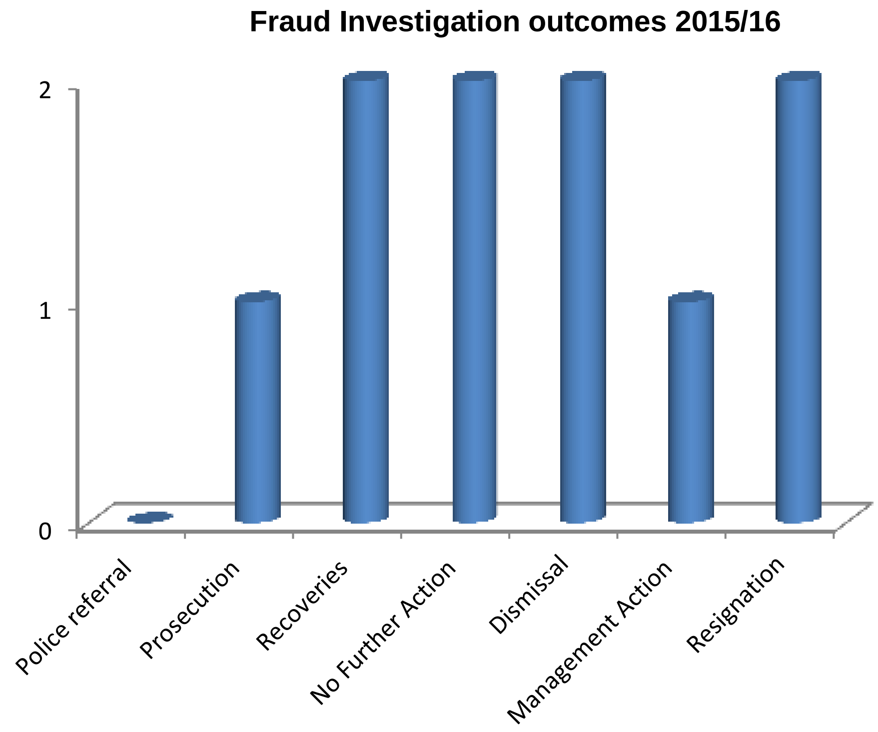
- We recently completed an investigation involving an employee of one of the council's partners. The main issues involved are around false accounting and theft of £39k. The case was referred to Crown Court in June 2017 resulting in a 15 month custodial sentence for the individual. Media coverage of the case reinforced the Council's zero tolerance approach towards fraud, serving as a deterrent.

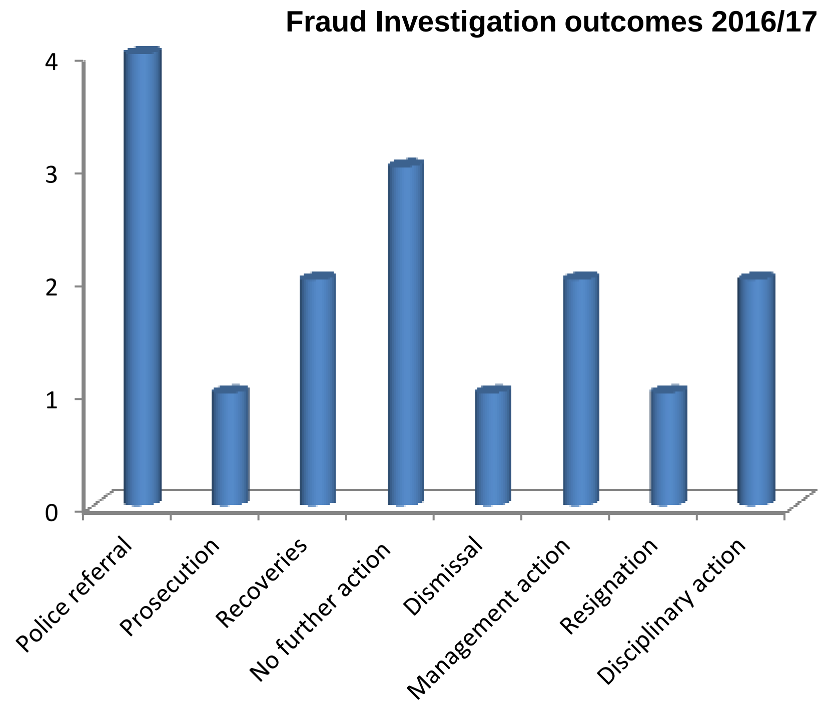
- A case was referred to the team that initially appeared to be a potential systematic fraud across a multi-agency partnership. Further investigation found the issues involved were the result of training and recording matters that had resulted in breaches of policy. Management action was agreed as the most appropriate sanction.

