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County Offices
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15 June 2018

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 25 June 2018 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

Richard Wills
Head of Paid Service

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, 25 JUNE 2018

Item	Title	Pages
1	**Apologies for Absence**	
2	**Declaration of Members' Interest**	
3	**Minutes of the meeting held on 26 March 2018**	5 - 14
4	**Update on actions arising from audits in Adult Care** *(To receive an update on actions and recommendations identified in two recent internal audit reports from Adult Social Care)*	15 - 22
5	**Internal Audit Progress Report** *(To receive a report from Lucy Pledge, Audit and Risk Manager, which provides details of the audit work during the period 11 March to 12 June 2018, and advises on the progress with the 2018/19 plan)*	23 - 52
6	**Approval of the Council's Annual Governance Statement 2017/2018** *(To receive a report by Lucy Pledge, Audit and Risk Manager, which provides the opportunity for the Committee to approve the Council's Annual Governance Statement for 2017/18)*	53 - 72
7	**Internal Audit Annual Report** *(To receive a report by 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 2017/18)*	73 - 106
8	**Counter Fraud Annual Report 2017/2018** *(To receive a report by Lucy Pledge, Audit and Risk Manager, which provides information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviews the delivery of the 2017/18 counter fraud work plan)*	107 - 132
9	**Payroll Update** *(To receive an update from Fiona Thompson, Service Manager – People, which updates the Committee on the latest situation with the payroll function)*	To Follow
10	**Work Plan** *(To receive a report by Lucy Pledge, Audit and Risk Manager, which provides the Committee with information on the core assurance activities currently scheduled for the 2018/18 work plan)*	133 - 140

11	**Draft Statement of Accounts 2017/18** *(To receive a report by Dave Simpson, Technical and Development Finance Manager, which presents the draft Statement of Accounts for the financial year 2017/18 for scrutiny and comment by the Audit Committee)*	141 - 312

REPORTS FOR INFORMATION

(These reports are for information only and do not require discussion at this time. Any issues the Committee feel require discussion can be highlighted under the work plan and scheduled for a future meeting. As these reports are for information only, they will only be circulated electronically)

12	**CIPFA Better Governance Forum - Developing an Effective Annual Governance Statement**	313 - 318
13	**CIPFA Audit Committees - Practical Guidance for Local Authorities and Police 2018 Edition**	319 - 406

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

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

Contact details set out above.

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

Lincolnshire COUNTY COUNCIL
Working for a better future

AUDIT COMMITTEE
26 MARCH 2018

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

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

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

Officers in attendance:-

Rachel Abbott (Audit Team Leader), Debbie Bowring (Principal Risk Officer), John Cornett (External Auditor, KPMG), Pete Moore (Executive Director, Finance and Public Protection), Mike Norman (External Auditor, KPMG), Lucy Pledge (Audit and Risk Manager), Dave Simpson (Technical and Development Finance Manager), Fiona Thompson (Service Manager - People) and Rachel Wilson (Democratic Services Officer)

45 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor P Coupland.

46 DECLARATION OF MEMBERS' INTEREST

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

47 MINUTES OF THE MEETING HELD ON 29 JANUARY 2018

RESOLVED

> That the minutes of the meeting held on 29 January 2018 be signed by the Chairman as a correct record.

48 PAYROLL CONTROL ENVIRONMENT - UPDATE

The Committee received an update from Fiona Thompson, Service Manager – People, on the latest developments with the payroll control environment. It was reported that Serco were making progress which was evidenced by weekly and monthly progress updates. The audit team were also in the process of finalising an audit.

It was acknowledged that progress had been slow and there was still work to do. Members were advised that there was now a new payroll manager in place who was putting in place very solid processes. There was an expectation that if Serco continued to progress in a positive direction then it was likely that the assurance opinion would move from low to limited. It was noted that a more detailed report would be provided to the next meeting of the Committee.

The original go live date for the Agresso upgrade had slipped by one month which would have an impact on timescales for the other planned improvements. It was reported that there been some down time to address system performance issues. It was also noted that as a result of this, payroll staff had had to work weekends to ensure that the March payroll was delivered.

In relation to historic payroll issues, there had been some slippage of the timescales on this project. Validation was expected to be completed by May/June 2018. The Executive Director for Children's Services was overseeing the governance of the project.

The Committee was advised that in relation to the control environment, internal audit were providing an update audit and there were a number of controls now in place, and work was taking place on the time scales for the audit. In terms of the internal improvement projects, these were mainly around issues such as starters, movers and leavers. The new processes should be introduced early in the new financial year.

In summary, it was reported that the position had improved but at a slower rate than expected, but it was believed that if Serco continued to progress in a positive direction, then the payroll function should reach substantial assurance by the autumn.

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

- It was noted that 1 April would be the third anniversary of Serco taking over the contract from Mouchel, and the change from SAP to Agresso. It was queried what the delaying factors had been, and now there were three years of history which should be able to be put to use. However, it was noted that this had been three years of poor practice and low assurance, but a new manager had been in place since the middle of November 2017, and there were now 6 months of embedded control practices rather than just design.
- In relation to the expectation of payroll reaching substantial assurance by the autumn, it was queried whether this was a challenging or realistic target. It was believed that this was realistic, as additional resources had been brought in, particularly for work around the pension's administration. However, issues could arise if there were other problems which had not been anticipated which could draw resources elsewhere. There would be a need to maintain focus on resolving the payroll issues.
- It was also noted that Fiona Thompson's team had increased its resources, and the Commercial Team was also involved in keeping this work going.
- It was acknowledged that the slower progress than anticipated had been disappointing, but the new payroll manager was of a different calibre to those who had been in post previously.

- There had been some wider issues around capacity, but additional resources had now been put in place. But, competition for these resources was being seen.
- It was reported that there had been 47 fixes required for the Agresso payroll system, with some being more significant than others. It was noted that there were still 30 outstanding issues to be resolved. However, manual work arounds had been put in place for these. The concern was if there was competition for resources, whether those work arounds would continue to be done.
- The continued risk area was the retention of good resources and the ability to bring in others where required.
- With regard to the payroll having low assurance for three years, it was queried whether there would have been differing grades of low assurance, with the possibility of gradual improvements being made, but assurance still being assessed as low. It was confirmed that this was the case – the assurance levels were based on a defined criteria but at the beginning of the audit work the assurance was very low.
- It was queried whether there were risks to other projects in relation to the diversion of resources. However, it was noted that other IT projects were not necessarily competing with this one.
- In relation to the manual interventions it was reported that this meant that individuals were manually performing tasks throughout the payroll process instead of them being carried out automatically by the system. This brought in additional scope for error as well as being a very inefficient way of operating.
- Despite the issues being experienced, it was believed that Agresso was the right system for the Council to be using, and following the upgrade, improvements had already been made. This system was a lot more adaptable than the SAP system. Many of the issues experienced by the system were due to processes and human error.
- It was expected that the need for manual adjustments would continue into the new tax year. But officers were confident that the risks were minimal and no material issues were anticipated for the year end close down.
- It was confirmed that reports would be coming back to the Committee in June and September 2018 and the Committee hoped to see improvements in the assurance levels in the mean time.

RESOLVED

That further reports be brought back to the meetings of the Committee in June and September 2018.

49 EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report from KPMG, the County Council's External Auditors which provided an update on the 2017/18 Audit deliverables. Members were guided through the report and provided with an opportunity to ask questions to the officers present in relation to the information contained within the report and some of the points raised during discussion included the following:

- In relation to the point around Northamptonshire County Council, during the course of this work, CIPFA consulted on a methodology to identify councils' financial resilience, risks and resources. There had been a programme of development events for members and officers on financial planning.
- It was noted that Lincolnshire County Council had been very committed to maintaining high levels of reserves. Members were advised that the financial resilience of this authority was acceptable. However, it was particularly adult social care authorities who would face continuing difficulties going forward.
- Members were reassured that there had been a number of issues at Northamptonshire, and they were not just in the same position as Lincolnshire, but 2/3 years ahead. It was also noted that Northamptonshire had not made the same difficult decisions that Lincolnshire had done previously. The issuing of the Section 114 notice was not something which had come out of the blue, as it had been a possibility for a number of years. The key thing had been the level of reserves. However, this was for each authority to determine what was an appropriate level of reserves for it to hold, it was not something for the external auditor to determine, but they could challenge the assumptions.
- It was queried how risk and resilience linked together, and it was commented that risk was for now, and resilience was how long that situation could be maintained.
- It was suggested that a report be brought back to a future meeting of the Committee on the general learning points around what happened in Northamptonshire, including the role of the Audit Committee.

RESOLVED

1. That the progress report be noted:
2. That a report be brought back to the Committee on the general learning points around what happened in Northamptonshire, including the role of the Audit Committee.

50 COUNTER FRAUD WORK PLAN 2018/19

Consideration was given to a report which provided the Committee with information on the proposed Counter Fraud activities for 2018/19 as well as the draft Counter Fraud Work Plan.

Members were guided through the report and it was noted that proactive and reactive work was behind scheduled. However, the nature of the work required the team to be reactive. It was noted that the Fraud Risk Register would be presented to the meeting in September 2018.

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:

- In relation to paragraph 20, a reduction of 20 days in the work plan was noted, and it was queried why this was. Members were advised that this was due to some minor staffing changes.
- It was queried whether the work for cyber fraud had been scoped and it was noted that a training need had been identified, but there was a chance that this risk would never go away, and so the team were targeting the highest priority areas. It was suggested that it may be useful for the Committee to speak with Chris Davidson who was seconded to the Council from Lincolnshire Police to provide insight on Lincolnshire' response. It was noted that the Council was part of the Serious Organised Crime Group.
- It was commented that more detail was needed to see that the Council did have effective arrangements in place. Officers agreed to include this for the next work plan report.

RESOLVED

That the Counter Fraud Work Plan for 2018/19 be approved.

51 DRAFT INTERNAL AUDIT PLAN 2018/19

Consideration was given to a report which presented to the Committee the draft internal audit plan for 2018/19. Members were guided through the report and the following points were noted:

- The introduction set the context of the plan and ensured that it was focused on the right areas. it was noted that the Plan was a living documents and set out the intent at the beginning of the year.
- The focus for 2018/19 highlighted that there was a significant piece of work underway on the Highways 2020 project and Corporate Support Services contract.
- It was felt that the Head of Internal Audit Opinion for 2019 would be able to be given.
- It was confirmed that the income from the external clients, as set out in Appendix F of the report, did contribute to the Audit Team operating costs.

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

- It was commented that the priority areas did seem to be in line with report which had been received and members were satisfied with this.
- It was queried whether there was a schedule which showed when areas were last audited. Members were advised that the Plan was more dynamic and risk based, but this information did in part inform what was in the Plan. This information would be stored within the Audit Team's systems. It was acknowledged that there would be some areas which had never been audited as they were low risk, but this information could be brought as part of the work plan in future.
- It was queried whether officers could ensure the Plan distinguished between those audits which were consultancy or management requests, and those

which were part of the Plan. It was noted that those which were consultancy would not receive an audit opinion but still focused on governance, risk and control (within the role and remit of Internal Audit). Internal Audit would not undertake consultancy assignments at management requests unless it fell within the scope of internal audit or if it would undermine independence and objectivity.

- It was noted that consultancy work was evidence based, and assurance could be provided for a project, but this would generally be through making recommendations. This work was still part of the Audit Committee's oversight and was taken into account as part of the Head of Internal Audit Annual Opinion.
- With reference to the payroll audit, listed in Appendix A, it was queried what the justification for making it a medium priority rather than a high priority was. It was noted that this report was compiled in January and it was expected that more progress would have taken place, than the reality. It was confirmed that this had been rescheduled as high priority. It was a dynamic plan therefore priorities and planned activity would be reassessed as necessary throughout the year.
- It was confirmed that there were no other audits which had changed priority within the Plan (at this time).
- It was noted that one area requiring closer challenge was ICT as there had been some delay in firming up the audit, the low level of assurance. It was highlighted that there may be a need to look for support from the Audit Committee to escalate this.

RESOLVED

That the Audit Plan for 2018/19 be agreed as presented.

52 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report which provided the Committee with details of the audit work carried out between 1 January to 11 March 2018. It was reported that 13 final reports had been issued, including 4 maintained schools audits. One report had generated limited assurance which was detailed on page 119 of the agenda pack. This related to an audit of the Carers Workforce, where the carers function was outsourced, as inconsistencies between providers had been found. A meeting had been arranged with the new Adult Care Manager in relation to the results of the audit and the recommendations.

It was also noted that 8 audits had been completed to draft report stage.

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:

- Members were advised that the provider who was being most proactive was Carers First and they were also found to be providing the most consistency. It was noted that the other provider was Serco.

- It was noted that many of the issues were due to training and development not being evidenced.
- It was suggested it may be useful for the Committee to receive an update report on the Carers Workforce Audit, once the meeting with the new manager had taken place, to outline what action was being taken to rectify the issues identified in the report.
- It was noted that an ombudsman report had recently been considered by the Adults Scrutiny Committee. Members were advised that a number of recommendations had already been implemented. Officers advised that a briefing paper could be produced for the Committee.

RESOLVED

That the outcomes of Internal Audit's work be noted by the Committee.

53 REVIEW OF GOVERNANCE FRAMEWORK AND DEVELOPMENT OF THE ANNUAL GOVERNANCE STATEMENT 2017/18

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

It was reported that the final Statement would normally be presented as part of the financial statements but it had been brought forward due to the early closedown of the accounts. It was highlighted that the key risks facing the council were as follows:

- IT Governance Arrangements
- Fairer Funding – Financial sustainability
- Financial Control Environment – Payroll
- Market Supply – Adult Care
- Collaborative working – governance

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

- It was queried whether the outcomes and value for money section could be presented in a clearer format, such as all measures achieved, most achieved, none achieved.
- In relation the safeguarding adults risk, which had been listed with a substantial level of assurance, it was queried whether the mitigating actions could be amended as per safeguarding children.
- It was thought that the draft Annual Governance Statement was a fair reflection of the issues which had been discussed by the Committee throughout the year.
- It was commented that the Statement was an open and transparent account of what the Council had done during the year.

RESOLVED

1. That the Committee agreed that the Statement accurately reflected how the Council was run
2. That the Committee agreed that the Statement included the significant governance issues/key risks it expected to be published.
3. That the amendments highlighted above be included within the Statement.

54 STATEMENT OF ACCOUNTS 2017/18

Consideration was given to a report which summarised the changes to the Code of Practice on Local Authority Accounting which would be incorporated into the 2017/18 statement of accounts, as well as the changes resulting from the Accounts and Audit Regulations 2015 and the impact of this on the Council's Statement of Accounts and the review of the Council's Accounting Policies.

Members were advised that every year CIPFA made amendments to the Code of Practice, and for this year there were only very minor alterations. It was also noted that completion of the draft accounts was expected by the end of May 2018.

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

- It was queried how members felt about not having the opportunity to consider the draft accounts this year due to the change of timescales.
- It was commented that the session which was held with Ian Fifield (LG Futures) last year had helped with the Committee's effectiveness, particularly as new members.
- It was noted that the timetabling of meetings would need to be looked at for the following year to take account of the revised timescales.
- It was noted that some authorities had scheduled meetings early in July to have a single item agenda to consider the accounts. However, it was noted that the accounts would have been submitted by this time.

RESOLVED

1. That the changes required to the Statement of Accounts from the Code of Practice 2017/18 be noted;
2. That the changes to the preparation and audit period for the 2017/18 Statement of Accounts as set out in the Accounts and Audit Regulations 2015 be noted; and
3. That the Statement of Accounting Policies (as set out in Appendix A to the report) be approved and used in the preparation of the Council's accounts for the financial year ending 31 March 2018.

55 UPDATE POSITION ON RISK MANAGEMENT

Consideration was given to a report which provided the Committee with an update as to the progress made with the refresh of the Strategic Risk Register and an update on risk management generally.

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:

- Members commented that they were not familiar with the commercialisation agenda, however, it was noted that this was still in the early stages of development.
- It was noted that the Council had one trading company at the moment, and additional assurance was being sought.
- It was suggested that the Audit Committee should not have a role to play in the refresh of the Risk Register. However, members were advised that this report was about sharing risk intelligence and giving assurance around the effectiveness of the risk management process, not managing the risk.
- It was commented that the relationship between executive and audit committee had grey areas.
- In relation to how the audit committee wanted to be involved, this would pose a difficult challenge for decision makers but would be explored with the Chair of the Audit Committee.

The Committee congratulated officers for the authority being shortlisted in the Public Finance Awards for Innovation in Risk Management.

RESOLVED

That the report be noted.

56 INTERNATIONAL AUDIT STANDARD - RESPONSE TO MANAGEMENT PROCESSES QUESTIONS

Consideration was given to a report which provided the Committee with an assessment around whether the County Council and Pension Fund financial statements may be mis-stated due to fraud or error.

It was noted that the report set out the mitigating controls for these enquiries. It was acknowledged that the Council had strong counter fraud arrangements.

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

- It was commented that it was thought that the council considered these issues well.
- It was queried what records were kept in relation to fraud in the Pension Fund. Members were advised that data matching was carried out through the National Fraud Initiative. It was noted that these frauds had decreased over

time as the Council's control environment was strong. However, due to the problems with payroll, the risk of fraud and error was being managed closely through data matching.

- In terms of whether intelligence was received, pension fraud was considered low risk but it could have a high impact.
- Officers would check the counter fraud risk assessment to establish what was set out in terms of finance limits.
- It was noted that the finance limits were different to materiality.
- Officers had not been made aware of any material amounts.

RESOLVED

That the Committee agreed that the assessment accurately reflected the Council's management processes to minimise the risk of fraud or error in the County Council and Pension Fund financial statements.

57 WORK PLAN

Consideration was given to a report which provided the Committee with information on the core assurance activities currently scheduled for the 2018/19 work plan.

RESOLVED

That the work plan be noted.

58 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

That in accordance with section 100(A) (4) of the Local Government Act 1972, the public and press be excluded from the meeting for the consideration of agenda item 15 on the grounds that if they were present there could be a disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

59 IMT COMBINED ASSURANCE

Consideration was given to an exempt report which provided the Committee with insight on the assurances across the Council's IMT Service.

Officers responded to a number of comments and questions raised by members of the Committee.

RESOLVED

That the combined assurance report and comments made be noted.

The meeting closed at 12.40 pm

Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**25 June 2018**
Subject:	**Update on actions arising from audits in Adult Care**

Summary:

The Audit Committee invited representatives from Adult Care to update them on actions and recommendations identified in 2 recent internal audit reports.

This report provides the Committee with some background information about the 2 audits which will be the subject of verbal updates at the meeting:-

1. Assessment of Needs in Adult Care
2. Quality of Workforce Learning and Development

Recommendation(s):

1. That the Committee receives and notes the updates on actions arising from the 2 audit reports.
2. That the Committee receives the assurance they seek

Background

The Audit Committee has asked to be updated on actions arising from 2 specific audits in the Adult Care arena and the background information required is in this paper.

Conclusion

The Audit Committee seeks to 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	Background information and executive summary relating to the audit reports

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.

Assessment of Needs in Adult Care Audit – March 2017

Background and Context

In 2015 the Care Act became law and specified that all people with a care plan should be kept under review to give them the opportunity to reflect on what is working, what is not working and what might need to change within their Care Plan. The Act specifies that plans are kept under review generally. The review process should be person-centered and outcomes focused, as well as accessible and proportionate to the service users' needs.
The Council established systems in Adult Care procedures that allow the proportionate monitoring of care and/or support plans to ensure that user needs are continuing to be met. Adult Care procedures not only follow the statutory guidance issued under the Care Act, but also go further specifying additional timescales:

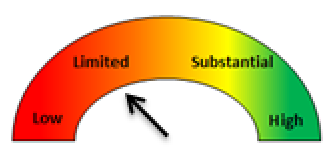
- All assessment should be completed within twenty eight days

- In all circumstances where support services or interventions have been arranged, practitioners should ensure that checks are made within the first week and no later than two weeks to ensure the initial effectiveness of those interventions

- A first review should take place within 6-8 weeks of support starting, both for new or former service users with new care and support, and for existing service users where new services have been organised. This review should be undertaken by the original assessor/team responsible for the assessment and planning work and may be a light- touch review if appropriate

- Thereafter, people should have a review at least once per year, as a minimum requirement

The performance of Adult Care assessments and reviews is a key control in the management of Safeguarding risk. Safeguarding Adults has at present a limited assurance status in the Strategic risk register



Risk	RAG rating	Recs High	Medium
Activity is managed effectively	Amber	3	3
The quantity or quality of staff is insufficient	Amber	0	1
ICT systems fail to produce the required outputs	Amber	0	1

Executive Summary

Lincolnshire County Council Adult Care has Care Plan review procedures in place to enable compliance with statutory guidance issued under the Care Act 2014. These procedures not only follow the statutory guidance but go beyond by specifying additional timescales to ensure adequate Safeguarding of Adults in Lincolnshire.
Our review, however, identified that there is limited evidence to show that these Adult Care procedures and Care Act statutory guidance requirements are being consistently implemented in practice.

The following areas for improvement have been identified:

Monitoring of reviews performed:

The Care act statutory guidance requires that "The first planned review should be an initial 'light-touch' review of the planning arrangements 6-8 weeks after sign-off of the personal budget and plan".
Adult Care procedures require that "A first review should take place within 6-8 weeks of support starting, both for new or former customers with new care and support, and for existing customers where new services have been arranged". The Adult Care procedures also require that "In all circumstances where support services or interventions have been arranged, practitioners should ensure that checks are made within the first week and no later than two weeks to ensure the initial effectiveness of those interventions"
Adult Care Team do not produce or monitor any reporting information on the performance of these 1-2 week checks of the effectiveness of support arrangements or 6- 8 week planned light-touch reviews. Adult Care consider that these reviews will be performed as part of the default process. We cannot however provide assurance that these checks and reviews are done.

Monitoring of planned 12 months reviews:

The Care Act statutory guidance specifies that "It is the expectation that authorities should conduct a review of the plan no later than every 12 months". Adult Care procedures require that "people should have a review at least once per year, as a minimum requirement". Adult Care are required to report in their National Data Collections Short and Long Term (SALT) Return the number of planned reviews performed in a financial year. Monitoring of these reviews consists of quarterly Adult Care Performance Reports (ACP reports) - these are not fully capturing the 12 months review requirement from the statutory guidance under the Care Act. Current information doesn't distinguish between different review types and therefore Adult Care Team have limited assurance that all service users are having a planned review no later than every 12 months. Long periods between reviews could cause the service users circumstances and needs to change and could therefore become a safeguarding issue and result in reputational damage to the Council.

The process of monitoring assessments completed within 28 days:

Lincolnshire County Council Adult Care procedures require that assessments are completed within 28 days after the targeted start date. The statutory guidance under the Care Act issued from the Department of Health specifies that the assessment process starts when the local authorities begin to collect information about the person, which is earlier than the used targeted start date. This could lead to possible misunderstanding of what this 28 days monitoring check actually shows. Our review also identified some anomalies with the data used for this indicator. This gives cause for concern over the quality of this data and renders the monitoring of this data open to error and manipulation and the 28 days monitoring open to misinterpretation.
Our findings around the monitoring and the quality of the performance data detailed above have resulted in a Limited Assurance opinion.

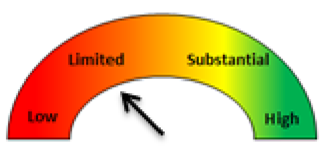
The attached action plan is intended to provide Adult Care with recommendations on how to further strengthen the processes in place, the monitoring and compliance with statutory guidance for reviews/reassessments of current and new service users' needs.

Recommendations	Number	Implementation Date
HIGH	3	July 2017
MEDIUM	5	N/A

Quality of Carers' Workforce Learning & Development Audit January 2018

Background and Context

Lincolnshire's Carers Service is delivered by two providers bringing together the prevention and the assessment and eligibility function.
From April 2015 Serco has provided a telephone carers service as part of the commissioned Lincolnshire County Council customer service centre. Serco provides signposting, information & advice and statutory telephone assessment, plan and review services.
Carers FIRST provides a telephone carers service offering specialist and tailored information and advice for carers. They deliver services in communities and acute hospitals. They provide universal services for example benefits checks, support groups plus the statutory assessment and support planning. The contract commenced in June 2016.
The Care Act 2014 introduced new legal rights for carers for support. The Children and Families Act 2014 also entitles parent carers and young carers to an assessment of their needs. There is a shift to seeing carers as people with their own rights to lead a life with choice and control; achieving emotional and physical wellbeing, access to work, education and social activities. Carers have a legal entitlement for support that puts carers on the same footing as the people for whom they care.



Limited Assurance
Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.
The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.

Risk	RAG rating	Recs High	Medium
Inefficient safeguarding training provided	Medium	0	1
Inefficient assessment training provided as detailed by Care Act	Medium	0	1
Inadequate supervision arrangements re verifying quality of work	Medium	0	1
Inadequate quality assurance process	Medium	1	0
Total		1	0

Executive Summary

Our review found inconsistencies between standards of practice and record keeping at the providers. As such assurance overall is limited. Our most significant findings are:
We established that while training and development had taken place it was difficult to evidence the actual attendance and completion by each employee, although this was better at one provider. There is an opportunity here for both providers to review and strengthen their current procedures and processes, to enable them to give the Council greater reassurance.
The Council has a quality assurance framework in place, however the framework needs to be extended and embedded into both providers, to ensure that the quality assurance framework works pro-actively. Both providers need to develop their current processes and procedures, this will then give the Council full assurance on the quality of the Carers Assessments they complete.

There was little evidence found on the supervision of assessments completed by assessors. We found no evidence to confirm that employees were being shadowed by a supervisor whilst completing the assessments to ensure assessors remain impartial.

We would recommend that both Providers review their current supervisory procedures in documenting supervisory activity taking place.

We would like to acknowledge that following our testing and feedback work has already been carried out to address the above findings. A revised contract has been agreed with one provider, and is in place along with additional staff employed. Team Leaders and Locality Managers to implement supervisory and Quality Assurance checks. The Council are currently in the process of working with and revising the contract with other provider.

We would like to take this opportunity to thank all parties for the time and help they have afforded to us during the audit.

Recommendations	Number	Implementation Date
HIGH	3	July 2017
MEDIUM	5	N/A

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Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**25 June 2018**
Subject:	**Internal Audit Progress Report**

Summary:

The purpose of this report is to:

- Provide details of the audit work during the period 11th March to 12th June 2018
- Advise on the progress with the 2018/19 plan
- Raise any other matters that may be relevant to the Audit Committee role

Recommendation(s):

That the Committee note the outcomes of Internal Audit's work and identify any actions that need to be taken

Background

This paper covers the period 11th March to 12th June 2018 and reports on progress made against the 2018/19 audit plan

Conclusion

During the period we have completed 13 audits:

- 11 to final assurance reports
- 1 final school audit reports
- 1 other reports

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.

Internal Audit

Progress Report

Image Courtesy of the Official UK Puzzle Club

Lincolnshire County Council
June 2018

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Assurance Definitions
Details of Limited / Low Assurances
Details of Overdue Actions
2018/19 Audit Plan to Date

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Introduction

The purpose of this report is to:

Provide details of the audit work during the period 11th March 2018 to 12th June 2018
Advise on progress with the 2018/19 plan
Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have completed 13 audits:

- 11 to final assurance reports
- 1 final school audit reports
- 1 other reports

Assurances

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

- Careers Advice – High
- Social Work Recruitment Processes – High
- Pension Fund – Key controls – High
- Total Transport Project – Substantial
- Procurement Cards – Substantial
- Debtors – Key Controls – Substantial
- Absence Management – Substantial
- Accounts Payable – Substantial
- Capital Programme – Limited
- ICT Asset Management – Limited
- ICT Service Improvement - Limited
- Payroll – Limited
- Fuel Cards - Low

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

3
HIGH ASSURANCE

5
SUBSTANTIAL ASSURANCE

4
LIMITED ASSURANCE

1
LOW ASSURANCE

During the period we have issued 8 reports giving high or substantial assurance, 4 limited reports and 1 low assurance.

High Assurance	
Careers Advice	Work completed during the audit found that broad statutory duties are overall being fulfilled. We were able to confirm that a robust tracking system is in place to report the number of young people highlighted as not in education, employment or training (NEET) and that monthly reporting to the Department for Education is accurate and timely.
Social Work Recruitment Processes	The Council has a clear and demonstrable understanding of the barriers it faces in respect of Social Worker recruitment, and has undertaken a substantial body of work to address these challenges. We identified numerous initiatives to identify and recruit staff to these ‘hard to fill’ posts. We confirmed in the 12-month period of September 2016 to September 2017, the Council undertook two dedicated recruitment campaigns which, along with ongoing recruitment in the period, resulted in the successful appointment to 88 social work posts .
Pension Fund Key Controls	Our review confirmed that full and detailed reconciliation's of the Pension Fund are completed monthly. We found that the calculations on the reconciliation totals were all correct and the all the investment records agreed to the underlying records therefore confirming existence and valuation of investments.

Substantial Assurance

Total Transport	We found that the Transport Services Group have a clear vision for the future of the county's passenger transport and are committed to building on the progress made through the Total Transport funding. The commitment is demonstrated through 2 key projects, as outlined in a report to the Lincolnshire Health and Wellbeing Board in September 2017. We found sound Project Management arrangements are embedded throughout the Transport Services Group; adequate research was undertaken and appropriate consultation process followed in advance of the projects commencing.
Procurement Cards	Our review was undertaken to provide assurance over the processes and controls in place around Procurement Cards to ensure that use is appropriate and transactions are reflected accurately and completely in the Council's accounts. During the audit we have identified issues and made recommendations relating to four of the risks. We are able to give Substantial Assurance as the impact on the achievement of objectives is assessed to be minor. The majority of key controls such as availability of guidance, approval to have a P-card, segregation of duties and retention of supporting receipts are in place. There are improvements to be made that will strengthen controls and reinforce to card holders when card use is appropriate and where this may not be the case.
Debtors Key Controls	Our review established that generally the processes across the Council and within Serco Credit Control to generate debtor invoices, credit notes and issue reminders are well controlled. The main area of concern remains the focus on recovery of high value debts with older, lower value debts not being actively chased although this is the approach agreed with LCC.

Substantial Assurance

Absence Management	We are pleased to report that both the process and the service itself have moved on since we last reviewed it following key improvements that have been made. While there are still enhancements that managers can make such as better document retention, we are satisfied that assurance has improved.
Accounts Payable	Our review established that the processes across the Council and within Serco Accounts Payable to raise purchase requisitions and make invoice payments are now generally well controlled and the payment performance KPI has consistently met the target since July 2017. This is in part due to improved exception reporting including the pre payment run checks that the Accounts Payable (AP) team run on Business World on! to minimise the risk of incorrect payments being made.

Limited Assurance

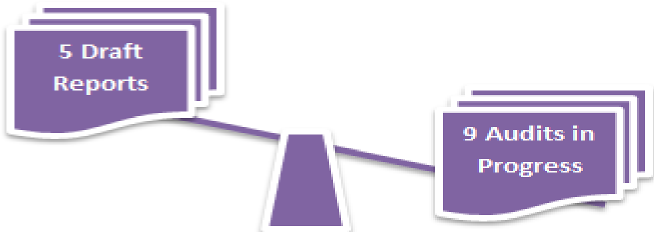
Capital Programme	Our review has concluded that overall the financial controls around capital spend require greater focus, in particular to improve the transparency of the finances of each scheme and to mitigate the risk of overspend. As there only limited controls within the financial system to prevent overspend on a capital scheme, LCC is reliant on monitoring controls such as the monitoring and reporting of capital spend. However significant issues were identified around the effectiveness of the reporting and resultant difficulty in the identification of overspend and scrutiny and challenge of the finances of each scheme.
ICT Asset Management	Asset management is currently delivered through: • SERCO recording assets on an asset register and controlling delivery of assets to the Council and; • the Council then taking responsibility for controlling assets once allocated to staff. Our work found that IT Asset Management is working poorly in both areas, with systems and processes in place that are not wholly in line with current best practice. Notably the asset register is correct at the point of issue, but then assets are not tracked once issued to the Council
ICT Service Improvement	Towards the end of our audit service improvement activities were suspended. We found that prior to this service improvement projects had run into difficulties due to a lack of resources and the lack of agreement between the Council and Serco on a number of service improvements. The relationship between the Council's IMT team and Serco is not working effectively and as a result it is unlikely that significant service improvement to ICT delivery can be made until issues are resolved.
Payroll	Our discussions and testing performed has demonstrated some level of improvement in Payroll processes and controls particularly since December 2017. In February 2018 there were 157 open management actions in relation to previous audit reports. 58% have now been closed and of the remainder 16% individual actions are addressed by the Pay Statements project. The impact of the new Payroll and Pensions Manager is visible. He has worked with the team to introduce strengthened payroll processes and controls and continues to do so, resulting in improvements in the payroll control environment.

Low Assurance

Fuel Cards	Although responsibility for managing Fuel Cards was transferred from Procurement Lincolnshire to Business support in 2016 the majority of the weaknesses identified are both historic and current. As a result the Council is not achieving value for money and there is an increased risk of loss due to fraud. The issues identified significantly impact on the effective management of the processing and controls over fuel cards which has resulted in a low assurance rating.

The management summary of the limited and low assurance reports can be found at appendix 2. The payroll report is the subject of an additional item on this committee so is not repeated in this report.

The 2 IMT audit reports which have been issued without actions agreed. We have sought to agree these with LCC-IMT since July 2017.   At April 2018 these were issued with no agreed actions to ensure our findings remained contemporary and inform the relevant Executive Director – Environment and Economy. The Chairman of the Audit Committee has requested an IT assurance update for the July 2018 committee.



Audits reports at draft

We have 5 audit's at draft report stage:

- General Ledger Key Controls
- Corporate Complaints
- Mosaic Application Audit
- Cyber Security
- Budget Management

These will be reported to the committee in detail once finalised.

Work in Progress

We also have 9 2018/19 audits in progress :

- Admissions Software
- Mosaic Data Quality & Reporting (ASC)
- Corporate Support Services Contract
- Highways 2020 Project
- Succession Planning
- Operation Dovetail
- Heritage Delivery Model
- Domestic Homicide Reviews
- Good Governance Review

Details of these can be seen in the 2018/19 plan at appendix 4.

Audits planned for quarter 2 include:
- Cash Management in Establishments
- Tax Compliance
- Mosaic Data Quality & Reporting (Children's Services)
- Adult Care Financial Assessments
- Business Continuity
- IMT Asset Management Follow up
- IMT Service Improvement Follow up

Other Significant work

Other key work undertaken during the period includes:

Families working together
We have concluded our annual audit work of the Families working Together Grant with review and sign off of the final submission 2017/18 for payment. This did not identify any concerns or issues.

Corporate Support Services Contract
The Contract with Serco for Corporate Support Services expires 31st March 2020. A Programme of work has been set up to manage this process through individual project streams.

Corporate Management Board asked Internal Audit to provide independent support, advice and assurance over the Programme – Support and advice work is underway with the first assurance audit, to cover programme management and progress, planned for Quarter 2**.**

The Head of Internal Audit and the Strategic Commercial & Performance Manager are also co-ordinating External Assurance over the programme – planned for October 2018.

Audit Committee Workshop – March 2018
We facilitated a workshop to review the effectiveness of the Committee and help shape the Audit Committee Annual Report.

Benchmarking

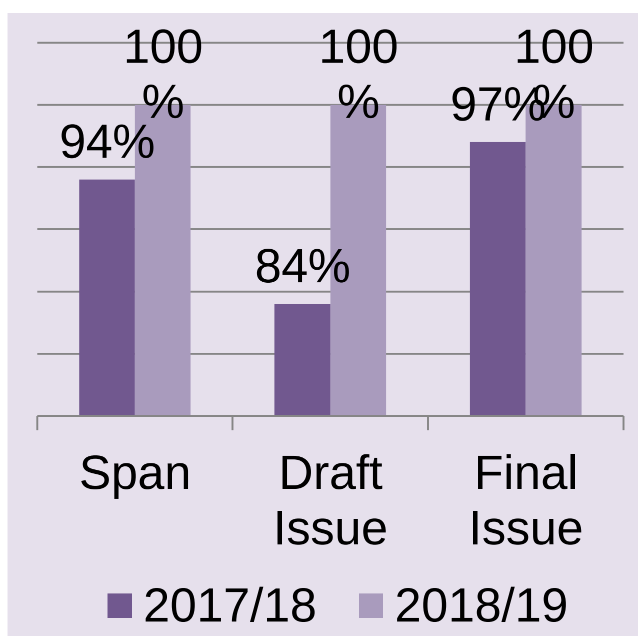
Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date. At this stage only one 2018/19 audit has been finalised.

Performance on Key Indicators

100%

Rated our service Good to Excellent

High achievement of Audit KPI's to date



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.

Capital Programme

Limited Assurance

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Capital Programme does not reflect the Council's priorities	G	0	0
Capital Programme spend is inappropriate or inaccurately reported.	A	0	3
Risks to the delivery of the Programme and individual projects are not well managed.	G	0	0
Capital projects encounter significant overspend	R	3	1
Capital projects fail to achieve their stated objectives / benefits are not realised	G	0	0

Background and Context

The Capital Programme comprises a group of capital investment projects designed to support the achievement of the Council's strategic objectives. In 2017/18 Lincolnshire County Council's Capital Programme gross spend is anticipated to be £138m. The majority of this spend (55%) relates to Highways Infrastructure projects.

Completing the Capital Programme to established budgets, timescales and specifications represents a significant challenge to the Council. Failure to adequately manage the programme could adversely impact upon the Council's delivery of services and its financial viability.

Scope

The purpose of the review was to provide independent assurance around the effectiveness of the governance arrangements for the Capital Programme to ensure that it delivers expected outcomes within budget.

The review focussed on the financial management of the Capital Programmme and in particular on three capital schemes: Lincoln East-West Link, New Eastgate Centre, Sleaford and Grantham Poplar Farm School. The following risks were considered:

- Capital Programme does not reflect the Council's priorities.
- Capital Programme spend is inappropriate or inaccurately reported.
- Risks to the delivery of the Programme and individual projects are not well managed.
- Capital projects encounter significant overspend.
- Capital projects fail to achieve their stated objectives / benefits are not realised.

Executive Summary

Our review has concluded that overall the financial controls around capital spend require greater focus, in particular to improve the transparency of the finances of each scheme and to mitigate the risk of overspend. As there only limited controls within the financial system to prevent overspend on a capital scheme, LCC is reliant on monitoring controls such as the monitoring and reporting of capital spend. However significant issues were identified around the effectiveness of the reporting and resultant difficulty in the identification of overspend and scrutiny and challenge of the finances of each scheme. In addition, corporate procedures do not provide any financial limits for the Executive approval of overspend if funding can be found from existing budgets. 1 of the 3 schemes reviewed was in an overspend position

Executive Summary

Key improvement areas identified include:
- Capital reporting requires significant improvement in order to provide a clear representation of a scheme's finances and enable Project teams to make informed decisions around their spend;
- Higher risk capital schemes (e.g. those in an overspend position) should be reported separately within the corporate reporting to enable adequate scrutiny and challenge, particularly by Members.
- Financial Procedures should be tightened and limits introduced so that the amount of overspend does not exceed a given monetary value or % of approved budget without prior Executive approval.
- Finance oversight over schemes could be enhanced through attendance at the Project Boards of the higher risk schemes and through Finance scrutiny of all schemes prior to their final approval.
- Formal Finance training around capital budgets should be provided to Scheme Managers, given that they are responsible for monitoring the spend against their schemes; and
- Capital Target Change processes require greater focus to enhance the clarity, effectiveness and consistency of their authorisation.

We found the following areas of good practice during our review:

- The Capital Programme is approved annually by the Council to ensure it reflects their priorities;
- Each scheme reviewed was appropriately approved and had clearly stated benefits;
- Segregation of duties exists between raising and approving capital related purchase orders;
- Capital spend is approved in accordance with authorised limits embedded in Agresso;
- Risk registers and lessons learned logs were maintained for each capital scheme reviewed;
- The phasing of capital spend is reviewed annually to ensure capital budgets are aligned to current spending plans

We would like to thank all of the staff involved in the audit for their help in undertaking the review.

Management Response

Financial Strategy welcomes this report on capital management which highlights a number of areas that require improvement, it has enabled existing capital programme management improvement plans to be updated and amended to incorporate recommendations made.

The report highlights a number of important points, these include the formalisation of the reporting mechanism of large capital projects from inception to completion. This is important to ensure all officers involved have clarity of what is expected of them, members are aware of project progress and financial standing with corrective action being taken more effectively, if required. However, this does not mean, that there is a current lack of awareness. Key members such as the Leader of the Council and Executive Councillors are kept informed on the progress of capital projects and overspend positions, if that is the case. They take appropriate decisions on that information and agree how overspends will be funded.

Capital project information is available, however, the processes used to share this need to be made more open and robust to ensure more effective monitoring and management. It is a similar case for underspending.

It is unfortunate that in this case the limitations of having only a small number of opinion levels and the terminology attached to those levels, gives a slightly misleading view with a designation of limited assurance, capital management is better than that, however, it is agreed and understood that improvements are required to ensure the procedures and processes we operate under and within are made to ensure key decisions affecting large financial sums, including under/overspends, are taken at the most appropriate levels with the correct information being made available.

We continue to work with all service areas to ensure they comply with the governance processes surrounding the capital programme.

ICT Asset Management

Limited Assurance

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Risk 1 – Arrangements for the management of ICT Assets are inadequate	Red	0	1
Risk 2 – The procurement of ICT assets is not controlled	Green	0	0
Risk 3 – ICT assets are not recorded or movements tracked	Red	2	1
Risk 4 – ICT assets are not disposed of correctly	Red	No	Assurance
Risk 5 – ICT assets are not maintained	Green	0	0
Risk 6 – Engagement with stakeholders is not effective	Green	0	0

Background and Context

The Council has a significant investment in ICT assets and under the arrangements for the provision of ICT services SERCO is responsible for the management of those assets.
To achieve best value for money and security of those assets it is important that a comprehensive and up-to-date inventory of assets is maintained, that assets movements are tracked, and assets are maintained in accordance with good practice and supplier requirements. This is increasingly important where staff and so assets are no longer stationery and working from remote sites and home is becoming a routine occurrence.

Scope

The review covered the following areas:

- The arrangements for the management of ICT assets
- ICT asset procurement
- The maintenance of the ICT asset inventory
- ICT asset maintenance and disposal
- Communication and engagement with ICT asset users

Executive Summary

Asset management is currently delivered through:

- SERCO recording assets on an asset register and controlling delivery of assets to the Council and;
- the Council then taking responsibility for controlling assets once allocated to staff.

Our work found that IT Asset Management is working poorly in both areas, with systems and processes in place that are not wholly in line with current best practice. Notably the asset register is correct at the point of issue, but then assets are not tracked once issued to the Council.

SERCO did not provide all the information requested and we have not then been able to give assurance over some elements of the asset management process.
Consequently we have given a limited assurance opinion at this time.

Executive Summary

Areas for Improvement
The report makes a number of recommendations to generate improvements which will lead to processes more in keeping with the ISO:27001 standard. These have been summarised below.
A number of additional recommendations have been made, including:
Development of an Asset Management Plan that can give the contractor a direction of travel that can support more robust process.
Complete planned deployment of Direct Access which ensures devices more readily connect back to the management systems to keep the detected inventory up to date.
Network access is revoked for assets not seen on the network for a defined period of time. We are aware that discussions around this are taking place between IMT and SERCO.

Best practice, the ISO:27001 standard includes several controls that relate to Asset Management which we have considered:

ISO:27001 A.8.1.1. - Assets associated with information and information processing facilities should be identified and an inventory of these assets should be drawn up and maintained.
The register is only updated by events that become known to SERCO through human interaction and needs to be supplemented by network scans to ensure data is current.

ISO:27001 A.8.1.2. - Assets maintained in the inventory should be owned.
Assets are issued by SERCO to the Council, but the Council does not then track the assets. Information obtained during the audit identified that the asset register records over 1,400 assets that have not been picked up through network scans and are believed to be still held within the Council.

In addition to surplus assets being an unnecessary cost to the Council, they may present other risks such as:

- Unused equipment may not receive patches and updates to prevent vulnerabilities being exploited
- Excessive licence costs for software installed on these devices
- Possible theft or loss of these assets and the likelihood that such losses may not be identified for a period of time

The Council's financial procedures explicitly state that officers do not need to record IT assets on inventories. We feel this is unhelpful, particularly as:

- the SERCO asset register is not actively maintained
- there is a significant volume of assets not found within the Council
- no periodic checks are undertaken to confirm that the asset register is accurate
- assets are not returned to SERCO when an employee leaves

Executive Summary

We have recommended that Information Asset Owners within the Council take responsibility for identifying what assets are held within their department and that the discrepancy between assets issued and those found to be in use are resolved.

ISO:27001 A.8.1.3. - Rules for the acceptable use of information and of assets associated with information and information processing facilities should be identified, documented and implemented.
The Council provides and maintains an acceptable use policy to help direct staff behaviour. This policy is supported by Information Security training that staff are required to complete annually.

ISO:27001 A.8.1.4. - All employees and external party users should return all of the organisational assets in their possession upon termination of their employment, contract or agreement.
Departments are not currently required to track their own IT assets and do not have ready access to the asset register. They may not then be wholly aware of what assets staff hold and should be returned on leaving. The requirement for Information Asset Owners to track IT assets would remedy this situation.

Information Not Provided
Information necessary to undertaking the audit was requested from SERCO but information relating to the disposal of assets was not provided during the evidence gathering stage of the audit. We were provided with a spreadsheet report of disposals but due to not receiving this on time we were not able to test the accuracy of the information provided.

As a result, we cannot give assurance over this area of the audit and we would draw your attention to the following implications:
We cannot offer assurance that any end of life and equipment deemed uneconomical to repair is being removed from the LCC asset base. This is of increased importance given the disparity between items issued per the asset register and items found on scans undertaken of the LCC network.

We cannot offer assurance that LCC assets are being solely disposed of through an appointed 3rd party, i.e. disposal of LCC assets may be through other means such as private sales.
We cannot offer assurance that LCC data held on devices, although encrypted, is being destroyed as part of a disposal process.

No Actions Agreed

A number of recommendations have been made that require responses from the Council's IMT section. We have received some input from the IMT management (see below) but this has not extended to the specific recommendations made. We have made a number of requests for management actions to the recommendations within the report but no responses have to date been received. The report has therefore been issued without such responses.
Given the absence of responses, and the Limited Assurance opinion, we will be undertaking a follow-up review of Asset Management during the 2018/19 year.

Management Response

The findings of the audit enforce the service perception of the current state of Asset Management.
Whilst the service design largely covered those areas found below assurance there is a clear shortfall in service delivery which accounts for most aspects of the shortcomings.

LCC IMT are working with Serco to deliver a Service Improvement plan focused on bring the Asset register in the form of a Configuration Management Database (CMDB) which in addition to Asset information records elements of configuration in addition.

A paper will be presented to CMDB to propose requiring Council Departments to track those assets issued to them in accordance with the recommendation within this report.

ICT Service Improvement

Limited Assurance

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Risk 1 – Arrangements for the management service improvement are inadequate	Red	2	1
Risk 2 – Service improvement is not planned	Red	1	0
Risk 3 – Staff resources are inadequate to deliver service improvement projects	Red	1	0
Risk 4 – Engagement with stakeholders is not effective	Amber	0	1
Risk 5 – Project planning and delivery is not effective	Amber	1	0
Risk 6 – Risks are not managed	Amber	1	0

Background and Context

ICT has the ability to significantly assist the Council in delivering value for money, efficient and effective services to the public. New and improved technology becomes available on a continuous basis and it is important that the Council is able to improve its service delivery through harnessing the latest technology.
This can only be done if improvements to technology are identified and assessed, and their implementation properly prioritised and planned through an effective service improvement plan.

Continual Service Improvement (CSI) is a core component of the Information Technology Infrastructure Library (ITIL). It is designed to exert influence in every aspect of service management to improve delivery and performance. This review set out to provide management with an assurance level on how well service improvement is planned and managed.

Scope

The review covered the following areas:

- Service improvement management arrangements
- The overall planning and monitoring of service improvement projects
- Staff and other relevant resources
- Arrangements for stakeholder engagement
- The management of individual projects
- The management of overall and individual project risks

Executive Summary

Towards the end of the audit we were informed that Serco has suspended the formal Continuous Service Improvement (CSI) process due to a lack of resource within their Lincoln office. Despite requests to Serco we were not told when the service improvement process was suspended or when it will resume.