Outcomes

14. We have analysed the results from cases completed in 2016/17 – please refer to Table 2 below. The results, particularly those for prosecutions and police referrals, demonstrate that the Counter Fraud and Investigation Team will seek to apply realistic and effective sanctions where an investigation reveals fraudulent activity. This is in accordance with the council's Counter Fraud Policy.

TABLE 2





Recoveries

15. We have successfully increased our investigation recoveries in 2016/17 to over £68k, compared to £31k in reported recoveries for 2015/16. The 2016/17 data demonstrates the team's ability to secure recovery of council funds through various channels, and includes:

    - £33k from an external organisation following identification of diverted funds.
    - £35,787 following data matches identified in the National Fraud Initiative 2016/17 – this involved 3 cases where care home residents had deceased although payments for their care continued.

16. During 2016/17 we identified scope for further recoveries and will continue to pursue:

    - £17k – National Fraud Initiative data which shows pensions paid after death of the beneficiary
    - £38k from a fraud investigation opened during the year – expected to conclude in 2017/18.
    - £28k theft from a school.

17. We have strong data analysis skills within the team and these have been used since the implementation of Agresso to identify duplicate payments made to suppliers. In conjunction with the Audit and Finance Team over £1.84m has been identified and the vast majority of payments recovered (£1.6m).

Proactive Work 2016/17

Awareness

18. We worked closely and pro-actively with the Serco Masterdata to build fraud awareness and reinforce preventative controls over a period of time. We are pleased that this work has paid off and were encouraged by a recent outcome involving a bank mandate fraud attempt. As a direct result of our work and strengthened internal controls, the Serco Team successfully stopped a payment of £107k being diverted to the fraudsters. Councils and particular departments may be targeted by fraudsters in such cases and the financial and reputational impact can be significant. We also reported this issue to Action Fraud and have issued communications to relevant teams to help build knowledge of such attempts.

19. Fraud awareness remains an important factor in helping local authorities to create an anti-fraud culture. We have developed a Fraud Awareness e-learning course aimed at Lincolnshire County Council managers and officers. This package includes sections covering:

    - Understanding fraud
    - Preventing and detecting fraud
    - Roles and responsibilities
    - Bribery, corruption and money laundering
    - Reporting suspicions of fraud

    The course is highly interactive and designed to help improve understanding of the fraud risks faced by the Council and how they are dealt with. It also reinforces the responsibilities of all staff in preventing and detecting fraud.

20. The Counter Fraud and Investigation Team also refreshed its presence on the council's internal and external websites. Details available include a summary of the services provided by the team, the cost of fraud and also the wide ranging nature of frauds that can occur. Methods of reporting fraud concerns are also heavily promoted.

21. We have continued to use varied media channels to promote fraud issues and our work and will continue to do so. We plan to continue our efforts to use social media to ensure the anti-fraud message reaches different target audiences.

National Fraud Initiative 2016/17

28. During the year we submitted datasets to the Cabinet Office for the National Fraud Initiative. This is a data matching exercise that compares Lincolnshire County Council data against that submitted by other public bodies. In our initial review of the results we targeted specific reports as priority areas. This led to the identification of 3 cases where overpayments had been made to care homes - £35,787

was promptly recovered as a result. Further cases (value £17.6k) have been identified where pensions have been potentially overpaid following the pensioners death – we are currently working to establish the exact nature of these cases.

28. We have also identified some cases where council officers have not declared their interest in council suppliers. These issues have now been identified and formally documented. There is no suggestion of fraud in these cases but the declaration of interests ensures transparency to protect the council's reputation. We also plan to perform some further data analysis on creditor reports to ensure we have captured all duplicate payments made.

Fraud Health Check

24. We have performed a high level Fraud Health Check to review and evaluate the counter fraud measures in place against best practice guidance such as the CIPFA Code of Practice on managing the risk of fraud and corruption and the local government counter fraud and corruption strategy (Fighting Fraud & Corruption Locally 2016-2019).

25. The review found that the council has many of the components for a strong counter fraud framework in place which already meets best practice. The report made a number of recommendations which are considered proportionate to the perceived fraud risk and to the resources available. These are in line with recognised counter fraud best practice and will ensure a higher level of performance and improve the council's resilience to fraud and corruption – these areas have been reflected in planned work for 2017/18.

Other Proactive Work

26. CIPFA are currently developing framework standards for Counter Fraud in Local Government. The aim is to provide more structure for councils to manage the risks of fraud and corruption. The standards will work in conjunction with current best practice and existing strategies. Our team has been nominated to represent the midlands based county councils in a working group responsible for carrying out research to help produce the standards.

27. The Lincolnshire Counter Fraud Partnership is now represented on the TEICCAF Advisory Board. TEICAFF (The European Institute for Combatting Corruption And Fraud) main roles are to share knowledge and best practice on counter fraud and also highlight upcoming trends through their annual Protecting the Public Purse surveys. It is hoped that membership of these bodies will allow the council to gain more insight and influence in counter fraud developments.

28. We continue to host the Midland Counties Fraud Group – this currently consists of representatives from 18 councils across the region. Regular meetings and liaison takes place and this allows members to exchange details on cases, best practice and fraud risks.

Conclusions and Next steps

29. The Lincolnshire Counter Fraud Partnership (LCFP) was created following a successful bid to the DCLG's Counter Fraud Fund in 2014. The innovative partnership arrangement includes eight Lincolnshire councils (with Lincolnshire County Council acting as lead partner) working together to develop a strong, effective and sustained response to the threat of fraud across the county. From 2017/18 the partnership will also include Lincolnshire Police.

30. LCFP is enhancing fraud resilience and fraud proofing across Lincolnshire through co-ordinating targeted fraud awareness campaigns; sharing fraud intelligence and best practice; delivering savings and making effective use of resources.

31. The arrangements continue to enable a wide ranging and effective approach to address key fraud risks across Lincolnshire. During 2016/17, there was continued focus on awareness work in specific areas most at risk to fraud and the partnership worked closely with Lincolnshire Council's Counter Fraud and Investigation Team to jointly deliver promotion campaigns. The Lincolnshire Authorities Confidential Reporting arrangements were also promoted – increased whistleblowing traffic is evidence that communications are working well.

32. Other achievements in 2016/17 include:

- Launch of Fraud Awareness e-learning – currently being rolled out across the Lincolnshire local authorities. Initial feedback is positive about the interactive resource which provides a foundation for a good understanding of fraud.
- Improved fraud Intelligence provided by regularly sharing information about scams, alerts and fraud cases. Key themes have included using stolen debit / credit cards to make payments before requesting a refund; using a finance manager's email details to attempt fraudulent payment and cyber scams.
- Delivery of Fraud Health Checks (reviews of current counter fraud arrangements against best practice). Local authorities have found the reviews useful and positive feedback has been received.
- A business rates 'missing properties' project is delivering savings – Rateable Value increase identified of £600k within West Lindsey District Council properties and income is estimated at £150k.

Conclusions and Next steps

33. Partnership priorities for 2017 /18 include:

- Pro-active exercises on Procurement fraud, Blue badge and Housing Tenancy fraud

- Fraud awareness – promotion of the Lincolnshire Authorities Whistleblowing Facility, deliver fraud awareness sessions and campaigns, monitor e-learning take up

- Best practice / intelligence – provide specialist advice on fraud risks and controls, share fraud intelligence, engage with national and regional groups, identify themes from fraud risk registers and update Counter Fraud policies.

- Projects – perform a feasibility study to support a County wide data hub and involvement with the Serious and Organised Crime pilot.

Conclusions and Next steps

34. The Counter Fraud and Investigations Team have completed 70% of the Counter Fraud Work Plan for 2016/17 (please refer to Appendix A). It was not possible for the team to fulfil some areas of the plan due to increased demand for fraud investigation resources during the year – one investigation in particular was time consuming and impacted on the team's ability to deliver some proactive counter fraud areas including the update of the council's fraud risk assessment, a counter fraud exercise within schools and completion of our review of counter fraud policies and strategies. These areas have been deferred to the 2017/18 Plan.