Executive Summary

We found that prior to service improvement activities being suspended service improvement projects had run into difficulties due to a lack of resources and the lack of agreement between the Council and Serco on a number of service improvements. The relationship between the Council's IMT team and Serco is not working effectively and as a result it is unlikely that significant service improvement to ICT delivery can be made until issues are resolved.

We have not received the organisation structure and resource information we requested from Serco. The service improvement manager was re-deployed to help manage service delivery, which is short of resources. The service improvement manager role is currently vacant. There are a large number of projects, large and small, at either the planning or in progress stage and these are divided amongst a small number of project managers who are struggling with the volume of work. In our opinion, the ratio of projects to project staff working on them is not helping to deliver effective project management and delivery.

Serco uses its own framework for service improvement which is set out in their Service Improvement and Management (SIAM) policy, effectively their equivalent of ITIL's CSI standard. Whilst Serco does have documented policies and processes as set out in SIAM the process has not been signed off by IMT as the process to be adopted.

Service improvements are identified through service reviews, suggestions from customers, Serco's own business as usual experience. Serco's CSI register of service improvement projects has not been updated since January 2017.

No Actions Agreed

A number of recommendations have been made that require responses from the Council's IMT section. Whilst we have made a number of attempts to obtain a response for inclusion in this final report, this has not been successful. The report has therefore been issued without such responses.

Given the absence of responses, and the Limited Assurance opinion, we will be undertaking a follow-up review of Service Improvement during the 2018/19 year.

Management Response

NO GENERAL MANAGEMENT RESPONSE PROVIDED BY LCC-IMT

Fuel Cards

Low Assurance

Risk	Rating (R-A-G)	Recommendations	
		High	Medium
Fuel cards are not effectively managed	Medium	2	1
Fuel cards are not made for appropriate purchases	Medium	0	2
Fuel usage does not give value for money	Medium	2	1
TOTAL		4	4

Background and Context

In March 2016 responsibility for the management of fuel cards transferred from Procurement Lincolnshire to Business Support. There are 745 fuel cards in circulation and the annual budget is around £700k. There are 3 different contracts in operation all managed by All-star. The three contracts cover different areas:

- Highways, Mobile libraries, Road Safety Partnership, Youth Offending, Lincs Secure Unit, The Beacon Children's Home, Trading Standards and Contract Car Hire (invoice monthly)
- Lincslab (invoice weekly)
- Fire and Rescue (invoice monthly).

Fire and Rescue fuel contract is managed separately and has not been included in the scope of this audit.

The other two contracts have expired and the plan has been to re-tender and bring all the contracts together but so far this plan has not progressed. Procurement Lincolnshire have recently produced a Strategy to consider the best approach for purchasing fuel for the Council's vehicles.

There are 20 different fuel card accounts within the 3 contracts which are managed by different budget holders. Sub-accounts then have single or multiple cards attached, with named cardholders and vehicle registrations. The role of Budget Holders is to authorise the issue of fuel cards and monitor fuel purchases and the fuel card budget in their area. Our work has focussed on LCC vehicles rather than those with cards under Contract Hire arrangements.

Scope

The purpose of the review was to provide assurance that appropriate processes and controls for managing fuel cards are in place and applied consistently by all card users. We sought to provide assurance on the following :

Management: Management arrangements in place to process the fuel cards and fuel card payments are adequate for reliance purposes.

Reporting: Fuel card expenditure and usage reporting information is accurate, in a suitable format and uses appropriate sources of information.

Processes and controls: Fuel card processes and controls are adequate, applied correctly and actioned on a timely basis

We also completed some data analytics on 3 months' detailed card usage information provided to Business Support by All Star. This has highlighted some transactions by contract car hire users that will be followed up as a separate exercise to this audit.

Executive Summary

Although responsibility for managing Fuel Cards was transferred from Procurement Lincolnshire to Business support in 2016 the majority of the weaknesses identified are both historic and current. As a result the Council is not achieving value for money and there is an increased risk of loss due to fraud. The issues identified significantly impact on the effective management of the processing and controls over fuel cards which has resulted in a low assurance rating.

Our review has concluded that overall the management, processing, monitoring and financial controls around fuel cards require greater focus, in particular :

- Urgent review to agree the best approach for future arrangements to purchasing vehicle fuel and potential contract re-tender. Procurement have begun this work through development of a draft strategy. We recommend inclusion of finance and HR in this review and decision-making, which should include establishing responsibility for any new contract.
- Improved governance and monitoring of the current Allstar contracts. They are out of date with no extension or variation of contract in place. Allstar could end the contract or vary it without warning which could have significant impact on fuel cards service delivery.

- Governance over fuel card issue, disposals, security, purchases and usage arrangements is generally weak and requires strengthening. There is no Fuel Card policy or procedures in place. This lack of policy and guidance increases the risk that cards will be used inappropriately. People who have left the council could also continue to use the fuel card – fraud risk

Executive Summary

- usage of fuel cards requires greater focus on value for money and efficiencies. Guidance should highlight the reduced fees for using the Council's preferred 'brand', minimising the frequency of refuelling and avoidance of purchasing 'premium' fuel. Unnecessary expenditure is being incurred presently by the Council
- Fuel card usage requires greater oversight to ensure that anomalies are identified and queried. Recording and monitoring processes for fuel purchases require strengthening to ensure a consistent approach is followed by budget managers and to ensure fuel card charges are accurate.

The majority of these issues would be addressed by the establishment of a Fuel Card Policy and procedures which set out the processes to be followed for requesting, issuing, retrieving, security and usage of a fuel card to obtain greater control, efficiencies and value for money.

The Council is in the process of developing a fuel card strategy. To do this they reviewed the way that the Council purchase fuel as part of a procurement for the services. The strategy reviews the various options available to the council to make efficiency savings through fuel cards and looks at alternative methods for purchase of fuel.

We would like to thank Business Support for their assistance with the audit.

Management Response

The Fuel Card processes were passed to Business Support a couple of years ago, since this time there has been work undertaken with the Procurement team in understanding the pathways that LCC could take to re-contract, however progress has been slow. This inspection has been a good opportunity, and timely, for us to work with the Audit team to understand what the requirements are for greater compliance, further management and new processes.

Further work across the business is needed, engagement with Procurement, HR, Finance Highways, Mobile libraries, Youth Offending, Lincs Secure Unit, The Beacon Children's Home, Trading Standards and Contract Car Hire team, as main users of the scheme, is critical in order to fully review the Contract, the usage and drafting policies to outline compliance; cross working will be essential to the success.

Priority will be on retendering the Contract and implementing a strong corporate policy.

Business Support will create a robust project to ensure compliance is better managed, reported and value for money is accountable and identified.

Management Response

Due to the volume of work that is required addressing all items within the Audit will take a number of months, and following early engagement with LFR it has been determined they will be excluded from the process due to the reasons stated below, but all Procedures will be shared.

Fire & Rescue statement from Julia Skinner, Contracts Manager: LFR arrangements for using and monitoring fuel cards are efficient and effective. We are 'in contract' and have good quality and accurate monitoring information available 24/7 and in fact we are in the process of increasing the use of fuel cards as a result of a vehicle fuel review.

Appendix 3 Details of Overdue Actions

Outstanding Audit Recommendations for all audits at 31/03/18

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Finance and Public Protection								
Medium Term Finance Plan	Nov 2017	Substantial	2	0	0	2	0	0
Corporate Policies and Procedures	Jan 2017	High	3	2	0	1	0	0
Bank Reconciliation	Feb 2017	High	4	3	0	1	0	0
Income Management	Sept 2016	Substantial	9	8	0	1	0	0
Treasury Management	Jan 2017	High	1	0	0	1	0	0
General Ledger (Key Controls)	May 2017	Substantial	8	3	3	1	0	1
Trading Standards	Feb 2017	Substantial	4	3	0	1	0	0
Business Continuity	Feb 16	Limited	4	1	3	0	0	0
Adult Care and Community Wellbeing								
Carers Workforce	Feb 2018	Limited	4	0	1	2	0	1
Workforce Development	Jan 2017	Limited	17	16	0	1	0	0
Better Care Fund Effectiveness	Jan 2017	Substantial	3	2	1	0	0	0
Adult Safeguarding Referrals	May 2017	Consultancy	11	10	0	1	0	0
Environment & Economy								
Information Governance	Dec 2017	Substantial	10	5	0	3	0	2
Carbon Management Plan	Jan 2018	Substantial	3	0	0	3	0	0
Home to School Transport	Jan 2015	Substantial	14	12	0	2	0	0
Total			130	109	10	10	0	1

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2018/19-01 - Highways 2020 Procurement Programme	This consultancy assignment will offer support and advice on the programme throughout its journey of re-procurement and contract start in April 2020	01/04/2018	01/04/2018		Consultancy support in progress
LCC 2018/19-02 - Heritage (Phase 2)	Our review will provide the Heritage Service with support and advice during the project to help ensure it is appropriately managed, and that the process is on track to deliver its outcomes. This project needs to identify and present the best options available for the Council to agree, and the future of the Heritage Service depends upon the successful implementation of this agreed method. It is therefore essential that the project has captured and presented the information accurately to allow for a decision to be made from the available options.	15/09/2017	01/07/2018		Rescoping due to project changes
LCC 2018/19-03 - Domestic Homicide Review	Assurance that processes for Domestic Homicide reviews meet legislative requirements and reflect best practice. Follow up of published reviews to confirm agreed actions relating to LCC have been taken or are progressing and that lesson learnt are embedded.	15/05/2018	15/05/2018		Fieldwork in progress
LCC 2018/19-04 - Workforce performance and reward	Assurance that there is a consistent and fair approach planned for linking employee increments to performance from 2018/19	01/11/2017			Delayed to Q4 by Director
LCC 2018/19-06 - Corporate Support Services Commissioning	To provide ongoing insight and advice around project management, governance, risk and control.	01/03/2018	01/03/2018		Consultancy support in progress
LCC 2018/19-07 - Recommissioning of Domestic Abuse Support Service	To provide assurance around the commissioning and contract management of domestic abuse service for standard & medium risk victims and IDVA, including the approach to services for DA perpetrators	23/04/2018			Delayed to Q4 requested
LCC 2018/19-08 - Strategic Workforce Planning	Assurance of the adequacy of work that HR are doing around senior leadership succession planning within the Authority (excluding schools).	01/05/2018	01/05/2018		Fieldwork in progress
LCC 2018/19-09 - Corporate Complaints	Our review will aim to provide assurance that the complaints process is fit for purpose and is meeting its targets in resolving customer complaints at the earliest opportunity.	05/04/2018	05/04/2018		Substantial Assurance
LCC 2018/19-11 - Cash Management in Establishments	That management arrangements for income and imprest at Council Establishments ensure risk of loss or misappropriation is adequately controlled. Using Establishment data produced in 2017/18 select a sample of establishments to visit and test income and imprest management controls.	01/06/2018			Scoping

Appendix 4 2018/19 Audit Plan to date

Audit	Scope of Work	Start Planned Date	Start Actual Date	End Actual Date	Rating
LCC 2018/19-12 - Transport Connect Assurance Review	Assurance over the governance arrangements of this Teckal Company owned by LCC to inform the annual governance statement	03/04/2018	17/04/2018	30/04/2018	Complete
LCC 2018/19-13 - Operation Dovetail (counter terrorism)	Support and advice on the upcoming transfer of PREVENT activities from the Police to the Local Authority to help ensure its success	13/03/2018	13/03/2018		Scoping
LCC 2018/19-14 - School Admissions Software	Confirmation that the risks regarding implementation of the new admissions software have been managed to minimise the disruptions to schools.	01/08/2017	01/06/2018		Fieldwork in progress
LCC 2018/19-15 - Mosaic	Review the effectiveness of Mosaic across Adults in meeting business needs. To review the reliability of information held on Mosaic, usefulness of reporting and the impact on service provision in Adult Care and Wellbeing.	01/05/2018	20/04/2018		Fieldwork in progress
LCC 2018/19-16 - Good Governance Review - Ethics	Assurance that governance arrangements are working effectively to manage Ethics, Partnerships and Transparency. To be conducted from a member perspective.	01/04/2018	01/04/2018		Fieldwork in progress
LCC 2018/19-19 - Cyber Security	Assurance over the Council's arrangements for mitigating the latest cyber security threats. Internal Audit shall identify the latest cyber security threats and determine whether the arrangements to protect against them and recover from them are appropriate and adequate.				Not assessed
LCC 2018/19-20 - Mosaic Application Review	The review will focus on system security, particularly in the following areas: System security (access controls) Performance (accuracy and timeliness) Operating procedures Back-up and recovery Change control		12/03/2018		Substantial Assurance

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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:	**25 June 2018**
Subject:	**Approval of the Council's Annual Governance Statement 2017/18**

Summary:

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

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

A 'good' Annual Governance Statement is an open and honest self-assessment of how well we have run our business across all activities - with a clear statement of any areas of significant concern.

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

The Committee considered the draft statement at the meeting on 26th March 2018.

Recommendation(s):

That the Committee considers the contents of the Annual Governance Statement 2017/18 and:-

1. Agree that it accurately reflects how the Council is run.

2. That the Statement includes the significant governance issues/key risks it would have expected to be published.

3. Approves the Statement and recommends it for adoption by the Council.

Background

What do we mean by 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"

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

What is the Governance Framework?

Our Governance Framework brings together an underlying set of legislative requirements, governance principles and management processes. It ensures that the Council's business is conducted in a legal and proper way – ensuring that public money is properly used - economically, efficiently and effectively.

At its meeting on the 26th March 2018, the Audit Committee considered the draft Annual Governance Statement for 2017/18.

Governance Issues

The areas identified where further work is required to improve systems or monitor how the key risks facing the Council are being managed are:-

- IT governance
- Fairer funding – financial sustainability
- Market supply – Adult Care
- Collaborative working – governance arrangements

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

Over the coming year the matters identified will be monitored as part of the Council's Corporate Management Board and Executive.

The key changes to the Statement since the draft are:-

- Updated document presentation making it easier to read and engage with e.g. simplification of the Committee Structure diagram (page 5)

- The implementation dates for the significant governance issues have been agreed (page 2)
- The governance framework is now included as Appendix 1 (page 13)
- Performance summary – the new diagram now reflects the quarter 4 performance data rather than quarter 3 as in the draft document (page 6)
- Updated outcomes and value for money information (page 7)
- How we carry out assurance diagram simplified (page 10)
- Head of Internal Audit opinion on Internal Control and Financial Control which was not available for draft version now included (page 12)

The final Annual Governance Statement can be found in Appendix A. It is presented to the Committee for consideration of the contents e.g.

- Does the Statement accurately reflect the Committee's understanding of how the Council is run?

Conclusion

The Council has strong governance arrangements which are demonstrated by the realistic and open assessment of its functions and activities.

Officers have identified a number of governance issues to be included in the Annual Governance Statement – demonstrating accountability, transparency and openness to local taxpayers.

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	Lincolnshire County Council - Annual Governance Statement 2017/18

Background Papers

Document title	Where the document can be viewed
Draft Annual Governance Statement 2017/18	Audit Committee records for 26th March 2018

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

Lincolnshire County Council Draft Annual Governance Statement 2018

Contents

1	Executive Summary
2	Significant governance issues
4	Looking back at 2016/17
5	How the council works
6	Outcomes and value for money
8	Roles and responsibilities
10	How we carry out assurance
11	The council's assurance levels
13	Appendix 1 - Governance framework
14	Appendix 2 - Strategic Risks

Lincolnshire County Council

Working for a better future

Executive summary

The Leader of the Council (Cllr Martin Hill OBE) and Interim Chief Executive (Richard Wills) both recognise the importance of having good management, effective processes and other appropriate controls in place to have a well-run Council - 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 March 2018 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 June 2018 - where it was recommended for signing by the Leader of the Council, Interim Chief Executive and the Executive Director – Finance and Public Protection.

Signed on behalf of Lincolnshire County Council

………………………………….

Councillor Martin Hill OBE
Leader of the Council

………………………………….

Richard Wills
Interim Chief Executive

…………………………………

Pete Moore
Executive Director – Finance and Public Protection
(oversight responsibility for Governance and the Council's Section 151 Officer)

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 or where governance oversight is needed.

Key improvement area	Lead officer	To be delivered by
IT governance	Executive Director – Environment and Economy	31st March 2019
Fairer funding – financial sustainability	Executive Director – Finance and Public Protection	Ongoing through to late 2019
Market supply - adult social care	Executive Director – adult care	Ongoing through to 2020
Collaborative working – governance arrangements	Executive Director – Environment and Economy	31st December 2018

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 council's 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 full governance framework can be found at the end of this document.

Principles of corporate governance

Principle A: Integrity and values

- 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

Principle B: Openness and engagement

- 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

Principle C: Working together

- 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

Principle D: Making a difference

- Having a clear vision and strategy setting out our intended outcome for citizens and service users

Principle E: Capability

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

Principle F: Managing risk and performance

- Ensuring that effective risk management and performance systems are in place, and that these are integrated in our business systems / service units
- Having well developed assurance arrangements in place – including any commercial activities
- Having an effective Audit Committee
- Effective counter fraud arrangements in place

Principle G: Transparency and accountability

- Having rigorous and transparent decision making processes in place
- Maintaining an effective scrutiny process
- Publishing up to date and good quality information on our activities and decisions.
- Maintaining an effective internal and external audit function

Looking back at 2016/17

A number of improvement actions were identified as part of the 2016/17 Annual Governance Statement.

The table below shows progress with these actions:

Key improvement area	To be delivered by	Progress
IT governance	March 2018	Behind plan*
Financial sustainability	February 2018	On track
Financial control environment	March 2018	Behind plan
Market supply	March 2018	On track
SERCO contract – lessons learnt (KPMG report).	March 2018	Completed
Delivery of support services and improvement - SERCO	March 2018	On track
Collaborative working - governance arrangements	March 2018	Behind plan – financial procedure requires updating

Areas behind plan

IT governance – The Council has a robust and mature system of governance around information management, with the Executive Director –Environment and Economy as the designated Senior Information Risk Owner and we appointed a Data Protection Officer some time ago. However, a review of the Council's IT Governance and IT Strategy was commenced in 2017. A monthly meeting of the Executive Councillor with the Executive Director and Chief Digital Officer has already been put in place, but further proposals for the delivery of IT and its associated governance and oversight will be decided upon by the Executive by October 2018 as part to the Corporate Support Services programme

Financial control environment – improvements in the control environment have been made. Payroll has improved from an internal assurance **'low assurance'** to **'limited assurance' opinion** during the year. It is anticipated that this will move to **'substantial assurance'** in 2018.

Collaborative working - governance arrangements – the financial procedure is due to be updated by 31st December 2018. It includes procedures around commercial activities, external funding as well as partnerships.

Lincolnshire COUNTY COUNCIL Working for a better future

How the council works

The Annual Governance Statement covers the 2017/18 financial year. The information below relates to this period. A new Executive and Scrutiny structure came into effect from May 2017.

The council is made up of 70 councillors and operates a 'Leader and Executive' model of decision making.

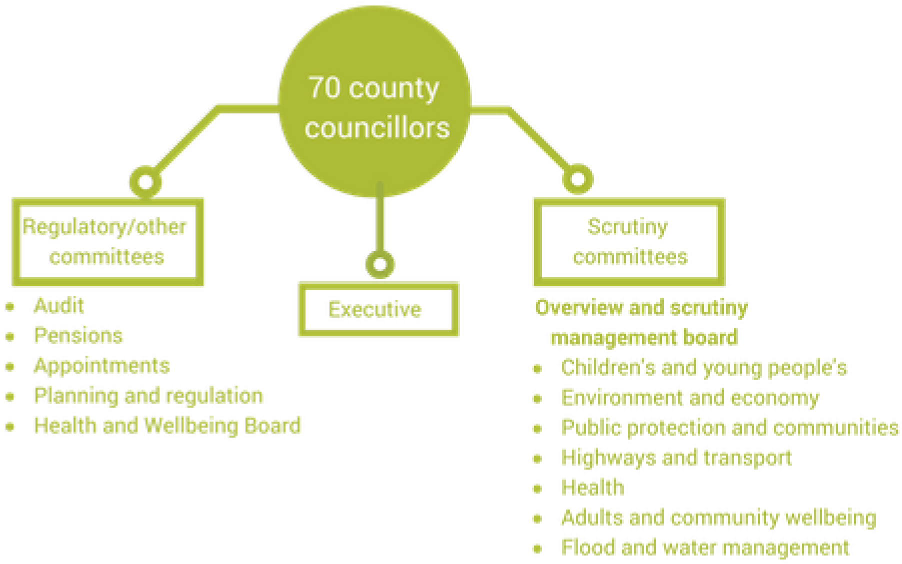
- All 70 councillors meet to agree the budget and policy framework.

The Executive makes the decisions that deliver the budget and policy framework of the council and consists of a minimum of 2 members and a maximum of 10.

- In 2017/18 the Leader and 7 councillors sat on the Executive.

The remaining 62 councillors form scrutiny committees.

- These committees develop policy and scrutinise decisions made by the Executive officers – holding them to account.
- A number of these committees deal with regulatory issues.



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:

A link to the Performance Dashboard can be found here.

Performance summary

We achieved the majority of the targets we set out in our Council Business Plan 2017/18.

The performance of the 17 commissioning strategies is shown below.

Mostly achieved (59%)

- Adult frailty, long-term conditions and physical disability
- Community resilience and assets
- How we effectively target our resources (a combination of 3 commissioning strategies)
- Learn and achieve
- Readiness for adult life
- Readiness for school
- Specialist adult services
- Wellbeing

Some achieved (18%)

- Carers
- Protecting the public
- Protecting and sustaining the environment

Fully achieved (23%)

- Children are safe and healthy
- Safeguarding adults
- Sustaining and growing business and the economy
- Sustaining and developing prosperity through infrastructure

Value for money

The external auditors of the council issued an unqualified Value for Money judgement for 2016/17.

The council is generally in a sound financial position relative to other councils over the short term. This is because of considerable savings made in the earlier part of this decade. The council has had a financial strategy for a number of years now which has combined:

- service efficiency savings
- modest service reductions
- prudent use of reserves

Continuing to follow this strategy, **the council has set a two year budget up to March 2020**, and this would leave the council with at least enough in reserves to cover an underlying deficit at April 2020 for a minimum of at least another year.

As in previous years, **there has been no general increase in public dissatisfaction across the board** with the standard of services delivered. Specific changes have caused some public disquiet at and just after the point of their initiation.

The 2018/19 budget does not include any major service reductions.
Final budget proposals have been modified in two specific areas to reflect feedback from the public and other key stakeholders:

- Funding to the Citizen Advice Service has been partly reinstated rather than stopped completely to allow a core service still to be provided across the county.
- Extra local funding has been allocated to highways maintenance to deal, in particular, with public concerns over the damage the winter weather has caused to the network.

The council is constantly monitoring its long term financial position using a funding model which currently goes to March 2022, and includes the last two years covered by the four year funding deal agreed with central Government in 2016. The model predicts the budget shortfall for future years taking into account known cost pressures and planned savings.

During the 2018/19 financial year, the council will also be considering the impacts of:

- the partial localisation of business rates from April 2020
- the outcomes of the Fair Funding Review being undertaken by Government
- any lessons learned or recommendations issued by CIPFA arising from the financial governance issues identified at Northamptonshire County Council

The council's **governance for commercial activities will be formally established** during 2018 with the development of a Commercial Strategy and oversight functions.

The council has responded proactively in its role as accountable body for the Greater Lincolnshire Enterprise Partnership (GLEP) to enhanced accountability and governance requirements emanating from Central Government. **The GLEP was recently assessed by Government as 'good' for governance and strategy** and has some 'areas for improvement' regarding delivery. Action is well in hand to mitigate any concerns that have been highlighted.

Roles and Responsibilities

Head of internal audit

The head of internal audit is required to provide an independent 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.

The annual report has been considered in the development of the Annual Governance Statement and any significant governance issues incorporated as appropriate. The opinion of the head of internal audit is included in this statement.

Monitoring Officer

The executive director – environment and economy is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by us as detailed in the Constitution

The Monitoring Officer is responsible for ensuring the council complies with its duty to promote and maintain high standards of conduct by members and co-opted members of the authority.

The Monitoring Officer provided an Annual Report to the council on how he discharged his duties during the year on the 11th May 2018. It gave assurances that:

- the council acted and operated within the law
- appropriate arrangements are in place and operated effectively under the Regulation of Investigatory Powers Act and the council's whistleblowing policy
- an effective officer and member register of interest process is in place
- any actions have been taken arising from the published findings by the Local Government Ombudsman.

Chief Financial Officer

The council has designated the executive director – finance and public protection as the Chief Finance Officer under Section 151 of the Local Government Act 1972. He leads and directs the financial strategy of the council.

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

Council managers

Our managers have the day to day responsibility for services, and 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.

Corporate management board

Our corporate management board oversee the review, the council's governance arrangements and the development of the Annual Governance Statement. There is also a corporate governance group of officers and councillors, whose role is to support the council to ensure that it complies with the standards of good governance.

The Leader of the council, interim chief executive and executive director for finance and public protection have overseen the review of our governance, and have signed the Annual Governance Statement.

Effective Scrutiny and Review

Overview and Scrutiny Management Board

The Overview and Scrutiny Management Board exists to review and scrutinise any decision made by the executive, executive councillor or key decision made by an officer.
The key aim of scrutiny in councils is to:

- Provide healthy and constructive challenge
- Give voice to public concerns
- Support improvement in services
- Provide independent review

Each year an overview and scrutiny annual report is produced showing the activities undertaken.

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.

It 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 and make 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.
Find out more about the audit committee here.

Full council

The Annual Governance Statement is brought to the attention of the full council

External Audit

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

KPMG, our external auditors, audit our financial statements and provide an opinion on these. They also assess how well we manage our resources and deliver value for money to the people of Lincolnshire.

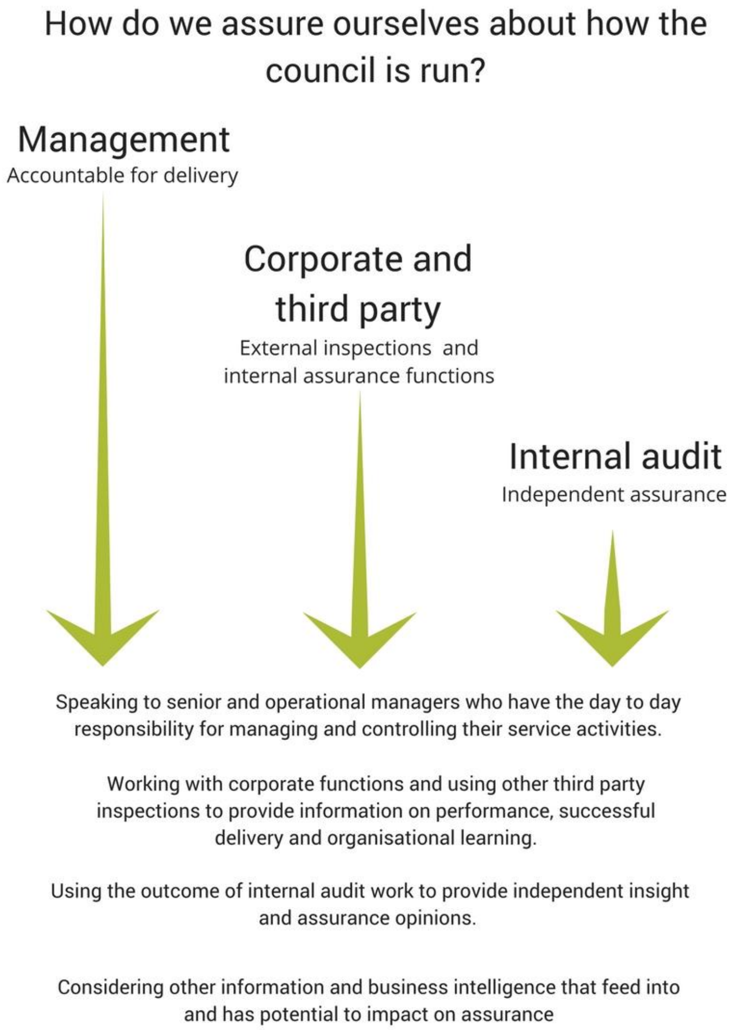
How we carry out assurance

A combined assurance status report is produced by each executive director. It looks at the level of confidence the council can have in each area for:

- service delivery arrangements
- management of risks
- operation of controls
- performance

These reports were reviewed by the audit committee in January 2018.

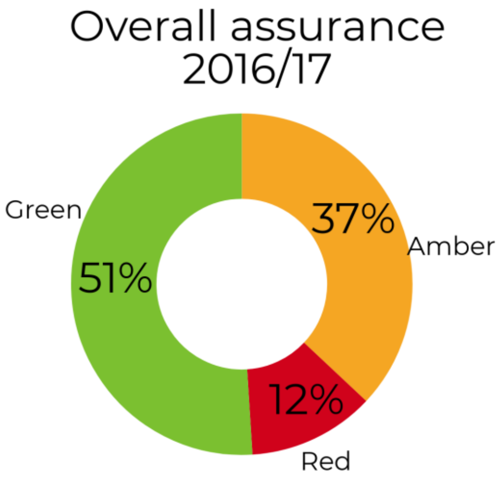
The council adopts the 'three lines of assurance' methodology, as seen below.

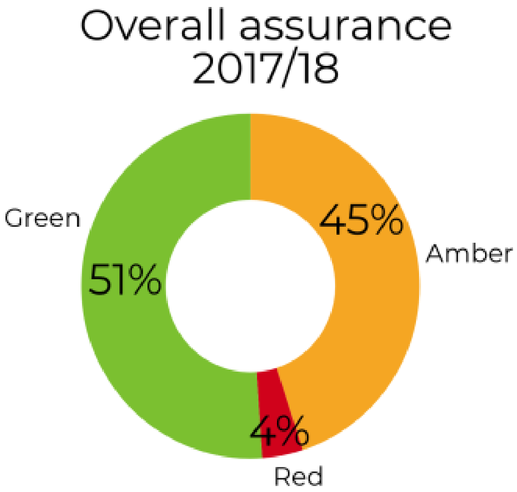


The council's assurance levels

Overall there is a positive assurance picture for the council but one that reflects the complex environment in which we operate.

In future, 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.





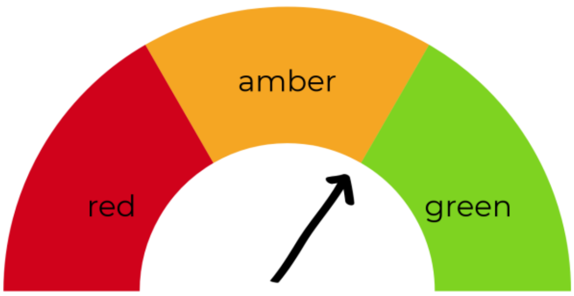
Red	High impact on resources, significant costs likely, high impact on service delivery
Amber	Medium or short term impact on resources, costs covered within existing financial plans, low impact on service delivery
Green	Monitor and be aware, activity to mitigate risk within existing service delivery plans

Head of internal audit opinion

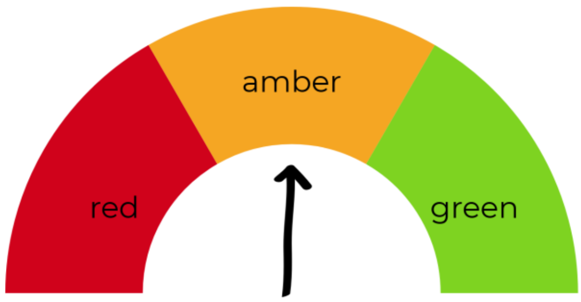
The opinion of the head of internal audit is given for 2017/18 on four areas of council assurance:

- **governance** (how the council is run)
- **risk** (the risks to the council's operations)
- **internal controls** (the processes in place to ensure compliance)
- **financial controls** (the processes in place to ensure we manage our finances appropriately)

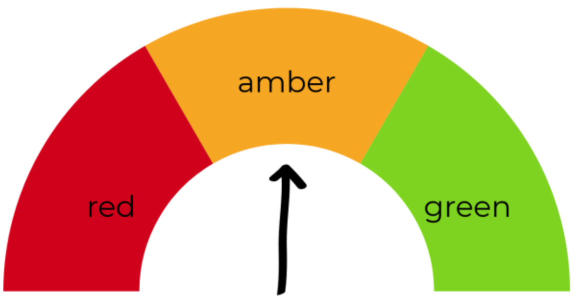
Governance



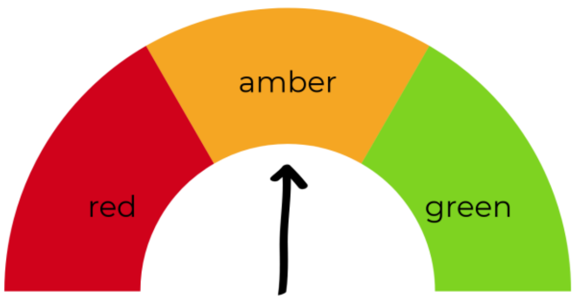
Risk



Internal control



Financial control



The council is **performing well** for governance – some improvements may be required to frameworks or to manage medium risks across the council.

The council is **performing adequately** for risk, internal control and financial control - some improvements may be required to manage a significant issue, a specific high risk, or medium risks across the council.

Appendix 1 – Governance framework

Where do we need assurance?

- Compliance
- Democratic engagement & public accountability
- Management of risk
- Financial management
- Members & Officers roles & responsibilities
- Standards of conduct & behaviour
- Action plan approved & reported on.
- Effectiveness of Internal controls
- Services delivered

Where can / do we get assurance from?

- Constitution
- Audit committee, council executive & scrutiny
- Internal & external audit
- Independent & external sources
- Financial strategy
- Complaints system, counter fraud & whistle blowing
- HR policies & codes of conduct
- Risk management strategy & framework
- Performance management system

Appendix 2 – Strategic risk register

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 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	*Good and effective management arrangements in place with controls working effectively*	Amber	Substantial
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	Limited
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
Ensuring contracts are fit for purpose in the commission agenda/significant contracts	*Commercial team supports the business with ongoing work to strengthen contract management (intelligent client) and learning from procurement/existing contracts*	Amber	Limited
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

Lincolnshire COUNTY COUNCIL
Working for a better future

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Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**25 June 2018**
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 2017/18.

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 2017/18 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 adequate although risk management assurance has decreased – internal control assurance has improved.

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

   - Governance as 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 performing adequately – a reduction owing to the update of the Council's Strategic Risk Register not yet being completed.

   - Internal control environment as performing adequately – an improvement from 2016/17 although there are some limited assurance opinions in areas which are high risk in a key system / process area which has a negative impact throughout the Council.

   - Financial control as 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 2018 – due to be approved at 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 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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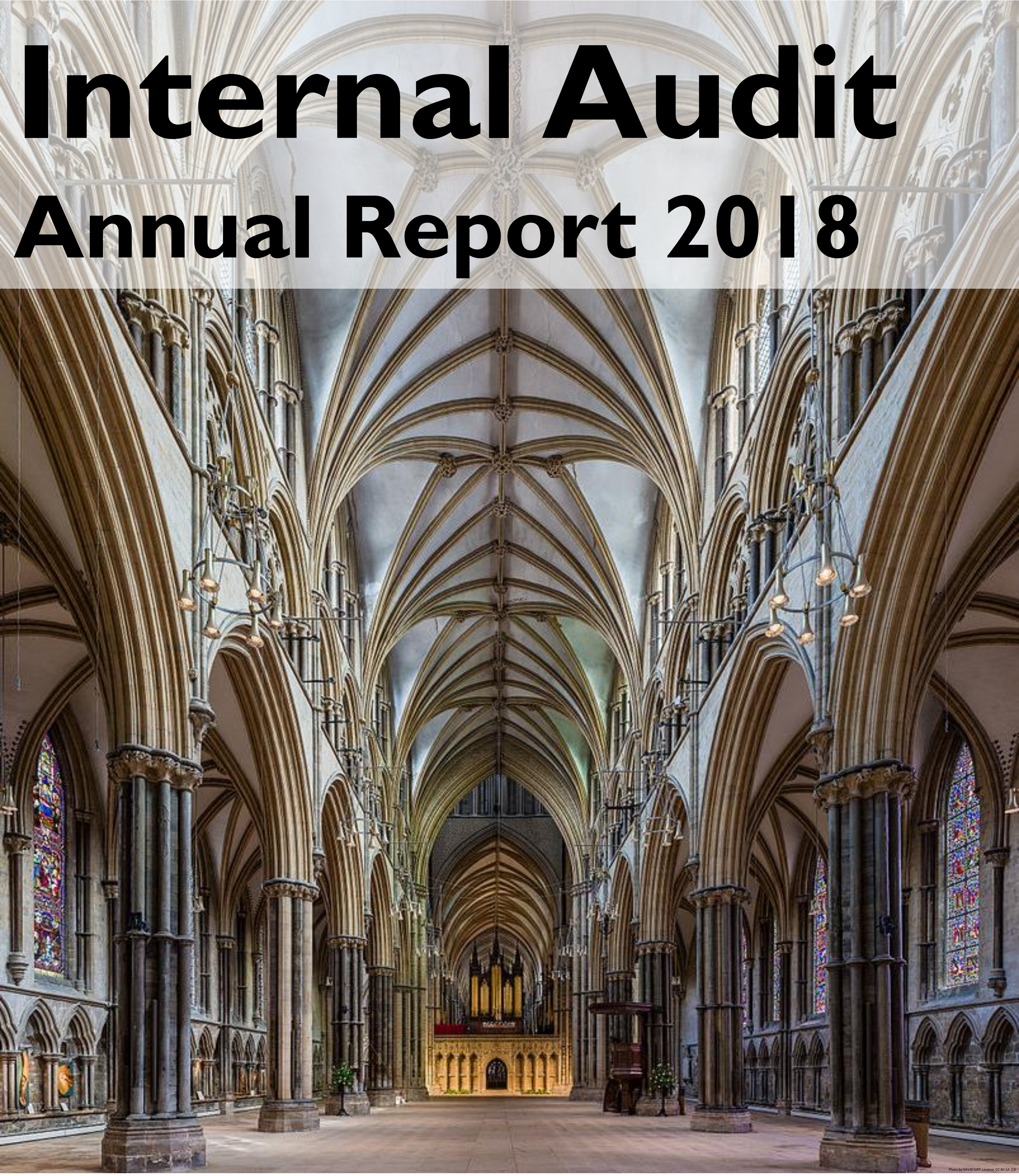
Internal Audit

Annual Report 2018



Assurance LINCOLNSHIRE
For all your assurance needs

Lincolnshire County Council
Working for a better future

What we do best…

Innovative assurance services

Specialists in 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

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Governance
Risk
Internal Control
Financial Control

Our work — Page 10

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Restriction of Scope
Other Significant Work
Quality Assurance

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Recommendations
Key Performance Indicators

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Details of Audits
Details of Limited / Low Assurances
Details of Audit Plan Changes
Details of Overdue Actions
Benchmarking Data
Assurance Definitions
Glossary of Terms

Lucy Pledge - Audit and Risk Manager (Head of Internal Audit) lucy.pledge@lincolnshire.gov.uk
Rachel Abbott Team Leader rachel.abbott@lincolnshire.gov.uk

Purpose of Annual Report

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

Annual Opinion

For the twelve months ended 31 March 2018 (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:-

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

Governance

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

It is comprised 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.

Each year the Council is required to reflect on how its governance arrangements have worked – identifying any significant 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 2018 statement are:

- IT Governance
- Fairer Funding - Financial sustainability
- Market Supply in Adult Care
- Collaborative working – Governance arrangements

You can review the Annual Governance Statement here.

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.

The Governance framework remains the same

Assessed as Performing Well

Risk

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.

During the year the Council's risk management arrangements were assessed as Green through the combined assurance review.

Established structures and processes for identifying, assessing and managing risk remain effective.

The Council Risk Management Team won the Public Finance Innovation Awards 2018 for their work around risk appetite – continuing to show how well they support the business in 'Thinking about Risk'.

The Council's risk appetite and update of the Strategic Risk Register was started during 2017/18 but needs completing.

For this reason the Head of Audit annual opinion on risk has reduced from performing well to performing adequately.

Risk Management assurance has decreased

Assessed as Performing Adequately

Internal Control

We take account of the outcome of our audit work during the 2017/18 year. As our audit plans include different activities each year it is not unexpected that assurance varies. However the assurance levels still give insight into the Council's control environment.

Positive assurance levels continue to improve upon the previous year for the Council's systems – although payroll remains a significant issue assurance has improved from **Low** to **Limited.**

Other limited assurance opinions are:

- Procurement and Contract Management – Housing related Support
- Procurement and Contract Management – Wellbeing
- Quality of Carers Workforce Training and Development
- Client Contributions Policy
- Capital Programme
- Payroll

We also issued one Low assurance report – Fuel Cards.

A summary of these audits can be found in appendix 2

During the year we have made 224 recommendations for improvement 11 of these were not confirmed as complete at the due date – see appendix 4 for full details.

Internal Control assurance has improved

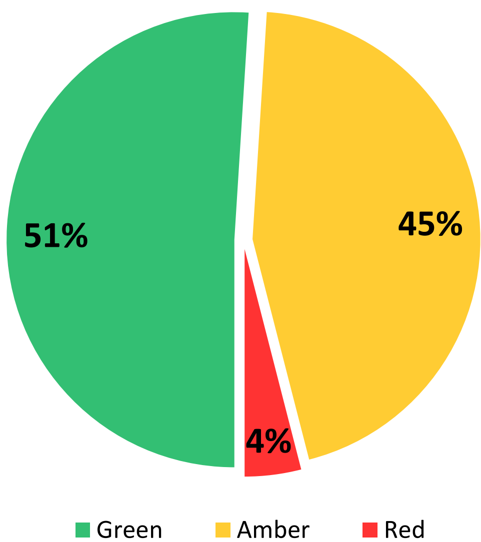
Assessed as Performing Adequately

Internal Control

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.

Combined Assurance Status Report

Overall Assurance Status 17/18



Assurance over 8% of activities has increased from Low to Medium since 2016/17

Areas where management assurance provided gave a low level of assurance and / or high risk currently facing the service have reduced compared to 2016/17 Key areas where management action is still required: are:-

Children's Services

Serco HR, Admin and Payroll Transactional Services
Supported Accommodation project

IMT

Security Operations
Records Management
Lifecycle Management
Problem Management

Environment & Economy

Lincoln Eastern Bypass project
Total Transport project

Financial Control

Our audit plans include providing assurance over our key financial systems, this is done on a cyclical basis; however the level of risk will also influence frequency.

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 testing including data analytics – All areas returning **High or Substantial Assurance**
- Budget Management – **Substantial Assurance**
- Medium Term Financial Plan – **Substantial Assurance**
- Capital Programme – **Limited Assurance**
- Accounts Payable – **Substantial Assurance**
- Pension Administration – **High Assurance**
- Procurement Cards – **Substantial Assurance**
- Fuel Cards – **Low Assurance**
- Payroll – **Limited Assurance**

During the year the Council has upgraded its Agresso finance system to its successor Business World ON. Our audit team supported on the implementation project and reported regularly on this to the Audit Committee

Although upgraded the finance system continues to have some significant risks and issues. A number of recommendations and action still remain outstanding on the payroll system although our move up to Limited Assurance reflects the positive direction of travel being achieved. We have also been able to increase our assurance over Accounts Payable to Substantial assurance.

The Financial Control assurance remains the same

Assessed as Performing Adequately

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.

Counter Fraud

We completed the update of the council's Fraud Risk Register which is a significant development in terms of our understanding and knowledge of the fraud risks that we face. The Council is now better placed to effectively respond to fraud as a result of this extensive review. The results will be used to drive our future planning and identify priority work and also emerging threats.

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

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.

During the year there have been 9 fraud cases. We recovered **£124k** – with scope to recover a further **£55k.**

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.

£56K

The Increase in financial recoveries from fraud since 2016/17

Our Work

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.

Scope of Work

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.

The Audit Committee approved the 2017/18 original audit plan of **1255 days** on the 27th March 2017. We have delivered 99% of the revised plan of **980 days** - **55** pieces of work. More details on revisions to the plan can be found in Appendix 3

Restriction on Scope

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

Again a key area where we have had to revise our internal audit work is around IT Audit – progress with completing the agreed work plan improved upon last year, but has been slow with some audits deferred. Improving working relationships with IT Management have enabled us to gain some assurance through the assurance map process. We have identified the most significant risks, which will allow us to target our IT audit work in 2018/19 where it will add the most value.

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.

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

Our Work

Internal Audit's role include advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Other Significant Work

During the year we have undertaken several pieces of Grant Sign Off work including Families Working Together, Bus Service Operators Grant and the Greater Lincolnshire Local Enterprise Partnership Single Local Growth Fund.

We 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.

We have continued to support the Council's assurance framework with consultancy work – this is where we give support and advice on governance, risk and control but do not provide an assurance opinion - generally proactive work : -

- **Telecare Contract Transition** – Root Cause Analysis review of the transition from one telecare provider to another.
- **Heritage Project –** Review, support and advice on the project aiming to move the heritage portfolio to a financially sustainable delivery model.
- **Upgrade from Agresso to Business World On -** Review, support and advice to the project board throughout the upgrade and post implementation.
- **Pay statements –** support and advice on the production of pay statements to validate the accuracy of payments to the work force since the introduction of Agresso.

We have supported the Audit Committee through the delivery of training and facilitated a workshop to review its effectiveness .

Our Work

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.

Quality Assurance

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

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.

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.

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.

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 and CIPFA Application Note (Still awaiting publication)
- Working with senior management improve progress and delivery monitoring / audit scheduling
- Support development of the Audit Committee, following publication of CIPFA Audit Committee practical guidance
- Continuing professional development around new and emerging practice guidance.
- IT Audit collaboration

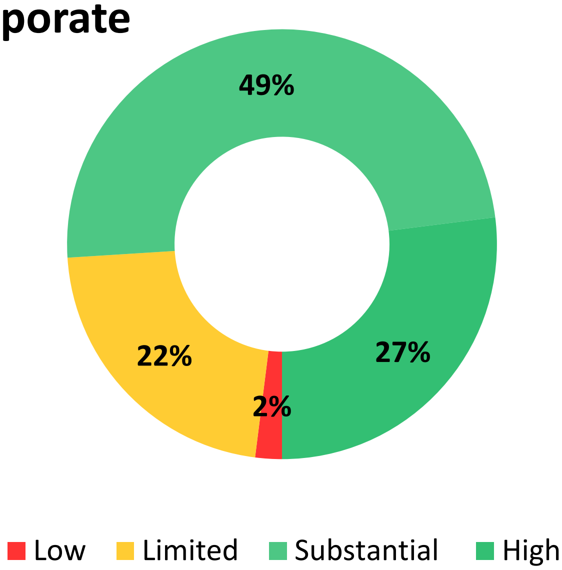
Although internal and external auditors carry out their work different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work where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

Benchmarking

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.