35. Despite the reduced proportion of planned work being completed in 2016/17 we believe that the team continues to provide an effective response to the threat of fraud – this is demonstrated by the value of recoveries made and frauds prevented. Inevitably, where limited resources are available, an increase in investigations activity will impact on the ability to complete other proactive work aimed at prevention and detection (e.g. targeted counter fraud exercises and awareness work). One of the main priorities for the 2017/18 plan includes the update of the council's fraud risk assessment – work has already started on this and will ensure our future response is aimed at the correct areas of fraud risk.

36. The Lincolnshire Counter Fraud Partnership has continued to perform well and deliver results on behalf of its partner authorities – the fraud health checks and project savings made being notable achievements.

37. In 2017/18 we plan to strengthen the counter fraud framework at Lincolnshire County Council and ensure our arrangements reflect best practice. Our plan also includes time to ensure proactive exercises are carried out in our main areas of fraud risk. We will also continue to deliver awareness work to ensure regular communications with stakeholders aimed at building an anti-fraud culture.

38. Additional funding of £35k has been secured for 2017/18 to continue to support the work of the Lincolnshire Counter Fraud Partnership and increase capacity.

Counter Fraud Plan 2016/17 (Appendix A)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
CIPFA Code of Practice – key principle A : Acknowledge Responsibility			
A1 - Acknowledge the threat of fraud and corruption A2 - Acknowledge the importance of a culture that is resilient to the threats of fraud and corruption A3 - Governing Body acknowledges its responsibility for the management of its fraud and corruption risks A4 - Governing Body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption	• Engagement and training • Fraud awareness • Website development and maintenance • Development of e-learning package (in conjunction with Lincolnshire Counter Fraud Partnership)	Briefing sessions – training for members, management and staff (general and specific fraud areas) Engagement with Corporate Management Board Engagement with relevant groups e.g. Risk & Safety Group Updates, risks, results and information (various publications and channels) Develop e-learning platform and link to Assurance Lincolnshire website Development of a fraud newsletter to raise awareness	Outstanding Outstanding Outstanding Completed Completed Outstanding
Days - 40			

Counter Fraud Plan 2016/17 (Appendix A)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
CIPFA Code of Practice – Key principle B : Identify Risks			
B1 - Fraud risks are routinely considered as part of risk management arrangements B2 - The organisation identifies the risks of fraud and corruption B3 - The organisation publishes estimates of fraud loss to aid evaluation of fraud risk exposures B4 – The organisation evaluates the harm to its aims and objectives	• Update fraud risk profile • Analysis and publication of fraud losses	Completion of the council's Fraud Risk assessment Annual and progress reports of counter fraud activity to Audit Committee Develop fraud loss profile Fraud awareness sessions and activity in areas identified at high risk to fraud	Ongoing Completed - annual & progress reports presented Ongoing Completed
Days - 25			

Counter Fraud Plan 2016/17 (Appendix A)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
CIPFA Code of Practice – Key principle C : Develop a Strategy			
C1 - Governing Body formally adopts a counter fraud and corruption strategy to address identified risks C2 - Strategy includes the organisation's use of joint working or partnership approaches C3 - The strategy includes both proactive and responsive approaches: *Proactive action:* • Develop counter fraud culture • Prevent fraud through implementation of robust internal controls • Use of techniques such as data matching • Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters *Responsive action:* • Detecting fraud through data and intelligence analysis • Implementing effective whistleblowing arrangements • Investigating fraud referrals • Applying sanctions • Seeking redress	• Counter Fraud Strategy • Review and refresh policy documents	Continue to develop Counter Fraud Strategy Review and updates of Policies including: • Counter Fraud Policy • Fraud Response Plan • Whistleblowing Policy • Money Laundering Policy	Ongoing Whistleblowing Policy completed. Review of other policies is ongoing Completed Completed
Days - 25			