Assurances

Corporate



Increase in High and Substantial Assurance on last year

10%

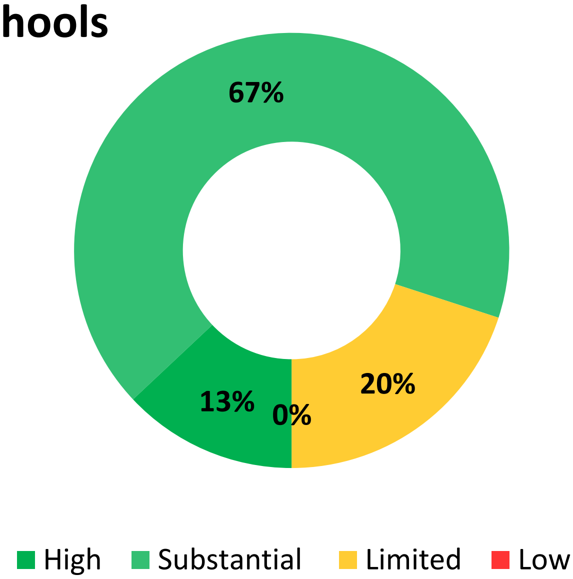
Fall in Low and Limited Assurance on last year

Increase in School High, Substantial or Limited Assurance on last year

33%

Fall in School Low Assurance on last year

Schools



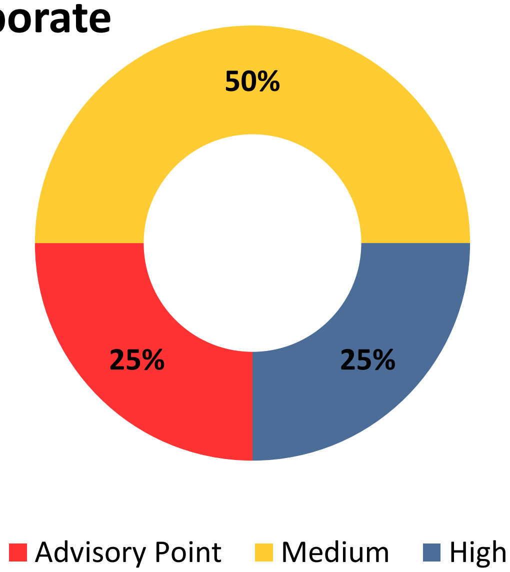
Further details can be found at appendix 5

Benchmarking

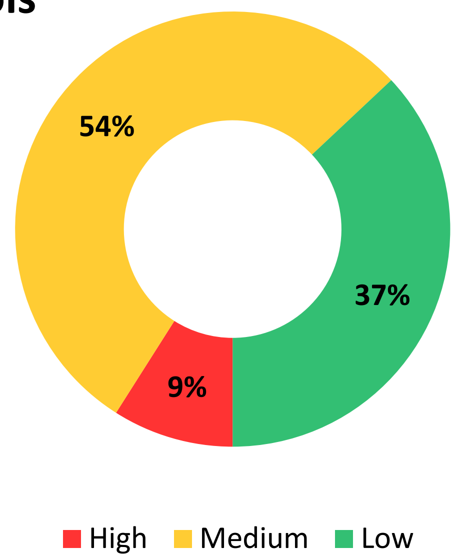
Comparison of internal audit recommendations made 2016/17 and 2015/16. We can see that the priority of recommendation are less urgent than the previous year, with a reduction in high priority and more medium and low priority actions agreed in the service. Schools have remained very similar. This information forms part of the evidence that helped inform the overall annual opinion.

Recommendations

Corporate



Schools



Further details can be found at appendix 5

5%

fall in high priority findings

1%

Medium School priority findings have also reduced

Medium priority findings have also reduced

5%

12%

fall in School high priority findings

Benchmarking

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).

Performance on Key Indicators

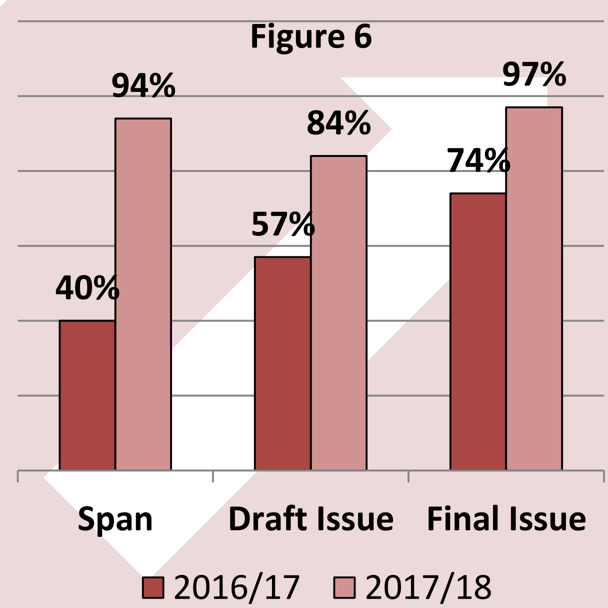
100%

Rated our service Good to Excellent

Significant percentage increases in achievement of Audit KPI's

99%

Of revised plan delivered



Further details can be found at appendix 5

Assurance Lincolnshire Partnership

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

By working together the partnership aims to be:

'The public sector audit provider of choice for Lincolnshire'

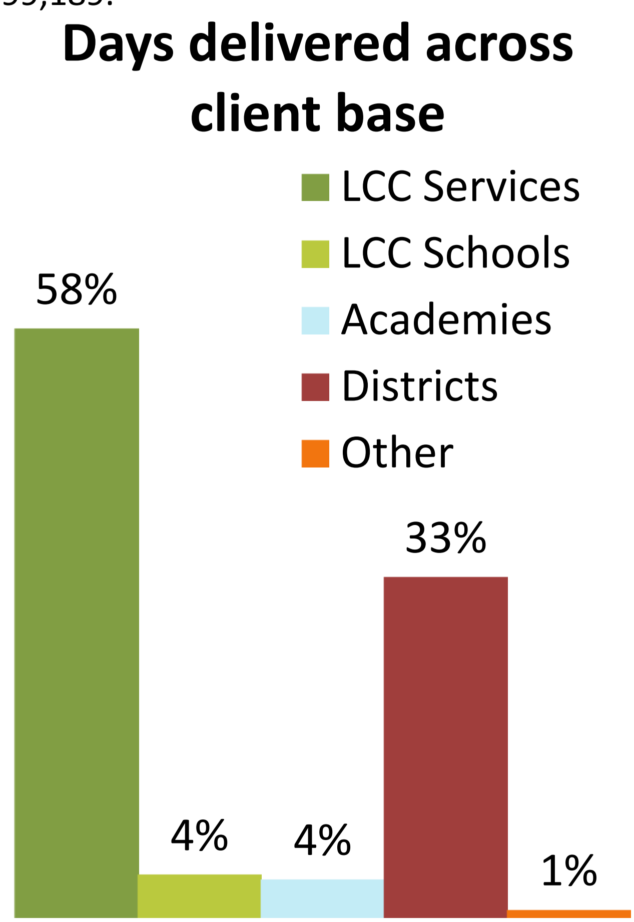
We improve the overall quality of the services provided through:

- 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.

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

Our external clients help Corporate Audit and Risk Management operate within existing budgets and deliver the required 'savings'. In 2017/18 the internal audit service generated income of £225,675– with the whole service operating within the revised budget.
The audit team actual expenditure (net) is £518,105 compared to a budget of £599,189.



Details of Audits

Audit	Rating	Type	High	Medium	Advisory	Total
LCC Corporate						
LCC 2017/18-01 - Procurement & Contract Management - Housing Related Support	Limited Assurance	Risk Based Audit	2	4	0	6
LCC 2017/18-02 - Procurement & Contract Management - Wellbeing	Limited Assurance	Risk Based Audit	6	6	2	14
LCC 2017/18-03 - Contract Management Sexual Health	Rolled into 2018/19	Risk Based Audit	N/A	N/A	N/A	N/A
LCC 2017/18-15 - Quality Assurance Framework	Not applicable	Consultancy Review	N/A	N/A	N/A	N/A
LCC 2017/18-26 - Good Governance Review - Ethics	Rolled into 2018/19	Risk Based Audit	N/A	N/A	N/A	N/A
LCC 2017/18 - Partnerships	Rolled into 2018/19	Consultancy Review	N/A	N/A	N/A	N/A
LCC 2017/18-33 - Performance Management	High Assurance	Risk Based Audit	0	0	3	3
			8	**10**	**5**	**23**
LCC Adult Care & Community Wellbeing						
LCC 2017/18-10 - Quality of Carers Workforce Learning & Development	Limited Assurance	Risk Based Audit	1	3	0	4
LCC 2017/18-11 - Client Contributions Policy	Limited Assurance	Risk Based Audit	3	2	4	9
LCC 2017/18-12 - Integration with Health	Removed	Consultancy Review	N/A	N/A	N/A	N/A
LCC 2017/18 - Better Care Fund - DFG Grants	Removed	Risk Based Audit	N/A	N/A	N/A	N/A
LCC 2017/18-14 - Information Systems Team	Removed	IT Audit	N/A	N/A	N/A	N/A
LCC 2017/18-16 - Deprivation of Liberty Safeguards	Substantial Assurance	Risk Based Audit	1	3	0	4
LCC 2017/18-55 - Telecare Contract Transition	Not applicable	Consultancy Review	N/A	N/A	N/A	N/A
LCC 2017/18-61 - Direct payments - Penderels Contract	Substantial Assurance	Risk Based Audit	2	2	3	7
			15	**20**	**12**	**47**

Details of Audits

Audit	Rating	Type	High	Medium	Advisory	Total
LCC Children's Services						
LCC 2017/18-04 - Families Working Together	Not assessed	Grant Work	N/A	N/A	N/A	N/A
LCC 2017/18-05 - Youth Offending Service Delivery	High Assurance	Risk Based Audit	0	0	1	1
LCC 2017/18 - Historical Abuse Cases	Removed	N/A	N/A	N/A	N/A	N/A
LCC 2017/18-06 - Transfer of 0-19 Public Health Nurses (phase 1)	High Assurance	Risk Based Audit	0	0	0	0
LCC 2017/18-07 - School Admissions Software	Rolled into 2018/19	Consultancy Review	N/A	N/A	N/A	N/A
LCC 2017/18-08 - Special Educational Needs and Disability Reform	Substantial Assurance	Risk Based Audit	1	3	1	5
LCC 2017/18-09 - Careers Advice	High Assurance	Risk Based Audit	0	1	1	2
LCC 2017/18-27 - Social Work Recruitment Processes	High Assurance	Risk Based Audit	0	0	0	0
LCC 2017/18-32 - Absence Management	Substantial Assurance	Risk Based Audit	0	3	1	4
LCC 2017/18-38 - Payroll Follow Up	Limited Assurance	Risk Based Audit	7	17	2	26
LCC 2017/18-43 - Strategic Approach to charging for schools	Substantial Assurance	Risk Based Audit	0	1	0	1
LCC 2017/18-66 - Transfer of 0-19 Public Health Nurses (phase 2)	Substantial Assurance	Risk Based Audit	0	2	0	2
LCC 2017/18-70 - Families Working Together (March 2018)	Not applicable	Grant Work	N/A	N/A	N/A	N/A
LCC 2017/18-73 - Sufficiency of 30 hours Childcare	High Assurance	Risk Based Audit	0	0	0	0
Total			**8**	**27**	**6**	**41**

Details of Audits

Audit	Rating	Type	High	Medium	Advisory	Total
LCC Environment & Economy						
LCC 2017/18-17 - ICT Intelligent Client	Removed	IT Audit	N/A	N/A	N/A	N/A
LCC 2017/18-18 - Cyber Security	Removed	IT Audit	0	2	0	2
LCC 2017/18-19 - Information Governance	Substantial Assurance	IT Audit	1	5	5	11
LCC 2017/18-20 - ICO Cyclical Audit	Substantial Assurance	IT Audit	0	0	0	0
LCC 2017/18-21 - Security Management	Removed	IT Audit	N/A	N/A	N/A	N/A
LCC 2017/18-22 - ICT Asset Management	Limited Assurance	IT Audit	4	1	0	5
LCC 2017/18-23 - ICT Service Improvement	Limited Assurance	IT Audit	11	0	0	11
LCC 2017/18-24 - ICT Infrastructure Security Deep Dive	Removed	IT Audit	N/A	N/A	N/A	N/A
LCC 2017/18-28 - Agresso - Milestone 6	Not applicable	Consultancy Review	N/A	N/A	N/A	N/A
LCC 2017/18-37 - Interfaces with Agresso	Removed	IT Audit	N/A	N/A	N/A	N/A
LCC 2017/18-47 - New Highways Operating Model	Substantial Assurance	Risk Based Audit	0	2	0	2
LCC 2017/18-49 - Total Transport Project	Substantial Assurance	Risk Based Audit	0	5	2	7
LCC 2017/18-50 - Heritage (Phase 1)	Not applicable	Consultancy Review	0	0	5	5
LCC 2017/18-54 - Single Local Growth Fund	Not applicable	Grant Work	N/A	N/A	N/A	N/A
LCC 2017/18-56 - Bus Service Operators Grant 2015/16	Not applicable	Grant Work	N/A	N/A	N/A	N/A
LCC 2017/18-57 - Bus Service Operators Grant 2016/17	Not applicable	Grant Work	N/A	N/A	N/A	N/A
LCC 2017/18-60 - Carbon Management Plan - Data Integrity	Substantial Assurance	Risk Based Audit	0	3	4	7
LCC 2017/18-67 - Waste Strategy Follow Up	Substantial Assurance	System Audit	0	3	2	5
Total			**16**	**21**	**18**	**55**

Appendix 1 Details of Audits

Audit	Rating	Type	High	Medium	Advisory	Total
LCC Finance and Public Protection						
LCC 2017/18-25 - Emergency Planning Centre - ICT Infrastructure	Removed	IT Audit	N/A	N/A	N/A	N/A
LCC 2017/18-29 - Emergency Planning	High Assurance	Risk Based Audit	0	0	1	1
LCC 2017/18-30 - Establishments	Not applicable	Consultancy Review	N/A	N/A	N/A	N/A
LCC 2017/18-34 - Budget Management	Substantial Assurance	Risk Based Audit	0	2	1	3
LCC 2017/18-35 - Medium Term Financial Planning	Substantial Assurance	Risk Based Audit	0	2	1	3
LCC 2017/18-36 - Capital Programme	Limited Assurance	Risk Based Audit	3	4	1	8
LCC 2017/18-39 - Accounts Payable Follow Up	Substantial Assurance	Risk Based Audit	0	4	1	5
LCC 2017/18-40 - Pension Administration	High Assurance	Risk Based Audit	0	0	0	0
LCC 2017/18 - Fire Pay & Pensions	Removed	Risk Based Audit	N/A	N/A	N/A	N/A
LCC 2017/18-41 - Procurement Cards	Substantial Assurance	Risk Based Audit	0	8	5	13
LCC 2017/18-42 - Bank Reconciliation Key Controls	High Assurance	System Audit	0	2	3	5
LCC 2017/18-44 - Blue Light Collaboration	Rolled into 2018/19	Risk Based Audit	N/A	N/A	N/A	N/A
LCC 2017/18-62 - Debtors Key Control Testing	Substantial Assurance	Risk Based Audit	2	2	1	5
LCC 2017/18-63 - Fuel cards	Low Assurance	System Audit	4	4	0	8
LCC 2017/18-64 - Pension Fund Key Control Testing	High Assurance	System Audit				
LCC 2017/18-65 - General Ledger Key Control Testing	Substantial Assurance	System Audit	0	7	0	7
LCC 2017/18 - Domestic Homicide Reviews	Rolled into 2018/19	Risk Based Audit	N/A	N/A	N/A	N/A
LCC 2017/18 - One public Estate	Removed	Risk Based Audit	N/A	N/A	N/A	N/A
Total			**9**	**35**	**14**	**58**
Grand Total			**56**	**113**	**55**	**224**

Appendix 1 Details of Audits

Audit	Rating	Type	High	Medium	Low	Total
School Audits						
Edu 2017/18-06 - Ingham Primary School Assurance Visit	Substantial Assurance	Education Audit	0	5	1	6
Edu 2017/18-08 - South Hykeham Primary School	Substantial Assurance	Education Audit	0	8	8	16
Edu 2017/18-13 - St Peter at Gowt's Primary School	Substantial Assurance	Education Audit	0	10	2	12
Edu 2017/18-28 - Barkston & Syston Primary School Assurance visit	Substantial Assurance	Education Audit	2	5	4	11
Edu 2017/18-29 - Great Steeping School audit 2017/18	High Assurance	Education Audit	0	4	3	7
Edu 2017/18-30 - Monks Abbey Primary School Assurance visit 2017/18	Limited Assurance	Education Audit	6	3	4	13
Edu 2017/18-31 - Newton on Trent Primary School	High Assurance	Education Audit	0	3	0	3
Edu 2017/18-32 - Friskney All Saints Primary School	Substantial Assurance	Education Audit	0	8	10	18
Edu 2017/18-33 - Tealby Primary School	Limited Assurance	Education Audit	2	16	5	23
Edu 2017/18-34 - Lincoln The Meadows Assurance visit	Limited Assurance	Education Audit	5	5	4	14
Edu 2017/18-35 - Gainsborough Charles Baines Primary School	Substantial Assurance	Education Audit	0	8	5	13
Edu 2017/18-42 - Great Ponton Primary school audit visit 2017/18	Substantial Assurance	Education Audit	1	8	9	18
Edu 2017/18-43 - Burgh Le Marsh Primary School audit 2017/18	Substantial Assurance	Education Audit	1	10	4	15
Edu 2017/18-45 - Donington Cowley Primary School Assurance visit 2017/18	Substantial Assurance	Education Audit	0	4	3	7
Edu 2017/18-46 - Gedney Hill Primary School 2017/18	Substantial Assurance	Education Audit	0	5	6	11
			17	**102**	**66**	**185**

During the year we have issued a number of limited assurance opinions, in summary these are:

Procurement and Contract Management – Housing related Support – our review looked the historical procurement and management of this contract and made recommendations on improvements to the commercial team who have taken over the management of this contract.

Procurement and Contract Management – Wellbeing – this review also looked the historical procurement and contract management with a focus on the wellbeing contract. We again made recommendations on improvements to the commercial team who have taken over the management of this contract.

Quality of Carers Workforce Training and Development
– Our recommendations focused on improving procedures for training and development within our providers and ensuring better consistency.

Client Contributions Policy – We confirmed the policy is up to date, but made recommendations regarding completing financial assessments in line with the policy and reasonable timescales.

Capital Programme – Our audit recommended control improvements around transparency of reporting, overspends and financial oversight by project boards.

Payroll – We noted improvements since the last audit and implementation of some recommendation, but further action needs to be taken and controls need to be maintained to enable assurance to improve further.

We also issued one Low assurance report during the year:
Fuel cards - Our review concluded that overall the management, processing, monitoring and financial controls around fuel cards require greater focus in order to manage the risk of fraud.

Appendix 3 Details of Audit Plan Changes

The original approved plan was 1255 days – the revised plan was 980 days.

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.

Outlined below are the areas that have been removed from the original plan:

- Contract Management – Sexual Health
- Partnerships
- Integration with Health
- Better Care Fund – DFG Grants
- Information systems team
- Telecare contract
- Schools Admissions
- Historical abuse cases
- ICT Intelligent Client
- Cyber Security
- Security Management
- Infrastructure security deep dive
- Interfaces with Agresso
- Emergency Planning Centre ICT
- Fire pay and pensions
- Blue Light Collaboration
- One Public Estate
- Domestic Homicide Reviews

Many have been included in the 2018/19 plan, although due to changes in circumstances, risk and priorities some have been removed completely.

During the year we were also requested to undertaken the following additional work:

- Telecare contract transition
- Direct payments – Penderels contract
- Social work recruitment processes
- Additional payroll work
- Sufficiency of 30 hours childcare
- Single Local Growth Fund
- Bus Service Operators Grant
- Carbon Management Plan – Data Integrity
- Procurement Cards
- Fuel Cards
- Pay statements
- Corporate Support Services Contract

Appendix 4 Details of Overdue Actions

Outstanding Audit Recommendations for 2017/18 audits at 31/03/18

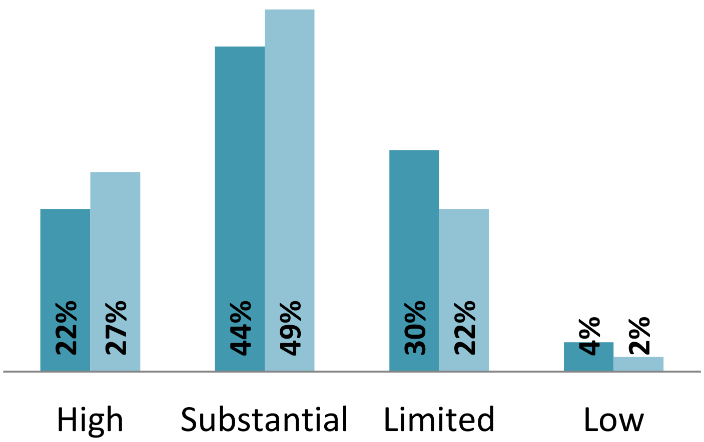
Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Finance and Public Protection								
Medium Term Finance Plan	Nov 2017	Substantial	2	0	0	2	0	0
Adult Care and Community Wellbeing								
Carers Workforce	Feb 2018	Limited	4	0	1	2	0	1
Environment & Economy								
Information Governance	Dec 2017	Substantial	10	5	0	3	0	2
Carbon Management Plan	Jan 2018	Substantial	3	0	0	3	0	0
Total			**19**	**5**	**1**	**10**	**0**	**3**

Outstanding Audit Recommendations for all prior year audits at 31/03/18

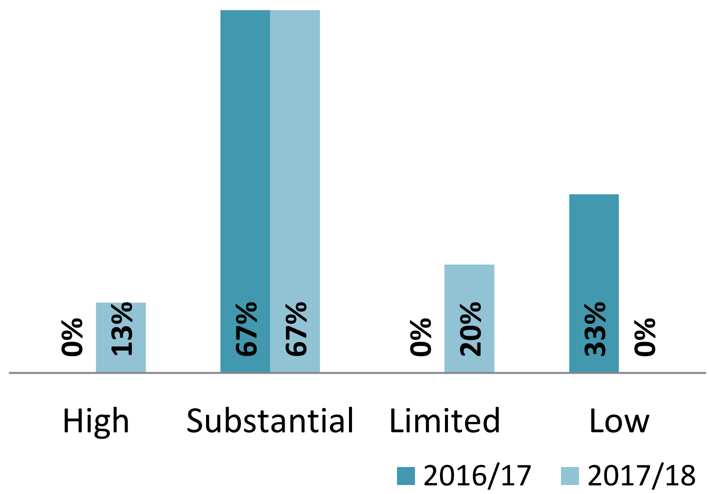
Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Finance and Public Protection								
Coroners	Jun 2014	Limited	52	49	3	0	0	0
Corporate Policies and Procedures	Jan 2017	High	3	2	0	1	0	0
Bank Reconciliation	Feb 2017	High	4	3	0	1	0	0
Income Management	Sept 2016	Substantial	9	8	0	1	0	0
Treasury Management	Jan 2017	High	1	0	0	1	0	0
General Ledger (Key Controls)	May 2017	Substantial	8	3	3	1	0	1
Trading Standards	Feb 2017	Substantial	4	3	0	1	0	0
Business Continuity	Feb 16	Limited	4	1	3	0	0	0
Adult Care and Community Wellbeing								
Workforce Development	Jan 2017	Limited	17	16	0	1	0	0
Better Care Fund Effectiveness	Jan 2017	Substantial	3	2	1	0	0	0
Adult Safeguarding Referrals	May 2017	Consultancy	11	10	0	1	0	0
Environment & Economy								
Home to School Transport	Jan 2015	Substantial	14	12	0	2	0	0
Total			**130**	**109**	**10**	**10**	**0**	**1**

Comparison of Assurances

Service Areas

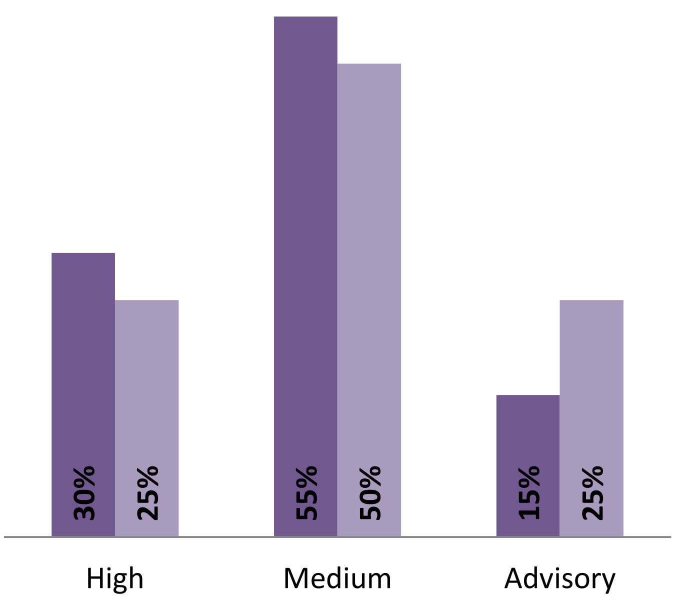


Schools

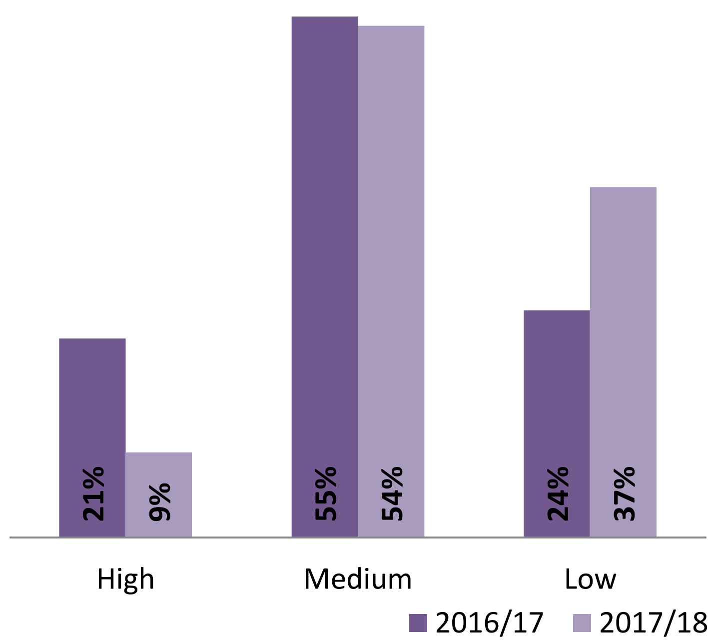


Comparison of Recommendations

Service Areas



Schools



Performance on Key Indicators

Performance Indicator	Annual Target	Actual
Percentage of plan completed (based on revised plan)	100%	**99%**
Percentage of recommendations agreed	100%	**100%**
Percentage of recommendations implemented	100% or escalated	**100%**
Timescales:		
Draft Report issued within 10 days of completion	100%	**84%**
Final Report issued within 5 days of management response	100%	**97%**
Draft Report issued within 3 months of fieldwork commencing	80%	**94%**
Client Feedback on Audit (average)	**Good to excellent**	**Good to excellent**

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.

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).

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Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**25 June 2018**
Subject:	**Counter Fraud Annual Report 2017/2018**

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 2017/18 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 pro-active counter fraud work completed in 2017/18.

This summary provides information to enable the Committee to review performance and the 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 duties 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.

Details included within Appendix A includes information on:

- Fraud referrals received and investigations conducted
- Investigation outcomes and recoveries of fraud losses made
- Efforts to raise awareness of fraud
- Proactive work delivered with a view to detecting and preventing fraud
- The recent update of the council's Fraud Risk Register
- Work delivered by the Lincolnshire Counter Fraud Partnership:

Conclusion

We can provide assurance that arrangements in place to counter fraud continue to remain effective. This is evidenced by the significant increase (82%) in the level of fraud loss recoveries during 2017/18.

The number of investigation referrals during 2017/18 was less than the previous year. However, lengthy cases were brought forward from 2016/17 and this continued to impact of the level of resources available to deliver counter fraud work. The level of work delivered within the plan (84%) was encouraging and the main areas outstanding (reviews of counter fraud related policies and procedures) have already commenced and will be completed as a priority.

In accordance with our Counter Fraud Policy, we continue to seek the strongest possible sanctions in response to fraud cases. One case completed during 2017/18 saw a 15 month custodial sentence passed and a suspended sentence was handed down in another case. Where we identify evidence of fraud taking place we have a zero tolerance approach and will refer all cases to the police and Action Fraud.

Our commitment to raising awareness of fraud has been maintained during the year. We are highly encouraged by the reaction and feedback received to the e-learning training course developed in conjunction with the Lincolnshire Counter Fraud Partnership. We have also targeted communications at specific areas during 2017/18, including schools. We regularly deal with cases within schools and we are striving to improve awareness of fraud indicators, controls to prevent fraud and knowledge of reporting options in our response

We have completed our refresh of the council's Fraud Risk Register. This is an important step that helps drive our immediate and longer term priority planning. This process has ensured that we have an improved and detailed knowledge of the current fraud 'picture' and guides our response. We update supporting information whenever we identify any relevant details to ensure the assessment is current.

The Lincolnshire Counter Fraud Partnership has continued its successful collaboration with its partner authorities. Notable achievements of the partnership in 2017/18 include its prominent role in the development and launch of the successful fraud awareness e-learning package and its work to help improve knowledge of cyber fraud threats. All council partners have signed up to the partnership for 2018/19 and representatives from Lincolnshire Police now form part of the group.

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
Appendix B	Counter Fraud Work Plan 2017/18
Appendix C	Referrals - 2013/14 to 2017/18
Appendix D	Fraud Risk Assessment - Summary

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 2017-18

Lincolnshire
COUNTY COUNCIL
Working for a better future

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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

The contacts at Assurance Lincolnshire for this report are:

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Appendix B:
- Counter Fraud Work Plan 2017/18 14-20

Appendix C:
- Fraud referrals – 2013/14 to 2017/18 21

Appendix D:
- Fraud Risk Assessment Matrix 22

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

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 in countering fraud and corruption. The report also informs the committee of performance against the 2017/18 Counter Fraud Work Plan and the outcomes of our proactive counter fraud work and investigations undertaken.

2. The Counter Fraud and Investigation Team has delivered 84% of the scheduled tasks included within the 2017/18 Counter Fraud Work Plan – see Appendix B. This is an improvement on the proportion of work delivered in the previous year (70%). While fewer referrals were made within the year, several long running cases were brought forward from 2016/17 and these tended to be complex and time consuming in nature - this can impact upon the team's ability to deliver the work included in the Counter Fraud Work Plan. The main area affected was the development and update of policies and procedures – these have been deferred to planned work in 2018/19 where they will be treated as a priority.

3. Our recoveries increased to over £124k in 2017/18 compared to £68k reported in 2016/17. Our work in 2017/18 also identified further potential recoveries of £55k in current live cases that we continue to investigate.

4. We have continued our efforts to promote fraud awareness on both specific and general fraud themes. We are highly encouraged by the successful response and feedback received on the Fraud Awareness e-learning course developed in conjunction with the Lincolnshire Counter Fraud Partnership. We have also taken steps to address the consistently high level of referrals from schools by delivering regular communications targeted at raising awareness of fraud risks, responsibilities for prevention and methods of reporting.

5. We completed the update of the council's Fraud Risk Register and believe that this is a significant development in terms of our understanding and knowledge of the fraud risks that we face. We feel that the Council is now better placed to effectively respond to fraud as a result of this extensive review. The results will be used to drive our future planning and identify priority work and also emerging threats.

6. We have already taken action to respond to those fraud risks highlighted as high risk through our recent proactive work with schools. The work on procurement fraud is currently ongoing and the planned work to develop our understanding of cyber fraud is due to commence. We will also ensure that the Fraud Risk Register is constantly updated with any relevant intelligence that will inform our response

Referrals

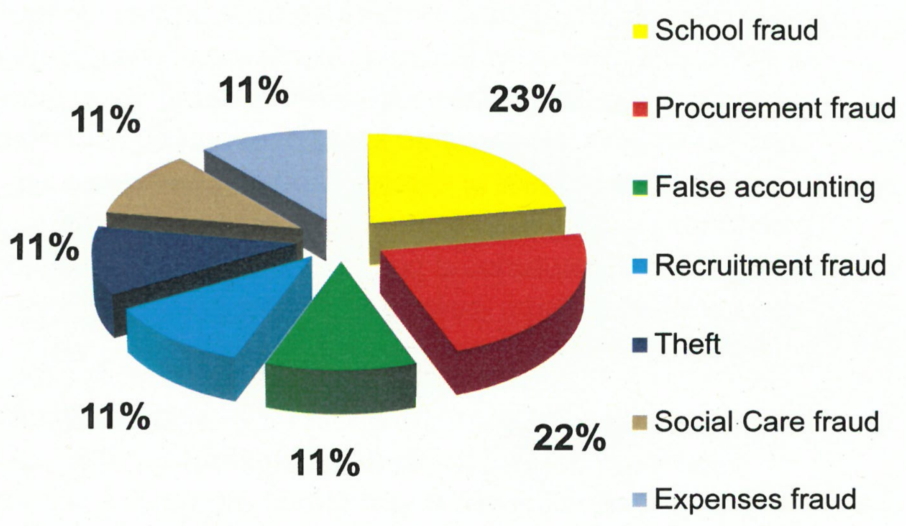
7. We received 9 new referrals of suspected fraud during 2017/18 – this is less than the number of referrals received in the previous year. However, the cases investigated have tended to be more complex and therefore take more time to complete. It should also be noted that the amounts recovered in 2017/18 represent a significant increase on the levels recouped in recent years.

8 In 2017/18 we continued to receive a higher proportion of referrals relating to school and procurement fraud – this is demonstrated in the charts below (see Figure 1 on page 6). This has been a common theme in recent years and our response has been to focus on proactive exercises – the aims being to raise awareness and to actively prevent and detect fraud in these high risk areas. Frauds that occur in schools can be wide ranging and procurement fraud remains the largest single area of fraud loss within local government, and we will continue to deliver proactive work in this area in 2018/19. Consistent with previous years, we received referrals involving false accounting and expenses fraud.

9. We have noticed a slight increase in reports relating to social care fraud cases - one case was referred in 2017/18 and enquiries are currently ongoing. There are several types of social care fraud that can occur including direct payment fraud, deprivation of capital and financial abuse and we intend to refresh our counter fraud efforts in 2018/19 to combat this threat.

10. Referrals received over the last 5 years can be found at Appendix C to this report.

Fraud Referrals - 2017/18



Fraud Referrals - 2016/17

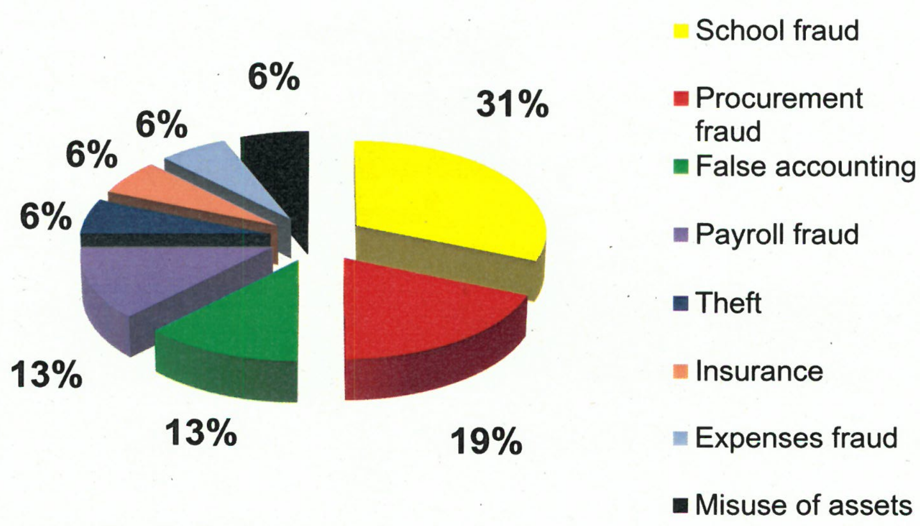


Figure 1 – Comparison of Fraud Referrals (by type)

Investigations

11. As noted in Paragraph 8, we received 9 referrals during the year – 4 of these cases only involved preliminary enquiries. However, 5 cases did progress to full investigations. In addition, 4 long running cases were brought forward from the previous year (2016/17) – 3 of these are still ongoing

12. Results from investigations during 2017/18:

    - Acting on intelligence from colleagues at another County Council, we made some enquiries into one of our providers and found there was a potential fraud against the council. We negotiated with the provider and recovered the full value of the fraud, and in accordance with the council's zero tolerance stance to fraud, we have referred the matter to Action Fraud with a view to potential criminal proceedings.

    - We recently completed an investigation at a school involving fraud perpetrated by an employee. Issues under investigation included manipulation of payroll details and misuse of school assets to make personal purchases. The employee was dismissed following a disciplinary process and the case was referred to Lincolnshire Police. The individual pleaded guilty at court and received a suspended sentence. We were able to make a full recovery of over £22,000 from this case.

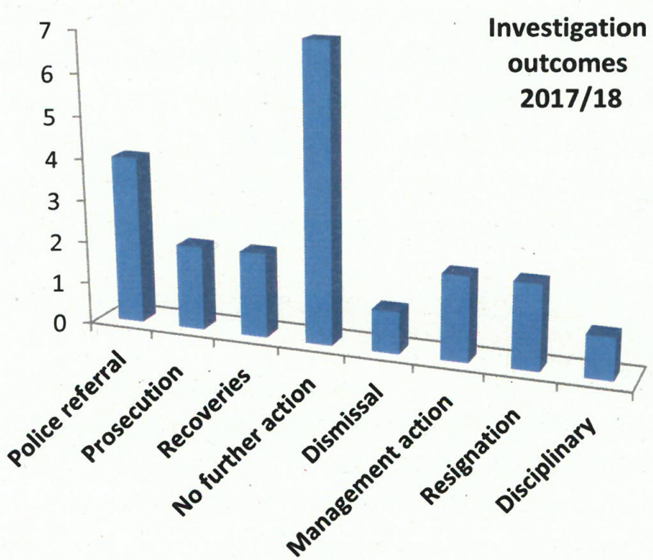
    - Following a lengthy and complex investigation in conjunction with Lincolnshire Police we secured a prosecution and custodial sentence for a case involving an employee from one of the Council's partners. We identified fraud valued at £39k and, in line with our Counter Fraud Policy, continue to work to recover these losses.

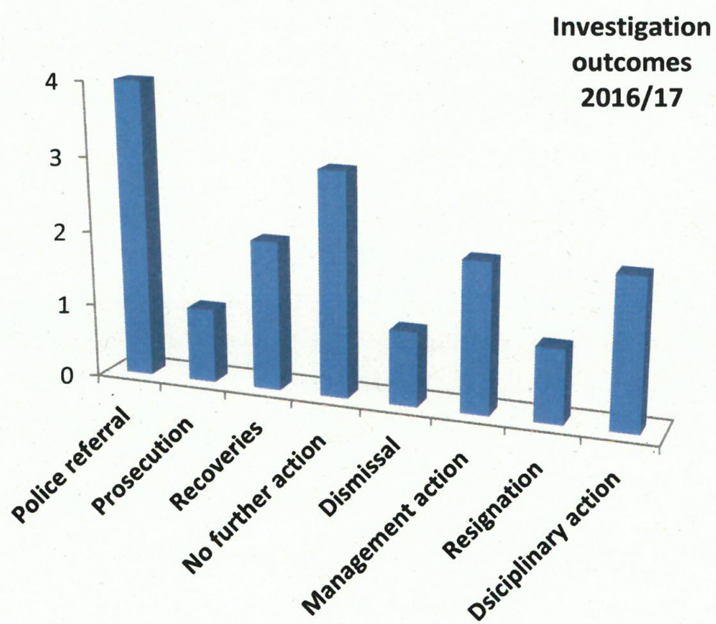
13. We will continue to conduct follow up reviews to assess the impact of actions taken following learning points identified within previous investigations.

Outcomes

14. We conducted analysis of the cases investigated in 2017/18 and this has been included within Figure 2 below. The results within both charts (see police referrals, prosecutions and recoveries) demonstrate that we continue to refer matters to the Police on a regular basis with a view to applying sanctions and seeking redress – these are two of the components of the our response to fraud and are documented within the Council's Counter Fraud Policy,

Figure 2 – Comparison of Investigation outcomes





Recoveries

15. We are pleased with the level of recoveries in 2017/18 from investigations and the National Fraud Initiative (NFI) – we have been able to recoup over £124k during the year and this represents a significant increase (82%) on the previous year. As noted within paragraph 14, we believe this demonstrates the team's ability to secure recovery of council funds through various means. In 2017/18 our recoveries included:

- £90k from negotiation with a contractor under investigation for potentially fraudulent activity within their delivery of services to the Council
- £22k was recovered directly from a school employee found guilty of fraud against the Council
- Duplicate payments of over £12k were identified and recovered through use of data analysis skills within the team and were identified through our data matching processes that form the NFI exercise

16. We have also further areas where we hope to make more recoveries in the short term. These are ongoing cases that we continue to pursue to ensure valuable resources are not lost:

- We are liaising with Legal Services Lincolnshire to secure recovery of £39k in relation to a fraud investigation completed during 2017/18
- We are working with the council's partners to recover teacher pension overpayments made. These are valued at £17k and were identified through the National Fraud Initiative exercise.

17. While recoveries are not the only measure of success, we are highly encouraged by the level of fraud losses clawed back into council funds during the year – every pound recovered can be ploughed back into provision of services.

Awareness

18. Promoting fraud awareness is key in building a culture where fraud and corruption are unacceptable and everybody plays a part in eradicating them – this is one of the main visions of the Local Government Fraud Strategy (known as Fighting Fraud and Corruption Locally).

19. To help promote awareness across the council, we have been involved in the development and implementation of a Fraud Awareness e-learning course – this is available on the Lincs2Learn platform. The package emphasises the theme that fraud prevention is the responsibility of all stakeholders. We are very pleased with level of participation and feedback received on the course. We have recently made it available to schools and are pleased that there has again been a successful 'take up' of the training.

20. During 2017/18, we refreshed the Council's Fraud Risk Register (please refer to paragraphs 21 - 24). This was a key piece of work that will drive much of our proactive efforts to counter fraud. It highlighted areas of fraud where we believe that fraud risks are heightened – these included fraud that occurs in schools and procurement fraud.

21. We have responded to these threats by raising awareness through the following channels:
    - Schools
        - As noted in paragraph 18, we have released the e-learning package to schools
        - In liaison with the Schools Finance Team, we have produced regular communications on general and specific fraud themes
        - We have delivered awareness sessions to School Business Managers through their Financial Topics sessions and also Headteachers as part of a series of School Leadership briefings. We are pleased with the response to these sessions and have since received referrals as a direct result
    - Procurement Fraud
        - We are working with the council's Commercial Team and officers from devolved teams responsible for procurement and contract management. We have issued information on 'red flags' that may indicate and help to identify this type of fraud
        - We have also agreed with the Commercial Team that fraud awareness will form part of training for procurement officers

Fraud Risk Register

22. A 'Health Check' review of our counter fraud arrangements was conducted in March 2017. One of the key recommendations from this exercise was around identification and assessment of fraud risks to help improve understanding of the fraud threat and to align resources accordingly - this is a key area within Fighting Fraud and Corruption Locally. Acknowledgement and awareness of fraud risks and patterns allows a more effective response.

23. In accordance with this approach, we have developed and refreshed the Fraud Risk Register. The results from the updated risk assessment have already been used to guide priority counter fraud work and will be utilised for planning into the longer term.

24. We reported the outcomes of this report to the Audit Committee in September 2017, but the Fraud Risk Register is a 'live' document and we constantly update supporting information to ensure we have accurate, updated knowledge and understanding of specific fraud risks at any one time.

25. We identified 26 separate fraud risk categories (please refer to Appendix D) and for each area identified where the risk currently sits within a matrix comparing likelihood and impact.

The distribution of risk assessments demonstrate that the Council manages its fraud risks effectively and therefore assurance can be provided. 50% of the fraud risk categories are classed as Green or 'low' risk with much of the remainder assessed as Amber (medium risk). Some of the fraud risks are already at their target level so focus is more aimed at ensuring fraud awareness is maintained and controls continue to be applied in these areas.

26. There are particular risks (classed as Amber and Red) within the assessment where we consider the fraud risks are increased, and were identified as priority for review:

- Procurement and contract management
- Social Care (particularly within Adult Care)
- Schools
- Cyber Fraud

Other Proactive Work

27. There have been recent high level changes in the management of the CIPFA Counter Fraud Centre and this has affected the development of a National framework and standards for Counter Fraud in Local Government. The aim of the standards is to provide more structure for councils to manage the risks of fraud and corruption. The preferred option is that this process is now driven by an Oversight Board in conjunction with local councils – we aim to be involved at the forefront of that exercise wherever applicable.

28. We continue to lead the Midland Counties Fraud Group – this forum consists of representatives from 18 councils across the region. We host regular meetings to discuss fraud best practice, developments and 'experiences'. This is a highly valuable network in terms of fraud knowledge sharing and the group's value was demonstrated recently where a neighbouring authority provided intelligence about a high risk contract area. This directly allowed us to commence an investigation and ultimately make a substantial recovery of losses through fraud against the council.

29. We seek to benchmark counter fraud results and information wherever possible. Our main source of benchmarking is our participation in the annual CIPFA Fraud and Corruption Tracker – we submit counter fraud and investigation data for the survey and review the published results to identify any trends or patterns that may guide and influence our own response and planning.

30. The Lincolnshire Counter Fraud Partnership (LCFP) consists of eight Lincolnshire councils (with Lincolnshire County Council acting as lead partner) and was created in 2014. The aim of the arrangement was to work together to develop a strong, effective and sustained response to the threat of fraud across the county.

31. The partnership has now grown to include Lincolnshire Police representatives and it is pleasing that all partners have signed up and agreed continued funding to support the group's activities in 2018/19 and maintain capacity.

32. Valuable work delivered through the partnership in 2017/18 has included:

- A continued focus on fraud awareness work to develop a 'first line of defence' in tackling fraud – the partnership has been heavily involved in the promotion of fraud awareness and played a leading role in the development of the successful fraud awareness e-learning training course. Further examples of awareness work driven by the partnership include sessions delivered to Headteachers and School Business Managers.

- Regular liaison and sharing of information on scams, alerts and fraud cases

- Invest to Save schemes – a Single Person Discount review is ongoing and a managed service review for Council Tax Reduction (CTR) is planned for 2018/19. These schemes will support District Council partners to increase Council Tax revenue collection through reduced fraud losses.

33. Partnership priorities for 2018 /19 include:

- Pro-active work to develop knowledge and awareness of the Cyber Fraud threat. This is a rapidly evolving risk where we wish to develop an effective response

- Fraud Risk Register updates including a refresh of partner authorities 'Top 5' fraud risk areas

- Training needs have been highlighted in areas including Identity Fraud and Anti-money laundering. Partners will liaise to assess the most appropriate options for delivery

- LCFP will work with a newly created sub-group of the Serious Organised Crime multi-agency board, which is part of the Lincolnshire Community Safety Partnership.

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	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 updates • Response to the Home Office Report on Serious and Organised Crime • Launch and promotion of e-learning package (in conjunction with Lincolnshire Counter Fraud Partnership)	Briefing sessions – training for members, management and staff (general and specific fraud areas), including induction training for new members Annual Plan for Counter Fraud activity to Audit Committee Continued development of fraud resilience through the Lincolnshire Counter Fraud Partnership (LCFP) Roll out of new fraud e-learning module Promotion and publicity through a 'fraud awareness fortnight' Updates, risks, results and information (various publications and channels) Response to Serious Organised Crime Pilot Project across Lincolnshire		Briefing sessions delivered to School Business Managers and Headteachers. Fraud risk briefings delivered to DMT's Annual Counter Fraud Work Plan presented – June 2017 Completed - throughout 2017/18 Completed – April 2017 Completed – July 2017 Completed - throughout 2017/18 Completed – April 2017
Days (8%)			**62**	

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	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	• Research and intelligence gathering to highlight emerging risks • Benchmarking activity • Update fraud risk profile • Analysis and publication of fraud losses	Participation in Midlands Fraud Group, work with TEICCAF advisory group, CIPFA Counter Fraud Centre, follow up of NAFN alerts and horizon scanning for legislative relevant changes Review and update of the Council's Fraud Risk register. Participation in CIPFA Fraud and Corruption Tracker (CFaCT) Annual Survey Annual and progress reports of counter fraud activity to Audit Committee Data analysis & risk assessment: • for counter fraud proactive exercises • to support key control and continuous testing		Completed - throughout 2017/18 (including Midlands Fraud Group meeting in July 2017) Completed & presented to Audit Committee – September 2017 Completed – June 2017 Completed - Annual report presented in July 2017 & Progress Report presented in November 2017 Completed - work commenced on proactive exercises in October 2017 Data analysis for continuous testing from June 2017 Specific actions built into 2017/18

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	Status
		Update responses to the LCC Fraud Health Check.		and 2018/19 Counter Fraud Plans Health Check review outstanding but CFIT will be subject to external review in 2018/19
Days (4%)			**35**	
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	• 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 • Fraud Communication Strategy • Money Laundering Policy (ML) • Investigation Practice Notes Activity planning of pro-active counter fraud work - response to risk assessment and data analytics.		Ongoing - review started in Quarter 2 Ongoing – defer to 2018/19 Ongoing – defer to 2018/19 Completed Ongoing – defer to 2018/19 Completed Completed - Risk assessment completed and priority areas identified – September 2017

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	Status
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 and seeking redress				
Days (7%)			**52**	

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	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 • Collaboration with and support to Internal Auditors at Assurance Lincolnshire • Manage pool of Conduct Investigators	Fraud advice across LCC services areas and to strategic partners. Management of Lincolnshire Authorities Whistleblowing Facility. Development of internal data analytics capability – system upgrade and training Response to Serious Organised Crime Pilot Project across Lincolnshire Use of pooled funding from Lincolnshire's District Councils and Lincolnshire Police Contribution for provision of support to Lincolnshire Counter Fraud Partnership Delivery of 3 LCFP partnership meetings Engagement with national and regional best practice groups including co-ordination of Midland Fraud Group meetings		Completed - throughout 2017/18 Completed - throughout 2017/18 Outstanding – issue with IT capability therefore not within team control Initial task completed – April 2017. Further work planned for 2018/19 Completed - throughout 2017/18 Completed Completed – July 2017 & February 2018
Days (7%)			**60**	

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	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	• Response to National Fraud Initiative 2016/17 results • 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	Analysis of data matches identified through National Fraud Initiative 2016/17 Proactive counter fraud exercises: • Procurement fraud (specific areas) • Schools Investigations arising from whistleblowing reports and frauds identified Production of management reports and action plans to aid organizational learning – investigation outcomes and learning points Applications of sanctions – civil, disciplinary and criminal Seeking redress where successful prosecutions are achieved Promotion and publicity work through various media channels including production of a new fraud awareness		Completed Contract Register review and analysis completed – but further deeper dive exercise due in 2018/19 Completed Completed - throughout 2017/18 Completed - throughout 2017/18 Completed - throughout 2017/18 Completed - throughout 2017/18 Completed - throughout 2017/18

Counter Fraud Plan 2017/18 (Appendix B)

Specific step (from CIPFA Code of Practice)	Nature of work	Indicative Scope	Planned Days	Status
* Note also Specific Step – C3		leaflet for distribution Provision of advice on fraud risks and mitigating controls Promotion of fraud prevention measures Production of progress and annual counter fraud and whistleblowing reports to the Audit Committee		Completed - throughout 2017/18 Completed - throughout 2017/18 Completed - Annual report presented in July 2017 & Progress Report presented in November 2017
Days (54%)			**435**	
TOTAL DAYS ALLOCATED			**644**	
Contingency (20%)			**161**	

Referrals – 2013/14 to 2017/18 (Appendix C)

Fraud Type	2013/14	2014/15	2015/16	2016/17	2017/18
Abuse of position	-	-	-	-	
Direct Payments	3	2	2	-	1
Expenses fraud	1	-	2	1	1
False invoices	-	-	1	-	
False claims	-	2	-	-	
False accounting	-	-	-	2	1
Insurance fraud	-	-	-	1	
Imprest (cash)	1	-	-	-	
Misuse of assets	-	2	2	1	
Payroll	-	2	-	2	
Procurement	1	2	2	3	2
Recruitment	1	-	-	-	1
School Fund/Budget	2	-	2	5	2
Financial abuse	-	12	-	-	
Theft	-	-	-	1	1
Timesheet/abuse of time	-	3	-	-	
TOTAL CASES	9	25	11	16	9

Fraud Risk Assessment – Summary (Appendix D)

Likelihood						Description of occurrence
	4 Almost certain			Cyber fraud		Occurs several times per year – it will happen
	3 Probable	Schools & establishments Payroll & employees Pensions fraud Insurance fraud	Contracting/Contract Management Procurement fraud Social Care fraud	Council Tax fraud		It has happened before – and could happen again
	2 Possible	Income Collection Payments/Creditors BACS & Cheque fraud False accounting Blue Badge fraud Identity fraud	Housing fraud Business Rates Housing Benefit fraud	Corruption (including bribery)		It may happen but it would be unusual
	1 Hardly ever	Debt Management Petty Cash & imprest accounts Electoral fraud	Property, land & equipment Grants	Money Laundering Investment/Treasury Management		Never heard of it occurring – we cannot imagine it occurring
		1 Negligible	2 Minor	3 Major	4 Critical	
		Impact				

Lincolnshire COUNTY COUNCIL
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Regulatory and Other Committee

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

Report to:	**Audit Committee**
Date:	**25 June 2018**
Subject:	**Work Plan**

Summary:

This report provides the Committee with information on the core assurance activities currently scheduled for the 2018/19 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 2019

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 2019).

Additional work requested by the Committee to be included at this meeting:-

- Updates on actions arising from 2 Adult Care audits the Carers Workforce Development Audit and the Assessments in Adult Care Audit.
- An update on the payroll control environment

The Committee has also requested support on reading and understanding the Council's Statement of Accounts. This has been included in the work plan for this meeting as 'Scrutiny of the Draft Statement of Accounts 2017/18 with the County Finance Officer'.

Sometime ago the Audit Committee requested if another independent could be added to the Committee – to bring independent challenge and a different perspective to the Committee. Agreement has now been given and the request to change the Constitution will go to Full Council in September. In the meantime, the recruitment process will be put in motion.

Appendix B – keeps track of actions agreed by the Committee and future potential agenda items. CIPFA issued a new edition of Audit Committees, Practical Guidance for local Authorities and Police in May 2018 and this is noted as a potential training/agenda issue.

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 takien with regard to existing policies

Appendices

These are listed below and attached at the back of the report	
Appendix A	Work plan
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 – 2018/19		
25 June 2018	**Assurances Required/Being Sought**	**Relevancy – Terms of Reference**
Core Business		
Progress update on actions arising from the Assessment of Needs in Adult Care Audit and the Carers Workforce Development Audit	Seeking assurance over progress on the action plan arising from the limited assurance areas in the Reports	To receive updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
Internal Audit Progress Report	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 from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme. c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement. To consider summaries of specific internal audit reports as requested.
Approval of the Annual Governance Statement	Confirm that the final Annual Governance Statement accurately reflects the Committees understanding of how the Council is run and any comments made on the draft have been acted upon.	To monitor the effective development and operation of risk management and corporate governance in the Council. To review the Annual Governance Statement

Audit Committee Work Plan – 2018/19		
		prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
Annual Report on the Council's Internal Audit Function	To consider how well the Internal Audit Functions is performing: • Is it what you want – independent, objective and provide a knowledgeable view of how well the Council is being run? • Conforms to the Public Sector Internal Audit Standards? • Has an effective Quality Assurance framework? • Successfully delivers results that make a difference in how well the Council is run?	Council maintains an effective internal audit service
Counter Fraud Annual Report 2017/18, 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
Payroll Control Environment - Update	Seek assurance that payroll performance is satisfactory	To monitor the adequacy of the internal control environment to provide members with independent assurance.
Scrutiny of the Draft Statement of Accounts 2017/18 with County Finance Officer	By asking questions (supported by County Finance Officer), 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 – 2018/19		
		accounts, income and expenditure and balance sheet. .
Other Assurance		
23 July 2018	**24 September 2018**	**19 November 2018**
Review of Head of Internal Audit's Annual Report and Opinion 2018	Internal Audit Progress Report	Counter Fraud Progress Report
Draft Annual Report on the work of the Audit Committee 2018	External Audit Progress Report	
Business Continuity - Management Update on the Plan	Report on the Counter Fraud Risks Register	Whistleblowing Annual Report
External Audit Progress Report	Payroll Control Environment - update	
External Audit's ISA 260 Report to Those Charged with Governance on Lincolnshire County Council's Statement of Accounts and Lincolnshire County Council Pension Fund Accounts for 2017/18	Update for the Committee on work to be completed with senior management on risk appetite, review of strategic risks and their alignment to the commissioning strands.	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.
Final Statement of Accounts for Lincolnshire County Council for the year ended 31 March 2018		
Other Assurance	**Other Assurance**	**Other Assurance**
January 2019	**March 2019**	**June 2019**
Internal Audit Progress Report	Internal Audit Progress Report	Internal Audit Progress Report
External Audit Progress Report	External Audit Progress Report	External Audit Progress Report
Other Assurance	Internal Audit Annual Plan	Draft Audit Committee Annual Report
Combined Assurance Status Reports	Draft Annual Governance Statement	Annual Report on the Council's IA Function

Appendix B

Audit Committee Action Plan 2018/19			
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	May 2018
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.	Workshop planned 26th March 2018 Taken place – outcomes presented as Appendix B of Audit Committee Annual Report
		Recruit an additional 'independent' member	Agreement received – recruitment to start now
		Deliver risk management training and awareness for members and staff.	Delivered

Audit Committee Action Plan 2018/19			
		Ensure that there is a private meeting with External Auditor at least once a year.	Agreed will take place in March 2018 Meeting taken place
		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 2018
3. A report be brought back to the Committee on the general learning points around what happened in Northamptonshire, including the role of the Audit Committee	Improve effectiveness of the committee		2018/19

Potential Agenda Items
Audit Committees Practical Guidance for Local Authorities and Police 2018 – training on the new guidance
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
Compliance with the Transparency Code

Lincolnshire COUNTY COUNCIL
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Policy and Scrutiny

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

Report to:	**Audit Committee**
Date:	**25 June 2018**
Subject:	**Draft Statement of Accounts 2017/18**

Summary:

The draft Statement of Accounts for Lincolnshire County Council for the financial year 2017/18 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 2017/18 will be presented to the Audit Committee on 23 July 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 2017/18 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 2017/18.

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 20 to 40 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 26 March 2018.

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 2017/18 on pages 5 to 14. 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. It also provides some outlook on to the future and the challenges the Council is faced with and how it is going to mitigate these risks.

1.5 Councillors should note that separate reporting takes place on expenditure incurred over 2017/18 relative to the approved budget. This review of financial performance has been considered by the Overview and Scrutiny Management Board on 28 June and presented to Executive on 3 July. Recommendations arising in terms of the treatment and use of over and under spendings will be considered by full Council on 14 September.

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 on 23 July.

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 on 23 July. The Audit Committee will then be asked to approve the final Statement of Accounts for 2017/18.

2.3 The accounts and supporting information are available for inspection by the public during the period 1 June 2018 to 12 July 2018 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 2017/18 (NOTE: due to the size of this document it will only be available electronically)

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 Dave Simpson, who can be contacted on 01522 553008 or Dave.Simpson@lincolnshire.gov.uk.

APPENDIX A

Lincolnshire County Council

Statement of Accounts

2017-18

Working for a better future

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Introduction to the Accounts

The Statement of Accounts for the year 2017-18 is set out on pages 15 to 19.

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

Narrative Report

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 2017 to 31 March 2018, including 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.

The Statement of Responsibilities for the Statement of Accounts

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

Expenditure and Funding Analysis for the period 1 April 2017 to 31 March 2018

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 2017 to 31 March 2018

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 2017 to 31 March 2018

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 four 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 2018

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 2017 to 31 March 2018

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. There are two aspects to the opinion, one on the Statement of Accounts and one on the Council's arrangements for securing value for money.

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.

Narrative Report

Lincolnshire County Council provides key local services such as Children Services, Education, Adult Care, Health and Wellbeing, Highways, Public Protection and the Environment to the community of Lincolnshire. To ensure that these services are delivered in an efficient and effective way and at a high level of quality, the Council has developed a vision, purpose and set of values that provides a culture that drives these services forward.

The Council's **vision** is to:

Work for a better future by:

- Building on our strengths.
- Protecting lifestyles.
- Being ambitious for the future.

The Council's **purpose** is to:

- Make the best use of resources.
- Invest in infrastructure and the provision of services.
- Commission for outcomes based on the community's needs.
- Promote community well-being and resilience.
- Influence, co-ordinate and support other organisations that contribute to life in Lincolnshire.

The Council's **values** dictate that it should be:

- Professional.
- Respectful.
- Reflective.
- Resourceful.

Each year the Council approves its business plan, alongside its financial plan to ensure that the level of service it intends to deliver is achievable within the level of finance that is available. For 2018 onwards the Council has approved a two year Business Plan to coincide with the two year financial plan that has been set.

Looking backwards;

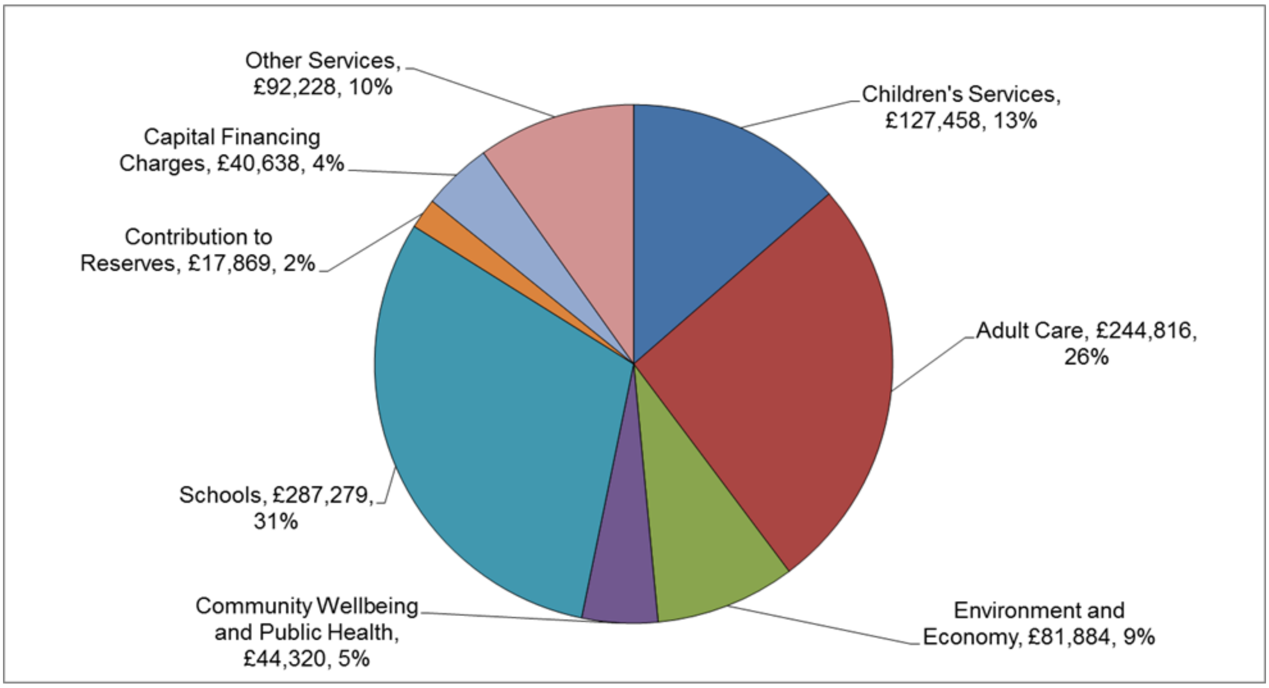
The County Council set its spending plans for 2017-18 against a backdrop of continued significant reductions in government funding, growing cost pressures from demand led services such as adult and children's social care and waste disposal. In developing its financial plan the Council considered all 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.

<u>Annual Revenue Spending</u>

The Council spent £936.491m in 2017-18 on providing public services – £1,260 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 £'000 (£936,491)



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

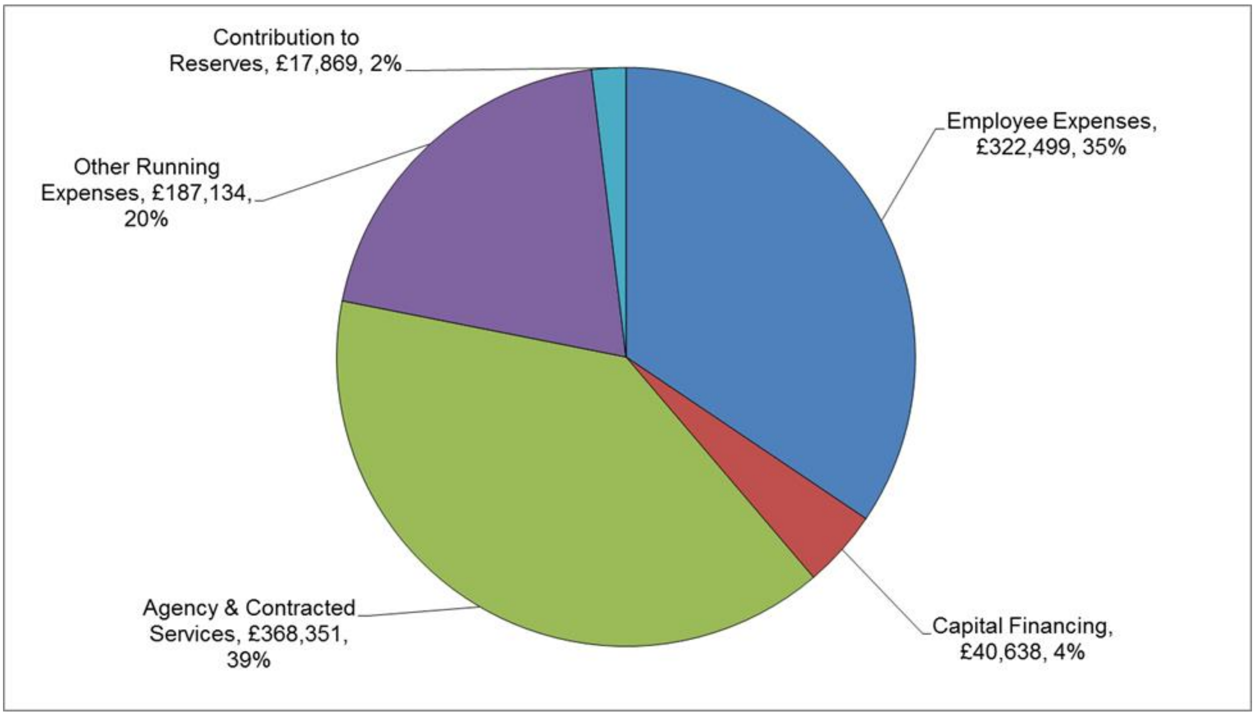
Adult Care Includes: Adult Safeguarding, Adult Frailty, Long Term Conditions and Physical Disability, Carers and Adult Specialities.

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.

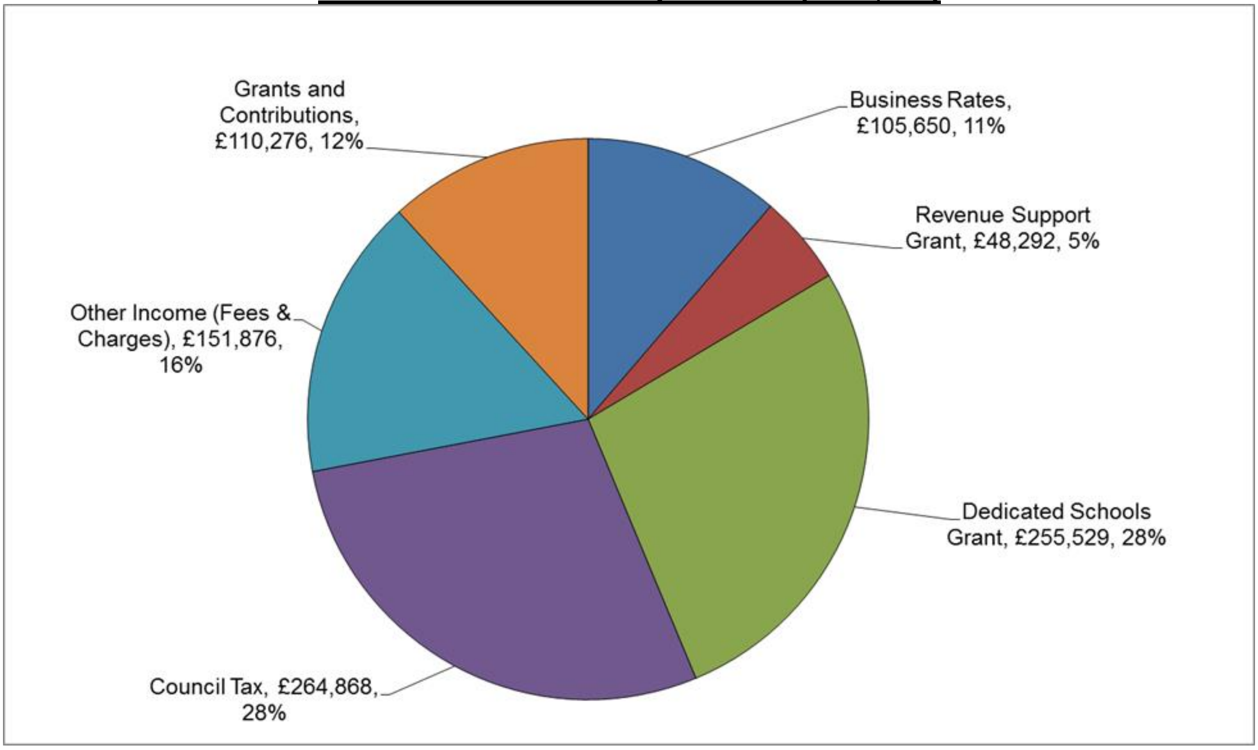
Gross Expenditure Subjective Analysis £'000 (£936,491)



The distribution of expenditure type differs significantly between different services. For example employee expenses comprises 57.4% of budgeted expenditure in schools, for other (non-schools) budgets it is only 25.0% of expenditure and contract payments comprises 51.1% of total expenditure. These differences reflect how Council services are provided.

The Council's revenue spending was funded by:

Sources of Income Analysis £'000 (£936,491)



In 2017-18 the Council increased Council Tax by 3.95% and also saw growth of 1.44% on the number of band D equivalent properties in Lincolnshire. This in total generated an additional income for the Council of £13.520m. The Council Tax collection funds in Lincolnshire also generated a surplus in 2017-18, of a further £3.156m to the County Council.

Business Rates generated £105.650m. This is made up of a number of elements, £18.940m collected from businesses in Lincolnshire, £85.264m received as a top up from central government and an estimated £1.446m from the County Council pooling with six of the Lincolnshire District Councils.

Funding from Revenue Support Grant (RSG) in 2017-18 has provided the County Council with £48.292m. The value of this grant continues to fall. On a like for like basis this has decreased by £22.059m or 31.4% from the grant received in 2016-17.

In addition to RSG the Council also receives specific government grants. The most significant of these was £255.529m of Dedicated Schools Grant which is used for funding education in Lincolnshire and £33.524m for Public Health Grant.

Revenue Outturn

The revenue budget outturn for 2017-18 is summarised below:

- Total service revenue spending, excluding schools, was under spent by £6.598m or 1.7%.
- Schools were underspent by £17.058m or 6.7% of the schools budget.
- Other Budgets underspent by £20.721m or 30.3%.

- The Council received £0.349m or 0.1% more general funding income than originally budgeted for.
- This gives the Council an overall underspend of £44.726m. Only the non-schools element of £27.319m is available for the Council to apply.

The table below shows the outturn of expenditure in 2017-18 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	4,888	**4,734**	(154)	-3.14%
Learn & Achieve	33,359	**32,902**	(457)	-1.37%
Readiness for Adult Life	5,980	**5,591**	(390)	-6.52%
Children are Safe and Healthy	61,836	**61,889**	53	0.09%
Adult Safeguarding	3,656	**4,092**	436	11.93%
Adult Frailty & Long Term Conditions	113,160	**111,561**	(1,599)	-1.41%
Carers	2,327	**2,003**	(324)	-13.92%
Adult Specialities	62,463	**62,443**	(20)	-0.03%
Wellbeing	26,838	**26,862**	24	0.09%
Community Resilience & Assets	10,456	**10,189**	(267)	-2.55%
Sustaining & Developing Prosperity Through Infrastructure	38,992	**38,994**	2	0.01%
Protecting & Sustaining the Environment	23,266	**22,357**	(908)	-3.90%
Sustaining & Growing Business & the Economy	862	**697**	(165)	-19.09%
Protecting The Public	23,399	**23,768**	369	1.58%
How We Do Our Business	8,990	**8,162**	(828)	-9.21%
Enablers & Support To Council's Outcomes	36,189	**33,822**	(2,367)	-6.54%
Public Health Grant Income	(33,524)	**(33,524)**	0	0.00%
Better Care Funding Income	(34,497)	**(34,501)**	(4)	0.01%
TOTAL COMMISSIONING STRATEGIES	**388,637**	**382,039**	**(6,598)**	-1.70%
Other Budgets	68,491	**47,770**	(20,721)	-30.25%
Schools Budgets (Other Funding)	9,663	**(7,395)**	(17,058)	-176.53%
TOTAL EXPENDITURE	**466,792**	**422,414**	**(44,378)**	**(9.51)%**
TOTAL INCOME	**(439,935)**	**(440,284)**	**(349)**	**0.08%**
TOTAL USE OF RESERVES	**(26,857)**	**17,869**	**44,727**	**(166.54)%**
TOTAL	**(0)**	**(0)**	**(0)**	

Significant variances include:

- **Adult Frailty & Long term Conditions** – under spent by £1.599m (or 1.4%). This was mainly due to an under spending in back office functions to deliver the service, additional income derived from additional direct payment refunds back to the Council and from additional service user contributions where property is included in the assessment;
- **Protecting and Sustaining the Environment** – under spent by £0.908m (or 3.9%). This under spending primarily relates to Waste Services where pressures associated with the higher tonnages processed through the Energy from Waste plant remain, however, these additional costs are more than offset by savings on reduced costs from mixed dry recycling and a reduced tonnage for composting and other areas of recycling, which reflects the volatility of the waste industry;

- **How We Do Our Business –** under spent by £0.828m (or 9.2%). This comprises of;
    - an under spending on Serco contract payments (£0.266m),
    - receipt of a surplus from the ESPO joint procurement arrangements (£0.283m),
    - a number of smaller under spends in the Finance and Democratic Services.(£0.279m);
- **Enablers and Support to Council Outcomes –** under spent by £2.367m (or 6.5%). This comprises of;
    - Legal Services achieving an additional surplus (£0.682m),
    - an under spend in Information Management Technology (£0.515m) relating to the Serco contract, Microsoft Enterprise Agreement rollout offset by the additional cost of essential project work and feasibility studies,
    - an under spending in People Strategy and Support (£0.654m) relating to additional income from the employee purchase of annual leave scheme and savings in activity led services,
    - an under spending in Commissioning (£0.610m) relating to staff vacancies and Serco contract abatement penalties,
    - an under spending in Procurement Lincolnshire (£0.104m),
    - Other minor variances (£0.031m);

  Offset by;

    - an over spending in Property (£0.229m) relating to the property schools maintenance scheme
- **Schools –** (£17.058m under budget). This under spend is ring-fenced for schools to use in future years.
- **Other Budgets –** underspent by £20.271m (or 30.25%). This comprises of;
    - an under spending in capital financing charges due to slippage in the Council's capital programme (£8.100m),
    - the Council not using all of its revenue budget contingency (£2.645m),
    - increases in the national living wage being funded by the Better Care Fund (£8.740m) rather than the mainstream revenue budget,
    - the pension secondary payment to the pension fund reducing. (£3.016m),
    - an under spending in the Corporate and Services Redundancy budget (£1.778m).

  Offset by;

    - the Council generating less capital receipts than expected (3.970m),
    - a small number of budgets over spending (£0.038m).

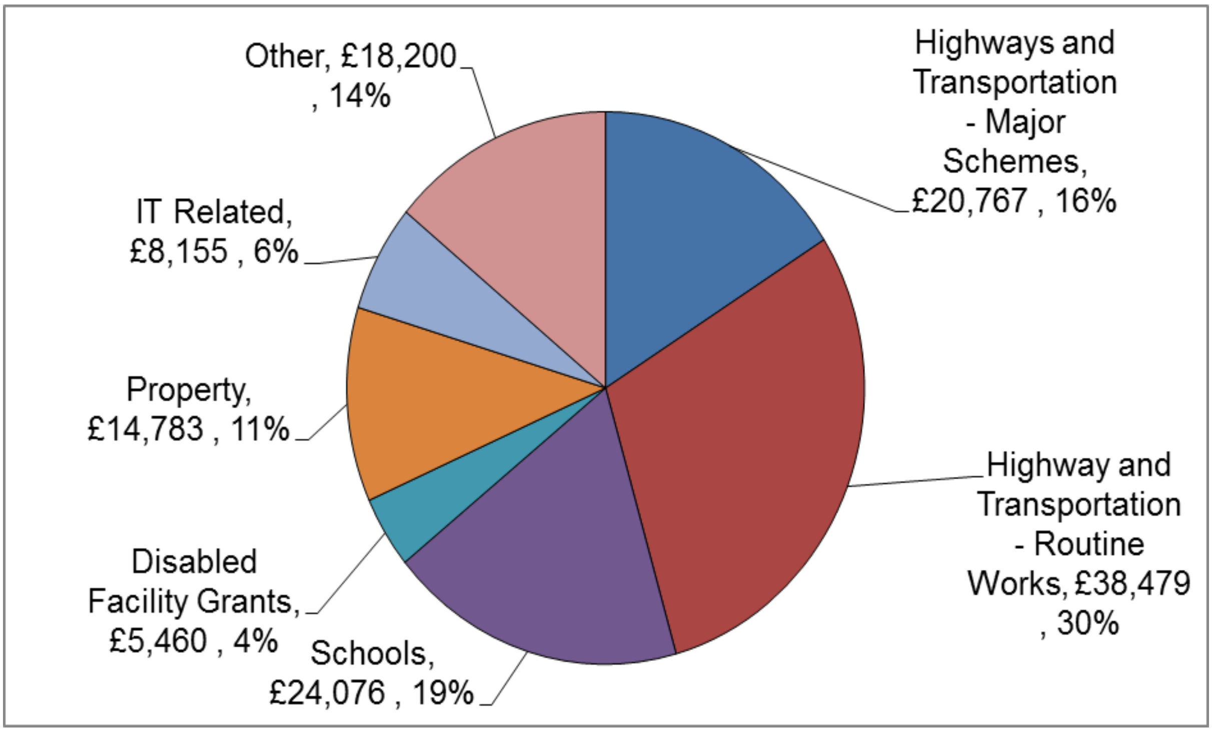
Further information on revenue budget spending and outturns can be found in the Review of Financial Performance 2017-18, which is available on the Council's website.

Investment in Major Projects

The Council spent £129.920m on the County’s assets, in particular on roads and schools. The net capital spend was £53.088m which was £26.750m or 33.5% under budget. Explanations of the variances can be found in the Council's Review of Financial Performance Report for 2017-18.

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

Gross Expenditure on Major Investment Projects £'000 (£129,920)



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

In 2017-18 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 two new road schemes, one in Lincoln and the other in Grantham;
- Construction of a joint property for all blue light services in Lincoln; 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 (£111.984m) to fund: maintenance work on roads, the Council's programme of modernisation and improvement of condition of school buildings and provision of education places. £14.602m of funding for the capital programme came from temporary internal and external borrowing and £3.334m 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 2017-18 was 5.26%. 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 £167.1m (£186.9m at 31 March 2017). Although the Council holds a negative cash balance of £32.8m at 31 March 2018, 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 2017-18 planned for £17.970m 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 £129.920m in 2017-18 is mainly financed by Government Grants and contributions of £117.146m or 90.1%. 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 £870.7m to £882.7m.

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.

Non Financial Performance Indicators

In 2017 the Council published a Business Plan for the period 2017-18 to make sure services are delivered which 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 2017-18:

11 have performed really well (all measures achieved);

- Children are Safe and Healthy
- Safeguarding Adults
- Community Resilience and Assets
- Readiness for Adult Life
- Readiness for School
- Specialist Adult services

- Sustaining and Growing Business and the Economy
- Sustaining and Developing Prosperity Through Infrastructure
- How We Effectively Target Our Resources (3 Strategies)

2 have performed well (all but 1 measure achieved);

- Carers
- Adult Frailty and Long Term Conditions

4 have had mixed performance (some but not all measure have been achieved).

- Protecting the Public
- Wellbeing
- Protecting and Sustaining the Environment
- Learn and Achieve

Further information on the Councils performance against the Council's 2017-2018 Business Plan is contained in its Performance Report available on the Council's website.

Looking forward to the Council's future financial stability;

Economic Climate and future revenue and capital budgets and future financing

The Local Government Finance Settlement for 2018-19 announced levels of funding for the County Council for the final two years of the four year funding deal and the outcome of business rate pilot bids. The County Council was successful in achieving a pilot bid for 2018-19 along with the seven Lincolnshire District Council's and North Lincolnshire Council. The anticipated impact of this bid has been incorporated into the Council's budgets for 2018-19.

The finance settlement from government for 2018-19 places additional funding pressures on the County Council when compared to 2017-18 - Although Revenue Support Grant (RSG) has been incorporated into the baseline funding for 2018-19 trends in this funding continue to reduce. The Council has seen a reduction of £14.328m or 29.67% in funding between 2017-18 and 2018-19. Taking this forward, based on the four year funding deal there will be a reduction between 2018-19 and 2019-20 of £13.825m or 40.70%. Over the four year period there will have been a reduction to RSG of 71.37%.

The business rates pilot has changed how funding will come to the County Council in 2018-19. In 2017-18 the Council received Business Rates – Baseline Funding, Revenue Support Grant (RSG) and Rural Service Delivery Grant (RSDG) separately. In the pilot year these elements of funding will be incorporated into the Baseline Funding.

The Council's revenue budget remains under pressure from reduced funding and service cost pressures. For 2018-19 the Council has set a two year budget, the first time it has been able to set a plan beyond the next financial year for four years. Further work is required for the Council to develop long term sustainable budget plans.

In developing the financial plan for 2018-19, 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 2018-19 of 4.95%, 2.95% general increase plus a further 2.00% for Adult Care responsibilities (including demographic pressure and the impact of the national living wage).

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.

The current position on projected budget shortfalls and the available reserves is as follows. The projected revenue budget shortfalls for the current year and the following financial year are now presently estimated as:

- 2018-19 £6.539m (funded from reserves)
- 2019-20 £21.122m (planned use of reserves)

For the financial years 2020-21 and 2021-22 work is ongoing identifying the shortfall. Current estimates project an underlying shortfall in excess of £30m

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

Whilst many of the presently known cost pressures have been factored into the estimated budget shortfalls for 2020-21 & 2021-22, no savings proposals have yet been developed. The estimated shortfalls for those years are naturally based on a whole range of assumptions the bias of which are very much on the prudent side. The major unknown is the basis and nature of the funding for local government post April 2020. The impact on the County Council from the current Fair Funding Review and the 75% localisation of business rates is unlikely to be clear until late in the 2019 calendar year. The Corporate Management Board will shortly give consideration to developing contingent savings proposals for the period beyond April 2020.

The Council has a capital programme that matches with the revenue budget running to the end of 2019-20 plus major schemes whose construction will complete after this date. The gross programme is set at £322.647m from 2018-19 onwards, with grants and contributions of £132.088m giving a net programme of £190.559m to be funded by the County Council.

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 2018, as proposed in this report, would be £15.200m or 3.5% of the Council's total budget.

The decision to leave the European Union will have both long and short term consequences for the UK economy. It is still too early to assess how this might impact on the Council at this stage.

Business Plan and Performance

A new two year Business Plan is now in place with a revised and updated set of measures. More details of the Council's 2018-2020 Business Plan can be found on its website.

Risk Management

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.

During the period 2017-18, the Council felt it was timely to review and refresh the strategic risk register. This was in addition to ongoing monitoring and horizon scanning of current strategic risks. The Council looked at whether the current risks were still valid and whether there were any new risks that required inclusion at a strategic level. In addition to this work, an exercise was undertaken to relook at the risk appetite of the Council.

The next phase is to report the findings from the refresh to Corporate Management Board for final sign off prior to its presentation to the Audit Committee. It is confirmed that the majority of the existing risks remain with the exception of the Agresso HR system as this is no longer a strategic risk. It is also a recommendation that there are two new risks to be included within the strategic risk register going forward, which would make a total of 12 strategic risks.

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 Executive Director of Finance and Public Protection.
- 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 approved at a meeting of Lincolnshire County Council Audit Committee on 23rd July 2018 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 2018 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 2017 to 31 March 2018

2016/17				2017/18		
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			
5,090	462	5,552	Readiness for School	4,734	2,095	6,829
35,205	274	35,479	Learn and Achieve	32,902	882	33,784
5,081	932	6,013	Readiness for Adult Life	5,591	1,267	6,858
63,866	1,683	65,549	Children are Safe and Healthy	61,888	5,081	66,969
2,571	42	2,613	Adult Safeguarding	4,091	295	4,386
94,097	(952)	93,145	Adult Frailty and Long Term Conditions	111,561	2,470	114,031
2,225	3	2,228	Carers	2,003	8	2,011
51,478	675	52,153	Adult Specialties	62,443	956	63,399
30,764	486	31,250	Wellbeing	26,862	406	27,268
11,567	1,876	13,443	Community Resilience and Assets	10,188	1,644	11,832
44,584	41,467	86,051	Sustaining and Developing Prosperity through Infrastructure	38,994	45,630	84,624
22,869	11,136	34,005	Protecting and Sustaining the Environment	22,357	8,783	31,140
1,211	1,557	2,768	Sustaining and Growing Business and the Economy	697	1,693	2,390
23,034	7,192	30,226	Protecting the Public	23,768	8,983	32,751
7,803	(240)	7,563	How we do our Business	8,162	931	9,093
33,260	7,725	40,985	Enablers and Support to Council's Outcomes	33,822	21,182	55,004
20	2	22	Enablers and Support to Key Relationships	0	0	0
(34,371)	0	(34,371)	Public Health Grant	(33,524)	0	(33,524)
0	0	0	Better Care Funding Income	(34,501)	0	(34,501)
44,030	(35,435)	8,595	Other Budgets	47,770	(48,079)	(309)
(2,443)	36,900	34,457	Schools Budgets	(7,395)	44,604	37,209
441,943	**75,785**	**517,728**	**Net Cost of Services**	**422,413**	**98,831**	**521,244**
(450,014)	(37,033)	(487,046)	Other Income & Expenditure	(440,282)	(35,488)	(475,769)
(8,071)	**38,752**	**30,682**	**(Surplus)/Deficit**	**(17,869)**	**63,343**	**45,474**
8,371			Movement to/(from) Earmarked Reserves	**17,969**		
300			**(Surplus) or Deficit on General Fund Balance**	**100**		
15,600			Opening General Fund balance at 1 April 2017	15,300		
(300)			Less Deficit on General Fund in Year	(100)		
15,300			**Closing General Fund balance at 31 March 2018**	**15,200**		

Lincolnshire County Council: Comprehensive Income and Expenditure Statement for the period 1 April 2017 to 31 March 2018

2016/17					2017/18		
Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		Note	£'000	£'000	£'000
			Cost of Services				
5,604	(53)	5,551	Readiness for School		6,985	(156)	6,829
39,377	(3,898)	35,479	Learn and Achieve		37,446	(3,662)	33,784
9,889	(3,876)	6,013	Readiness for Adult Life		12,395	(5,537)	6,858
76,778	(11,228)	65,550	Children are Safe and Healthy		79,955	(12,986)	66,969
3,205	(592)	2,613	Adult Safeguarding		4,554	(168)	4,386
148,043	(54,898)	93,145	Adult Frailty and Long Term Conditions		160,574	(46,543)	114,031
2,345	(117)	2,228	Carers		2,074	(63)	2,011
78,055	(25,901)	52,154	Adult Specialties		86,629	(23,230)	63,399
38,907	(7,657)	31,250	Wellbeing		33,796	(6,528)	27,268
14,009	(566)	13,443	Community Resilience and Assets		12,573	(741)	11,832
96,141	(10,090)	86,051	Sustaining and Developing Prosperity through Infrastructure		98,221	(13,597)	84,624
35,925	(1,920)	34,005	Protecting and Sustaining the Environment		32,630	(1,490)	31,140
8,109	(5,341)	2,768	Sustaining and Growing Business and the Economy		6,889	(4,499)	2,390
36,157	(5,931)	30,226	Protecting the Public		39,636	(6,885)	32,751
8,164	(601)	7,563	How we do our Business		9,992	(899)	9,093
47,240	(6,255)	40,985	Enablers and Support to Council's Outcomes		59,070	(4,066)	55,004
87	(65)	22	Enablers and Support to Key Relationships		59	(59)	0
0	(34,371)	(34,371)	Public Health Grant		0	(33,524)	(33,524)
0	0	0	Better Care Funding		0	(34,501)	(34,501)
12,636	(4,041)	8,595	Other Budgets		4,199	(4,508)	(309)
322,458	(288,000)	34,458	Schools Budgets		331,883	(294,674)	37,209
983,128	**(465,402)**	**517,727**	**Cost of Services**		**1,019,560**	**(498,316)**	**521,244**
25,322	0	25,322	Other Operating Expenditure	(11)	42,126	-	42,126
44,143	(4,308)	39,835	Financing and Investment Income and Expenditure	(12)	37,541	(4,308)	33,233
0	0	0	Surplus or Deficit on Discontinued Operations	(30)	0	0	0
0	(552,204)	(552,204)	Taxation and Non-Specific Grant Income	(13, 38)	0	(551,129)	(551,129)
1,052,593	**(1,021,914)**	**30,680**	**(Surplus)/Deficit on Provision of Services**		**1,099,227**	**(1,053,753)**	**45,474**
		(19,604)	(Surplus)/Deficit on Revaluation of Property, Plant and Equipment Assets	(25)			(836)
		(293)	(Surplus)/Deficit on Revaluation of Available for Sale Financial Assets				(72)
		94,111	Remeasurement of the Net Defined Benefit Liability/(Asset)	(25)			(32,873)
		292	Other Recognisable (Gains)/ Losses				(207)
		74,506	**Other Comprehensive Income and Expenditure**				**(33,989)**
		105,186	**Total Comprehensive Income and Expenditure**				**11,485**

Lincolnshire County Council: Movement in Reserves Statement for the period 1 April 2017 to 31 March 2018

2017/18		Total Usable Reserves					
		General Fund Balance	Earmarked GF Reserves (Note 10)	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 2017		**15,300**	**158,829**	**92,396**	266,525	**(7,240)**	259,285
Movement in Reserves during 2017/18							
Total Comprehensive Income and Expenditure		(45,474)	207	-	(45,267)	33,781	(11,486)
Adjustments between accounting basis & funding basis under regulations	(9)	63,343	0	5,001	68,344	(68,344)	0
Transfers between Reserves		(17,969)	17,969		-	-	-
Increase/(Decrease) in Year 2017/18		**(100)**	**18,176**	**5,001**	**23,077**	**(34,562)**	**(11,485)**
Balance as at 31 March 2018 Carried Forward		**15,200**	**177,005**	**97,397**	**289,602**	**(41,802)**	**247,800**

2016/17		Total Usable Reserves					
		General Fund Balance	Earmarked GF Reserves (Note 10)	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 2016		**15,600**	**150,150**	**62,677**	228,427	**136,048**	364,475
Movement in Reserves during 2015-16							
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**

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 2018

31 March 2017 £'000		Note	31 March 2018 £'000
1,235,128	Property, Plant and Equipment	(14)	1,205,980
65,101	Heritage Assets	(15)	63,185
101,175	Investment Property	(16)	107,661
11,994	Intangible Assets	(17)	11,259
5,214	Long Term Investments	(18)	15,014
9,289	Long Term Debtors	(19)	9,318
1,427,901	**Long Term Assets**		**1,412,417**
250,846	Short Term Investments	(18)	243,125
10,156	Assets Held for Sale	(20)	9,461
1,956	Inventories		636
64,939	Short Term Debtors	(19)	70,171
327,897	**Current Assets**		**323,393**
(18,467)	Cash and Cash Equivalents	(29)	(32,768)
(19,525)	Short Term Borrowing	(18)	(39,525)
(94,883)	Short Term Creditors	(21)	(77,572)
(8,090)	Short Term Provisions	(22)	(6,389)
(140,965)	**Current Liabilities**		**(156,254)**
(6,941)	Long Term Creditors	(21)	(7,219)
(3,629)	Long Term Provisions	(22)	(3,873)
(462,599)	Long Term Borrowing	(18)	(426,923)
(882,379)	Other Long Term Liabilities	(23)	(893,741)
(1,355,548)	**Long Term Liabilities**		**(1,331,756)**
259,285	**Net Assets**		**247,800**
266,525	Usable Reserves	(24)	289,602
(7,240)	Unusable Reserves	(25)	(41,802)
259,285	**Total Reserves**		**247,800**

Lincolnshire County Council: Cashflow Statement as at 31 March 2018

31 March 2017 £'000		31 March 2018 £'000
30,680	Net (surplus) or deficit on the provision of services	45,474
(116,466)	Adjustments to net surplus or deficit on the provision of services for non - cash movements	(150,802)
105,461	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	112,225
19,675	**Net cash flow from Operating Activities (Note 26)**	**6,897**
(18,117)	Investing Activities (Note 27)	(8,748)
4,080	Financing Activities (Note 28)	16,152
5,638	**Net (increase) or decrease in cash and cash equivalents**	**14,301**
12,829	Cash and cash equivalents as at 1 April (Note 29)	18,467
18,467	**Cash and cash equivalents as at 31 March**	**32,768**

Notes to the Financial Statements.

Due to rounding figures to the nearest £000, some figures shown within the proceeding notes may slightly differ when compared to the main Financial Statements or other Notes to the Accounts. The difference in rounding would not be in excess of £5,000 in any single case.

Note 1. Statement of Accounting Policies.

- General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year 2017-18 and the position at the year-end 31 March 2018. 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 2017-18 and Service Reporting Code of Practice 2017-18**,** 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 for their service potential, 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 for 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. This is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Council use the assumptions that the market participants, i.e. buyers and sellers in the principal or most advantageous market, would use when pricing an asset or liability under current market conditions, including assumption about risk. Therefore, the Council's reasons for holding a surplus asset are not relevant when measuring its fair value;
- 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 the year the asset becomes available for use. The charge is for 6 months in the first year, for twelve months thereafter and ceases when the asset has been derecognised. There is full year's depreciation in the year of disposal.

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

Component Accounting for Property, Plant and Equipment

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

- 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).

Disposal of Property, Plant and Equipment

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

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

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

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 Local Government Finance Settlement for 2018-19 announced a continuation of these rules for a further 3 financial years that begin on 1 April 2019, 2020 and 2021.

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. The charge is for 6 months in the first year, for twelve months thereafter and ceases at the date that the asset is derecognised. There is a full year's amortisation in the year of disposal. Amortisation is charged to the relevant service area in the Comprehensive Income and Expenditure Statement. The useful lives for intangible assets are between 3 and 7 years. Useful asset lives are determined by the ICT budget holder and reviewed and updated annually.

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

- 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. The fair value of Investment Property held under a lease, is the lease interest in the asset. Investment Properties are subject to annual revaluations.

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.

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 for Disposal of Property, Plant and Equipment and 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:

- **Capital grants where no conditions are 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.

- **Capital grants where the conditions have not been met** 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.

- **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 Taxation and Non-specific Grant Income in 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 £25k for individual revenue items and £50k 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 £25k for individual revenue items and £50k 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

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

Cash Equivalents are 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.

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 £250k.

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.

- <u>Contingent Liabilities</u>

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.

- <u>Contingent Assets</u>

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.

- <u>Events after the Reporting Date</u>

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 period 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.

- <u>Recognition of Revenue (Income)</u>

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.

- <u>Exceptional Items</u>

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.

- <u>Costs of Support Services</u>

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

- <u>Acquired and Discontinued Operations</u>

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 acquired and/or 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.

- <u>Value Added Tax (VAT)</u>

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.

- <u>Council Tax and Business Rates Income</u>

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

The Council Tax and Business Rates income is included in the Comprehensive Income and Expenditure Statement on an accruals basis and includes the precept for the year plus the Council's share of Collection Fund surpluses and deficits from the billing Authorities.

The difference between the income reported in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund, shall be taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

The year-end Balance Sheet includes the Council's share of debtors (arrears and collection fund surpluses), creditors (prepayments, overpayments and collection fund deficits) and provisions (business rate appeals).

- Reserves

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.

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

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).

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 employer's contributions payable to teachers' pensions in the year are treated as expenditure on the Schools' service line in the Comprehensive Income and Expenditure Statement.
- National Health Service Pension Scheme (NHSPS): This is a notional funded scheme administered national by NHS Pensions on behalf of the Department of Health (DoH). The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. The employer's contributions payable to the National Health Service Pension Scheme in the year are treated as expenditure in the Wellbeing and Children's service lines 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 2006 & 1992 Fire-fighters schemes for new Fire-fighters. The 2015, 2006 and 1992 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 the three funds, 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 the funds at the end of each year will be repaid back to the Department for Communities and Local Government (DCLG). Contributions in respect of ill health retirements are still the responsibility of the Council.
- Local Government Pension Scheme (LGPS): Other employees are eligible to join the LGPS. The Council pays contributions to a funded pension scheme from which employee pension benefits are paid out.