Counter Fraud Plan 2016/17 (Appendix A)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
CIPFA Code of Practice – Key principle D : Provide Resources			
D1 - Annual assessment whether level of resource invested to countering fraud and corruption is proportionate to the level of risk D2 - The organisation utilises an appropriate mix of experienced and skilled staff D3 - The organisation grants counter fraud staff unhindered access to its employees D4 - The organisation has protocols in place to facilitate joint working and data and intelligence sharing	• Lincolnshire Counter Fraud Partnership • Midlands Fraud Group	Provision of support to Lincolnshire Counter Fraud Partnership where required Lincolnshire Counter Fraud Partnership – develop: • resource plans and schedules • training and development plans Development of protocols with: • partners within Lincolnshire Counter Fraud Partnership • other public bodies and law enforcement agencies where possible (e.g. DWP, Police) Co-ordination and hosting of Midland Fraud Group meetings and initiatives	Completed Completed Ongoing Completed
Days - 30			

Counter Fraud Plan 2016/17 (Appendix A)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
CIPFA Code of Practice – key principle E : Take Action			
E1 - The organisation has put in place a policy framework which supports the implementation of the Counter Fraud Strategy E2 - Plans and operations are aligned to the strategy E3 - Making effective use of initiatives to detect and prevent fraud, such as data matching or intelligence sharing E4 - Providing for independent assurance over fraud risk management, strategy and activities E5 - Report to the Governing Body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy. Conclusions are featured within the Annual Governance report *Please also refer to Specific Step – C3	• National Fraud Initiative 2016/17 • Proactive counter fraud exercises • Data analysis • Investigations – whistleblowing referrals • Investigations – fraud • Applications of sanctions • Seeking redress • Advice • Promotion of counter fraud activity • Organisational learning • Reports to Audit Committee	Submission of data for National Fraud Initiative 2016/17 data matching exercise (and application of Fair Processing requirements) Analysis of data matches identified through National Fraud Initiative 2016/17 Proactive counter fraud exercises: • Procurement fraud (specific areas) • Schools Data analysis: • in counter fraud proactive exercises • to support key control and continuous testing Investigations arising from whistleblowing reports and frauds identified Applications of sanctions – civil, disciplinary and criminal Seeking redress where successful prosecutions are achieved Promotion and publicity work through various	Completed Completed (priority areas reviewed) Outstanding Completed Completed Completed Completed Completed

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Status
CIPFA Code of Practice – key principle E : Take Action			
		media channels including production of a new fraud awareness leaflet for distribution	Completed
		Promotion of fraud prevention measures	Completed
		Provision of advice on fraud risks and mitigating controls	Completed
		Production of reports and action plans to aid organisational learning – investigation outcomes and learning points	Completed
		Production of progress and annual counter fraud and whistleblowing reports to the Audit Committee	
Days – 370 (including 255 for Investigations)			
TOTAL DAYS ALLOCATED			**490**
CONTINGENCY			**50**
TOTAL PLANNED DAYS – COUNTER FRAUD			**540**

Fraud Referrals 2012/13 to 2016/17 (Appendix B)

Fraud Type	2012/13	2013/14	2014/15	2015/16	2016/17
Abuse of position	2	-	-	-	-
Direct Payments	-	3	2	2	-
Expenses fraud	-	1	-	2	1
False invoices	1	-	-	1	-
False claims	-	-	2	-	-
False accounting	-	-	-	-	2
Insurance fraud	-	-	-	-	1
Imprest (cash)	-	1	-	-	-
Misuse of assets	2	-	2	2	1
Payroll	2	-	2	-	2
Procurement	-	1	2	2	3
Recruitment	1	1	-	-	-
School Fund/Budget	-	2	-	2	5
Financial abuse	5	-	12	-	-
Theft	-	-	-	-	1
Timesheet/abuse of time	1	-	3	-	-
TOTAL CASES	**14**	**9**	**25**	**11**	**16**

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**24 July 2017**
Subject:	**Work Plan**

Summary:

This report provides the Committee with information on the core assurance activities currently scheduled for the 2017/18 work plan

Recommendation(s):

1. Review and amend the Audit Committee's work plan ensuring it contains the assurance areas necessary to approve the Annual Governance Statement 2018.

2. Consider the actions identified in the Action Plan.

Background

The work plan has been compiled based on the core assurance activities of the Committee as set out in its terms of reference and best practice (see Appendix A – work plan to 31 March 2018)

Conclusion

The work plan helps the Audit Committee effectively deliver its terms of reference and keeps track of areas where it requires further work and/or assurance

Consultation

a) Have Risks and Impact Analysis been carried out??