The pension costs included in the Statement of Accounts in respect of both the LGPS and the FPS have been prepared in accordance with IAS 19 Employee Benefits. The pension costs in respect of both the LGPS and FPS have been estimated by the Pension Fund actuary adviser and have incorporated an actual valuation of the accrued pension liabilities attributable to the Council as the scheme employer.

The Local Government Pension Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% to 2.7% (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; and
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the 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.

- Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves

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

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

Non-Current Assets - Schools non-current assets will be accounted for under IAS 16 Property, Plant and Equipment. The standard defines non-current assets as "a resource controlled by the Council as a result of a past event and from which future economic benefits or service potential 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.

Assets and Liabilities - All assets and liabilities, excluding non-current assets which are covered above, relating to maintained schools are included within the Council's Balance Sheet.

Reserves - The Council maintains specific earmarked reserves for schools balances. At year end balances from dedicated schools budgets, including those held by schools under a scheme of delegation, are transferred into the reserve to be carried forward for each school to use in the next financial year. This ensures that any unspent balances at the end of the financial year are earmarked for use by those schools as required by the Council's scheme for financing schools approved by the Secretary of State for Education.

- 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 £10.000m 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

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.

Financial Assets. Financial Assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

i) Loans and Receivables

Loans and Receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the majority of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has a number of loans at less than market rates (soft loans) for the purpose of service objectives. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be forgone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

The Council has set a £50k de minimis limit to the value of soft loans or the discounting of interest rates. Below this amount the above accounting treatment for soft loans is not applied and the soft loans are shown in the accounts at their carrying value.

Where assets are identified as impaired, because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement or the relevant service (for receivables specific to that service). The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.
Any gains and losses that arise on the derecognition of the assets are credited/debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

ii) Available-for-sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis; and
- Equity shares with no quoted market prices – independent appraisal of company valuations.

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.

- <u>Fair Value Measurement</u>

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

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

When measuring the fair value, the Council would use the assumptions of market participants when pricing the asset or liability whilst acting in their economic best interest. On fair value measurement, the Council takes into account the market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses the appropriate valuation techniques appropriate for the asset, maximising the use of relevant observable inputs and minimising unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, as follows:

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

Note 2. Accounting Standards that have been issued but have not yet been adopted.

The Council is required to disclose information relating to the impact of changes in accounting standards on the financial statements as a result of new standards that have been issued, but are not yet required to be adopted.

In the 2017-18 accounts, the Council is required to disclose the following changes to Accounting Standards which will have an impact on the Council's accounts in 2018-19. The following standards are being introduced by the 2018-19 Code:

- IFRS 9 Financial Instruments

The way financial instruments are classified and measured will change in accordance with this accounting standard. Any changes in the previous carrying amount (2017-18) and the carrying amount at the beginning of 2018-19 financial year will be adjusted as an opening adjustment to the reserves. This will be presented in the Movement in Reserves Statement in 2018-19. The impact in the Council's accounts in 2018-19 due to this adjustment is not thought to be significant due to the nature of the Financial Instruments held.

- IFRS 15 Revenue from Contracts with Customers

This standard will require the Council to recognise revenue in such a way that it represents the transfer of promised goods or services to the service recipients (customer) in an amount that reflects the consideration to which the authority expects to be entitled in exchange for goods or services. It is not expected that this will have a substantial effect as the Council has a predictable income streams.

Note 3. Critical judgements in applying accounting policies.- updated

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:

<u>Government Funding</u>

There is a high degree of uncertainty about future levels of funding for local government, particularly beyond March 2019. 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.

<u>PFI Contract- Focus Education Lincolnshire</u>

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 42 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.

<u>Energy from Waste Plant</u>

The Council has reviewed the arrangements in place for the construction and operation of the Energy from Waste Plant. There are elements of the Energy from Waste contract that meet the definition of a service concession arrangement in that the contract is design, build and operate. However, the land, building and equipment assets associated with the plant have been purchased outright by the Council (and financed through Prudential Borrowing), as such these have been recognised as assets of the Council's in the balance sheet.

<u>School Assets</u>

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 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 Schools and Foundation Schools (which are not controlled by a separate trust) should be included on the Council's balance sheet. Voluntary Controlled and Voluntary Aided Schools where the assets are generally controlled by a Trust (often the Diocese) should not be on the Council's balance sheet.

<u>Investment Properties</u>

The Council has assessed its portfolio of property assets and has identified a small number of assets held for investment purposes (including the Council's County Farms Estate). These assets are held purely for the purposes of capital appreciation or income generation, or both, and have been accounted for under the Council's policy on investment properties. Further details are contained in Note 16 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 41 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 2018 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, Asset Lives and Derecognition)	- 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. During derecognition the value of the replacement is used as a proxy to index back to original cost. This will lead to changes in asset values, thereby affecting the depreciation charges 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 2017-18 is £81.733m (2016-17 was £84.706m) and the gross book value of these assets is £1,789m (2016-17 £1,847m). The derecognition charge for PP&E in 2017-18 is £3.057m (2016-17 was £1.631m). Note 1 on accounting policies and Note 14 Property, Plant and Equipment, details the current policy on valuation methods, asset lives, depreciation and derecognition 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 2017-18 the Council's actuaries advised that the net pension liability had increased to £882.708m (2016-17 £833.625m). Details of the pension fund liabilities are set out in Note 44 Defined Benefit Pension Schemes.

Item	Uncertainties	Effect if actual results differ from assumptions
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 19 Debtors and Note 21 Creditors respectively.	The most significant accrual as at 31 March 2018 relates to the employee leave earned but not taken £5.128m (£5.080m in 2016-17).
Fair Value Measurements	- When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. 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 Council's provisions are set out in Note 22.	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.
Provisions for Bad and Doubtful Debt	- The Council's accounts contain an estimate of unrecoverable debt relating to some debts over twelve months old. These are annually reviewed and an assumption is made base on the possible default on payment by the debtor from the current information available.	There are 2 types of provisions made, one for Adult Social Care and one for other debtors. The Adult Social Care debtors are reviewed and assumptions are made on the collectability of the debt. Most of these relate to property court cases, which are complex, and the outcome of these cases may be significantly different from the assumptions made. This is also true for some other debts of material value that been provided for. The amount recovered by the Council may be higher than previously assumed as this depends on the settlement agreed with the debtor, which is sometimes affected by their financial situation at the time of settlement.

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 2015 (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 (31 May 2018) 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 2017-18 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 2017-18 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 between Funding and Accounting Basis 2016/17					Adjustments between Funding and Accounting Basis 2017/18			
Adjustments for Capital Purposes	Net change for the Pension Adjustments	Other Differences	Total Adjustments	Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pension Adjustments	Other Differences	Total Adjustments
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
				COMMISSIONING STRATEGIES				
423	43	(4)	462	Readiness for School	1,890	205	0	2,095
26	227	21	274	Learn & Achieve	19	861	2	882
815	122	(5)	932	Readiness for Adult Life	633	633	1	1,267
741	892	51	1,684	Children are Safe & Healthy	1,195	4,198	(312)	5,081
0	40	2	42	Adult Safeguarding	0	295	0	295
(1,505)	512	41	(952)	Adult Frailty & Long Term Conditions	380	2,083	7	2,470
0	5	(2)	3	Carers	0	8	0	8
531	139	5	675	Adult Specialties	320	635	1	956
269	222	(6)	485	Wellbeing	183	224	(1)	406
1,789	105	(18)	1,876	Community Resilience & Assets	1,191	451	2	1,644
40,891	577	(1)	41,467	Sustaining & Developing Prosperity Through Infrastructure	43,107	2,274	249	45,630
11,621	143	(628)	11,136	Protecting & Sustaining the Environment	9,004	412	(633)	8,783
1,521	51	(15)	1,557	Sustaining & Growing Business & the Economy	1,468	233	(8)	1,693
6,989	262	(59)	7,192	Protecting The Public	5,747	3,235	1	8,983
1	207	(449)	(241)	How We Do Our Business	0	931	0	931
5,114	966	1,644	7,724	Enablers & Support To Council's Outcomes	15,676	3,840	1,666	21,182
0	2	0	2	Enablers & Support To Key Relationships	0	0	0	0
0	0	0	0	Public Health Grant	0	0	0	0
0	0	0	0	Better Care Funding Income	0	0	0	0
5,883	(2,465)	(38,853)	(35,435)	Other Budgets	1,897	(10,511)	(39,465)	(48,079)
36,239	2,760	(2,099)	36,900	Schools Budgets	35,204	11,922	(2,522)	44,604
111,348	**4,810**	**(40,374)**	**75,784**	**Net Cost of Services**	**117,914**	**21,929**	**(41,012)**	**98,831**
(79,574)	26,223	16,317	(37,033)	Other Income and Expenditure from the Expenditure and Funding Analysis	(69,528)	22,929	11,111	(35,488)
31,774	**31,033**	**(24,057)**	**38,750**	**Difference between General Fund surplus and deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services**	**48,386**	**44,858**	**(29,901)**	**63,343**

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 CI&ES.

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	
	2016/17	2017/18
	£'000	£'000
COMMISSIONING STRATEGIES		
Readiness for School	(53)	(156)
Learn & Achieve	(3,898)	(3,662)
Readiness for Adult Life	(3,876)	(5,537)
Children are Safe & Healthy	(11,228)	(12,987)
Adult Safeguarding	(592)	(168)
Adult Frailty & Long Term Conditions	(50,026)	(41,256)
Carers	(117)	(63)
Adult Specialties	(25,901)	(23,230)
Wellbeing	(7,657)	(6,528)
Community Resilience & Assets	(566)	(742)
Sustaining & Developing Prosperity Through Infrastructure	(10,092)	(13,845)
Protecting & Sustaining the Environment	(1,920)	(1,491)
Sustaining & Growing Business & the Economy	(4,631)	(4,499)
Protecting The Public	(5,931)	(6,885)
How We Do Our Business	(601)	(899)
Enablers & Support To Council's Outcomes	(5,954)	(5,355)
Enablers & Support To Key Relationships	(65)	(60)
Public Health Grant	(34,371)	(33,524)
Better Care Funding	0	(34,501)
Other Budgets	(5,892)	(6,146)
Schools Budgets	(286,852)	(294,674)
Total Income Analysed on a Segmental Basis	**(460,223)**	**(496,208)**

Note 8. Expenditure and Income Analysed by Nature.

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

	2016/17	2017/18
	£'000	£'000
Expenditure		
Employee benefits expenses	356,593	370,956
Other service expenses	548,823	572,649
Depreciation, amortisation and impairment	101,140	93,284
Interest payments	20,828	20,254
Precepts and Levies	1,089	1,087
Gain on the disposal of assets	24,121	40,998
Total expenditure	**1,052,594**	**1,099,228**
Income		
Fees, charges and other service income	(69,407)	(149,990)
Interest and investment income	(1,865)	(1,886)
Income from Council Tax, Non-domestic Rates	(354,437)	(370,796)
Government Grants and Contributions	(596,205)	(531,082)
Total income	**(1,021,914)**	**(1,053,754)**
Surplus or Deficit on the Provision of Services	**30,680**	**45,474**

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:

<u>General Fund Balance</u>

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

<u>Capital Receipts Reserve</u>

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.

<u>Capital Grants Unapplied</u>

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.

		2017/18		
		Usable Reserves		
	Note	General Fund Balance £'000	Capital Grants Unapplied £'000	Movements in Unusable Reserves £'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	(44)	(84,812)	0	84,812
Employer's pensions contributions and direct payments to pensioners payable in the year		39,956	0	(39,956)
Financial Instruments (transferred to (or from) the Financial Instruments Adjustment Account):		(8)	0	8
Council Tax and Business Rates (transferred to (or from) the Collection Fund Adjustment Account):		278	0	(278)
Holiday Pay (transferred to (or from) the Accumulated Absences Account):		(48)	0	48

	Note	2017/18		
		Usable Reserves		Movements in Unusable Reserves £'000
		General Fund Balance £'000	Capital Grants Unapplied £'000	
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		(81,773)	0	81,773
Revaluation losses on Property Plant and Equipment		(8,975)	0	8,975
Revaluation losses on Heritage Assets		0		0
Revaluation losses on Held for Sale Assets		(40)	0	40
Movements in the market value of Investment Properties		6,448	0	(6,448)
Amortisation of intangible assets		(2,496)	0	2,496
Capital grants and contributions applied		65,252	0	(65,252)
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)		(23,810)	0	23,810
Amounts of Non Current Assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES		(40,998)	0	40,998
Total Adjustments to Revenue Resources		**(131,027)**	**0**	**131,027**
Adjustments between Revenue and Capital Resources				
Statutory provision for the repayment of debt (transferred to (or from) the Capital Adjustment Account):		17,737	0	(17,737)
Capital expenditure charged against the General Fund (transferred to (or from) the Capital Adjustment Account):		4,632	0	(4,632)
Total Adjustments between Revenue and Capital Resources		**22,369**	**0**	**(22,369)**
Adjustments to Capital Resources				
Capital grants and contributions unapplied credited to the CI&ES		45,315	(45,315)	0
Application of grants to capital financing transferred to the Capital Adjustment Account		0	40,314	(40,314)
Total Adjustments to Capital Resources		**45,315**	**(5,001)**	**(40,314)**
Total Adjustments		**(63,343)**	**(5,001)**	**68,344**

CI&ES = Comprehensive Income and Expenditure Statement

	Note	2016/17		
		Usable Reserves		
		General Fund Balance £'000	Capital Grants Unapplied £'000	Movements in Unusable Reserves £'000
Adjustments to Revenue Resources				
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	(44)	(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)
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**
Adjustments between Revenue and Capital Resources				
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)**
Adjustments to Capital Resources				
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**

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Note 10. Transfer to/from earmarked reserves.

Balance at 1 April 2016 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2017 £'000		Balance at 1 April 2017 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2018 £'000
26,602	12,868	(15,075)	24,395	**Balances from dedicated schools budget including those held by schools under a scheme of delegation**	24,395	3,848	(15,703)	12,540
				Other Earmarked Reserves:				
4,295	3,144	(4,295)	3,144	Other Services	3,144	0	(3,144)	0
0	0	0	0	Earmarked Reserves - Holding Code	0	44,727	0	44,727
1,000	-	(500)	500	Adverse Weather	500	0	(500)	0
6,395	-	(1,908)	4,487	Insurance	4,487	0	0	4,487
1,143	108	(148)	1,103	Schools Sickness Insurance	1,103	0	0	1,103
1,154	7	(247)	914	Health and Well Being	914	0	(232)	682
2,196	951	(537)	2,610	Shared Services Reserves (Legal & Procurement)	2,610	0	(730)	1,880
20,165	17,870	(20,165)	17,870	Financial Volatility - Budget Shortfall	17,870	5,076	(17,870)	5,076
23,665	26,543	(17,870)	32,338	Financial volatility	32,338	0	(5,076)	27,262
1,709	-	(909)	800	Support Services contract	800	0	(435)	365
1,000	-	(1,000)	0	Waste Management	0	0	0	0
0	1,000	0	1,000	Contract Development	1,000	0	0	1,000
0	2,000	0	2,000	Highways Advanced Design	2,000	0	(237)	1,763
0	5,000	0	5,000	Environmental Improvement and Sustainability	5,000	0	(5,000)	0
11,533	2,055	(1,613)	11,975	Other Service Earmarked Reserves	11,975	6,852	(1,708)	17,119
				Revenue Grants & Contributions Unapplied Reserves:				
7,631	7,011	(7,200)	7,442	Schools	7,442	6,704	(7,018)	7,128
6,457	2,736	(2,582)	6,611	Children Services	6,611	4,311	(345)	10,577
26,678	6,637	(3,360)	29,955	Adult Care and Communtiy Wellbeing	29,955	10,713	(4,638)	36,030
6,907	564	(2,204)	5,267	Environment and Economy	5,267	1,298	(2,575)	3,990
1,527	26	(212)	1,341	Finance and Public Protection	1,341	616	(744)	1,213
92	-	(15)	77	Chief Executive	77	0	(15)	62
150,149	**88,520**	**(79,840)**	**158,829**	**Total**	**158,829**	**84,146**	**(65,970)**	**177,005**

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 2017-18.

The **balance held by schools under the scheme of delegation**, represents the net underspending of school budget shares in 2017-18. It is earmarked for use by those schools as required by the Lincolnshire County Council Scheme for financing Schools approved by the Secretary of State for Education.

The **Other Services Reserve** represents net under and overspendings in 2017-18 on services other than schools (i.e. Children's Services, Adult Care, Public Health, Communities, and Corporate Services) which will be carried forward for use in 2018-19.

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 **Shared Services Reserve (Legal Services and Procurement)** represents what amounts these services carried forward from 2017-18. The Legal Services Management Board will agree on what proportion of the surplus should be distributed to the shared service partners in 2017-18. The Procurement Reserve represents Procurement Lincolnshire's underspend at the end of 2017-18. The underspend relates to both Council money and partners money. This amount will be carried into 2018-19 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 **Contract Development Reserve** provides the Council with flexibility to develop and manage contract processes going forwards.

The **Highways Advanced Design Reserve** invests in feasibility work which will keep the development of Lincolnshire's road network a priority and facilitate economic growth projects.

The **Environmental Improvement and Sustainability Reserve** to allow the Council to fund and contribute to a number of environmental and highways schemes across the County for the life of the current Council.

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.

2016/17 £'000		2017/18 £'000
1,089	Precepts paid to non-principal authorities and levies	1,087
24,121	Gain or Loss on the disposal of non-current assets	40,998
112	Revaluation losses on assets held for sale	40
25,322	**TOTAL**	**42,125**

Note 12. Financing and Investment Income and Expenditure.

2015-16 £'000		2017/18 £'000
20,828	Interest payable and similar charges	20,295
26,223	Net Interest on the net defined benefit liability (asset)	22,929
(1,865)	Interest receivable and similar income	(1,886)
(5,350)	Income, expenditure and changes in the fair values of investment properties	(8,105)
39,836	**TOTAL**	**33,233**

Note 13. Taxation and Non Specific Grant Income.

2016/17 £'000		2017/18 £'000
(251,348)	Council tax income	(264,353)
(103,089)	Business Rates - Districts	(106,443)
	Non-ring-fenced government grants:	
(70,351)	Revenue Support Grant	(48,292)
(6,892)	Rural Service Delivery Grant	(5,565)
(4,899)	Education Services Grant	(1,215)
(4,519)	New Homes Bonus Grant & Returned Top slice	(3,550)
0	Adult Social Care Support Grant 2017/18	(3,383)
(2,458)	Section 31 Grant - Business Rates	(2,773)
(1,755)	Independent Living Fund Grant	(1,698)
(1,501)	Partners in Practice S31 Grant	(1,438)
(1,586)	Other Non Specific Grant	(1,852)
(103,806)	Capital grants and contributions (Note 38)	(110,567)
(552,204)	**TOTAL**	**(551,129)**

Note 14. Property, Plant and Equipment.

a) Movement on Non-Current Assets

Movement in Property, Plant & Equipment As at 31 March 2018	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 2017	654,327	106,481	855,474	4,902	37,597	**1,658,781**	15,357
Additions	16,246	3,706	27,866	0	50,428	**98,246**	2
Donations	0	0	0	0	0	**0**	0
Revaluation Increase to RR	11,558	0	0	651	0	**12,209**	276
Revaluation Decrease to RR	(35,870)	(603)	0	(157)	0	**(36,630)**	(951)
Revaluation Increase/(Decrease) to SDPS	(11,570)	(2,390)	0	(89)	0	**(14,049)**	0
Derecognition - Disposals	(35,111)	(3,184)	(15,757)	(816)	0	**(54,868)**	(113)
Derecognition to RR	402	0	0	0	0	**402**	0
Derecognition to SDPS	(3,536)	0	0	0	0	**(3,536)**	0
Reclassified to/from Held for Sale	0	0	0	(1,324)	0	**(1,324)**	0
Reclassified to/from Investment Property	(63)	0	0	0	0	**(63)**	0
Reclassifications - Other	4,779	20	19,927	1,071	(25,797)	**0**	0
At 31 March 2018	**601,162**	**104,030**	**887,510**	**4,238**	**62,228**	**1,659,168**	**14,571**
Depreciation and Impairment							
At 1 April 2017	**(20,526)**	**(25,224)**	**(377,832)**	**(71)**	**0**	**(423,653)**	**(625)**
Depreciation Charge for 2017/18	(28,300)	(9,044)	(44,389)	(39)	0	**(81,772)**	(382)
Depreciation written out on upward revaluation	4,547	0	0	2	0	**4,549**	0
Depreciation written out on downward revaluation	20,124	2,563	0	0	0	**22,687**	364
Depreciation written out to the SDPS	3,403	2,123	0	23	0	**5,549**	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	607	2,974	15,757	36	0	**19,374**	0
Derecognition to RR	0	0	0	0	0	**0**	0
Derecognition - SDPS	76	0	0	0	0	**76**	0
Reclassifications to Asset Held for Sale	0	0	0	0	0	**0**	0
Reclassifications - Other	0	0	0	0	0	**0**	0
At 31 March 2018	**(20,069)**	**(26,606)**	**(406,464)**	**(49)**	**0**	**(453,188)**	**(643)**
Net Book Value							
At 31 March 2018	**581,093**	**77,424**	**481,046**	**4,189**	**62,228**	**1,205,980**	**13,928**
At 1 April 2017	633,801	81,257	477,642	4,831	37,597	1,235,127	14,732

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

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 (*1)	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
Revaluation Increase to RR	14,746	0	0	3,150	0	**17,896**	0
Revaluation Decrease to RR	(20,322)	(556)	0	(921)	0	**(21,799)**	(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
As 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
As at 31 March 2017	**(20,526)**	**(25,224)**	**(377,832)**	**(71)**	**0**	**(423,653)**	**(625)**
Net Book Value							
As at 31 March 2017	**633,801**	**81,257**	**477,642**	**4,831**	**37,597**	**1,235,128**	**14,732**
As at 1 April 2016	657,815	85,680	474,763	15,609	35,431	1,269,297	20,696

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 2018, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018-19 and future years budgeted to cost £94.735m.

Detail	Gross £'000
Lincoln Eastern Bypass - a major scheme to improve the flow of traffic around Lincoln City Centre	71,300
South Park Development of New Police, Fire and Ambulance Station on South Park Avenue, Lincoln	15,000
LCC/BT Broadband Contract (onlincolnshire)	8,435
	94,735

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:

Depreciated Replacement Cost (DRC) has been used where the asset is of a specialised nature, of where there is no evidence of market value or suitably comparable properties (e.g. schools).

Vehicles, Furniture and Equipment, Specialist Equipment, Infrastructure and Community Assets are not subject to revaluation. They are reported at the cost of construction or purchase price, where this information is not available the assets are carried at a nominal amount (e.g. for some Community Assets).

Non-Current Assets carried at historic cost	2016/17 £'000	2017/18 £'000
Vehicles, Plant, Furniture and Equipment	81,257	77,424
Infrastructure	477,642	481,046
Assets Under Construction	37,598	62,228
Total Cost of Valuation	**596,497**	**620,698**

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 Local Democracy area, under 'How the council works'.

(https://www.lincolnshire.gov.uk/local-democracy/how-the-council-works/key-plans-and-strategies/heritage-libraries-and-community-grants-policies/54119.article)

"Collections Development Policy Museums, Archives and Local Studies 2013".

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 2017	5,020	20,081	40,000	65,101
Additions - In House construction/Improvement	91	426	0	516
Revaluations recognised in the Revaluation Reserve	(1,956)	0		(1,956)
Revaluations recognised in the CI&ES	(476)	0	0	(476)
At 31 March 2018	**2,679**	**20,507**	**40,000**	**63,185**
Cost or Valuation				
Balance at 1 April 2016	5,000	19,989	42,000	66,989
Additions - In House construction/Improvement	20	92	0	112
Revaluations recognised in the Revaluation Reserve	0	0	(2,000)	(2,000)
Revaluations recognised in the CI&ES	0	0	0	0
At 31 March 2017	**5,020**	**20,081**	**40,000**	**65,101**

CI&ES = Comprehensive Income and Expenditure Statement

b) Total Heritage Assets Five Year Summary of Transactions

	2013-14	2014-15	2015-16	2016-17	2017/18
	£000	£000	£000	£000	£000
Balance at Start of the Year	36,356	36,443	52,625	66,989	65,101
Cost of Acquisitions	7	8,003	27	112	516
Revaluations	(38)	-	14,337	(2,000)	(2,432)
Carrying Amount of Disposals/Proceeds	-	-	-	-	-
Reclassifications	118	8,179	-	-	-
Total at Year End	**36,443**	**52,625**	**66,989**	**65,101**	**63,185**

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	
	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000
Rental Income from Investment Property	(2,410)	(2,365)	(33)	(57)
Direct Operating Expenses arising from Investment Property	732	747	56	18
Net (Income)/Expenditure	**(1,678)**	**(1,619)**	**23**	**(39)**

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	
	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000
Balance at 1 April	95,827	99,650	680	1,525
Additions - Acquisitions (Purchase and Construction)	397	450	2	0
Additions - Subsequent expenditure	0	0	0	0
Disposals	(440)	(477)	0	0
Net Gains/(Losses) from fair value adjustments	3,698	6,348	38	102
Transfers to/from Property, Plant and Equipment	168	0	806	63
Balance at 31 March	**99,650**	**105,971**	**1,525**	**1,690**

Nature of asset holding	County Farm Estates		Other General Fund Properties	
	2016/17	2017/18	2016/17	2017/18
Owned	99,526	105,852	1,525	1,690
Leased	124	119	0	0
Balance at 31 March	**99,650**	**105,971**	**1,525**	**1,690**

c) Revaluations

The Council revalues investment properties annually to ensure that they are carried at fair value. All valuations are carried out by the Council's appointed Valuers - Savils (L&P Ltd) for the County Farms Estate and Kier Services 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

Valuations are prepared taking into account the following guidance:

- RICS Valuation – Global Standards 2017 incorporating the IVSC International Valuation Standards (the RICS "Red Book"), issued June 2017, effective from 1st July 2017,
- Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, published by Chartered Institute of Public Finance and Accountancy (CIPFA).

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 2017			
- Gross carrying amount	22,809	2,682	25,490
- Accumulated amortisation	(12,527)	(969)	(13,496)
Net carrying amount at 1 April 2017	**10,282**	**1,713**	**11,994**
Additions:			
- Purchases	1,737	24	1,761
Asset classified as held for sale	0	0	0
Other disposals	0	0	0
Amortisation for the period	(2,231)	(265)	(2,496)
Other changes - reclassifications	0	0	0
Net carrying amount at 31 March 2018	**9,788**	**1,472**	**11,259**
Comprising:			
- Gross carrying amounts	24,546	2,692	27,238
- Accumulated amortisation	(14,758)	(1,220)	(15,978)
Balance Sheet amount at 31 March 2018	**9,788**	**1,472**	**11,260**

b. Depreciation and Asset Lives

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major classes of intangible assets used by the Council are:

	Useful Economic Life (Years)	
	From	To
- Software	1	10
- Software Licenses	1	7
- Other Intangibles	4	4

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £2.496m (£1.930m in 2016-17) was charged to revenue in 2017-18.

c. Significant Capitalised Software

At 31 March 2017, the County Council hasn't capitalised material items of software during 2017-18.

d. Capital Commitments

At 1 April 2018, the Council has entered into contracts for future years budgeted to cost £8.435m. The major commitment is:

Detail	Gross £'000
Superfast Broadband - A programme to install high speed internet infrastructure in communities and businesses, particularly in rural areas.	8,435
TOTAL	**8,435**

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 2017	31 March 2018	31 March 2017	31 March 2018
	£'000	£'000	£'000	£'000
Borrowings				
Financial Liabilities At Amortised Cost	462,599	426,923	19,525	39,525
Financial Liabilities at Fair Value Through Profit and Loss	0	0	0	0
Total Borrowings	**462,599**	**426,923**	**19,525**	**39,525**
PFI & Finance Lease Liabilities				
PFI and Finance Lease Liabilities	11,654	11,033	0	0
Liabilities	**11,654**	**11,033**	**0**	**0**
Creditors & Other Long Term Liabilities				
Financial Liabilities Carried at Contract Amount	9,042	7,219	85,893	69,520
Total Creditors	**9,042**	**7,219**	**85,893**	**69,520**
Investments				
Loans and Receivables	5,200	15,000	199,020	173,175
Available for Sale Financial Assets	0	0	51,826	70,629
Unquoted Equity Investments At Cost	14	14	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0	0	0
Total Investments	**5,214**	**15,014**	**250,846**	**243,804**
Debtors				
Loans and Receivables	9,076	9,163	0	0
Financial Assets Carried at Contract Amount	0	0	53,485	45,669
Total Debtors	**9,076**	**9,163**	**53,485**	**45,669**

b. Financial Instruments Income, Expense, Gains or Losses

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

The Council's Financial Assets are predominantly loans and receivables valued at amortised cost; although it's investments held in Stable Net Asset Value Money Market Funds are classed as Available for Sale Financial Assets which are valued at fair value that equates to the carrying value, as 1 unit held in these funds = £1 fair value. Investments held in Certificate of Deposits or Bonds are also classed as Available for Sale which are also valued at fair value based on the prevailing price at 31st March 2018. 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:

	2016/17 £'000	2017/18 £'000
Unrealised Reduction in Fair Value - Available for Sale Financial Assets held at 31st March	**0**	**0**
Financial Liabilities At Amortised Cost	20,368	19,876
Financial Liabilities at Fair Value Through Profit and Loss	0	0
Total Interest Expense	**20,368**	**19,876**
Total Fee Expense	19	32
Total Expense in Surplus or Deficit on the Provision of Services	**20,387**	**19,908**
Unrealised Increase in Fair Value -Available for Sale Financial Assets held at 31st March	**(154)**	**(227)**
Loans and Receivables at Amortised Cost	(439)	(699)
Available for Sale Financial Assets	(951)	(690)
Unquoted Equity Investments At Cost	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0
Total Interest Income	**(1,390)**	**(1,389)**
Total Fee Income	0	0
Interest Received	**(1,390)**	**(1,389)**

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:

- For loans from the PWLB, equivalent borrowing rates available from the PWLB at 31 March 2018 have been applied to provide the fair value under the PWLB debt redemption procedures.
- For non PWLB loans and loans receivable prevailing benchmark market rates have been used to provide the fair value.
- No early repayment or impairment is recognised.
- Where an instrument has a maturity of less than 12 months (other than PWLB debt), or is a trade or other payable or receivable, the fair value is taken to be the principal outstanding or the billed amount.
- The fair value of trade and other payables and receivables, taken to be the invoiced or billed amount, are not shown in the table below.

The fair values calculated are as follows:

	31 March 2017		31 March 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB Debt (Long Term > 12 Months)	432,599	567,446	396,924	518,685
Non PWLB Debt (Long Term > 12 Months)	30,000	43,481	30,000	40,476
PWLB Debt (Short Term < 12 Months)	15,531	20,353	35,675	46,604
Non PWLB Debt (Short Term < 12 Months)	65	65	58	58
Long-Term Creditors & Other Long Term Liabilities	6,941	6,941	7,219	7,219
Total Financial Liabilities at Amortised Cost	**485,136**	**638,286**	**469,876**	**613,042**

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 2017 to 31 March 2018 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 2018. 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 £663,488k, some £98,199k 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 2017		31 March 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables (Long Term > 12 Months)	5,200	5,197	15,000	14,948
Loans and Receivables (Short Term < 12 Months)	199,020	199,020	172,725	172,725
Long-Term Debtors	9,076	9,076	9,318	9,318
Financial Assets at Amortised Cost	**213,296**	**213,293**	**197,043**	**196,991**

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 2017 Carrying Amount £000	31 March 2017 Fair Value £000	31 March 2018 Carrying Amount £000	31 March 2018 Fair Value £000
Certificates of Deposit	Level 1	28,500	28,595	47,000	47,215
Bonds	Level 1	10,132	10,191	5,433	5,445
Money Market Funds	Level 1	13,040	13,040	17,740	17,740
Available For Sale Financial Assets		**51,672**	**51,826**	**70,173**	**70,400**

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.

	Amount at 31 March 2017		Amount at 31 March 2018	
Deposits With Banks and Financial Institutions	**£'000**	**%**	**£'000**	**%**
AAA Rated Counterparties	13,040	5.10%	17,740	6.88%
AA Rated Counterparties	142,275	55.60%	144,775	56.13%
A Rated Counterparties	42,245	16.51%	30,000	11.63%
BBB+ Rated Counterparties (*1)	20,132	7.87%	32,433	12.58%
Other Counterparties (*2)	38,214	14.93%	32,964	12.78%
Total Investments	**255,906**	**100.00%**	**257,912**	**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 2018 can be analysed by age as follows:

Analysis of Debts by Age	Amount at 31 March 2017		Amount at 31 March 2018	
	£'000	%	£'000	%
Less than 3 months	2,985	39.03%	1,970	27.48%
3 to 6 months	631	8.25%	966	13.48%
6 months to 1 year	808	10.57%	1,020	14.23%
More then 1 year	3,223	42.15%	3,212	44.81%
Total Outstanding Debt	**7,647**	**100.00%**	**7,168**	**100.00%**

(iv) Liquidity Risk

The Council has ready access to borrowings from the Money Markets to cover any day-to-day cash flow need. The Public Works Loan Board provides access to longer-term funds; it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is, therefore, no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

(v) Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Long term risk to the Council relates to managing the exposure to replacing longer term financial instruments (debt and investments) as they mature.

The approved prudential indicator limits for the maturity structure of debt and the limits for investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategists address the main risks and the central treasury team address the operational risks within the approved parameters. These include:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs and that the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of the Council's debt and investments at the reporting date are shown in the table below:

Debt Outstanding- Financial	31 March 2017 £'000	31 March 2018 £'000
Less than one year	19,525	39,525
Between one and two years	35,675	14,521
Between two and five years	50,141	44,067
Between five and ten years	50,016	62,941
Between ten and fifteen years	38,218	16,845
Between fifteen and twenty-five	29,000	29,000
years	36,823	56,823
Between thirty-five and forty-five	194,726	184,726
Maturing in more than forty-five	28,000	18,000
Total	**482,124**	**466,448**

Investments Outstanding - Financial Assets	31 March 2017 £'000	31 March 2018 £'000
Less than one year	251,389	243,804
Between one and two years	5,200	15,000
Between two and three years	0	0
Maturing in more than three years	14	14
Total	**256,603**	**258,818**

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 £1.478m 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 2018 £'000**
Increase in interest payable on variable rate borrowings	(1)
Increase in interest receivable on variable rate investments	1,479
Impact on Income and Expenditure Account	**1,478**

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 2018 £'000	**Fair Value at 1% Higher £'000**	**Fair Value at 1% Lower £'000**
County Council	604,395	515,839	722,322
Schools	1,370	1,309	1,436
Long Term Fixed Borrowing:	**605,765**	**517,148**	**723,758**
Long Term Fixed Investments:	**14,948**	**14,775**	**15,123**

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 64 Fair Value of Assets and Liabilities Carried at Amortised Cost.

The impact on fair value of the Councils Available for Sale Investments, already carried on the Balance Sheet at fair value on 31 March 2018, 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 2018 £'000	**Fair Value at 1% Higher £'000**	**Fair Value at 1% Lower £'000**
Available For Sale Investments	70,400	70,244	70,532

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. Debtors.

31 March 2017 £'000	Amounts falling due within one year:	31 March 2018 £'000
18,878	Central government bodies	19,965
6,636	Other local authorities	4,111
5,702	NHS bodies	13,113
19,557	Bodies external to general government	19,787
14,166	Council Tax & Business Rates agency arrangements	13,195
0	Payments in advance	0
64,939	**Total Short Term Debtors**	**70,171**

31 March 2017 £'000	Amounts falling due after one year:	31 March 2018 £'000
2,193	Central government bodies	1,963
282	Other local authorities	181
102	NHS bodies	52
6,712	Bodies external to general government	7,122
9,289	**Total Long Term Debtors**	**9,318**

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

The Council Tax Agency Arrangements figure represents the County Council's share of council tax arrears (net of impairment for doubtful debts) and any surpluses on the collection fund held by the district councils in Lincolnshire.

Note 20. Assets Held for Sale.

	Current	
	2016/17	2017/18
	£'000	£'000
Balance outstanding at 1 April	1,301	10,156
Assets newly classified as held for sale:		
- Property, Plant and Equipment	9,757	1,340
- Intangible Assets	0	0
- Other assets/liabilities in disposal groups	0	0
Revaluation Increase to RR *	0	
Revaluation Decrease to RR *	(97)	(25)
Revaluation Increase/(Decrease) to SDPS **	(112)	(40)
Assets declassified as held for sale:		
- Property, Plant and Equipment	0	0
- Intangible Assets	0	0
- Other assets/liabilities in disposal groups	0	0
Assets Sold	(693)	(1,970)
Transfers from non-current to current	0	0
Balance Outstanding at 31 March	**10,156**	**9,461**

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

Note 21. Creditors.

2016-17		2017/18
£'000	Amounts falling due within one year:	£'000
(3,776)	Central government bodies	(3,497)
(8,681)	Other local authorities	(1,554)
(4,123)	NHS bodies	(2,340)
(69,261)	Other entities and individuals	(62,030)
(9,042)	Council Tax & Business Rates agency arrangements	(8,152)
(94,883)	**Total Short Term Creditors**	**(77,572)**

2016-17		2017/18
£'000	Amounts falling due after one year:	£'000
(1,145)	Central government bodies	(1,145)
(426)	Other local authorities	(344)
(5,370)	Other entities and individuals	(5,730)
(6,941)	**Total Long Term Creditors**	**(7,219)**

Note 22. Provisions.

Summary of Provisions	Balance at 1 April 2017 £'000	Additional Provisions made in 2017/18 £'000	Amounts Used in 2017/18 £'000	Unused amounts reversed in 2017/18 £'000	Unwinding of discounting in 2017/18 £'000	Balance at 31 March 2018 £'000
Social Services - Section 117 Deposits	(307)	0	0	0	0	(307)
Insurance Claims	(4,569)	(939)	0	0	237	(5,271)
Business Rates Appeals	(2,935)	0	360	0	0	(2,575)
Waking Nights Provision	(338)	0	0	131	0	(207)
CSC Volume Fees Provision	(2,906)	(441)	2,109	0	0	(1,238)
Wellbeing Monitoring Service	(275)	0	0	0	0	(275)
Teal Park Funding Provision	(390)	0	0	0	0	(390)
TOTAL	**(11,720)**	**(1,380)**	**2,469**	**131**	**237**	**(10,263)**

The County Council's accounting policy on provisions includes a de-minimis of £250k.

Analysis of short and long term provisions

	Balance at 1 April 2017 £'000	Additional Provisions made in 2017/18 £'000	Amounts Used in 2017/18 £'000	Unused amounts reversed in 2017/18 £'000	Unwinding of discounting in 2017/18 £'000	Balance at 31 March 2018 £'000
Short Term Provisions:						
- Insurance Claims	(1,247)	(457)	0	0	0	(1,704)
- Business Rates Appeals	(2,935)	0	360	0	0	(2,575)
- Waking Nights Provision	(338)	0	0	131	0	(207)
- CSC Volume Fees	(2,906)	(441)	2,109	0	0	(1,238)
- Wellbeing Monitoring Service	(275)	0	0	0	0	(275)
- Teal Park Funding	(390)	0	0	0	0	(390)
	(8,091)	**(898)**	**2,469**	**131**	**0**	**(6,389)**
Long Term Provisions:						
- Social Services - Section 117	(307)	0	0	0	0	(307)
- Insurance Claims	(3,322)	(482)	0	0	237	(3,567)
	(3,629)	**(482)**	**0**	**0**	**237**	**(3,874)**
TOTAL	**(11,720)**	**(1,380)**	**2,469**	**131**	**237**	**(10,263)**

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 2018, 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	Maximum for all such claims
	£'000	£'000
Public & employer's liability	500	4,500
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 **Contract Volume Fees** Provision represents an estimate of outstanding payments due on a number of contractual arrangements were 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 are 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 Department for Communities and Local Government (DCLG) grant awarded to the Teal Park project.

Note 23. Other Long Term Liabilities.

31 March 2017 £'000		31 March 2018 £'000
(11,654)	Outstanding Liabilities on PFI and Finance Leases	(11,033)
(870,725)	Pension Reserve	(882,708)
(882,379)		**(893,741)**

Note 24. Usable Reserves.

Balance at 31 March 2017 £'000		Balance at 31 March 2018 £'000
(92,396)	Capital Grants Unapplied	(97,397)
(158,829)	Earmarked Reserves	(177,005)
(15,300)	General Fund	(15,200)
(266,525)	**Total**	**(289,602)**

Note 25. Unusable Reserves.

Balance at 31 March 2017 £'000		Note	Balance at 31 March 2018 £'000
(311,249)	Revaluation Reserve	(25a)	(284,394)
(555,068)	Capital Adjustment Account	(25b)	(559,049)
95	Financial Instruments Adjustment Account	(25c)	102
870,725	Pension Reserve	(25d)	882,708
(2,189)	Collection Fund Adjustment Account	(25e)	(2,467)
5,080	Accumulated Absences Account	(25f)	5,128
(154)	Available for Sale Financial Instrument Reserve	(25g)	(226)
7,240	**Total**		**41,802**

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.

2016/17 £'000		2017/18 £'000	2017/18 £'000
(314,712)	**Balance at 1 April**		**(311,249)**
(25,796)	Upward revaluation of assets	(16,762)	
6,192	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	15,926	
(19,604)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(836)	
13,028	Difference between fair value depreciation and historical cost depreciation	13,775	
10,039	Accumulated gains on assets sold or scrapped	13,917	
23,067	Amount written off to the Capital Adjustment Account	27,692	
(311,249)	**Balance at 31 March**		**(284,394)**

b) Capital Adjustment Account.

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2016/17 £'000		2017/18 £'000
(567,863)	**Balance at 1 April**	**(555,068)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
84,698	Charges for depreciation and impairment of non-current assets	81,773
13,757	Revaluation losses on Property, Plant and Equipment	8,975
112	Revaluation Losses on Held for Sale Assets	40
1,930	Amortisation of intangible assets	2,496
10,320	Revenue expenditure funded from capital under statute (net of Grants and Contributions)	23,810
24,129	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	40,998
(23,067)	Adjusting amounts written out of the Revaluation Reserve	(27,692)
111,879	Net written out amount of the cost of non-current assets consumed in the year	**130,401**
	Capital financing applied in the year:	
0	Use of Capital Receipts to finance new capital expenditure	0
(54,529)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(65,252)
(19,543)	Application of grants to capital financing from the Capital Grants Unapplied Account	(40,314)
(17,560)	Statutory provision for the financing of capital investment charged against the General Fund	(17,737)
(3,756)	Capital expenditure charged against the General Fund	(4,632)
(95,388)		**(127,935)**
(3,696)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(6,448)
0	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	0
(3,696)		**(6,448)**
(555,068)	**Balance at 31 March**	**(559,049)**

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.

2016/17 £'000		2017/18 £'000
96	**Balance at 1 April**	**95**
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	16
(16)	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	(9)
95	**Balance at 31 March**	**102**

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.

2016/17 £'000		2017/18 £'000
745,582	**Balance at 1 April**	**870,725**
94,111	Actuarial gains or losses on pensions assets and liabilities	(32,873)
71,050	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CI&ES	84,812
(40,018)	Employer's pensions contributions and direct payments to pensioners payable in the year	(39,956)
870,725	**Balance at 31 March**	**882,708**

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.

2016/17 £'000		2017/18 £'000
(3,805)	**Balance at 1 April**	**(2,189)**
1,616	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	(278)
(2,189)	**Balance at 31 March**	**(2,467)**

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.

2016/17		2017/18	
£'000		**£'000**	**£'000**
5,103	**Balance at 1 April**		**5,080**
(5,103)	Settlement or cancellation of accrual made at the end of the preceding year	(5,080)	
5,080	Amounts accrued at the end of the current year	5,128	
(23)	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		48
5,080	**Balance at 31 March**		**5,128**

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.

2016/17 £'000		2017/18 £'000
(447)	**Balance at 1 April**	**(154)**
293	Change in the value of investments not charged to the Surplus/Deficit on the Provision of Services	(72)
(154)	**Balance at 31 March**	**(226)**

Note 26. Operating Activities.

The cash flow operating activities include the following items:

2016/17 £'000		2017/18 £'000
(1,572)	Interest received	(1,959)
20,772	Interest paid	20,160
(2)	Dividends received	0

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

2016/17 £'000		2017/18 £'000
(84,706)	Depreciation	(81,772)
(18,254)	Impairment and downward valuations	(14,565)
(1,930)	Amortisation	(2,496)
(1,427)	Increase/(decrease) in impairment for bad debts	129
28,203	Increase/decrease in creditors	17,740
9,724	Increase/decrease in debtors	4,076
(428)	Increase/decrease in inventories	(1,320)
(31,032)	Movement in pension liability	(44,856)
(18,872)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(35,374)
2,255	Other non-cash items charged to the net surplus or deficit on the provision of services	7,636
(116,468)	**Net surplus/(deficit) on provision of services for non cash movements**	**(150,802)**

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

2016/17 £'000		2017/18 £'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
103,806	- Capital Grants credited to Surplus or deficit on the provision of services	110,567
0	- Proceeds from sale of property, plant and equipment, investment property and intangible assets	0
1,655	- Any other items for which the cash effects are investing or financing cash flows	1,658
105,461	**Net surplus/(deficit) on provision of services for Investing & Financing activities**	**112,225**

Note 27. Investing Activities.

The cash flow investing activities include the following items:

2016/17 £'000		2017/18 £'000
55,459	Purchase of property, plant and equipment, investment property and intangible assets	100,412
1,064,550	Purchase of short-term and long- term investments	929,786
788	Other payments for investing activities	765
0	Proceeds from sale of property, plant equipment, investment property and intangible assets	0
(1,033,517)	Proceeds from short-term and long-term investments	(927,779)
(102,952)	Capital Grants Received (Government)	(109,510)
(2,443)	Other receipts from investing activities	(2,422)
(18,115)	**Net cash flow from investing activities**	**(8,748)**

Note 28. Financing Activities.

The cash flow financing activities include the following items:

2016/17 £'000		2017/18 £'000
(34,082)	Cash receipts of short and long-term borrowing	(51,000)
470	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance-Sheet PFI Contracts	476
37,691	Repayments of short and long-term borrowing	66,676
4,079	**Net cash flow from Financing activities**	**16,152**

Note 29. Cash & Cash Equivalents.

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

Balance at 31 March 2017 £'000		Balance at 31 March 2018 £'000
(95)	Cash held by the authority	63
(18,492)	Bank current accounts	(33,025)
120	Short-term deposits with building societies	194
(18,467)	**Total**	**(32,768)**

Note 30. Acquired and Discontinued Operations.

The Council has no Acquired and Discontinued Operations to report for 2017-18.

One acquired operation to be aware of in 2018-19 relates to support of carers up to the age of 25. Section 3 of the Children's and Social Work Act 2017 has introduced a new duty on local authorities, which requires them to offer Personal Advisor support to all carers under the age of 25, irrespective of whether they are engaged in education or training.

This includes care leavers who return to the local authority at any point after the age of 21 up to the age of 25 and request a Personal Advisor support. Under the previous legal framework, all care leavers were entitled to receive support from a Personal Advisor until they reached 21. This will come into effect on May 2018.

Note 31. Pooled Budgets.

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

From 1st April 2017 the Better Care Fund Section 75 of £147m whereby the Council is the host Authority for the pooled budgets relates to Proactive Care, Specialties including Learning Disabilities, Integrated Community Equipment Service, and Child & Adolescent Mental Health Services, and is responsible for their financial administration. Outside this Better Care Fund Section 75 is a standalone Section 75 for Sexual Health.

a. Proactive Care

The Proactive Section 75's primary purpose 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 Board is responsible for reviewing.

2016/17		**2017/18**
£'000		**£'000**
46,946	Gross Partnership Expenditure	50,395
(46,946)	Gross Partnership Income	(50,395)
0	**Surplus(-)/Deficit(+)**	**0**
24,884	**Contribution from Lincolnshire County Council**	**34,636**

This was split across both Health and Social care expenditure in 2017-18. 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 2017-18. The increase in LCC funding came about because of additional IBCF funding in year that was utilised against a number of Proactive Care areas.

b. Learning Disability

In 2001-02 Lincolnshire County Council and Lincolnshire Clinical Commissioning Group's established a pooled budget Partnership Arrangement for the provision of Learning Disability services. This has now been extended to include LD Carers, Personal Health Budgets and Adult care section 256 of the National Health Service (NHS) Act 2006.

Under section 256, the Council incurred expenses on community services and the Primary Care Trust reimbursed the Council on this expenditure in connection with the performance of its functions, which in the opinion of the Primary Care Trust a) have an effect on the health of any individuals; b) have an effect on or are affected by any NHS functions; and/or c) are connected with any NHS functions.

2016/17 £'000		2017/18 £'000
65,386	Gross Partnership Expenditure	73,139
(63,666)	Gross Partnership Income	(71,123)
1,720	**Surplus(-)/Deficit(+)**	**2,016**
47,290	**Contribution from Lincolnshire County Council**	**54,931**

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. Services for Learning Disabilities 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. 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 2017-18 with an overspend of £2.016m for the year which has been borne by the Council. 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, and the introduction of the Waking Nights new rates. Service user income has increased due to direct payment audit income and the successful conclusion a number of long standing legal disputes in respect out of county placements by other Local Authorities within the County.

c) Corporate

The Corporate Section 75 up to the end of 2016-17 provided the 'enablers' to the delivery of health and wellbeing of Lincolnshire, essentially focused around BCF-funded activity. So the Section 75 funded (a) the risk framework, the contingency reserve, and provided the mechanism for pooling underspends from other Section 75 agreements; and (b) provided the funds to support Lincolnshire Health and Care (LHAC) review and development. This area was discontinued from the end of March 2017.

2016/17 £'000		2017/18 £'000
4,402	Gross Partnership Expenditure	0
193	Gross Partnership Income	0
4,595	**Surplus(-)/Deficit(+)**	**0**
0	**Contribution from Lincolnshire County Council**	**0**

No costs in year for the Corporate Section 75 as the areas within this section ceased at the end of 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).

2016/17 £'000		2017/18 £'000
5,800	Gross Partnership Expenditure	5,813
(5,800)	Gross Partnership Income	(5,800)
0	**Surplus(-)/Deficit(+)**	**13**
2,668	**Contribution from Lincolnshire County Council**	**2,668**

This is a 45:55 shared responsibility budget between the Council and the Clinical Commissioning Groups and there is a risk share agreement regarding any under or over spends 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. The size of this pooled budget increased from 2016-17 following variations made which incorporated additional functions in to the Section 75 Agreement.

The Children and Adolescent Mental Health Services (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 & 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.

2016/17 £'000		2017/18 £'000
6,090	Gross Partnership Expenditure	8,011
(5,365)	Gross Partnership Income	(8,011)
725	**Surplus(-)/Deficit(+)**	**0**
725	**Contribution from Lincolnshire County Council**	**725**

The figures within the CAMHS are made up 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 2017-18, which also includes the Council's contribution of £725k.

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. Whilst the Council is responsible for the contract, the funding is received from NHS England in respect of the HIV services. As such a Section 75 agreement has been agreed between the Council and NHS England.

2016/17 £'000		2017/18 £'000
1,268	Gross Partnership Expenditure	1,244
(1,268)	Gross Partnership Income	(1,244)
0	**Surplus(-)/Deficit(+)**	**0**
0	**Contribution from Lincolnshire County Council**	**0**

Note 32. Members Allowances.

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

2016/17 £'000		2017/18 £'000
791	Basic Allowances	742
424	Special Responsibility Allowances	418
1,215		1,160
87	Expenses	83
1,302		**1,243**

The number of councillors fell from 77 to 70 after the May 2017 local election following the boundaries reform.

Note 33. 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, monetary 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:

The table below excludes all employees who are included within the Senior Officer Remuneration table under section b.

2016/17 Number of Staff			2017/18 Number of Staff	
Remuneration received (excl Staff receiving termination payments)	Staff who received termination payments	Pay Band	Remuneration received (excl Staff receiving termination payments)	Staff who received termination payments
-	-	£145,000- £149,999	-	-
-	-	£140,000- £144,999	-	1
-	-	£135,000- £139,999	-	-
-	-	£130,000- £134,999	-	1
-	-	£125,000- £129,999	-	-
-	-	£120,000- £124,999	-	-
-	-	£115,000- £119,999	-	-
-	1	£110,000- £114,999	1	-
2	1	£105,000- £109,999	-	-
-	2	£100,000- £104,999	2	-
3	-	£95,000- £99,999	1	-
4	-	£90,000- £94,999	4	-
8	-	£85,000- £89,999	6	-
3	-	£80,000- £84,999	7	1
5	4	£75,000- £79,999	11	-
24	1	£70,000- £74,999	23	-
43	3	£65,000- £69,999	42	2
44	5	£60,000- £64,999	48	2
67	1	£55,000- £59,999	64	1
124	2	£50,000- £54,999	149	3
327	**20**	**Total**	**358**	**11**

A breakdown of the numbers between schools and other services can be found in the following table:

2016/17 Number of Staff					2017/18 Number of Staff			
Remuneration received (excl those receiving termination payments)		Staff who received termination payments			Remuneration received (excl those receiving termination payments)		Staff who received termination payments	
SCHOOLS	OTHER SERVICES	SCHOOLS	OTHER SERVICES	Pay Band	SCHOOLS	OTHER SERVICES	SCHOOLS	OTHER SERVICES
-	-	-	-	£145,000- £149,999	-	-	-	-
-	-	-	-	£140,000- £144,999	-	-	-	1
-	-	-	-	£135,000- £139,999	-	-	-	-
-	-	-	-	£130,000- £134,999	-	-	-	1
-	-	-	-	£125,000- £129,999	-	-	-	-
-	-	-	-	£120,000- £124,999	-	-	-	-
-	-	-	-	£115,000- £119,999	-	-	-	-
-	-	-	1	£110,000- £114,999	-	1	-	-
-	2	-	1	£105,000- £109,999	-	-	-	-
-	-	-	2	£100,000- £104,999	1	1	-	-
2	1	-	-	£95,000- £99,999	-	1	-	-
1	3	-	-	£90,000- £94,999	1	3	-	-
2	6	-	-	£85,000- £89,999	1	5	-	-
1	2	-	-	£80,000- £84,999	1	6	-	1
0	5	1	3	£75,000- £79,999	3	8	-	-
8	15	1	-	£70,000- £74,999	15	8	-	-
15	27	2	1	£65,000- £69,999	21	21	1	1
29	11	2	3	£60,000- £64,999	26	22	2	-
35	32	1	-	£55,000- £59,999	27	37	-	1
50	74	1	1	£50,000- £54,999	72	77	1	2
143	**178**	**8**	**12**	**Total**	**168**	**190**	**4**	**7**

b. Senior Officers' Remuneration

The Accounts and Audit Regulations (England) 2015 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 (*1)	2017/18	160,772	26,565	-	187,337
	2016/17	*172,016*	*34,125*	-	*206,141*

(*1) The Chief Executive retired February 2018.

Senior Officers with a salary over £50,000 and less than £150,000	**Year**	**Salary**	**Employer's Pension Contribution**	**Any Other Emoluments**	**Total**
		£	**£**	**£**	**£**
Director of Adult Social Services	2017/18	128,515	21,076	-	149,591
	2016/17	*127,243*	*25,067*	-	*152,310*
Executive Director of Children's Services	2017/18	132,140	21,671	-	153,811
	2016/17	*132,368*	*26,077*	-	*158,445*
Executive Director - Finance & Public Protection	2017/18	128,515	21,174	4,362	154,051
	2016/17	*127,243*	*25,184*	*3,172*	*155,599*
Executive Director - Communities (*4)	2017/18	129,586	21,252	-	150,838
	2016/17	*127,243*	*25,067*	-	*152,310*
Chief Information and Commissioning Officer (*2)	2017/18	0	0	-	0
	2016/17	*116,150*	*22,882*	-	*139,032*
Chief Fire Officer	2017/18	117,417	9,242	-	*126,659*
	2016/17	*115,328*	*12,709*	-	*128,037*
Director of Public Health (*3)	2017/18	0	0	-	0
	2016/17	*88,151*	*11,435*	-	*99,586*
Interim Director of Public Health (*3)	2017/18	92,824	13,534	-	106,358
	2016/17	*6,903*	*651*	-	7,554
Director of Public Health (*3) (appointed Jan 2018)	2017/18	20,269	2,915	-	*23,184*
	2016/17	-	-	-	*0*

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

(*3) The Director of Public Heath retired during October 2016. An interim Director was appointed until a permanent replacement was made in January 2018.

(*4) The salary of the Executive Director – Communities includes an honoraria payment in March as an Interim Chief Executive.

All Senior Officers are members of the Local Government Pension Scheme (LGPS) aside from those of Public Health, who are member of the National Health Service Pension Scheme (NHSPS).

From April 2017, the employer's contribution to LGPS has reduced to 16.4% (2017-18) from 19.7% (2016-17). However, the Council has increased its lump sum payment to cover the pension deficit to £4.541m (2017-18) from £1.166m (2016-17) following receipt of the formal rates certificate from the actuary.

Note 34. 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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17 £	2017/18 £
£0 - £20,000	84	9	6	21	90	30	£758,144	£248,878
£20,001 - £40,000	34	6	2	10	36	16	£967,568	£448,105
£40,001 - £60,000	8	1	5	4	13	5	£621,483	£232,474
£60,001 - £80,000	6	0	2	1	8	1	£511,422	£60,118
£80,001 - £100,000	3	0	0	0	3	0	£278,024	£0
£100,001 - £150,000	3	0	1	0	4	0	£801,924	£0
Total	**138**	**16**	**16**	**36**	**154**	**52**	**£3,938,565**	**£989,575**

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 35 Termination Benefits. The difference between the values reported in this note and Note 35 Termination Benefits arise due to provisions and any variances between year end accruals and the actual payments made in the next financial year.

Note 35. Termination Benefits.

As a result of further reductions to local government funding, the Council is undertaking a review and reshaping of services. In 2017-18 the Council has incurred liabilities of £0.535m (£2.314m in 2016-17) in relation to termination benefits.

- £0.139m for redundancy payments (£1.151m in 2016-17); and
- £0.396m for pension strain (£1.163m in 2016-17).

Further information on termination benefits can be found in Note 34 on Exit Packages, which details the number of exit packages and total cost over bands, and Note 44 on Defined Benefit Pension Schemes which details the effect termination benefits have had on pensions in 2017-18.

Note 36. External Audit Costs.

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

	2016/17 £'000	2017/18 £'000
Fees payable to the Appointed Auditor for external audit services	107	107
Fees payable to the Appointed Auditor for other services	53	10
Total	**160**	**117**

Note 37. 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 (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017-18 are as follows:

Schools Budget Funded by Dedicated Schools Grant	**Central Expenditure £'000**	**Individual Schools Budget £'000**	**Total £'000**
Final DSG for 2017/18 before Academy recoupment			516,137
Academy Figure Recouped for 2017/18			(260,766)
Total DSG after Academy Recoupment for 2017/18			255,371
Brought Forward from 2016/17			15,247
Agreed Initial Budgeted Distribution in 2017/18	29,818	240,800	270,618
In Year Adjustments	(156)	3,759	3,603
Final Budget Distribution for 2017/18	**29,662**	**244,559**	**274,221**
less Actual central expenditure	(26,976)		(26,976)
less Actual ISB deployed to schools		(230,429)	(230,429)
Total actual expenditure in 2017/18	**(26,976)**	**(230,429)**	**(257,405)**
Local Authority Contribution 2017/18	**0**	**16**	**16**
Carry forward to 2018-19	**2,686**	**14,146**	**16,832**

The Individual Schools Budget includes schools contingency. For the purposes of the deployment of the grant, Individual School Budgets are deemed to be spent once allocated. School balances can be seen elsewhere in the Financial Statements in Note 10 Earmarked Reserves.

Note 38. Grant Income.

The Council credited the following grants and contributions and donations to the Comprehensive Income and Expenditure Statement in 2017-18; for grants and contributions where the conditions have been met, or no conditions existed:

2016/17 £'000	a) Credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement	2017/18 £'000
	Non-ring-fenced government grants:	
70,351	Revenue Support Grant	48,292
6,892	Rural Services Delivery Grant	5,565
4,519	New Homes Bonus Grant	3,550
0	Adult Social Care Support Grant 2017/18	3,383
2,458	Section 31 Grant - Business Rates	2,773
1,755	Independent Living Fund Grant	1,698
1,501	Partners in Practice S31 Grant	1,438
4,899	Education Services Grant	1,215
1,586	Other Non Specific Grant	1,852
	Capital Grants and Contributions:	
31,973	DfT Asset Protection Grant	37,012
16,177	DFT LTP Lincoln Eastern Bypass	27,312
25,496	Growth Deal Grant (LEP)	11,843
14,266	DfE Basic Need Grant	11,667
0	National Productivity Investment Fund	5,366
5,028	DfE Schools Condition Capital Maintenance Grant	4,942
0	Blue Light PIF	4,844
3,312	DfT Integrated Transport Grant	3,312
0	East Midlands Ambulance Service Contribution	1,307
1,266	Devolved Formula Grant	1,213
256	Heritage Lottery Fund	98
1,800	Department of Culture, Media & Sport Broadband Grant	0
1,594	Early Years Capital Grant	0
2,637	Other Capital Grants and Contributions	1,651
197,766	**Total**	**180,333**

Details of capital grants unapplied during the financial year and transferred to reserves can be found in the Movement on Reserves Statement and Note 24 Usable Reserves.

2016/17 £'000	b) Credited to Revenue Service Accounts in the Comprehensive Income and Expenditure Statement	2017/18 £'000
247,695	Dedicated Schools Grant	255,530
34,371	Public Health Grant	33,524
0	Better Care Fund - Supplementary Improved Element	15,266
13,147	Pupil Premium	12,983
4,884	Disabled Facilities Grant	5,291
4,434	Universal Infant Free School Meals	4,502
4,182	YPLA 16-19 Funding	3,561
1,830	EFA and Sport Grant	2,819
1,954	Troubled Families Grant	2,063
0	Better Care Fund - Improved Element	1,906
1,209	Asylum Seekers	1,481
1,216	Fire New Burdens	1,401
1,158	The Private Finance Initiative	1,158
2,273	Adult Safeguarding Learning	1,078
6,408	Other Revenue Grants	7,060
324,761		**349,623**

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

Note 39. 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 are set out in Note 13 Taxation and Non Specific Grant Income and Note 38 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 2017-18 are shown in Note 32.

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.

One Councillor has not submitted the declaration of interest form this year. Relevant information relating to this Councillor has been used from other sources for the purpose of this note.

During 2017-18 the following have been declared:

Councillors

- Sixteen Councillors' or their immediate families have provided goods/services to the Council to the value of £0.080m;
- Thirty Six Councillors' or their immediate families are associated with Public Bodies which have provided goods/services to the Council to the value of £19.358m;
- Eleven Councillors are associated with voluntary organisations which have provided goods/services to the Council to the value of £1.064m.

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, which are shown in Note 31; with Lincolnshire Clinical Commissioning Groups 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.

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 £0.177m was recharged from the Council to the pension fund for scheme administration and management. The pension fund earned a total interest of £0.071m on deposits managed within the Council's own cash, which the Council paid over to the pension fund.

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 £7.255m (£7.230m in 2016-17) 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.

d. Entities Controlled or Significantly Influenced by the Council

The authority controls Transport Connect Ltd through its ownership of 100% of the shares in the Company. The authority has provided a fixed loan of £521,601 with an interest rate of 4.25% and a revolving credit facility of £257,000 with an interest rate of 4% over Bank of England base rate.

Note 40. Capital Expenditure and Capital Financing.

The table below shows the financing of the £131.219m capital expenditure (including revenue expenditure financed from capital under statute and finance leases), together with the resources that have been used to finance it. The explanation of movement in year shows the change in the underlying need to borrow to finance capital expenditure.

Further information on the 2017-18 expenditure is provided in the Narrative Report, with details of the asset acquired.

2016/17 £'000		2017/18 £'000
559,751	**Opening Capital Financing Requirement**	**557,863**
	Capital Investment:	
80,427	Property, Plant and Equipment	98,778
399	Investment Property	450
2,354	Intangible Assets	1,761
0	Loans and Advances Treated as Capital Expenditure	0
19,806	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	30,228
	Sources of Finance:	
0	Capital Receipts	
(74,072)	Government Grants and Contributions	(105,566)
(9,486)	Government Grants and Contributions funding REFCUS	(6,418)
	Sums set aside from Revenue:	
(3,756)	Direct Revenue Contributions	(4,632)
(17,560)	Minimum Revenue Provision/Loans fund principal	(17,737)
557,863	**Closing Capital Financing Requirement**	**554,728**
(1,888)	**Movement in Year:**	**(3,135)**
	Explanation of movement in year:	
0	Increase in underlying need to borrow (supported by government financial assistance)	0
(2,103)	Increase in underlying need to borrow (unsupported by government financial assistance)	(3,137)
0	Assets acquired under finance leases	0
215	Assets acquired under PFI/PPP contracts	2
(1,888)	**Increase/(Decrease) in Capital Financing Requirement**	**(3,135)**

Capitalisation of Borrowing Costs.

The Council does not capitalise any borrowing costs.

Note 41. 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 £0.026m (£0.112m in 2016-17) were made during the year. £0.005m was charged to the Comprehensive Income and Expenditure Statement as interest payable and £0.021m 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	
	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000
Balance at 1 April	14,486	13,953	175	85
Additions	21	108	16	0
Revaluations	(242)	(158)	0	0
Depreciation	(424)	(418)	(106)	(48)
Disposals	0	0	0	(21)
Derecognition	(378)	(30)	0	0
Reclassifications	490	12	0	0
Net Book Value at 31 March	**13,953**	**13,467**	**85**	**16**

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.

	2016/17		2017/18	
	Minimum Lease Payments	Finance Lease Liabilities	Minimum Lease Payments	Finance Lease Liabilities
Land and Buildings:	£'000	£'000	£'000	£'000
Not later than one year	6	6	6	13
Between one year and not later than five years	27	62	35	62
Later than five years	186	304	172	292
Total Committed Liabilities as at 31 March	**219**	**372**	**213**	**367**

Vehicles, Plant & Equipment:	2016/17 Minimum Lease Payments £'000	2016/17 Finance Lease Liabilities £'000	2017/18 Minimum Lease Payments £'000	2017/18 Finance Lease Liabilities £'000
Not later than one year	25	6	29	7
Between one year and not later than five years	29	4	20	3
Later than five years	0	0	0	0
Total Committed Liabilities as at 31 March	**54**	**10**	**49**	**10**

The Council sub-lets County Farm holdings held under finance leases. At 31 March 2018 the minimum payments expected to be received under non-cancellable sub-leases was £0.354m.

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 2017-18 amounted to £1.113m (£1.415m in 2016-17).

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 £4.272m in 2017-18 (£3.164m in 2016-17).

As at 31 March 2018, the Council is committed to making payments of £17.009m under operating leases, comprising the following elements:

	2016/17 £'000	2017/18 £'000
Not later than one year	3,402	3,425
Between one year and not later than five years	7,355	6,910
Later than five years	7,121	6,674
Total Committed Liabilities as at 31 March	**17,878**	**17,009**

Lincolnshire County Council as Lessor

i) Finance Leases

The Council has granted a small number of long-term leases for Adult Care properties, a Children's Centre 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 £2.365m in 2017-18 (£2.410m in 2016-17). The Council also received rental income from other properties; where the value of the lease is material, the income amounted to £1.661m in 2017-18 (£0.805m in 2016-17).

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

	2016/17	2017/18
	£'000	£'000
Not later than one year	2,103	2,479
Between one year and not later than five years	5,791	6,118
Later than five years	16,177	16,305
Total future minimum lease payments receivable as at 31 March	**24,071**	**24,902**

Note 42. 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 2017-18. These assets are included in the fixed assets shown in Note 14 Property, Plant and Equipment.

	Land & Buildings		Furniture & Equipment	
	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000
Balance at 1 April	21,256	15,291	27	28
Additions	202	2	13	0
Revaluations	(762)	(311)	0	0
Depreciation	(517)	(363)	(12)	(18)
Disposals	(4,888)	(113)	0	0
Reclassifications	0	0	0	0
De-recognition	0	0	0	0
Net Book Value at 31 March	**15,291**	**14,506**	**28**	**10**

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 2017-18:

	PFI Lease Liability	
	2016/17	2017/18
	£'000	£'000
Liability as at 01 April	11,850	11,380
Principal Repayments	(470)	(609)
Liability as at 31 March	**11,380**	**10,771**

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 2018-19	745	752	1,861	**3,358**
Payable between 2019-20 and 2021-22	2,394	1,923	6,221	**10,538**
Payable between 2022-23 and 2026-27	3,932	2,068	11,382	**17,382**
Payable between 2027-28 and 2031-32	3,561	550	10,101	**14,212**
Payable in 2032-33	139	2	650	**791**
March 2018	**10,771**	**5,295**	**30,215**	**46,281**

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 Authority's Accounting Policies on Leases and Accounting for Schools.

The figures shown in Section d above, include £1.625m of principal lease liability and £0.799m 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 Authority's Accounting Policies on Leases and Accounting for Schools.

The figures shown in Section d above, include £1.635m of principal lease liability and £0.803m 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 Authority's Accounting Policy of School Assets.

The figures shown in Section d above, include £1.780m of principal lease liability and £0.875m of interest liability that relate to St Botolph's County Primary School.

Note 43. 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 2017-18 the Council paid £12.626m to the administrators of the TPS in respect of employer's pension contributions. The Council contribution rate to the teacher's pension fund in 2017-18 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 £4.035m in 2017-18 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 and Children Services 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 2017-18 the Council paid £0.482m to the administrators of the NHS Pension Scheme in respect of employer contributions. The employer's contribution rate to the scheme is 14.38% in 2017-18.

Note 44. 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 pension's liabilities with investment assets.

The Council paid employer's contributions of £25.018m (£28.199m in 2016-17 contribution rate 19.7%) into the Lincolnshire Pension Fund in 2017-18, based on 16.4% of scheme employees' pensionable pay and a lump sum payment of £4.451m (£1.166m in 2016-17).

Under the Council's early retirement policy, additional contributions of £0.396m (£1.163m in 2016-17) 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 £5.897m (£6.133m in 2016-17). Further information can be found on pages 108 to 142 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 121.

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 2017-18 the Council paid employer's contributions of £5.500m (£5.3m in 2016-17) 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 £1.0m (£0.6m in 2016-17) was paid in respect of ill health retirements and £0.477m (£0.343 in 2016-17) in respect of injury benefits. Further information on the Lincolnshire Fire and Rescue Pension fund can be found on pages 143 to 145.

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 MHCLG 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 2018:

2016/17				2017/18		
Assets	Obligations	Net liability/asset		Assets	Obligations	Net liability/asset
£'000	£'000	£'000		£'000	£'000	£'000
950,084	0	**950,084**	Fair value of employer assets	1,163,183	0	1,163,183
0	(1,405,155)	**(1,405,155)**	Present value of funded liabilities	0	(1,698,181)	(1,698,181)
0	(94,711)	**(94,711)**	Present value of unfunded liabilities	0	(102,827)	(102,827)
950,084	**(1,499,866)**	**(549,782)**	**Opening position as at 31 March**	**1,163,183**	**(1,801,008)**	**(637,825)**
			Service cost:			
0	(34,448)	**(34,448)**	Current service cost	0	(55,085)	(55,085)
0	(679)	**(679)**	Past service costs (including curtailments)	0	(298)	(298)
0	0	**0**	Effect of settlements	0	0	0
0	**(35,127)**	**(35,127)**	**Total Service Costs**	**0**	**(55,383)**	**(55,383)**
			Net Interest:			
33,121	0	**33,121**	Interest income on planned assets	30,150	0	30,150
0	(52,344)	**(52,344)**	interest cost on defined benefit obligation	0	(46,979)	(46,979)
0	0	**0**	Impact on asset ceiling	0	0	0
33,121	**(52,344)**	**(19,223)**	**Total net Interest**	**30,150**	**(46,979)**	**(16,829)**
33,121	**(87,471)**	**(54,350)**	**Total defined benefit cost recognised in Profit or (Loss)**	**30,150**	**(102,362)**	**(72,212)**
			Cash flows:			
8,440	(8,440)	**0**	Plan participants' contributions	8,604	(8,604)	0
29,285	0	**29,285**	Employer contributions	29,559	0	29,559
6,133	0	**6,133**	Contributions re unfunded benefits	5,897	0	5,897
(44,025)	44,025	**0**	Benefits paid	(43,740)	43,740	0
(6,133)	6,133	**0**	Unfunded benefits paid	(5,897)	5,897	0
(6,300)	41,718	**35,418**	Total Cash Flows	(5,577)	41,033	35,456
976,905	**(1,545,619)**	**(568,714)**	**Expected closing position**	**1,187,756**	**(1,862,337)**	**(674,581)**
			Remeasurements:			
0	26,952	**26,952**	Changes in demographic assumptions	0	0	0
0	(277,336)	**(277,336)**	Changes in financial assumptions	0	33,880	33,880
0	(5,005)	**(5,005)**	Other experience	0	1,623	1,623
186,278	0	**186,278**	Return on assets excluding amounts included in net interest	(3,530)	0	(3,530)
0	0	**0**	Changes in asset ceiling	0	0	0
186,278	**(255,389)**	**(69,111)**	**Total remeasurements recognised in Other Comprehensive Income (OCI)**	**(3,530)**	**35,503**	**31,973**
0	0	**0**	Exchange differences	0	0	0
0	0	**0**	Effect of business combinations or disposals	0	0	0
0	0	0	**Total Exchange and business combinations & disposals**	0	0	0
1,163,183	0	**1,163,183**	Fair value of employer assets	1,184,226	0	1,184,226
0	(1,698,181)	**(1,698,181)**	Present value of funded liabilities	0	(1,729,335)	(1,729,335)
0	(102,827)	**(102,827)**	Present value of unfunded liabilities	0	(97,499)	(97,499)
1,163,183	**(1,801,008)**	**(637,825)**	**Closing position as at 31 March**	**1,184,226**	**(1,826,834)**	**(642,608)**

This liability comprises of approximately £1.862m in respect of LPGS unfunded pensions and £4.035m 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	665,624	38.5%	24.1
Deferred Members	425,725	24.6%	23.0
Pensioners	637,986	36.9%	11.5
	1,729,335	**100.0%**	**17.8**

b. Pension Assets and Liabilities Recognised in the Balance Sheet, P & L & OCI for the Fire Fighters Pension Fund as at 31 March 2018

2016/17				2017/18		
Assets	Obligations	Net liability/asset		Assets	Obligations	Net liability/asset
£'000	£'000	£'000		£'000	£'000	£'000
0	0	**0**	Fair value of employer assets	0	0	0
0	(181,900)	**(181,900)**	Present value of funded liabilities	0	(216,300)	(216,300)
0	(13,900)	**(13,900)**	Present value of unfunded liabilities	0	(16,600)	(16,600)
0	**(195,800)**	**(195,800)**	**Opening position as at 31 March**	**0**	**(232,900)**	**(232,900)**
			Service cost:			
0	(4,600)	**(4,600)**	Current service cost	0	(6,500)	(6,500)
0	(5,100)	**(5,100)**	Past service costs (including curtailments)	0	0	0
0	0	**0**	Effect of settlements	0	0	0
0	**(9,700)**	**(9,700)**	**Total Service Costs**	**0**	**(6,500)**	**(6,500)**
			Net Interest:			
0	0	**0**	Interest income on planned assets	0	0	0
0	(7,000)	**(7,000)**	interest cost on defined benefit obligation	0	(6,100)	(6,100)
0	0	**0**	Impact on asset ceiling	0	0	0
0	**(7,000)**	**(7,000)**	**Total net Interest**	**0**	**(6,100)**	**(6,100)**
0	**(16,700)**	**(16,700)**	**Total defined benefit cost recognised in Profit or (Loss)**	**0**	**(12,600)**	**(12,600)**

2016/17				2017/18		
Assets	**Obligations**	**Net liability/asset**		**Assets**	**Obligations**	**Net liability/asset**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Cash flows:			
1,300	(1,300)	**0**	Plan participants' contributions	1,400	(1,400)	0
4,300	0	**4,300**	Employer contributions	4,100	0	4,100
0	0	**0**	Transfers to/from other authorities	0	0	0
300	0	**300**	Contributions in respect of injury benefits	400	0	400
-5,600	5,600	**0**	Benefits paid	(5,500)	5,500	0
0	0	**0**	Backdated commutation payments	0	0	0
-300	300	**0**	Injury award expenditure	(400)	400	0
0	4,600	**4,600**	Total Cash Flows	0	4,500	4,500
0	**(207,900)**	**(207,900)**	**Expected closing position**	**0**	**(241,000)**	**(241,000)**
			Remeasurements:			
0	(1,200)	**(1,200)**	Changes in demographic assumptions	0	2,500	2,500
0	(41,000)	**(41,000)**	Changes in financial assumptions	0	4,200	4,200
0	17,200	**17,200**	Other experience	0	(5,800)	(5,800)
0	0	**0**	Return on assets excluding amounts included in net interest	0	0	0
0	0	**0**	Changes in asset ceiling	0	0	0
0	**(25,000)**	**(25,000)**	**Total remeasurements recognised in Other Comprehensive Income (OCI)**	**0**	**900**	**900**
0	0	**0**	Exchange differences	0	0	0
0	0	**0**	Effect of business combinations or disposals	0	0	0
0	**0**	**0**	**Total Exchange and business combinations & disposals**	**0**	**0**	**0**
		0	Fair value of employer assets	0	0	0
0	(216,300)	**(216,300)**	Present value of funded liabilities	0	(224,100)	(224,100)
0	(16,600)	**(16,600)**	Present value of unfunded liabilities	0	(16,000)	(16,000)
0	**(232,900)**	**(232,900)**	**Closing position as at 31 March**	**0**	**(240,100)**	**(240,100)**

The current service cost shown in the table above includes the cost for both the non-injury benefits and injury benefits. This is split £5.8m for the non-injury benefits and £0.7m 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 £5.6m for the non-injury benefits and £0.5m for the injury benefits.

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

2016/17				2017/18		
Liability Split		Duration		Liability Split		Duration
£000	%			£000	%	
98,000	45.31%	24.2	Members	90,600	40.43%	25.1
8,100	3.74%	27.5	Deferred Members	8,600	3.84%	25.2
110,200	50.95%	11.4	Pensioners	124,900	55.73%	11.2
216,300	**100.00%**			**224,100**	**100.0%**	**17.4**
9,800	59.04%	24.2	Contingent injuries	9,100	56.88%	25.1
6,800	40.96%	12.0	Injury pension	6,900	43.13%	11.2
16,600	**100.00%**			**16,000**	**100.0%**	**19.1**

The durations are effective as at the previous valuations as at 31 March 2015 and 2016.

c. Pension Fund Assets Comprise

The Local Government Pension schemes comprise the following assets:

	Fair value of scheme assets			
	2016/17		2017/18	
Asset Class	**£'000**	**%**	**£'000**	**%**
Equities (b)				
- Consumer	130,772	11.2%	86,996	7.3%
- Manufacturing	17,094	1.5%	67,328	5.7%
- Energy & Utilities	30,158	2.6%	32,833	2.8%
- Financial	80,333	6.9%	81,436	6.9%
- Health & Care	0	0.0%	50,381	4.3%
- Information Technology	44,777	3.8%	92,118	7.8%
- Other	95,490	8.2%	0	0.0%
Total Equities	**398,624**	**34.3%**	**411,092**	**34.7%**
Bonds:				
- Corporate (Investment)	108,119	9.3%	0	0.0%
- Corporate (Non-Investment Grade)	0	0.0%	0	0.0%
- Government (Fixed)	37,553	3.2%	0	0.0%
- Other	0	0.0%	0	0.0%
Total Bonds	**145,672**	**12.5%**	**0**	**0.0%**
Total Private Equity	**26,861**	**2.3%**	**19,174**	**1.6%**
Property				
- UK	105,841	9.1%	100,358	8.5%
- Global	3,540	0.3%	8,841	0.7%
Total Property	**109,381**	**9.4%**	**109,199**	**9.2%**
Investment Funds & Unit Trusts:				
- Equities	319,575	27.5%	328,571	27.7%
- Bonds	0	0.0%	139,991	11.8%
- Infrastructure	17,485	1.5%	17,252	1.5%
- Other	137,351	11.8%	144,463	12.2%
Total Investment Funds	**474,411**	**40.8%**	**630,277**	**53.2%**
Cash and Cash Equivalents	**8,234**	**0.7%**	**14,484**	**1.2%**
Total Derivatives	**0**	**0.0%**	**0**	**0.0%**
Total Assets	**1,163,183**	**100.0%**	**1,184,226**	**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 2.3% (2017-18).

d. 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 2016.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		**Fire-fighters' Pension Scheme**	
	2016/17	**2017/18**	**2016/17**	**2017/18**
	%	**%**	**%**	**%**
Price Increases	3.4	3.4	3.2	3.4
Salary Increases	2.8	2.8	3.2	3.4
Pension Increases (CPI)	2.4	2.4	2.2	2.4
Discount Rate	2.6	2.7	3.5	2.7
Equity investments	22.8	2.3	N/A	N/A
convert annual pension to lump sum prior to 1 April	50	50	N/A	N/A
convert annual pension to lump sum post 1 April	75	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 years	24.4 years	29.5 years	31.5 years
Future Pensioners (*1)	24.1 years	26.6 years	30.8 years	32.8 years

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

e. 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 2018	Local Government Pension Scheme		Fire Fighters' Pension Scheme	
	Approximate % Change to Employer Liability	Approximate monetary Amount £000	Approximate % Change to Employer Liability	Approximate monetary Amount £000
0.5% decrease in Real Discount rate	10.0%	176,632	9.0%	21,616
0.5% increase in the Salary Increase Rate	1.0%	20,975	1.0%	1,817
0.5% increase in the Pension Increase Rate	8.0%	153,751	7.0%	17,848

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 (37.4% of scheme assets) and Investment Funds (53.2%). 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 2020. 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.

f. Projected defined benefit cost for the period to 31 March 2018

Local Government Pension Scheme:

	Assets	Obligations	Net (liability) /asset	% of pay
	£000	£000	£000	
Projected Current Service Cost	0	53,154	(53,154)	-39.7%
Past service cost including curtailments	0	0	0	
Effect of settlements	0	0	0	
Total Service Cost	0	53,154	(53,154)	-39.7%
Interest income on plan assets	31,895	0	31,895	23.8%
Interest cost on defined benefit obligation	0	49,465	(49,465)	-36.9%
Total Net Interest Cost	31,895	49,465	(17,570)	-13.1%
Total included in Income and Expenditure	**31,895**	**102,619**	**(70,724)**	**-52.8%**

The weighted average duration of the defined benefit obligation for scheme members is 17.8 years in 2017-18.

The authority expects to pay £30.692m in contributions to the LGPS in 2018-19.

Fire Fighters Pension Scheme:

	Assets	Obligations	Net (liability) /asset	% of pay
	£000	£000	£000	
Projected Current Service Cost	0	6,500	(6,500)	-55.9%
Past service cost including curtailments	0	0	0	
Effect of settlements	0	0	0	
Total Service Cost	0	6,500	(6,500)	-55.9%
Interest income on plan assets	0	0	0	
Interest cost on defined benefit obligation	0	6,500	(6,500)	-55.9%
Total Net Interest Cost	0	6,500	(6,500)	-55.9%
Total included in Income and Expenditure	**0**	**13,000**	**(13,000)**	**-111.8%**

The weighted average duration of the defined benefit obligation for scheme members is 17.4 years in 2017-18.

Note 45. Contingent Liabilities.

At 31 March 2018 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. There are currently no open claims for either policy across the years where cover was in place. It should be noted that as The Independent Inquiry into Child Sexual Abuse (IICSA) is still in progress there is a possibility 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 total liability.

Municipal Mutual Insurance Limited (MMI), the Council's insurer for employers and public liability ceased writing insurance business in September 1992 and entered a Scheme of Arrangement for an expectation of a solvent run off. This did not occur and the Scheme was triggered on 1 January 2014, when the Scheme Administrator announced a Levy on Scheme Creditors of 15% on all claims payments made by MMI since September 1993, less the first £50,000. A further levy of 10% was then applied in April 2016. This results in a requirement of a total of 25% of future claim payments to be self-insured. There had been an expectation that the levy might be increased further but with the accounts in June 2017 there was a slight improving position and accordingly no further levy has yet been announced. Again as part of the annual review by the insurance actuary consideration to the exposure is considered as a part of the reserves recommendation.

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 employees 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.

A part of the pooled arrangements with Lincolnshire Health, we have hitherto paid for the care of these individuals and invoiced the other Local Authorities with the cost.

There 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. With on-going involvement with the Department of Health and Legal Services.

Any liability is likely to be in the range of nil to £0.750m.

c. Wrangle Sea Banks

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 46. Contingent Assets.

At 31 March 2018 the Council has no material contingent assets.

Lincolnshire County Council's Pension Fund Account as at 31 March 2018

2016/17 £'000		Note	2017/18 £'000
	Contributions and Benefits		
(90,083)	Contributions Receivable	(6)	(97,471)
(5,170)	Transfer In From Other Pension Funds	(7)	(6,861)
(95,253)			**(104,332)**
80,219	Benefits Payable	(8)	86,584
3,209	Payments To and On Account of Leavers	(9)	4,605
83,428			**91,189**
(11,825)	**Net additions from dealings with Fund Members**		**(13,143)**
11,841	Management Expenses	(10)	11,978
16	**Net additions including Management Expenses**		**(1,165)**
	Returns on Investments		
(29,264)	Investment Income	(11)	(17,743)
37,156	Profit/(Loss) on Forward Foreign Exchange	(14)	(19,943)
(364,274)	Change in Market Value of Investments	(13a)	(35,084)
(356,382)	**Net Returns on Investments**		**(72,770)**
(356,366)	Net (Increase)/Decrease in the Net Assets Available for Benefits during the year		(73,935)
(1,759,056)	Opening Net Assets of the Fund		(2,115,422)
(2,115,422)	**Closing Net Assets of the Fund**		**(2,189,357)**

Net Asset Statement as at 31 March 2018

2016/17 £'000		Note	2017/18 £'000
2,104,148	Investment Assets	(13)	2,169,901
(4,383)	Investment Liabilities	(13)	(2,018)
2,099,765	**Total Net Investments**		**2,167,883**
19,188	Current Assets	(20)	23,853
(3,531)	Current Liabilities	(21)	(2,379)
2,115,422	**Net Assets of the Fund Available to Fund Benefits at the end of the Reporting Period**		**2,189,357**

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 2017/18 (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); and
- 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; and
- 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 219 contributing employer organisations in the Fund including the County Council (a list of employers is shown in Pension Fund Note 29) and over 74,000 members as detailed below (information reported based on March processed data):

	31 March 2017	31 March 2018
Number of employers with active members	225(*)	219(*)
Number of employees in the scheme		
- Lincolnshire County Council	11,457	12,193
- Other Employers	13,436	13,960
Total	**24,893**	**26,153**
Number of Pensioners:		
- Lincolnshire County Council	13,913	13,768
- Other Employers	6,003	6,775
Total	**19,916**	**20,543**
Number of Deferred Pensioners:		
- Lincolnshire County Council	21,206	19,540
- Other Employers	6,976	7,816
Total	**28,182**	**27,356**

(*) The number of employers will differ from those listed in Pension Fund Note 29 due to Academies within Multi Academy Trust 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 pension's website at www.wypf.org.uk.

Note 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2017-18 financial year and its position at year end as at 31 March 2018.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18, 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

a. 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.

b. 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 LGPS Regulations 2013. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

c. 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

d. Benefits payable

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

e. 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.

f. 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).

i) Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's 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.

ii) 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.

iii) Investment management 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.

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

g. 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).

h. 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 2018 are shown in Pension Fund Note 30.

i. 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 14).

j. 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.

k. Financial liabilities

The fund recognises financial liabilities at 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.

l. 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).

m. 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).

n. 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.

Accounting Standards That Have Been Issued but Have Not Yet Been Adopted
On an annual basis the pension fund is required to consider the impact of accounting standards that have been issued but have not yet adopted. For the 2018-19 IFRS9 Accounts Financial Instruments will be introduced. The standard introduces changes to the way financial instruments are classified and measured in the accounts. The impact on the pension fund accounts from this new standard is not thought to be significant due to the nature of the financial instruments held.

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 2018 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
Actuarial present value of promised retirement benefits (Note 19)	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 £310m. 2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £24m. 3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £276m. 4) a one-year increase in assumed life expectancy would increase the liability by approximately £134m.
Private Equity (Note 15)	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 us a degree of estimation involved in the valuation. Private Equity valuations within the pension fund accounts are all based on the reported information held by the Council on 31 March each year.	The total private equity investments in the Fund are £29m. There is a risk that these may be over or under-stated in the accounts by £8m.

Note 6. Contributions Receivable

Contributions receivable are analysed by category below:

	2016/17 £'000	2017/18 £'000
Employers		
Normal	60,252	55,197
Deficit Recovery Funding	9,401	21,334
Additional - Augmentation	1,198	1,519
Members		
Normal	19,001	19,341
Additional years	231	80
Total	**90,083**	**97,471**

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

	2016/17 £'000	2017/18 £'000
Lincolnshire County Council	36,193	37,659
Scheduled Bodies	47,975	48,461
Admitted Bodies	5,915	11,351
Total	**90,083**	**97,471**

Note 7. Transfers In From Other Pension Funds

	2016/17 £'000	2017/18 £'000
Individual transfers from other schemes	5,170	6,861
Group transfers from other schemes	-	-
Total	**5,170**	**6,861**

There were no material outstanding transfers due to the Pension Fund as at 31 March 2018.

Note 8. Benefits Payable

Benefits payable are analysed by category below:

	2016/17 £'000	2017/18 £'000
Pensions	66,666	68,800
Commutations & Lump Sum Retirement Benefits	11,920	14,482
Lump Sum Death Benefits	1,633	3,302
Total	**80,219**	**86,584**

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

	2016/17 £'000	2017/18 £'000
Lincolnshire County Council	43,169	45,951
Scheduled Bodies	33,758	36,214
Admitted Bodies	3,292	4,419
Total	**80,219**	**86,584**

Note 9. Payments to and on account of leavers

	2016/17 £'000	2017/18 £'000
Individual transfers to other schemes	2,988	4,390
Group transfers to other schemes	-	-
Refunds to members leaving service	221	215
Total	**3,209**	**4,605**

There were no material outstanding transfers due from the Pension Fund as at 31 March 2018.

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 (£0.024m in 2016-17):

	2016/17 £'000	2017/18 £'000
Administration Costs	1,130	1,047
Investment Management Expenses	10,038	10,476
Oversight and Governance Costs	673	455
Total	**11,841**	**11,978**

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

	2016/17 £'000	2017/18 £'000
Transaction Costs	837	690
Management Fees	6,883	6,982
Performance Related Fees	1,499	2,146
Custody Fees	819	658
Total	**10,038**	**10,476**

Note 11. Investment Income

	2016/17 £'000	2017/18 £'000
Equities	27,954	16,173
Pooled Investments:		
- Property	840	1,384
- Infrastructure	72	(7)
- Alternatives	(2)	3
Cash Deposits	78	61
Stock Lending	322	129
Total	**29,264**	**17,743**

Note 12. Taxes on Income

	2016/17 £'000	2017/18 £'000
Withholding Tax - Equities	1,283	1,355
Total	**1,283**	**1,355**

Note 13. Investments

	2016/17 £'000	2017/18 £'000
Equities	726,451	751,286
Pooled Investments:		
- Property	187,038	194,461
- Infrastructure	31,381	35,420
- Private Equity	43,334	29,345
- Bonds	262,168	264,097
- Equities	577,302	582,508
- Alternatives	245,375	268,167
Cash Deposits	26,609	38,746
Investment Income Due	4,189	4,412
Amount Receivable for Sales	301	1,409
Open Forward Foreign Exchange (FX)	-	50
Total Investment Assets	**2,104,148**	**2,169,901**
Open Forward Foreign Exchange (FX)	(3,668)	-
Investment Income Payable	(1)	(2)
Amount Receivable for Purchases	(714)	(2,016)
Total Investment Liabilities	**(4,383)**	**(2,018)**
Total Investment Assets	**2,099,765**	**2,167,883**

13A Reconciliation of Movements in Investments

2017/18	Market Value at 31 March 2017	Purchases and Derivative Payments	Sales and Derivative Receipts	Change in Market Value	Market Value at 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Equities	726,451	347,673	(330,951)	8,113	751,286
Pooled Investments:					
- Property	187,038	82	(17,625)	24,966	194,461
- Infrastructure	31,381	4,211	(7,190)	7,018	35,420
- Private Equity	43,334	663	(3,300)	(11,352)	29,345
- Bonds	262,168	4,578	(4,578)	1,929	264,097
- Equities	577,302	-	(1,650)	6,856	582,508
- Alternatives	245,375	53,814	(28,576)	(2,446)	268,167
	2,073,049	**411,021**	**(393,870)**	**35,084**	**2,125,284**
Cash Deposits	26,609				38,746
Other Investment Balances:					
- Open Forward FX	(3,668)				50
- Amount receivable for Sales	301				1,409
- Investment Income Due	4,188				4,410
- Amount Payable from Purchases	(714)				(2,016)
Total Investment Assets	**2,099,765**				**2,167,883**

2016/17	Market Value at 31 March 2016	Purchases 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	171,951	15,208	(4,972)	4,851	187,038
- Infrastructure	27,355	1,015	(3,100)	6,111	31,381
- 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 from Purchases	(1,307)				(714)
Total Investment Assets	**1,744,141**				**2,099,765**

13B Analysis of Investments

Geographical Analysis of Fund Assets as at 31 March 2018:

	UK	Non-UK	Global	Total
	£'000	£'000	£'000	£'000
Equities	403,797	498,160	431,837	1,333,794
Bonds	264,097	-	-	264,097
Alternatives Incl. PE, Property & Infrastructure	212,465	43,795	271,133	527,393
Cash and Equivalents	38,746	-	-	38,746
Other Investment Balances - Assets				5,871
Total Investment Assets	**919,105**	**541,955**	**702,970**	**2,169,901**
Other Investment Balances - Liabilities				(2,018)
Total Investment Liabilities				**(2,018)**
Total as at 31 March 2018				**2,167,883**

	UK	Non-UK	Global	Total
	£'000	£'000	£'000	£'000
Equities	398,290	489,866	415,597	1,303,753
Bonds	262,168	-	-	262,168
Alternatives Incl. PE, Property & Infrastructure	199,260	40,769	267,099	507,128
Cash and Equivalents	26,609	-	-	26,609
Other Investment Balances - Assets				4,489
Total Investment Assets	**886,327**	**530,635**	**682,696**	**2,104,147**
Other Investment Balances - Liabilities				(4,382)
Total Investment Liabilities				**(4,382)**
Total as at 31 March 2017				**2,099,765**

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

	2016/17	2017/18
	£'000	£'000
Property:		
- Unit Trusts	161,526	175,574
- Other Managed Funds (LLP's	25,512	18,887
Infrastructure - Other Managed Funds (LLP's)	31,381	35,420
Private Equity - Other Managed Funds (LLP's)	43,334	29,345
Bonds - Other Managed Funds	262,168	264,097
Equities - Other Managed Funds	577,302	582,508
Alternatives - Other Managed Funds	245,375	268,167
Total as at 31 March	**1,346,598**	**1,373,998**

13C Investments Analysed by Fund Manager

Fund Manager	31 March 2017		31 March 2018	
	£'000	%	£'000	%
Externally Managed				
Invesco	495,686	23.7	504,993	23.4
Schroders	117,615	5.6	123,942	5.7
Columbia Threadneedle	121,890	5.8	133,095	6.1
Morgan Stanley (Global Brands)	179,016	8.6	178,715	8.2
Morgan Stanley (Alternatives)	246,032	11.8	280,716	12.9
Morgan Stanley (Private Equity)	45,394	2.2	31,634	1.5
Blackrock	262,168	12.5	264,122	12.2
Legal and General	398,286	19.0	403,793	18.6
Internally Managed				
Property	194,607	9.3	207,567	9.6
Infrastructure	31,381	1.5	35,650	1.6
UK Equity	4	-	334	-
Unallocated Cash	-	-	3,322	0.2
Total	**2,092,079**	**100.0**	**2,167,883**	**100.0**

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:

Fund Manager	31 March 2017		31 March 2018	
	£'000	%	£'000	%
Legal and General UK Equity Fund	398,286	18.8	403,793	18.4
Morgan Stanley Alternatives Investments	245,375	11.6	268,167	12.2
Morgan Stanley Global Brands	179,016	8.5	178,715	8.2
Blackrock 1-5 year Corporate Bond Fund	125,928	6.0	126,293	5.8

13D 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 £37.464m (£20.761m at 31 March 2017) 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 £40.314m (£22.876m at 31 March 2017), which represented 107.6% 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 £0.123m for the year ending 31 March 2018 (£0.362m at 31 March 2017) 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.