No

b) Risks and Impact Analysis

Any changes to services, policies and projects are subject to an Equality Impact Analysis. The considerations of the contents and subsequent decisions are all taken with regard to existing policies.

Appendices

These are listed below and attached at the back of the report	
Appendix A	Work Plan to 31 March 2018
Appendix B	Action Plan

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 – 2017/18		
24th July 2017	**Assurances Required/Being Sought**	**Relevancy – Terms of Reference**
Core Business		
Review of Head of Internal Audit's Annual Report and Opinion 2016/2017	Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why.	To consider reports dealing with the management and performance of internal audit. To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale. To overseee the production of the Council's Annual Governance Statement and to recommend its adoption. To consider the Council's arrangments for corporate governance and agreeing necessary actions to ensure compliance with best practice
Approval of Counter Fraud Annual Report 2016/17, reviewing the delivery of the Counter Fraud Work Plan.	On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.	Monitoring Council policies on the confidential reporting code, anti-fraud and anti-corruption policy.
Review of draft Annual Report on the work of the Audit Committee 2016/17 **– deferred to Sept**	Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.	To provide a report to full council on the committee's performance regarding its terms of reference and meeting its purpose.
Draft Statement of Accounts 2016/17	By asking questions (supported by independent advisor), confirm the integrity of the Council's financial statements prior to audit/publication. Improving how the Council discharges its responsibilities for public reporting e.g. better targeting at the audience and plain English.	To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been follwed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council. Duty to approve the authority's statement of

Audit Committee Work Plan – 2017/18		
		accounts, income and expenditure and balance sheet.
25 September 2017	**20 November 2017**	**January 29th 2018**
External Audit's ISA260 Report to those charged with Governance on Lincolnshire County Council's Statement of Accounts & Lincolnshire Pension Fund Accounts for 2016/17	Counter Fraud Progress Report	Internal Audit Progress Report
Final Statement of Accounts 2016/17	Whistleblowing Annual Report	External Audit Progress Report
IMT Update	Annual Report reviewing the effectiveness of the Council's complaints and compliments process, including how well the Council has dealt with complaints as demonstrated by the Local Government Ombudsman's Report.	
Counter Fraud Risks		
Approval of the Annual Governance Statement 2017		
Risk Management Progress Report		
Internal Audit Progress Report		
External Audit Progress Report		
Other Assurance	**Other Assurance**	**Other Assurance** Combined Assurance Status Reports
March 26th 2018		
Internal Audit Progress Report		
External audit Plan 2017/18		
External Audit Progress Report		
Draft Internal Audit Plan 2018/19		
Other Assurance		

Appendix B

Audit Committee Action Plan 2017/18

Action	Terms of Reference Outcome	Key Delivery Activities	When
1. 1. Clarify who should attend the Audit Committee and expectations on the information being presented.	Ensure that relevant and focussed reports are presented. Provide more certainty that assurance is relevant and reliable Promote constructive challenge during meetings Strengthen accountability arrangements and the effectiveness of the Audit Committee	Develop reporting protocol	30th September 2016 Revised to 31st December 2016
2. Develop Action plan following self-assessment workshop considering the following:	Improve effectiveness of the committee	Work with Councillor Development Group to develop a person spec with key attributes for people on an Audit Committee New Committee members appointed – work with new Committee to draw up a training and development plan.	31st January 2017
		Recruit an additional 'independent' member	30th June 2017
		Deliver risk management training and awareness for members and staff.	Agreed in development plan
		Ensure that there is a private meeting with External Auditor at least once a year.	Agree with KPMG – November or January

Audit Committee Action Plan 2017/18

Potential Agenda Items
Governance and Control of Trading Companies
Records Management – social care case files
County Farms
Joint Commissioning Board - Partnerships
Reviewing and encouraging transparency in partnership decision making
Understand and seek assurance over the governance and risks associated with our key partners -via Combined Assurance Status Reports

		End of meeting debrief / lunch	Chairman to arrange as required
		Briefing / update on key risks between meetings	Noted
		Arrange informal meeting with CMB	Completed – formal meeting agreed Chairman – January 2017

Compliance with the Transparency Code

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