Open forward Currency Contracts

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		'000		'000	£'000	£'000
Up to one month	GBP	14	DKK	120	-	-
	USD	197	JPY	21,000	-	-
Over one month	GBP	596	AUD	1,089	2	-
	GBP	1,670	CAD	3,064	-	(20)
	GBP	8,144	EUR	9,273	-	(7)
	GBP	223,786	USD	314,865	75	-
Total					**77**	**(27)**
Net Forward Currency Contracts at 31 March 2018						**50**

Prior year comparative		
Open forward currency contracts at 31 March 2017	4,646	(8,314)
Net Forward Currency Contracts at 31 March 2017		**(3,668)**

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. For 2017-18 this was a gain of £19.943m (£37.156m loss in 2016-17).

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	Key Sensitivities Affecting the Valuations Provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the	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 multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pensions funds 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 2018.

	Assessed Valuation Range	Value as at 31 March 2018	Value on Increase	Value on Decrease
	(+/-)	£'000	£'000	£'000
Private Equity	26%	29,345	36,975	21,715

15A 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 2018	Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Level 3	Non-Tiered	Total
	£'000	£'000	£'000	£'000	£'000
Financial Assets					
Fair value through profit and loss	1,603,710	229,931	297,512	-	2,131,153
Loans and receivables	-	-	-	62,599	62,599
Total Financial Assets	**1,603,710**	**229,931**	**297,512**	**62,599**	**2,193,752**
Financial Liabilities					
Fair value through profit and loss	-	-	-	(2,016)	(2,016)
Measured at amortised cost	-	-	-	(2,379)	(2,379)
Total Financial Liabilities	**-**	**-**	**-**	**(4,395)**	**(4,395)**
Net Investment Assets	**1,603,710**	**229,931**	**297,512**	**58,204**	**2,189,357**

Values at 31 March 2017	Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Level 3	Non-Tiered	Total
	£'000	£'000	£'000	£'000	£'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 Financial Assets	**1,570,410**	**218,419**	**288,709**	**45,797**	**2,123,335**
Financial Liabilities					
Fair value through profit and loss	-	-	-	(4,382)	(4,382)
Measured at amortised cost	-	-	-	(3,531)	(3,531)
Total Financial Liabilities	**-**	**-**	**-**	**(7,913)**	**(7,913)**
Net Investment Assets	**1,570,410**	**218,419**	**288,709**	**37,884**	**2,115,422**

15B Reconciliation of Fair Value Measurements within Level 3

Period 2017/18	Market value at 31 March 2016	Transfers into Level 3	Transfers out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market value at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity	43,334	-	-	663	(3,300)	(26,693)	15,341	29,345
Alternatives	245,375	-	-	53,814	(28,576)	(24,408)	21,962	268,167
Total	**288,709**	**-**	**-**	**54,477**	**(31,876)**	**(51,101)**	**37,303**	**297,512**

Period 2016/17	Market value at 31 March 2015	Transfers into Level 3	Transfers out of Level 3	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains/(losses)	Realised gains/(losses)	Market value at 31 March 2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity	56,338	-	-	774	(19,838)	(10,486)	16,546	43,334
Alternatives	183,434	-	-	88,467	(69,126)	18,230	24,370	245,375
Total	**239,772**	**-**	**-**	**89,241**	**(88,964)**	**7,744**	**40,916**	**288,709**

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 2017			31 March 2018		
	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	726,451	-	-	751,286	-	-
Pooled Investments:						
- Property	187,038	-	-	194,461	-	-
- Infrastructure	31,381			35,420		
- Private Equity	43,334	-	-	29,345	-	-
- Bonds	262,168	-	-	264,097	-	-
- Equities	577,302	-	-	582,508	-	-
- Alternatives	245,375	-	-	268,167	-	-
Cash	-	37,490	-	-	54,894	-
Other Investment Balances	4,489	-	-	5,869	-	-
Debtors	-	8,307	-	-	7,705	-
	2,077,538	**45,797**	**-**	**2,131,153**	**62,599**	**-**
Financial Liabilities						
Other Investment Balances	(4,382)	-	-	(2,016)	-	-
Creditors	-	-	(3,531)	-	-	(2,379)
	(4,382)	**-**	**(3,531)**	**(2,016)**	**-**	**(2,379)**
	2,073,156	**45,797**	**(3,531)**	**2,129,137**	**62,599**	**(2,379)**

Net Gains and Losses on Financial Instruments

	2016/17	2017/18
	£000	£000
Financial Assets		
Designated at Fair Value through Profit and Loss	364,274	35,084
Loans and Receivables	-	-
Financial Liabilities		
Fair Value through Profit and Loss	-	-
Financial Liabilities at Amortised Cost	-	-
	364,274	**35,084**

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.

a) 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 2017-18 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 movements (+/-)
UK Bonds	6.0%
UK Equities	10.0%
Overseas Equities	10.0%
Property	16.0%
Infrastructure	18.0%
Private Equity	26.0%
Alternatives	10.0%

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 2018	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Bonds	264,097	6.0%	279,943	248,251
UK Equities	403,796	10.0%	444,176	363,416
Overseas Equities	929,997	10.0%	1,022,997	836,997
Property	194,461	16.0%	225,575	163,347
Infrastructure	35,420	18.0%	41,796	29,044
Private Equity	29,345	26.0%	36,975	21,715
Alternatives	268,167	10.0%	294,984	241,350
Total Assets Available	**2,125,283**		**2,346,446**	**1,904,120**

Asset Type	Value at 31 March 2017	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Bonds	262,168	8.0%	283,141	241,195
UK Equities	398,290	13.0%	450,068	346,512
Overseas Equities	905,463	12.0%	1,014,119	796,807
Property	187,038	13.0%	211,353	162,723
Infrastructure	31,381	13.0%	35,461	27,301
Private Equity	43,334	21.0%	52,434	34,234
Alternatives	245,375	8.0%	265,005	225,745
Total Assets Available	**2,073,049**		**2,311,581**	**1,834,517**

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 2018 and 31 March 2017 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 2018 £'000	Percentage movement on 1% change in Interest Rates	Value on Increase £'000	Value on Decrease £'000
Cash and Cash Equivalents	38,746	-	38,746	38,746
Cash Balances	16,148	-	16,148	16,148
Bonds	264,097	2,641	266,738	261,456
Total	**318,991**	**2,641**	**321,632**	**316,350**

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**

Income Exposed to Interest Rate Risk

Asset Type	Value at 31 March 2018 £'000	Percentage movement on 1% change in Interest Rates	Value on Increase £'000	Value on Decrease £'000
Cash Deposits, Cash and Cash Equivalents	61	1	62	60
Bonds	-	-	-	-
Total	**61**	**1**	**62**	**60**

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	78	1	79	77
Bonds	-	-	-	-
Total	**78**	**1**	**79**	**77**

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.

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 8%, as measured by one standard deviation (13% in 2016-17).

An 8% 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.

An 8% 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

Asset Type	Value at 31 March 2018	Percentage Market Movement	Value on Increase	Value on Decrease
	£'000	£'000	£'000	£'000
Overseas/Global Equities	751,282	60,103	811,385	691,179
Pooled Investments:				
Overseas/Global Equity	178,715	14,297	193,012	164,418
Overseas/Global Property	15,918	1,273	17,191	14,645
Overseas/Global Infrastructure	1,498	120	1,618	1,378
Overseas/Global Private Equity	29,345	2,348	31,693	26,997
Overseas/Global Alternatives	268,167	21,453	289,620	246,714
Total	**1,244,925**	**99,594**	**1,344,519**	**1,145,331**

Asset Type	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 Infrastructure	2,566	334	2,900	2,232
Overseas/Global Private Equity	40,769	5,300	46,069	35,469
Overseas/Global Alternatives	245,375	31,899	277,274	213,476
Total	**1,213,332**	**157,734**	**1,371,066**	**1,055,598**

b) 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 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, and 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.

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.

c) Liquidity risk

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

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31 March 2018, these assets totalled £1,598m (£1.566m as at 31 March 2017), with a further £54.893m held in cash (£37.489m as at 31 March 2017). 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.

d) 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 2016. 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	Secondary Rate £'000		
(% of Pay)	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 2016	%
UK Equities	5.9
Overseas Equities	5.5
Fixed Interest GILTS	2.2
Index Linked GILTS	2.2
Corporate Bonds	3.4
Property & Infrastructure	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	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 2018 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 2017-18 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 2018	31 March 2017
Active members (£m)	1,465	1,347
Deferred members (£m)	750	755
Pensioners (£m)	1,128	1,174
Total (£m)	**3,343**	**3,276**

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. 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 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £66m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended (% p.a.)	31 March 2018	31 March 2017
Pension Increase Rate	2.4%	2.4%
Salary Increase Rate	2.8%	2.8%
Discount Rate	2.7%	2.6%

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 a 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 not 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 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	276
0.5% p.a. increase in the Salary Increase Rate	1%	49
0.5% p.a. decrease in the Real Discount Rate	10%	345

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 2018 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 AFA
30 April 2018
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. Debtors includes £3.839m relating to contributions due from employers (£4.701m in 2016-17) and £1.288m for contributions due from employees (£1.411m in 2016-17).

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.

	31 March 2017	31 March 2018
	£'000	£'000
Debtors	7,028	6,852
Long Term Debtors	1,279	853
Cash Balances	10,881	16,148
	19,188	**23,853**

Analysis of Debtors

	31 March 2017	31 March 2018
	£'000	£'000
Debtors:		
Central Government Bodies	345	1,792
Other Local Authorities	6,007	3,684
Other Entities and Individuals	676	1,376
	7,028	**6,852**
Long Term Debtors:		
Central Government Bodies	1,279	853
	1,279	**853**

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 2017	31 March 2018
	£'000	£'000
Creditors	(3,531)	(2,379)
	(3,531)	**(2,379)**

Analysis of Liabilities

	31 March 2017	31 March 2018
	£'000	£'000
Creditors:		
Central Government Bodies	9	(19)
Other Local Authorities	(4)	(27)
Other Entities and Individuals	(3,536)	(2,333)
	(3,531)	**(2,379)**

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 £8.651m (£8.902m in 2016-17). Member contributions of £1.021m (£1.020m in 2016-17) were received by the Prudential in the year to 31 March and £1.814m (£1.954m in 2016-17) 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 £0.172m 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 £28.386m to the Fund in 2017-18. 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 £15.763m and interest of £0.071m was earned over the year.

<u>Governance</u>

Under legislation introduced in 2003-04, Councillors have been entitled to join the Scheme, however this changed from the 1 April 2014 and no new Councillors are now able to join the scheme. Following the Council elections in May 2017, any Councillors who were contributing members became deferred members in the scheme. One Committee member, A Antcliff (employee representative), is a contributing member of the Pension Fund as at 31 March 2018.

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 Schedule 1 of the Accounts and Audit (England) Regulations 2015) 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.

This disclosure can be found in the main accounts of Lincolnshire County Council at Note 33, which are available on the Council's website at www.lincolnshire.gov.uk/finance.

Note 25. Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity, property or infrastructure investments. At the year end, the value of outstanding commitments to the twenty-one investment vehicles amounted to £46.743m.

Note 26. Contingent Assets

Six 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 31 March 2018. 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. Statutory Claims - Court of Appeal - the court has proceeded to make a positive final order, however, the claims are held to be out of time by this court and need to proceed to the High Court to recover these periods. High Court claimants may be able to benefit from the provisions of the Limitation Act 1980 which would allow an extended time limit for claims. Pinsent Masons are currently liaising with the test claimant and Counsel regarding these proceedings.
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 Upper Tier (UT) Tribunal in February 2018 and it is expected that there will be a decision by the end of May. Although it is notoriously difficult to make predictions based on the hearing we were encouraged by how the arguments progressed and questions asked by the UT. It is possible the UT will decide a reference to the Couty of Justice of the EU (CJEU).
Total		**£2,215,918**		

Territory	Claim Period	Amount (local currency)	Submitted	Status
Fokus Bank				
Netherlands	2004-2006	€ 130,076	Jan 2010	Claims repaid in January 2010.
Germany	2007-2010	€ 191,946	Dec 2011	There has been no response from the German Tax Authorities. Litigation has been initiated by a Canadian resident pension fund. The Court issued a positive decision, finding that the Canadian-resident pension fund was comparable to a German-resident Pension Funds. This may be helpful to UK pension fund claims.
Spain	Q4 2007 - Q4 2009	€ 85,072	Jan 2012	Claims 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	195	17	212
Admitted Body	20	12	32
Total	**215**	**29**	**244**

Scheduled & Admitted Bodies Contributing to the Fund as at 31 March 2018:

County and District Councils	Parish and Town Councils (cont)	Academies
Lincolnshire County Council (inc LCC Schools)	Stamford TC	Aegir Community Academy
	Sutton Bridge PC	Alford Queen Elizabeth
Boston Borough Council	Sudbrooke PC	Barnes Wallis Academy
East Lindsey District Council	Washingborough PC	Bassingham Primary Academy
City of Lincoln Council	Woodhall Spa PC	Beacon Primary
North Kesteven District Council		Boston Grammar
South Kesteven District Council	**FE Establishments**	Boston High School
South Holland District Council	Bishop Grosseteste University	Boston John Fielding
West Lindsey District Council	Boston College	Boston West Academy
	Grantham College	Boston Witham Federation
Internal Drainage Boards	Lincoln College	Bourne Abbey Academies Trust
Black Sluice	Stamford College	Bourne Academy
Lindsey Marsh		Bourne Grammar
North East Lindsey	**Other Scheduled Bodies**	Bourne Westfield Primary
South Holland	Acorn Free School	Bracebridge Infant and Nursery
Upper Witham	BG Lincoln	Branston CofE Infant School
Welland and Deeping	Compass Point	Branston Community Academy
Witham First	Lincs Police Chief Constable	Branston Junior Academy
Witham Fourth	Police & Crime Commissioner	Browns CofE Academy
Witham Third		Caistor Grammar Academy
	Admitted Bodies	Caistor Yarborough
Parish and Town Councils	Active Lincolnshire	Carlton Academy
Billinghay PC	Active Nation	Castle Wood Academy
Bourne TC	Adults Supporting Adults	Caythorpe Primary Academy
Bracebridge Heath PC	Aspens Services (Monks Dyke Tennyson Academy)	Charles Read Academy
Cherry Willingham PC		Coningsby St. Michaels CofE Primary Academy
Crowland PC	Boston Mayflower	
Deeping St James PC	Caterlink	Cordeaux Academy
Gainsborough TC	Easy Clean Contractors Ltd	Edenham CofE Academy
Gedney PC	Edwards & Blake	Ellison Boulters Academy
Greetwell PC	G4S	Ermine Primary
Heighington PC	GLL	Fosse Way Academy
Horncastle TC	Kier Group	Gainsborough Benjamin Adlard
Ingoldmells PC	Lincoln Arts Trust	Gainsborough Parish Church
Langworth PC	Lincoln BIG	Giles Academy
Louth TC	Lincs HIA	Gipsey Bridge Academy
Mablethorpe & Sutton TC	Magna Vitae	Gosberton House Academy
Market Deeping TC	Making Space	Grantham Ambergate
Metheringham PC	New Linx Housing	Grantham Isaac Newton Primary
Nettleham PC	Outspoken Training	Grantham Kings School
North Hykeham TC	Serco	Grantham Sandon
Pinchbeck PC	Vinci	Grantham Walton Girls
Skegness TC		Harrowby CofE Infants
Skellingthorpe PC		Hartsholme Academy
Sleaford TC		Heighington Millfield Academy

Academies (cont)	Academies (cont)	Academies (cont)
Hillcrest EY Academy	Marton Primary Academy	Stamford Malcolm Sargent
Hogsthorpe Primary Academy	Mercer's Wood Academy	Stamford St Augustines
Holbeach Primary	Morton CofE Academy	Stamford St Gilberts
Horncastle Banovallum	Mount Street Academy	Stamford Welland Academy
Horncastle QE Grammar	National CofE Junior	The Deepings Academy
Huntingtower Community Primary	Nettleham Infants Academy	The Gainsborough Academy
Huttoft Primary Academy	North Kesteven School	The Garth School
Ingoldmells Academy	North Thoresby Primary	The Lincolnshire Teaching & Learning Centre
Ingoldsby Primary Academy	Phoenix Family Academy	
John Spendluffe Tech College	Priory Federation of Academies	The Phoenix School
Keelby Primary Academy	Rauceby CofE	The Priory School
Kesteven & Grantham Academy	Ruskington Chestnut Street	Theddlethorpe Primary Academy
Kesteven & Sleaford High	Sir Robert Pattinson Academy	Thomas Cowley Academy
Kidgate Primary Academy	Sir William Robertson	Thomas Middlecott Academy
Kirkby La Thorpe	Skegness Academy	Tower Road Academy
Lincoln Castle Academy	Skegness Grammar	University Academy Holbeach
Lincoln Christs Hospital School	Skegness Infant Academy	Utterby Primary Academy
Lincoln Our Lady of Lincoln	Skegness Junior Academy	Waddington All Saints Primary Academy
Lincoln St Hugh's Catholic	Sleaford Carres Grammar	
Lincoln St Peter & St Paul's	Sleaford Our Lady of Good Counsel	Wainfleet Magdalene Primary
Lincoln UTC	Sleaford St Georges	Warren Wood Specialist Academy
Lincoln Westgate Primary	Sleaford William Alvey	Washingborough Academy
Lincoln Anglican Academies	Somercotes Academy	Welton William Farr CE
Ling Moor Academy	South Witham Community	Welton St Mary's CofE
Little Gonerby CofE	Spalding Academy	West Grantham Federation
Long Bennington CofE	Spalding Grammar	Weston St Mary
Louth Academy	Spilsby Eresby	Whaplode CofE Academy
Louth King Edward VI Grammar	Spilsby King Edward Academy	White's Wood Academy
Mablethorpe Academy	Spilsby Primary Academy	William Lovell Academy
Manor Farm Academy	St Bernards Academy Louth	Witham St Hughs Academy
Manor Leas Infant Academy	St Giles Academy	Woodhall Spa St Andrews
Manor Leas Junior Academy	St John's Primary Academy	Woodlands Academy Spilsby
Market Rasen De Aston	St Lawrence Academy Horncastle	

Note 30 Exchange Rates Applied

The exchange rates used at 31 March 2018 per £1 sterling were:

Exchanges Rates Applied	
Australian Dollar	1.8288
Brazilian Real	4.6624
Canadian Dollar	1.8086
Swiss Franc	1.3433
Danish Krone	8.5023
Euro	1.1406
Hong Kong Dollar	11.0096
Indonesian Rupiah	19,313.0503
Israeli Shekel	4.9250
Japanese Yen	149.1878
Korean Won	1,495.2446
Mexican Peso	25.6060
Norwegian Krone	11.0133
New Zealand Dollar	1.9446
Polish Zloty	4.8050
Swedish Krona	11.7482
Singapore Dollar	1.8395
Thai Baht	43.8656
Turkish Lira	5.5571
Taiwan Dollar	40.9015
US Dollar	1.4028
South African Rand	16.6215

Lincolnshire Fire & Rescue

Pensions Fund 2017-18

2016/17 £'000	Fund Account	Note	2017/18 £'000
	Contributions Receivable:		
	From employer:		
(1,561)	Contributions in relation to pensionable pay	4	(1,711)
0	Early Retirements - Ill Health	4	0
	From members		
(1,336)	Fire-fighters' contributions	4	(1,394)
0	From MHCLG (commutations special income)		0
	Transfers in:		
0	Individual transfers from other schemes from Local Authorities	7	(97)
0	Individual transfers from other schemes other than Local Authorities	7	0
	Benefits payable:		
5,319	Pensions	5	4,896
598	Commutations and lump sum retirement benefits	5	999
0	Lump sum death benefits	5	0
	Payments to and on account of leavers:		
15	Individual transfer out to other schemes	7	0
0	Refunds of contributions	7	0
3,035	**Sub Total Net amount payable for the year before top up grant receivable**		**2,693**
(3,035)	Top up grant receivable from sponsoring department	6	(2,693)
0	**net amount payable/receivable**		**0**

31 March 2017 £'000	Net Asset Statement as at:	31 March 2018 £'000
	Current Assets:	
996	Pensions top up grant due	64
996	**Total Current Assets**	**64**
	Current Liabilities:	
(996)	Amounts payable to LCC	64
(996)	**Total Current Liabilities**	**64**
0	**Total**	**0**

MHCLG = Ministry of Housing, Communities and Local Government

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 County Councils General Fund is shown as 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 44 to the Councils Financial Statement shows the Councils 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 now covers the 1992, 2006 and 2015 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 Ministry of Housing, Communities and Local Government (MHCLG)/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 firefighters 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.

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 2015-16 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 Ministry of Housing, Communities and Local Government (MHCLG); if contributions are insufficient to meet the cost of benefits payable, or by paying over any surplus to the MHCLG. 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.

Lincolnshire County Council

Draft - Annual Governance Statement 2018

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151	What is Corporate Governance?
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Executive Summary

The Leader of the Council (Cllr Martin Hill OBE) and Interim Chief Executive (Richard Wills) both recognise the importance of having good management, effective processes and other appropriate controls in place to have a well-run Council - 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 March 2018 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 June 2018 - where it was recommended for signing by the Leader of the Council, Interim 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 or where governance oversight is needed.

Key improvement Area	Lead Officer	To be delivered by
IT Governance	Interim Chief Executive	TBC
Fairer Funding – Financial Sustainability	Executive Director – Finance and Public Protection	TBC
Market Supply - Adult Social Care	Executive Director – Adult Care	TBC
Collaborative Working – Governance Arrangements	Interim Chief Executive	TBC

Councillor Martin Hill OBE
Leader of the Council

Richard Wills
Interim 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 performance through robust internal control and strong financial management
G. Implementing good practice in transparency, reporting and audit – delivering effective accountability

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 – including any commercial activities Having an effective Audit Committee Effective counter fraud arrangements in place	Having rigorous and transparent decision making processes in place Maintaining an effective scrutiny process Publishing up to date and good quality information on our activities and decisions. Maintaining an effective internal and external audit function

The Council – How it works

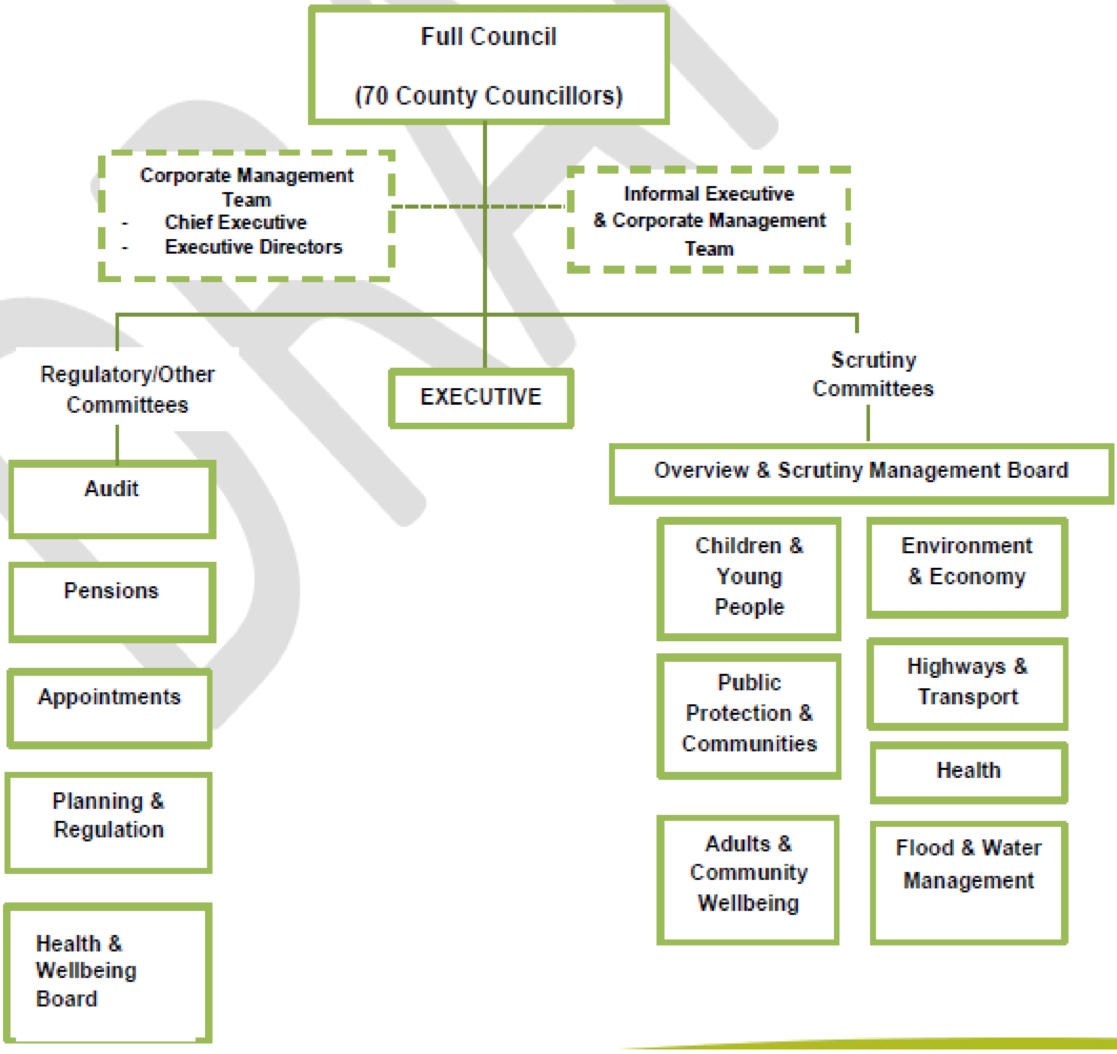
The Annual Governance Statement covers the period 1st April 2017 to 31st March 2018. The information below relates to this period. A new Executive and Scrutiny structure came into effect from May 2017.

The Council is made up of 70 Councillors and operates a Leader and Executive model of decision making.

All 70 Councillors meet at full Council to agree the budget and policy framework. The Executive makes the decisions that deliver the budget and policy framework of the Council and consists of a minimum of 2 Members and a maximum of 10. In 2017/18 the Leader and 7 Councillors sat on the Executive.

The remaining 62 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.

Figure 2 – Council Committee Structure

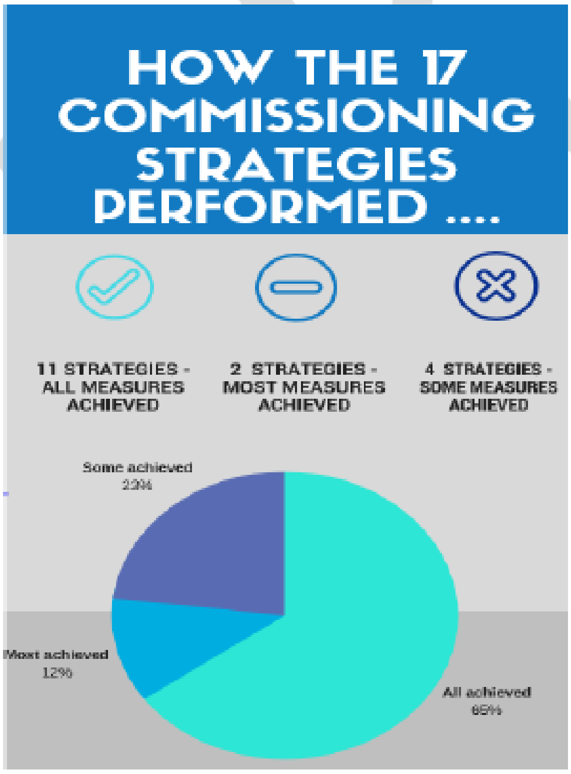


Outcomes and Value for money

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:

A link to the Performance Dashboard can be found [here](). We achieved the majority of the targets we set out in our Council Business Plan 2017/18. A summary of our performance as a snap shot at the end of March 2018 is presented below. This will be updated for Q4 information



All measures achieved

- Children are safe and healthy
- Safeguarding adults
- Community resilience & assets
- Readiness for adult life
- Readiness for school
- Specialist adult services
- Sustaining & growing business & the economy
- Sustaining & developing prosperity through infrastructure
- How we effectively target our resources (*a combination of 3 commissioning strategies* – how we do our business – enablers to the business – partnership engagement and support)

Most measures achieved

- Adult frailty & long-term conditions
- Carers

Some measures achieved

- Protecting the public
- Wellbeing
- Protecting & sustaining the environment
- Learn & achieve

Managing our resources (Value for Money)

The external auditors of the Council issued an unqualified Value for Money judgement for 2016/17 having issued a qualified opinion in the previous year reflecting the then inadequate budget monitoring information available from Agresso during that year. There have been no Agresso related issues in 2016/17 that have impacted upon the Value for Money judgement and none are anticipated during 2017/18.

The Council is generally in a sound financial position relative to other Council's over the short term. This is a consequence of implementation many savings initiatives in the earlier part of this decade. A strategy of combining both service efficiency savings and modest service reductions combined with the prudent use of reserves has been applied for a number of years now. The Council has set a two year budget up to March 2020 covering the remainder of the spending review period set by Government. This has maintained the previous strategy and would leave the Council with at least enough in reserves to cover an underlying deficit at April 2020 for a minimum of at least another year. As in previous years, there has been no general increase in public dissatisfaction across the board with the standard of services delivered. Specific changes have caused some public disquiet at and just after the point of their initiation.

The 2018/19 budget does not include any major service reductions or rationalisations. Public consultation on that budget has therefore not been as extensive as in some earlier years. Final budget proposals have been modified in two specific areas to reflect feedback from the public and other key stakeholders. Firstly, funding to Citizen Advice Service has been partly reinstated rather than stopped completely to allow a core service still to be provided across the county. In addition, extra local funding has been allocated to highways maintenance to deal, in particular, with public concerns over the damage the winter weather has caused to the network.

The Council is constantly monitoring its long term financial position using a funding model which presently covers the next four financial years (i.e. up until March 2022), a period that includes the last two years covered by the four year funding deal agreed with Central Government in 2016. The model predicts the budget shortfall for future years taking into account known cost pressures and planned savings. The model is necessarily underpinned by a range of prudent assumptions. The partial localisation of business rates from April 2020 combined with the impact of the related Fair Funding Review being undertaken by Government will drive the Council's finances from April 2020 onwards. The Council will be actively planning for the potential consequences of the new regime during the 2018/19 financial year.

The longer term projected budget shortfall is periodically reported to the Corporate Management Board and forms a starting point for setting future budgets.

The Council's governance arrangements around its commercial activities, is due to be formally established during 2018 with the development of a Commercial Strategy and oversight functions through its normal governance and decision making arrangements.

We will consider any lessons learned or recommended good practice issued by CIPFA arising from the financial governance issues identified at Northamptonshire County Council.

The Council has responded proactively in its role as accountable body for the [Greater Lincolnshire Enterprise Partnership] (GLEP) to enhanced accountability and governance requirements emanating from Central Government. The GLEP was recently assessed by Government as 'Good' for governance and strategy and has some 'areas for improvement' regarding delivery. Action is well in hand to mitigate the concerns that led to the latter conclusion.

How do we know our arrangements are working?

There are a number of ways we do this:-

The role of the Executive

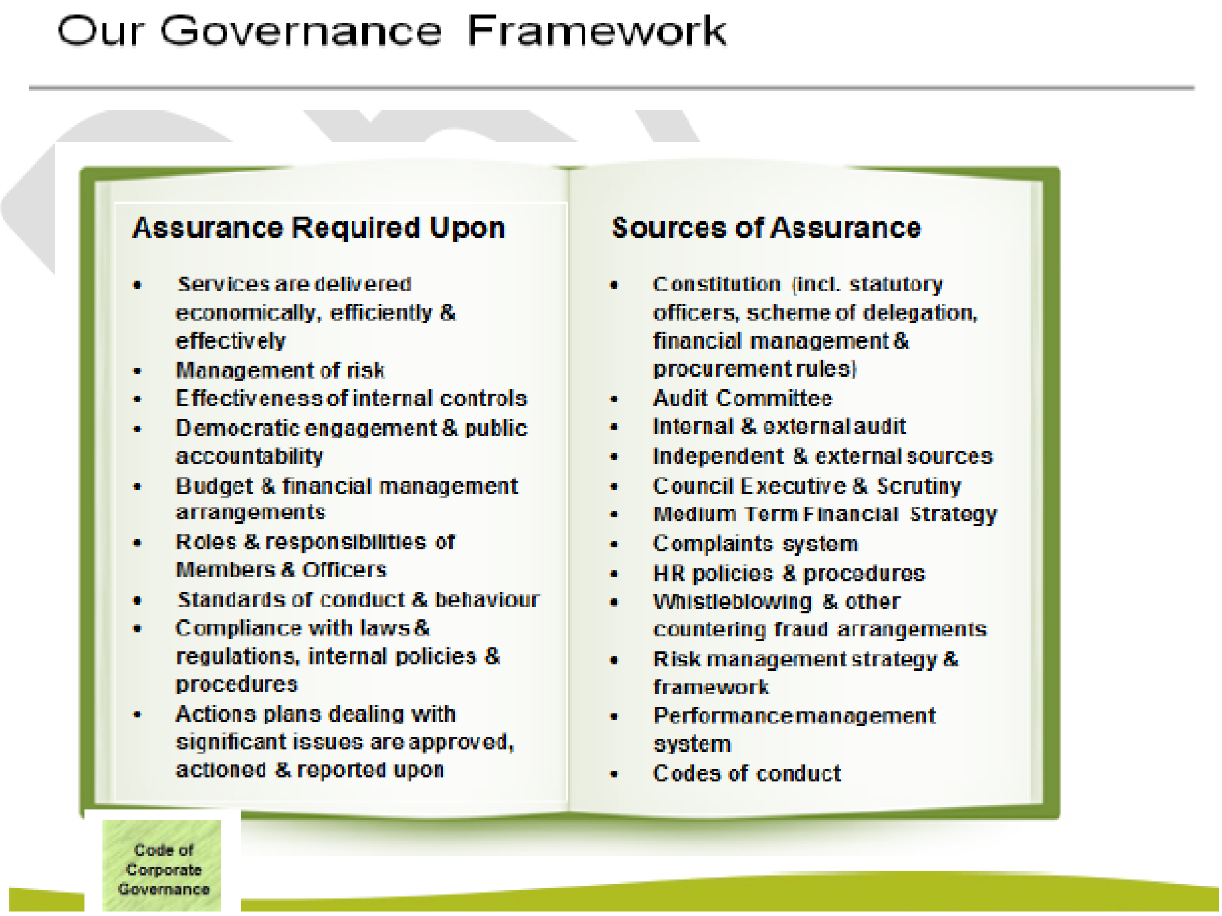
The Leader of the Council, the Interim Chief Executive and Executive Director – Finance and Public Protection have overseen the review of and signed the Annual Governance Statement.

The Annual Governance Statement is brought to the attention of the Council.

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 Board and Governance Group oversee the review and the Council's governance arrangements and the development the Annual Governance Statement.



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.

[Audit Committee Meetings and Minutes]

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 2018.

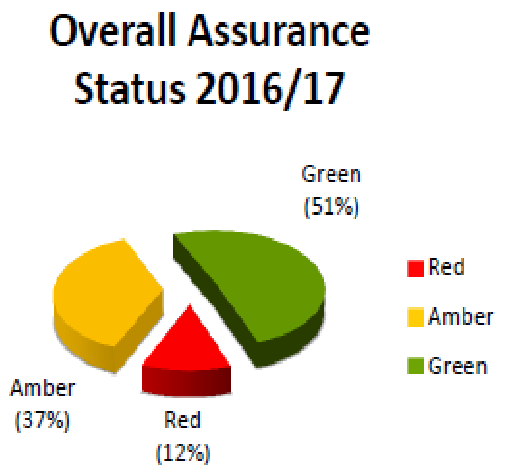
The Council adopts the 'three lines of assurance methodology;-

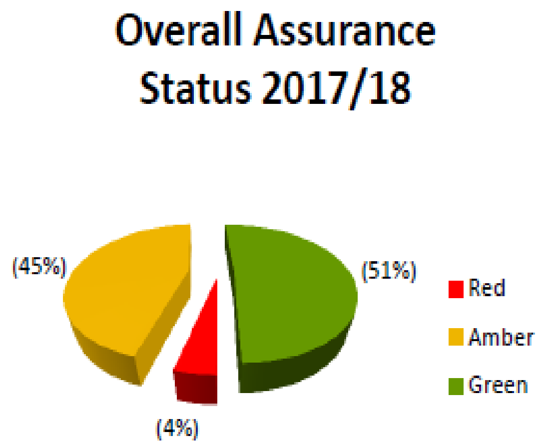
We did this by:

- 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

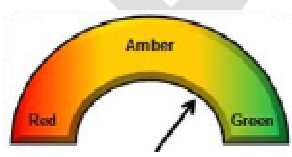
Red	High impact on resources, significant costs likely, high impact on service delivery
Amber	Medium or short term impact on resources, costs covered within existing financial plans, low impact on service delivery
Green	Monitor and be aware, activity to mitigate risk within existing service delivery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

The role of the Head of Internal Audit

The Head of Internal Audit is required to provide an independent 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. Their Annual Report and opinion has been considered in the development of the Annual Governance Statement and any significant governance issues incorporated as appropriate.

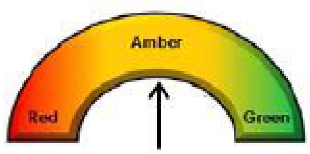
Head of Internal Audit opinion – twelve months to 31st March 2018

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 Adequately – Some improvement required to manage a significant governance issue or high risk in a specific business area or a medium risks across the Council

Internal Control

Performing Adequately – Some improvement required to manage a significant governance issue or high risk in a specific business area or a medium risks across the Council

Financial control

Performing Adequately – Some improvement required to manage a significant governance issue or high risk in a specific business area or a medium risks across the Council

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	*Good and effective management arrangements in place with controls working effectively*	Amber	Substantial
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	Limited
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
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
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 2016/17

A number of improvement actions were identified as part of the 2016/17Annual Governance Statement. The table below shows progress with these actions:

Key improvement Area	To be delivered by	Progress
IT Governance	March 2018	Behind Plan
Financial Sustainability	February 2018	On track
Financial Control Environment	March 2018	Behind Plan
Market Supply	March 2018	On track
SERCO contract – Lessons Learnt (KPMG report).	March 2018	Completed
Delivery of Support Services and Improvement - SERCO	March 2018	On track
Collaborative Working - Governance Arrangements	March 2018	Behind Plan – Financial Procedure requires updating

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. Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.
	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.
	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 intended for use or to be sold within the normal operating cycle. They 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' do not meet the definition of a current asset and can be tangible (e.g. school buildings) or intangible (e.g. computer software licences). • 'Donated assets' are assets which transferred to the Council at nil value or acquired at less than fair value. • 'Heritage Assets' are of an historic nature, including buildings and collections; which are held by the Council. • 'Intangible Assets' are without physical substance. Examples include: computer software and 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 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 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 & Requirements)	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. Requirements - Statutory requirement to ensure that over the medium term the net borrowing by the Council will only be for capital purposes.
	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 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…	…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. …Liability are potential costs 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.
	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. Long Term Debtors are 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.
	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. • Straight Line basis is the method of calculating depreciation by charging the same amount each year over the assets life.
	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.

E	Employee benefits	Are all forms of consideration (both monetary and in-kind) given by the Council in exchange for service rendered. Short Term Employee Benefits (other than termination benefits) fall due wholly within 12 months after the end of the period in which the employees render the related service.
	Exceptional Items	Are all forms of consideration (both monetary and in-kind) given by the Council in exchange for service rendered.
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 are a right to future economic benefits controlled by the Council. … Liabilities are an obligation to transfer 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).
	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.
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.
	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.
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'.
	Operations (Acquired & Discontinued)	Operations comprise services and division of service as defined in SERCOP. - Acquired operations are those that are acquired in the period by the Council. - Discontinued operations are those that are discontinued in the period. Responsibilities that are transferred from one part of the public sector to another are not discontinued operations.
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 is the precepting Authority and the District Councils are the collecting Authorities 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 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 land or buildings held to earn rental income 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	A set of financial indicators and limits that are calculated in order to demonstrate that Councils' capital investment plans are affordable, prudent and sustainable.
	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. • Capital Adjustment Account reserve largely consisting of resources applied to capital financing and not available to the Council to support new investment. • Earmarked Reserves are those elements of total Council reserves which are retained for specific purposes. • Revaluation Reserve holds revaluation gains on assets recognised since 1 April 2007 only, the date of its formal implementation.

	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:
		    o Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
		    o 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).

	Revaluation Gain	The increase to the fair value of an asset following a valuation.
	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 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.

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.
	Specific Grant	A grant awarded to a Council for a specific purpose or service that cannot be spent on anything else.
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.

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The Chartered Institute of Public Finance & Accountancy

CIPFA Better Governance Forum

Audit Committee Update

– helping audit committees to be effective

Developing an Effective Annual Governance Statement

March 2018

Dear Audit Committee Member,

I hope you find the first Local Audit Quality Forum a useful and worthwhile day. CIPFA believes that audit committees have a valuable role to play in supporting good governance, strong public financial management and effective internal audit and external audit, so we are very pleased to support this initiative.

I hope this briefing will be a useful resource to supplement the day. It looks at the steps an authority can take to develop an effective annual governance statement and the contribution the audit committee can make to that.

The briefing is available to download free from our website: www.cipfa.org/services/support-for-audit-committees.

Our Position Statement on Audit Committees will also be available to download from the CIPFA website shortly.

Best wishes

Rob Whiteman
Chief Executive
CIPFA

Developing an Effective Annual Governance Statement

CIPFA and Solace introduced a new governance framework, *Developing Good Governance in Local Government: Framework*, in April 2016, with seven new governance principles. By adopting the new Framework local authorities should be ensuring that their governance arrangements in practice are in accordance with the principles. The annual governance statement (AGS) is a mandatory requirement for local government bodies set out in statutory regulations[1]. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year. The benchmarks that are used to make that statement are the principles in the Framework.

What does the guidance say?

The guidance for the AGS is included along with the Framework and it builds on the previous requirements[2]. In addition to the organisation acknowledging its responsibility for ensuring governance is effective, the AGS should:

- focus on outcomes and value for money
- evaluate against the local code and principles
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- explain action taken in the year to address the significant governance issues identified in the previous year's statement
- be signed by the chief executive and leading member in a council. The police and crime commissioner (PCC) and chief constable should sign theirs.

CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework. Many authorities have tended to use the original text from the 2007 guidance, but CIPFA has not included this in the latest guidance in order to encourage more flexibility.

Who is the audience?

The AGS is prepared to account to your stakeholders and they are wide and varied. They include:

- local citizens
- local businesses
- partners
- Ministry of Housing, Communities and Local Government (MHCLG)
- external auditors, inspectorates and regulators.

In addition, it should also be a statement that is of value internally – to other members of the governing body and to staff.

What makes a meaningful statement?

The most important way to make the statement meaningful is to ensure that it is an open and honest reflection of your governance and your current challenges. It has been known for the AGS to contain 'window dressing statements' to gloss over areas of poor performance or to fudge the effectiveness of interventions. Where that is the case, the AGS adds little value and

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[1] In England the Accounts and Audit Regulations 2015

[2] Delivering Good Governance in Local Government: Framework (Addendum) CIPFA 2012

doesn't build confidence in the leadership of the organisation. One of the key aspects of the AGS is the identification of areas for improvement and the associated action plan. Where these are done well the AGS becomes a meaningful tool for improving governance.

The AGS should also provide a clear evaluation against the principles of good governance and an opinion of whether the arrangements are fit for purpose or not. If the opinion is vague or not included then again the AGS does not send a clear message about accountability.

What can be done to make the statement more effective?

Effectiveness of an AGS will be improved if it more successfully communicates the key messages. There are a number of approaches that some authorities have taken to make their AGS more effective:

- keeping it short and focused – where an organisation has an up-to-date local code that sets out their arrangements, then the AGS can make reference to that rather than repeat the detail
- using diagrams to explain key elements
- using colour or pictures to engage the reader.

Regardless of how well the AGS is written, it will not be effective if it is not regarded as important by those charged with governance and the leadership team.

What shouldn't we do?

There are a number of pitfalls in preparing an AGS. These are some of the common ones:

- not ensuring that a range of perspectives support the AGS
- making it too long and wordy
- including too much description rather than evaluation
- omitting the opinion on whether the arrangements are fit for purpose or not
- not being explicit about the actions that will be taken to address the governance issues identified
- not accounting for action taken to address previous weaknesses.

How can the audit committee help?

The audit committee can play a very valuable role in the development of the AGS and in the finished look of the statement. The committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the committee.

The committee can provide a valuable reality check for the draft document as well. Is it well written and clearly presented? Is the action plan adequate and realistic?

The committee can send an important message about the value and importance of the AGS, which will support those providing assurance to support its conclusions. Once the AGS has been approved, the committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.

A note on timing

For the 2017/18 AGS in England the deadline for approval and publication of the statement will be brought forward to 31 July instead of 30 September. This is a requirement of the Accounts and Audit Regulations 2015. As a result, committees may find that the AGS is appearing on their agendas earlier than in previous years.

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CIPFA The Chartered Institute of Public Finance & Accountancy

audit committees

Practical Guidance for Local Authorities and Police

2018 Edition

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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Thanks also to the audit committee members who have attended our training courses for providing their insight into the challenges, frustrations and rewards of being an audit committee member. I hope that this publication can support you in undertaking your important work.

Diana Melville
Governance Advisor, CIPFA

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CHAPTER 1

Introduction

This publication sets out CIPFA's guidance on the function and operation of audit committees in local authorities and police bodies, and represents best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales.

This publication incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police* (2018) ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement. Throughout the Position Statement the terms 'authority' and 'authorities' are used to include police and crime commissioners (PCCs) and chief constables as well as local authorities and fire and rescue authorities.

The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and police bodies. It also recognises that audit committees are a key component of governance.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In police bodies 'those charged with governance' are the PCC and the chief constable.

Audit committees are an important source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The way in which an audit committee is organised will vary depending on the specific political and management arrangements in place in any organisation. This guidance therefore explores how audit committees relate to organisations' different arrangements for managing and governing themselves.

Audit committees in local authorities and police bodies are necessary to satisfy the wider requirements for sound financial management and internal control. For example in England, the Accounts and Audit (England) Regulations 2015 state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the Local Government Act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs".

Regardless of the specific legislative or regulatory framework, the chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit, helping to ensure that it is adequate and effective. Both these elements are now enshrined in the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (LGAN).

There have been a number of significant developments in governance and audit practice since 2013 which have emphasised the importance of the audit committee. Key developments include:

- the new Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)
- updates to the PSIAS in 2016 and 2017
- the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).

Legislation has also had an impact, in particular the Local Audit and Accountability Act 2014, which introduced changes to the appointment of external auditors. The new combined authorities must also establish an audit committee in accordance with statutory regulations. For police bodies, the operation of joint audit committees supporting both the PCC and the chief constable have now completed a full term and further changes are on the horizon.

The Policing and Crime Act 2017 enables a PCC (following local consultation and approval from the secretary of state) to take on the governance of its local fire and rescue service(s) to become the fire and rescue authority, known as a police and crime commissioner fire and rescue authority (PCC FRA). This would be a separate legal entity from the PCC.

The PCC FRA would be a corporation sole and a fire and rescue authority. There would therefore be the need for appropriate audit committee arrangements. Guidance on this is expected to be included in the Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018). The aim of this publication is to support fire and rescue authority and police audit committees in performing effectively.

Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. For police audit committees, there is a requirement to have independent members on the audit committee and Welsh authorities and English combined authorities must also include at least one independent member. CIPFA considers that this is in line with good practice. In establishing their audit committees, other authorities should recognise the need to demonstrate good governance principles and independence from the executive and other political allegiances.

This guidance is applicable to all principal local authorities and fire and rescue authorities in the UK, and to the independent audit committees established to support PCCs and chief constables. Where there is specific legislation or guidance relevant for one sector or devolved government, this has been highlighted in the publication.

CHAPTER 2

CIPFA's Position Statement: Audit Committees in Local Authorities and Police

The scope of this Position Statement includes all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities.

1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:

- act as the principal non-executive, advisory function supporting those charged with governance
- in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
- in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
- have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
- be directly accountable to the authority's governing body or the PCC and chief constable.

4 The core functions of an audit committee are to:

- be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
- in relation to the authority's internal audit functions:
  - oversee its independence, objectivity, performance and professionalism
  - support the effectiveness of the internal audit process

  - promote the effective use of internal audit within the assurance framework
- consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
- monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
- consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
- support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

5 An audit committee can also support its authority by undertaking a wider role in other areas including:

- considering governance, risk or control matters at the request of other committees or statutory officers
- working with local standards and ethics committees to support ethical values
- reviewing and monitoring treasury management arrangements in accordance with Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017)
- providing oversight of other public reports, such as the annual report.

6 Good audit committees are characterised by:

- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
- a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
- a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
  - promoting apolitical open discussion
  - managing meetings to cover all business and encouraging a candid approach from all participants
  - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
- unbiased attitudes – treating auditors, the executive and management fairly
- the ability to challenge the executive and senior managers when required.

7 To discharge its responsibilities effectively the committee should:

- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
- have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
- report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

CHAPTER 3

The purpose of audit committees

Extract from the Position Statement

1 Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high level resource to support good governance and strong public financial management.

2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The overall aim of good governance is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Governance is defined in Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) as follows:

- *Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.*
- *To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.*

Good governance is ultimately the responsibility of the governing body, as well as those with leadership roles and statutory responsibilities in the organisation, including the chief executive, the CFO and the monitoring officer. In local government, the governing body is the full council or authority and both the PCC and chief constable are responsible as a corporation sole.

The audit committee should play a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and reporting. In local government, this committee may be delegated some governance responsibilities by the council; the police audit committee must remain an advisory body to the PCC and the chief constable. New policing arrangements were established by the Police Reform and Social Responsibility Act 2011. Guidance for police audit committees is contained in the Financial

Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018).

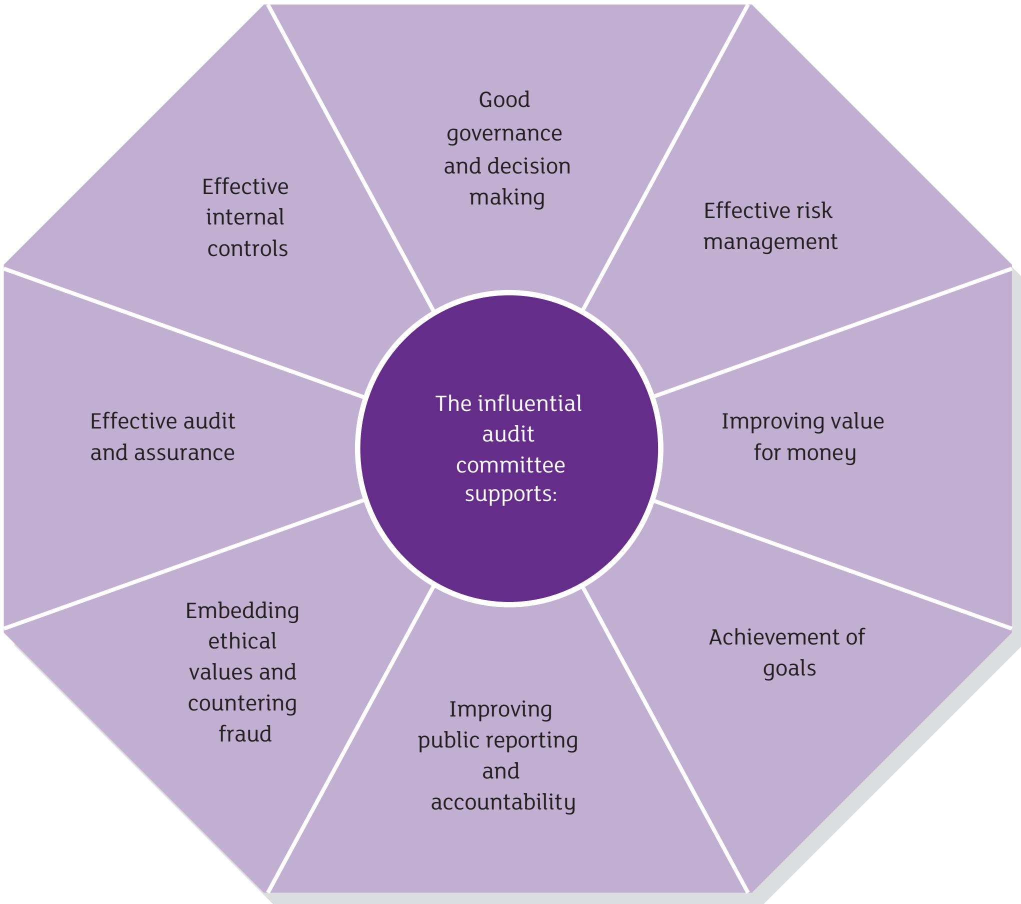
As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. To achieve wide-ranging influence, an audit committee will need commitment and energy from the membership together with support and openess from the authority.

The principal areas where the committee can influence and add value are:

- promoting the principles of good governance and their application to decision making
- raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- supporting arrangements for the governance of risk and for effective arrangements to manage risks
- advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively
- reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions
- aiding the achievement of the authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements
- supporting the development of robust arrangements for ensuring value for money
- helping the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption
- promoting measures to improve transparency and accountability and effective public reporting to the authority's stakeholders and the local community.

The influence that an effective audit committee is able to have in these areas is set out in Figure 3.1 below.

Figure 3.1: The influential audit committee



Source: Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)

CIPFA's view is that audit committee functions can be most effectively delivered by a dedicated audit committee. Such a committee provides a key resource to support the implementation of good governance standards. It is possible for the functions of an audit committee to be undertaken by other bodies, but a dedicated resource is likely to be more knowledgeable and effective, having more time to focus on these important issues.

CHAPTER 4

The core functions of an audit committee

Extract from the Position Statement

4 The core functions of an audit committee are to:

- be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives
- in relation to the authority's internal audit functions:
  - oversee its independence, objectivity, performance and professionalism
  - support the effectiveness of the internal audit process
  - promote the effective use of internal audit within the assurance framework
- consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations
- monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption
- consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
- support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process
- review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

INTRODUCTION

The core functions that audit committees should undertake reflect both standard practice for audit committees across all sectors and specific legislative and professional standards requirements for the local authority and the police sectors. Reconciling these sometimes different requirements leads to audit committees in local authorities and police bodies having the distinctive features outlined in this guidance.

Principal regulations affecting the functions of the audit committee are outlined in Appendix A, and a suggested terms of reference for the committee is included in Appendix B. The remainder of this chapter provides further background and explanation for the audit committee's core functions.

GOOD GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT

Audit committees provide essential support for the approval of the annual governance statement (AGS) and for ensuring that good governance is embedded throughout the authority's day-to-day activities rather than being limited to a once-a-year reporting process. The audit committee is able to support this approach by addressing governance principles in the course of its regular business.

Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) ('the Framework') sets the standard for governance in UK local government bodies. The Framework is supported by guidance notes for each sector as follows:

- Delivering Good Governance in Local Government: Guidance Notes for English Authorities (CIPFA/Solace, 2016)
- Delivering Good Governance in Local Government: Guidance Notes for Scottish Authorities (CIPFA/Solace, 2016)
- Delivering Good Governance in Local Government: Guidance Notes for Welsh Authorities (CIPFA/Solace, 2016).
- Delivering Good Governance: Guidance Notes for Policing Bodies in England and Wales (CIPFA, 2016).

The Framework is principles based and informs the approach to good governance adopted by PCCs and chief constables as well as local authorities and fire and rescue authorities. CIPFA recommends that each authority develops a local code of governance setting out how it applies the principles.

Legislation requires local authorities, fire and rescue authorities and police bodies to prepare an AGS and to report publicly on the effectiveness of governance and control (see Appendix A for details of the legislative requirements). The AGS should be reviewed and then approved by a body of the authority prior to being signed by the leading member and the chief executive of an authority and by the PCC and chief constable. Typically, audit committees undertake the role of reviewing the AGS prior to approval. Police audit committees should review the AGS of both the PCC and the chief constable.

Statutory and professional guidelines will determine when the AGS goes before the audit committee for review. For example, English local authorities under the Accounts and Audit Regulations 2015 must approve and publish the AGS by 31 July at the latest for the financial year starting 2017 and thereafter. CIPFA recommends that the AGS is first reviewed by members of the audit committee at an earlier stage to allow comments and contributions to be made. The AGS must be current at the time it is published, so the audit committee should review it before final approval.

To provide a meaningful review of the AGS, the audit committee should be in a position to draw on knowledge of the governance arrangements as they are established and on assurances of how they have operated in practice during the course of the year. The audit committee should undertake the following activities to discharge their responsibilities:

- review the local code of governance and any changes to the arrangements in the year (note it is not the responsibility of the audit committee to establish any local code, but it should be consulted)
- ensure that the AGS is underpinned by a framework of assurance (see later section for more details on assurance planning)
- over the course of the year, receive reports and assurances over the application of the governance arrangements in practice
- monitor implementation of action plans or recommendations to improve governance arrangements
- consider how the organisation applies governance principles in practice during the committee's review of other agenda items.

Given its role in overseeing the local code of governance and the AGS, the audit committee has an opportunity to promote the implementation of the principles of good governance across the authority: to make things better in the future, not just reviewing what happened in the past. For example, the committee may make recommendations for action to senior management or refer matters to other committees. The limits to the decision-making powers of audit committees are considered in more depth in Chapter 6.

INTERNAL AUDIT

The audit committee has a clear role in relation to oversight of the authority's internal audit function. From 1 April 2013, internal auditors throughout local and central government and health have had to follow the PSIAS and the LGAN. All principal local authorities and other relevant bodies subject to the Accounts and Audit Regulations 2015, the Accounts and Audit (Wales) Regulations 2014, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 must make provision for internal audit in accordance with the PSIAS and LGAN.

The PSIAS include the Mission of Internal Audit, Code of Ethics, Definition of Internal Auditing and the Core Principles for the Professional Practice of Internal Auditing, and together these highlight the importance of effective internal audit to those in the organisation who are responsible for governance.

In its adoption of the PSIAS and LGAN, each authority or police body should consider which committee or individual is the most appropriate to fulfil the role of the board in relation to internal audit. In determining the functional reporting arrangements of internal audit, the authority will need to bear in mind the need to preserve the independence and objectivity of internal audit as required by the PSIAS. It is for these reasons that in the LGAN, CIPFA expressed an expectation that the audit committee would fulfil the role of the board in the majority of instances. Since police audit committees must remain advisory bodies, their role will be to support and review the functional reporting arrangements.

It is a requirement of the PSIAS that the terms of reference of the audit committee should reflect the functional reporting arrangements of internal audit to the audit committee as set out in the internal audit charter, which is the formal document that defines internal audit's purpose, authority and responsibility.

The role of the audit committee in relation to internal audit is to:

1. oversee its independence, objectivity, performance and professionalism
2. support the effectiveness of the internal audit process
3. promote the effective use of internal audit within the assurance framework.

Within police bodies this is an advisory role for the audit committee.

The specific activities that these three objectives lead to are considered below.

Oversee independence, objectivity, performance and professionalism

The following activities are the functional reporting arrangements set out in the PSIAS to ensure the organisational independence of internal audit. According to the specific internal audit charter of the authority, the audit committee could have a role to:

- review or approve the following:
  - the internal audit charter
  - the risk-based internal audit plan
  - the internal audit budget and resource plan
- receive confirmation of the organisational independence of the internal audit activity
- consider the appointment and removal of the head of internal audit or the award of a contract for internal audit services
- make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations
- approve and periodically review any safeguards put in place to limit impairments to independence and objectivity where the head of internal audit has been asked to undertake any additional roles/responsibilities outside of internal auditing
- receive the annual report, which includes:
  - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control
  - a summary of the work on which internal audit has based the opinion
  - a statement on conformance with the PSIAS and the LGAN
  - the results of the quality assurance and improvement programme, including specific detail as required in the PSIAS
- discuss with the head of internal audit the form of the external assessment of internal audit and the qualifications and independence of the assessor.

The head of internal audit or chief internal auditor (referred to in the PSIAS and the LGAN as 'chief audit executive') must have free and unfettered access to the chair of the audit committee. In addition, the chair of the audit committee may serve as sponsor for the external assessment, which forms part of the quality assurance and improvement programme (QAIP) at least once every five years.

Support the effectiveness of the internal audit process

The audit committee has an important role to play in supporting the process of internal audit and outputs from audit work. The following activities form a core part of this:

- receiving updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
- receiving communications from the head of internal audit on the internal audit activity's performance relative to its plan and other matters
- giving approval to internal audit for any significant additional consulting services not already included in the audit plan, prior to internal audit accepting an engagement
- receiving reports on instances where the internal audit function does not conform to the PSIAS or LGAN and considering whether the non-conformance is sufficiently significant that it must be included in the AGS
- overseeing the relationship of internal audit with other assurance providers and with external audit and any inspectorates
- receiving regular reports on the results of the QAIP, including the external assessment.

Promote the effective use of internal audit within the assurance framework

The audit committee should make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to produce an annual internal audit opinion that can be used to inform the AGS. Specific activities will include:

- approving (but not directing) the risk-based plan, considering the use made of other sources of assurance
- receiving reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority
- when considering the AGS, taking into account internal audit's opinion on the overall adequacy and effectiveness of the authority's framework of governance, risk management and control.

Those audit committees that operate under the Local Authority Accounts (Scotland) Regulations 2014 and the Accounts and Audit (Wales) Regulations 2014 must conduct a review of the effectiveness of their internal audit annually (Appendix A includes details of the relevant regulations). The audit committee should take into account internal audit's QAIP when conducting such a review.

The CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (CIPFA, 2010 – due to be updated in 2018) states that engagement between the head of internal audit and the audit committee is a crucial component of delivering an effective internal audit service.

Audit committee members should keep up to date with changes affecting the professional practices and expectations of internal auditors so that they can provide the necessary support.

RISK MANAGEMENT

In determining the audit committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees such as scrutiny committees and the specific responsibilities of those charged with governance in relation to risk management. Where a local authority establishes a separate risk committee, then its roles and responsibilities need to be taken into account in determining the role of the audit committee. Police audit committees are directed in the Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018) to advise the PCC and the chief constable on the adoption of appropriate risk management arrangements. Welsh local authority and English combined authority audit committees are required to review and assess risk management arrangements.

Assurance over risk management will be a key element underpinning the AGS. The audit committee also needs a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit plan or reviews other assurances on areas of risk.

The role of the audit committee in relation to risk management covers three major areas:

- First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:
  - overseeing the authority's risk management policy and strategy and their implementation in practice
  - overseeing the integration of risk management into the governance and decision-making processes of the organisation
  - ensuring that the AGS is an adequate reflection of the risk environment.
- Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:
  - reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency
  - reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately
  - seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
  - following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.
- Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:
  - overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking
  - reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans

– monitoring action plans and development work in the field of risk management practice.

Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

ASSURANCE FRAMEWORKS AND ASSURANCE PLANNING

Authorities may have developed a description or diagram explaining what assurances exist and who is responsible for them. Such descriptions may be described as an assurance framework or assurance map. Typically, they outline key areas of the assurances required by the audit committee, such as on governance, risks and controls, and they identify the assurance providers. These may include internal audit, risk management advisors and management. The audit committee should support initiatives to identify and evaluate assurance in this way.

Whether or not there is a formally set-down assurance framework, the audit committee has a responsibility to understand what assurance is available to support the AGS and to enable the committee to meet its terms of reference. The committee should be seeking to ensure that assurance is planned and delivered with the following objectives in mind:

- clarity of what assurance is required
- clear allocation of responsibility for providing assurance
- avoiding duplication, bearing in mind the differing objectives of assurance activities
- improving the efficiency and cost effectiveness of assurance
- obtaining assurance of appropriate rigour and independence across a range of assurance providers.

Having a clear assurance framework in place will assist the committee in a number of areas. It supports the annual review of effectiveness for the AGS. It also supports the approval of the internal audit risk-based plan as it enables the committee to identify the extent to which it will rely on internal audit for its assurance requirements. In reviewing assurance arrangements, the committee should bear in mind that the assurance process has a cost to the organisation and it should therefore be proportional to the risk.

VALUE FOR MONEY AND BEST VALUE

Making best use of resources is a key objective for all local authorities and it is part of the Framework. One of the behaviours and actions that underpin Principle C of the Framework is “delivering defined outcomes on a sustainable basis within the resources that will be available”.

Under Sections 2, 3 and 35 of the Police Reform and Social Responsibility Act 2011, the chief constable has statutory responsibility to secure value for money (VfM) and the PCC to hold the chief constable to account for this duty. The audit committee’s role is to support both the PCC and chief constable to fulfil their responsibilities through the assurance process.

Assurance should focus on both the arrangements to ensure and the progress in achieving VfM. An authority should have in place arrangements to obtain assurance over its performance against VfM objectives and strategies. The role of the audit committee will need to be determined in the context of what other committees may be doing. For example, a scrutiny committee may oversee service reviews that consider performance against VfM objectives.

The role of the audit committee is most likely to focus on whether the authority's overall approach to VfM is in line with governance objectives and to receive assurances on this to underpin the AGS. The Framework emphasises that the AGS should be focused on outcomes and VfM.

One specific area of activity for the committee will be consideration of the external auditor's wider work as set out in the codes of audit practice and other guidance adopted by national audit bodies as follows:

- **England** – statutory value for money conclusion as defined by the National Audit Office
- **Scotland** – periodic reviews of best value
- **Wales** – Wales Audit Office annual improvement reports
- **Northern Ireland** – review of arrangements for the use of resources.

Where the external auditor has issued a qualified conclusion on VfM, the audit committee should ensure there is a robust action plan to address the issues raised. In addition, the audit committee should consider what other assurances are available in relation to identified VfM risks and highlight areas for improvement.

COUNTERING FRAUD AND CORRUPTION

Local authorities have responsibilities for the effective stewardship of public money and for safeguarding against losses due to fraud and corruption. Effective counter fraud arrangements also link to the ethical standards for members and officers that the public expects.

The audit committee should have oversight of the authority's counter fraud strategy, assessing whether it meets recommended practice and governance standards and complies with legislation such as the Bribery Act 2010.

The Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ('the Code') sets out the counter fraud standards for public sector organisations; sector-specific strategies such as Fighting Fraud and Corruption Locally should also be considered, along with the CIPFA Fraud and Corruption Tracker (CFaCT) and Integrity Matters (HMIC, 2015). The committee should understand the level of fraud risk to which the authority is exposed and the implications for the wider control environment.

Oversight of counter fraud plans, resources and their effectiveness are key areas for obtaining assurance. Specific actions should include:

- reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud and anti-corruption practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community

- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

The CIPFA guidance on the AGS included in the Framework recommends that the adequacy of counter fraud arrangements are evaluated and reported on in the AGS with reference to the Code. The audit committee should have sight of the assurances underpinning this assessment and can play an important role in supporting the development of effective counter fraud and corruption practice. The audit committee may also refer to the Internal Audit Standards Advisory Board's guidance Internal Audit's Role in Counter Fraud (2017), which sets out internal audit's responsibility to provide assurance to the organisation on how it manages fraud risk.

EXTERNAL AUDIT

Appointment of auditors

Audit committees have a role to play in relation to the appointment of external auditors. This role varies between England, Scotland, Wales and Northern Ireland, primarily due to the change in appointment procedures for English authorities with the closure of the Audit Commission and the introduction of new local audit arrangements under the Local Audit and Accountability Act 2014.

In Scotland, Wales and Northern Ireland, national audit agencies are responsible for the audits of local bodies. In England, authorities have the option to appoint auditors themselves via means of an auditor panel (individually or jointly with other bodies) or through Public Sector Audit Appointments (PSAA), which has been established by the Local Government Association (LGA) and specified as an 'appointing person' under the 2014 Act. For further information on auditor panels and the role of the audit committee, see Guide to Auditor Panels (CIPFA, 2015).

The audit committee's role in appointment is generally to express an opinion on the selection and rotation of the external auditor through whichever method is applicable for the organisation. The audit committee's objective is to support auditor independence and effective arrangements and relationships with the auditors.

In England, for all opted-in bodies, PSAA appoints the auditor following consultation with the body. Otherwise, the audit committee will work alongside the auditor panel which will oversee the local appointment process. Where the audit committee members meet the requirements of an auditor panel, as defined in regulations supporting the 2014 Act, then the committee is able to operate as an auditor panel itself and make recommendations on the appointment of the local auditor. Regard must be had for the 2014 Act and regulations if the committee is nominated as an auditor panel.

Monitoring the external audit process

The audit committee's role in relation to the external audit process has three principal aspects:

1. providing assurance that the external auditor team maintains independence following its appointment
2. receiving and considering the work of external audit
3. supporting the quality and effectiveness of the external audit process.

Supporting independence

The independence of auditors is critical for confidence in the audit opinion and audit process. For this reason, there is extensive guidance from the Financial Reporting Council (FRC) to external auditors on the need to safeguard independence and objectivity. These rules apply to all auditors across all sectors. In addition, the national audit bodies issue guidance to auditors on safeguarding integrity, objectivity and independence. It is an important role for an audit committee to help guard against threats to independence and to satisfy itself that the external auditor's independence is safeguarded. The critical issue of independence will be considered when the external auditor is appointed but the audit committee's role will be to monitor on an annual basis or more often when required.

Each year the external auditor will disclose to the committee an assessment of whether it is independent. This disclosure should include any significant facts that could impact, or be seen to impact, on independence and objectivity, together with any safeguards put in place. Usually this disclosure is included in the audit plan. The audit committee should use this opportunity to discuss with the external auditor their assessment of threats to independence and any safeguards.

Understanding the potential threats to external independence

Self-interest threat

Where there are or perceived to be financial or other interests that could impact on the actions of the external auditor. The potential fees from provision of non-audit or additional services to the audited body could fall within this category.

Self-review threat

Where the audit could include review of work performed, services or advice provided by the same firm or team.

Management threat

Where the auditor has become involved in or associated with decision making of the audited body.

Advocacy threat

Where the auditor has taken on an advocacy role for the audited body or supports the management in an adversarial or promotional context.

Familiarity (or trust) threat

Where familiarity or close personal relationships mean that the external auditor is insufficiently questioning or accepting in forming audit judgements.

Intimidation threat

When the conduct of the external auditor is influenced by fear or threats by individuals in the audited body.

Full details of the threats are set out in the Revised Ethical Standard 2016 (FRC, 2016).

The audit committee should seek information from the external auditor on its policies and processes for maintaining independence and monitoring compliance. It should also satisfy itself that no issues with compliance with the ethical standard have been raised by the contract monitoring undertaken by PSAA or the auditor panel (in England) or from audit quality reviews by the FRC. With regard to non-audit services, audit committees should monitor the approval of non-audit work and, in England, take into account the oversight of either PSAA or the auditor panel as appropriate.

Receiving and considering the work of external audit

The committee should receive the planned work programme to support the opinion and receive reports following the completion of external audit work. Where external audit make recommendations, the audit committee should discuss the action to be taken with the appropriate managers and monitor the agreed action plan. The committee should contribute to the authority's response to the annual audit letter.

Supporting the quality and effectiveness of the external audit process

The audit committee should support the quality and effectiveness of the external audit process through:

- understanding and commenting on external audit plans, assessment of risks and proposed areas of focus, and deployment of audit effort in response to identified risks
- considering the effectiveness of the external audit process, including:
  - whether the external auditor has a good understanding of the authority
  - how the external auditor has responded to areas of audit risk
  - actions taken to safeguard independence and objectivity
  - feedback from key people such as the responsible financial officer and the head of internal audit
- reporting to the full council, or the PCC, or the chief constable or other body as appropriate on the results of its considerations.

In monitoring the quality of the external audit provision, the audit committee should be briefed on any relevant issues around quality that emerge from the regulation of external audit, for example, the quality reports from PSAA and the FRC.

There should be an opportunity for the audit committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship.

Inspection reports

Reports from inspection agencies can be a useful source of assurance about the authority's financial management and governance. The audit committee should have access to inspection reports as a source of assurance and compare the findings with any relevant internal audit and external audit reports. Inspection reports will need to be actioned by the corporate or appropriate departmental management team, but the audit committee has a role in monitoring such action to ensure that a consistent approach is adopted and that the various agencies have one recognisable point of entry into the authority.

FINANCIAL REPORTING

Local authority financial statements should follow the professional practices set down in the *Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA/LASAAC). The responsible financial officer must sign the statements to confirm that they have been properly prepared and are ready for audit prior to the commencement of the period for the exercise of public rights. For English authorities and policing bodies, the latest date by which the statements must be signed off is likely to be 31 May, as the 30 working day period for the exercise of public rights must include the first ten days in June.

Under the current regulations, Scottish, Welsh and Northern Irish authorities must all ensure that the financial statements are signed off by the CFO by 30 June. The Accounts and Audit (Wales) (Amendment) Regulations 2018 require preparation and publication to be completed to an earlier timetable with effect from years ending 31 March 2019 onwards. Authorities will formally approve the financial statements after the completion of the external audit.

The date by which the statements must be published is set down by government regulations. For 2017/18 onwards, the latest date for publication is 31 July for English authorities. Scottish and Welsh authorities must publish by 30 September and Northern Irish authorities must publish by 31 October. CIPFA recommends that it is good practice for the accounts and the AGS to be reviewed by the audit committee prior to the commencement of the external audit.

Audit committees may undertake a review of the statements and satisfy themselves that appropriate steps have been taken to meet statutory and recommended professional practices. Their work could include:

- reviewing the narrative report to ensure consistency with the statements and the financial challenges and risks facing the authority in the future
- reviewing whether the narrative report is readable and understandable by a lay person
- identifying the key messages from each of the financial statements and evaluating what that means for the authority in future years
- monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
- reviewing the suitability of accounting policies and treatments
- seeking explanations for changes in accounting policies and treatments
- reviewing major judgemental areas, eg provisions or reserves
- seeking assurances that preparations are in place to facilitate the external audit.

Understanding Local Authority Financial Statements (CIPFA/LASAAC, 2016) includes a checklist of questions to ask about a local authority's statements that audit committee members may find particularly helpful. In keeping with its role as an advisory body, the audit committee should review the financial statements prior to approval.

Other committees in the governance structure might also scrutinise the authority's financial performance. Care should be taken to avoid duplication and maintain the focus of the audit committee on financial reporting and financial governance rather than on wider issues of performance and spending priorities.

PARTNERSHIP GOVERNANCE AND COLLABORATION AGREEMENTS

Authorities commonly have a wide range of partnership and collaborative arrangements, including strategic relationships with other public sector organisations, shared service arrangements, commercial relationships with private sector partners and a range of service delivery arrangements with community groups or social enterprises.

Authorities may also be the accountable body for local enterprise partnerships (LEPs). PCCs may be considering options for collaboration with other relevant emergency services under the Policing and Crime Act 2017. Ensuring the adequacy of governance and risk management over such arrangements can be complicated, but it is very important as accountability for performance and stewardship of the public funds involved remains with the authority. For these reasons, the role of the audit committee in relation to these arrangements should be clearly defined.

The audit committee's role should be to consider the assurance available on whether the partnership or collaboration arrangements are satisfactorily established and are operating effectively. The committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to maintain accountability to stakeholders and ensure transparency of decision making and standards of probity are maintained.

Where an authority is developing new partnership or collaboration arrangements, the audit committee may wish to receive assurance over governance matters at the project stage and seek clarity over its own responsibilities in relation to the governance arrangements of the new service delivery organisation.

The audit committee should consider the coverage of assurances that underpin the AGS to make sure that partnerships are adequately covered. Where an organisation of which the authority is a partner does not have its own audit committee, then the audit committee could be nominated to undertake this role. This is most likely for the audit committee of the accountable body in order to support the CFO.

In addition to reviewing assurances over partnerships, the committee may choose to develop its own partnership arrangements with the audit committees of partner organisations. This could involve planning and co-ordinating agendas, or developing forums to share ideas or briefings. More established partnerships could lead to the development of a shared audit committee between partner authorities or a joint committee. Chapter 6 considers the implications of partnerships for audit committee independence and accountability.

GOVERNANCE AND ETHICAL VALUES

Public sector entities are accountable not only for how much they spend but also for the ways they use the resources with which they have been entrusted. This is at the heart of Principle A of the Framework:

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

With its core role in supporting good governance, support for the ethical framework of the authority is also important for the audit committee. In addition, public sector organisations have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels. As part of its review of governance arrangements, the audit committee should be satisfied that there are adequate arrangements to achieve this.

All authorities should have regard to the Seven Principles of Public Life, known as the Nolan Principles. To promote high standards of conduct, the Committee on Standards in Public Life has recommended that:

Ethical standards issues should be included as regular items on board agendas or formally delegated to audit and risk committees for referral to the board as appropriate. Risks associated with poor standards should be included in risk assessments, and, where appropriate, risk registers. Mitigating strategies should be developed and monitored.
Source: Standards Matter: A Review of Best Practice in Promoting Good Behaviour in Public Life (Committee on Standards in Public Life, 2013)

As part of the annual governance review, the audit committee should consider how effectively the Seven Principles of Public Life are supported.

Whistleblowing arrangements support the development of ethical conduct and greater transparency, and also help authorities ensure compliance with the Public Interest Disclosure Act 1998. As part of the audit committee's oversight of the governance framework and assurances underpinning the AGS, the audit committee may wish to review the effectiveness of the whistleblowing arrangements.

CHAPTER 5

Possible wider functions of an audit committee

Extract from the Position Statement

5 An audit committee can also support its authority by undertaking a wider role in other areas including:

- considering governance, risk or control matters at the request of other committees or statutory officers
- working with local standards and ethics committees to support ethical values
- reviewing and monitoring treasury management arrangements in accordance with Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017)
- providing oversight of other public reports, such as the annual report.

CONSIDERING MATTERS AT THE REQUEST OF STATUTORY OFFICERS OR OTHER COMMITTEES

Occasionally the audit committee may be requested to consider a review of a service, a proposed policy or other similar matters. Such requests could come from another committee of the organisation or from one of the statutory officers. In scoping the terms of reference for a review, the committee should avoid taking on a scrutiny or policy role and ensure the matter relates to governance, risk or control. Examples where it may be helpful for the audit committee to assist could include:

- reviewing whether adequate governance, risk management or audit processes are in place in relation to a specific service or new policy area
- providing advice to the executive on possible risks or implications for good governance arising from a proposed course of action or decision.

In each case, the aim of the committee should be to make recommendations in line with its role set out in the Position Statement – advocating the principles of good governance and helping to ensure that there are appropriate governance, risk, control and assurance arrangements in place. Audit committee recommendations may support the advice or recommendations of the statutory officers but cannot override that advice.

ETHICS COMMITTEE AND STANDARDS COMMITTEE ROLES

The audit committee's primary role in relation to standards and ethical conduct is to satisfy itself that there are appropriate arrangements in place, particularly in support of the AGS. Under the Localism Act 2011, English local authorities have a statutory duty to promote and maintain high standards of conduct and the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place. Occasionally the committee takes on a wider role, in the place of other committees. Specifically, there should be regard for the role and responsibilities of a standards committee, where there is one.

Where the local authority does have a standards committee, the lead on promoting high standards of conduct may be taken by that committee, and the most appropriate role for the audit committee would be to consider the effectiveness of the standards committee as part of the annual governance review. Where the audit committee takes on the responsibilities of the standards committee, there should be a clear distinction between the two roles and responsibilities in the terms of reference and meeting agendas.

Ethics in policing has received a lot of attention in the last few years with a number of reviews and new standards, including:

- the Code of Ethics (College of Policing, 2014)
- Tone from the Top: Leadership, Ethics and Accountability in Policing (Committee on Standards in Public Life, 2015)
- Integrity Matters (HMIC, 2016).

The establishment of an ethics committee to take the lead on this important area and to review and monitor practice is now regarded as best practice. In some policing areas these are separate committees, but in some areas the audit committees have taken on this responsibility.

There is no specific guidance on the operation of the ethics committee, but it is important to distinguish between the roles of the two committees. For the audit committee's governance responsibilities, it is appropriate for the committee to have an understanding of any current ethical risks and any initiatives to improve ethical behaviour within the force or PCC's office.

The audit committee should be satisfied that there are appropriate arrangements in place to support the committee's overview of governance and the AGS. The ethics committee's role will be to help establish and monitor those arrangements in practice, ensuring that the PCC and chief constable fulfill their statutory obligations. Where the audit committee is taking on wider ethics committee roles, then it should be clear within its terms of reference and meeting agendas how it separates the two roles.

TREASURY MANAGEMENT

Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017) requires all local authorities to make arrangements for the scrutiny of treasury management. CIPFA does not require the audit committee to undertake that role and a local authority may nominate another committee instead. CIPFA is aware, however, that many authorities have nominated the audit committee to do this, and it is therefore appropriate to consider this activity as part of this guidance. The following clause from the Code should have been adopted by all local authorities and the appropriate body responsible for providing scrutiny nominated:

This organisation nominates (name of responsible body/committee) to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Where the audit committee has been nominated, then it should be aware that it needs to undertake a scrutiny role in accordance with the Code, in addition to any oversight of governance, risks and assurance matters relating to treasury management it would consider as an audit committee. It is not appropriate for the audit committee to undertake any of the other roles outlined in the Code clauses as these are executive and decision-making roles rather than a scrutiny role.

Where the committee is undertaking scrutiny then this is likely to involve the following actions:

- developing greater awareness and understanding of treasury matters among the committee members
- reviewing the treasury management policy and procedures to be satisfied that controls are satisfactory
- receiving regular reports on activities, issues and trends to support the committee's understanding of treasury management activities. Note that the committee is not responsible for the regular monitoring of activity under clause 3 of the Code so the purpose of receiving regular reports should be clear
- reviewing the treasury risk profile and adequacy of treasury risk management processes
- reviewing assurances on treasury management (for example, an internal audit report, external audit or other review).

Treasury management is a specialist area so it is likely that committee members will require training, guidance and support when undertaking scrutiny. Specific areas of knowledge and skills are identified in Appendix C.

CHAPTER 6

Independence and accountability

Extract from the Position Statement

3 Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:

- act as the principal non-executive, advisory function supporting those charged with governance
- in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
- in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
- have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups
- be directly accountable to the authority's governing body or the PCC and chief constable.

7 To discharge its responsibilities effectively the committee should:

- meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- include, as regular attendees, the CFO(s), the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required
- have the right to call any other officers or agencies of the authority as required, while recognising the independence of the chief constable in relation to operational policing matters
- report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

INTRODUCTION

CIPFA is keen that each local authority or police body adopts an audit committee model that achieves its purpose and functions successfully. CIPFA's recommended best practice is intended to support the development of effective arrangements and should not be regarded merely as a compliance checklist.

For a local authority, in CIPFA's view, it is best practice for the audit committee to report directly to council rather than to another committee, as the council itself most closely matches the body of 'those charged with governance'. In the police sector, both the PCC and chief constable are separate corporations sole and so each will fulfil the role of 'those charged with governance'.

In establishing the audit committee within the governance structure of the authority, three key elements should be considered:

1. any statutory guidance applicable to the sector
2. independence from the executive and political allegiances
3. a practical assessment of 'what works' in the local context.

Each of these elements is considered in more detail in the following sections.

SECTOR AND DEVOLVED GOVERNMENT GUIDANCE

The local authority and police sectors are subject to differing regulations according to both sector and devolved national governments. Those affecting audit committees are set out in Appendix A. While there is broad similarity in the guidance across the UK, there are differences as a result of specific statutory guidance and regulations including:

- statutory requirements for audit committees in Wales
- statutory requirements for combined authorities to establish an audit committee
- statutory guidance underpinning the operation of police audit committees in England and Wales.

Local authorities in Wales have a clear statutory role established by the Local Government (Wales) Measure 2011. The Welsh Government has provided statutory guidance on the implementation of the measure's requirements, and local authorities in Wales must have regard to this guidance. The Cities and Local Government Devolution Act 2016 requires combined authorities to establish an audit committee of which at least one member must be appointed as an independent member. The Home Office's Financial Management Code of Practice for the Police Forces of England and Wales (2013 – due to be updated in 2018) (the 'FMCP') requires PCCs and chief constables to establish an independent audit committee. This is an advisory committee to both the PCC and the chief constable, both of whom are established as a corporation sole.

The Policing and Crime Act 2017 enables a PCC in England (following local consultation and approval from the secretary of state) to take on the governance of their local fire and rescue service(s) to become a PCC FRA. The 2018 edition of the FMCP is likely to include guidance concerning audit committees in this event.

Other regulations include the appropriate accounts and audit regulations for England, Scotland, Wales and Northern Ireland, which regulate functions such as internal audit, the review of the AGS and the accounts. These functions can be undertaken by the audit committee and where it does so, the committee should have regard to the regulations.

Impact of other legislation

The standards committee's role has been affected by the Localism Act 2011 in England, and some authorities have chosen to transfer responsibility for looking at ethical governance matters to the audit committee, while retaining a standards panel to oversee investigations.

Other relevant recommendations

The Exercise by Local Government Auditors of Their Functions in the Year to 31 March 2015, a report produced by the Chief Local Government Auditor of the Northern Ireland Audit Office, commented that in a small number of councils the audit committee was not operating as a full committee. The Chief Local Government Auditor has recommended that audit committees should be a full committee reporting directly to council.

STRUCTURE AND INDEPENDENCE

Local authorities

For local authorities, stand-alone audit committees reporting to full council are the most common arrangement in the UK. The CIPFA Survey on Audit Committees in Local Authorities and Police 2016 found that, across the UK, 85% of councils had audit committees that reported to full council, leaving only 15% that reported via cabinet or other committee. The survey also showed that the number of stand-alone audit committees had declined from 58% to 47% alongside a rise in the number of joint committees. Some joint committees' responsibilities were audit and risk or audit and governance, however, others included responsibilities such as procurement or health and safety. There had also been a small rise in the number of joint audit and standards committees. Another arrangement, more common in Scotland, was the integration of audit committee functions into a policy committee.

Reporting to the executive may appear to be advantageous if it increases the prospect of audit committee recommendations being addressed. However, there are two disadvantages from a wider governance perspective: first, by not reporting to full council ('those charged with governance'), the audit committee may not be supporting that body in discharging its governance responsibilities; and, second, members and citizens may see the audit committee as not being independent of the executive.

Combining audit with other committees may appear to be an attractive arrangement, but there is always a danger either that audit committee functions become diluted by the pressure of other business or that the proper functions of these bodies become less clear. Having a group of members bearing the name 'audit committee' will add weight when considering audit and related issues. Extending the remit of the audit committee to other matters could create confusion about the role of the audit committee and ultimately undermine its effectiveness.

Financial scrutiny is a different role from that fulfilled by the audit committee. Financial scrutiny committees are likely to undertake reviews of the council's budget proposals and financial performance. The audit committee should not seek to replicate scrutiny undertaken but should focus on the oversight of governance, risk and control and the audit process.

However the audit committee is constituted, all members should be aware that the work of the audit committee is non-political. Chapter 7 includes a section on the composition of the audit committee.

Combined authorities

The Cities and Local Government Devolution Act 2016 requires combined authorities to have an audit committee, but there are no requirements about where the committee fits into the overall governance structure of the authority. If the combined authority brings together the functions of the PCC with the local authority functions, and in time those of the fire authority as well, then it might be expected that there would be a single audit committee.

Police

Police audit committees are recommended by the FMCP to be joint committees, reporting both to the PCC and the chief constable. To date, all police audit committees operate in this way.

SHARED AUDIT COMMITTEES

Where authorities or policing bodies have entered into significant levels of partnership, a shared audit committee may be a practical way forward. This will be particularly appropriate where there is a shared management team and single functions for finance, audit and risk. In establishing the committee, consideration will need to be given to achieving a balance of representation between the partners and how the chair is to be selected.

AUDIT COMMITTEES IN PARTNERSHIP

Where an authority has major areas of governance and risk shared with other public bodies in a partnership, it may be appropriate to set up formal arrangements between the respective audit committees. This could involve one audit committee being nominated to take the lead on matters relating to the partnership. Alternatively, the audit committees could nominate representatives to a shared audit committee to oversee the partnership.

DECISION-MAKING POWERS AND DELEGATIONS

All audit committees are non-executive bodies whose role is to make recommendations rather than to decide policies directly. The impact of the committee is through influence and persuasion rather than direct decision making. The committee's effectiveness does not depend on the delegation of powers.

The constitution of a local authority may include direct delegations to its audit committee, for example to approve the AGS or financial statements on behalf of the authority, as well as undertaking the review. In establishing whether the audit committee is to have any delegated decision-making powers, the local authority should take into account the number and role of independent members on the committee. In doing this, it will need to take into account the issue of voting rights outlined in Chapter 7. CIPFA recommends that delegation of decision-making powers on matters not directly related to the work of the audit committee should be avoided.

Police audit committees in England and Wales can never be delegated decision-making or approval powers by the PCC or the chief constable.

ADMINISTRATIVE AND OPERATIONAL ARRANGEMENTS

Agenda management and frequency of meetings

The frequency and timing of meetings is a matter for each authority to determine, based on its corporate governance arrangements, together with consideration of how the committee can operate effectively and fulfil its purpose. To fit with planning, monitoring and annual reporting arrangements, most organisations will find they will require at least four meetings a year. Aspects of the audit committee agenda will be determined by statutory requirements related to the accounts and matters related to the financial year. Outside these agenda items, the audit committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference.

Where an audit committee is addressing the full range of governance, risk, control and audit functions, care should be taken to balance the frequency of meetings against the need to give the business of the committee sufficient focused attention without lengthy and unproductive meetings. Equally, the audit committee should review whether the inclusion of each item on its agenda results in added value and whether some time-consuming aspects of audit committee business could be more effectively addressed elsewhere. In making these judgements, the audit committee should operate at a resolutely strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers. The skilful chairing of meetings with well-planned agendas should provide the final mechanism for avoiding this danger.

Supporting the audit committee and key relationships

Effective administrative support for the audit committee will clearly be important as for any committee of the authority. If the committee is to take an active part in the authority's business, it should be administered as effectively as any other committee meeting. The regular attendance of key senior management figures is important – both to maintain the credibility of the committee and to ensure that members are adequately supported by appropriate professionals.

The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018) emphasise the importance of having an effective audit committee to support the CFO. Police audit committees will need to work with the CFO of both the PCC and the chief constable. The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

The CFO should therefore be a key point of contact for audit committee members and it is essential that the CFO has direct access to the committee. It is also a responsibility of the CFO to support the authority's internal audit arrangements and ensure that the audit committee receives any necessary advice and information, so that both functions can operate effectively. The audit committee should then be in a position to provide effective support to the CFO.

The head of internal audit should also have a good relationship with the committee and be a key point of contact. Internal audit reports or updates will be a regular feature of audit committee agendas, so the head of internal audit should be expected to attend all meetings.

A public sector requirement within the PSIAS states:

The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

The head of internal audit's relationship with the audit committee, especially the chair, is crucial. They should be mutually supportive in their aim to be objective and to provide challenge and support across the organisation and improve governance, risk management and internal control. The head of internal audit must work closely with the audit committee chair so that they are clear about their respective roles and make best use of the available resources.

To be effective, an audit committee will need to engage with a wider range of officers than representatives of finance and internal audit, essential though they are. While it is for each audit committee to determine who attends its meetings, the following examples demonstrate the wide range of officers who can attend and add value to audit committee meetings:

- chief executive or equivalent – for the AGS and other governance-related issues
- monitoring officer – for the AGS and ethical governance issues
- risk management officer – for discussions around the risk registers and risk reports
- head of counter fraud – for agenda items on fraud risks and counter fraud activity
- service senior managers – for audit, risk, or governance discussions on their service areas (while recognising the operational independence of the chief constable on operational policing matters)
- scrutiny, ethics or standards committee representatives – it may be helpful to invite representatives along to explain their work programme or recent reports.

Consideration should also be given to supporting the audit committee outside formal meetings. There may be a need to keep committee members briefed on issues that are on the agenda, and other matters may be too detailed for inclusion on the agenda. For example, internal audit reports may be provided in full to committee members but may be included on the meeting agenda only where there are significant risks to be discussed. This issue may be of particular importance for police audit committees where the members are not routinely involved in other meetings and do not have the same rights of access to information as do local authority councillors. Arrangements to provide the members with an appropriate level of information and updates and a protocol for managing information requests should be discussed and agreed.

Private meetings with external auditors and with internal auditors are a common feature of audit committees in the private sector and in other parts of the public sector. The aim of this is to ensure that there are opportunities to raise any concerns. In local authorities this has proved difficult to replicate because of the requirements for committee meetings to be held in public. Some authorities have approached this by specifying that such meetings are informal. Authorities should aim to provide full opportunities for auditors, external and internal, to have access to the chair of the audit committee.

ACCOUNTABILITY

Given its role in the governance structure and in promoting the principles of good governance, the audit committee should be clear how it supports one of the key principles: accountability. It is also important that the audit committee is, in its turn, held to account on the extent to which it has fulfilled its purpose. For an audit committee, accountability has to be considered under three aspects, each of which is considered below:

1. supporting the authority's accountability to the public and stakeholders
2. supporting accountability within the authority
3. holding the audit committee to account.

Supporting the authority's accountability to the public and stakeholders

The committee has a key role in reviewing the public reports of the authority and in helping the authority to discharge its responsibilities in this area. Committee meetings will normally be held in public, with the exception of exempt items, so this also contributes to the accountability of the authority to the public and stakeholders.

The Home Office publishes an Accountability System Statement for Policing and Crime Reduction which identifies the formal accountability relationships of policing bodies. The statement does not identify a formal accountability role for the police audit committee, which reflects its role as an advisory body supporting the PCC and chief constable. For police audit committees, therefore, the committee provides support for accountability to the public and other stakeholders but does not directly discharge that responsibility itself.

A wider group of stakeholders, such as partner organisations or the police and crime panel, may have an interest in the work of the committee, although there is no direct accountability relationship between the panel and the audit committee. Holding open meetings and publishing agendas and minutes will support wider communication and transparency.

Supporting accountability within the authority

Through review of internal and external audit reports, monitoring of risk registers and other key strategies, the audit committee will hold to account those responsible for the implementation of recommendations and action plans. In addition, by overseeing the process of evaluating and improving governance, risk management and control, the audit committee helps those responsible for governance to ensure that accountability throughout the authority is working well.

The audit committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. In the most recent

CIPFA survey, this was an area that heads of internal audit identified for improvement in their audit committees.

Holding the audit committee to account

The audit committee should be held to account on a regular basis by the group to which it is accountable. For a local authority audit committee, this will be the council. For a police audit committee, it will be both the PCC and the chief constable. The aspects that should be specifically considered include:

- whether the committee has fulfilled its agreed terms of reference
- whether the committee has adopted recommended practice
- whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
- whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
- what impact the committee has on the improvement of governance, risk and control within the authority.

The preparation of an annual report by the committee can be a helpful way to address the key areas where the committee should be held to account. The annual report should be presented to those charged with governance: council or PCC and chief constable as appropriate. In addition, publication of the report will assist other stakeholders to understand the work of the committee.

It can be difficult to ensure that those not directly involved in the work of the committee achieve an understanding of its role. Where there is a lack of understanding about the work of the committee, then the process of holding the committee to account may not operate effectively. This is considered further in Chapter 7.

CHAPTER 7

Membership and effectiveness

Extract from the Position Statement

6 Good audit committees are characterised by:

- a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of an authority will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise
- a membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives
- a strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
  - promoting apolitical open discussion
  - managing meetings to cover all business and encouraging a candid approach from all participants
  - an interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime
- unbiased attitudes – treating auditors, the executive and management fairly
- the ability to challenge the executive and senior managers when required.

COMPOSITION AND OPERATION OF THE COMMITTEE

The composition of the committee will be a key factor in achieving the characteristics of a good audit committee.

Audit committees in Welsh local authorities and combined authorities in England and in police audit committees in England and Wales are subject to specific rules on the composition of the audit committee as follows:

- The composition of the audit committee for Welsh local authorities is subject to the Local Government (Wales) Measure 2011, which requires local authority audit committees to have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor.
- Police audit committees should comprise between three and five members who are independent of the PCC and the force as required by the Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018).

- Combined authorities in England are required to establish an audit committee by the Cities and Local Government Devolution Act 2016. The Act and the subsequent Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017 require combined authority audit committees to include at least one independent member. The definition of independent is set out in the statutory guidance.

In other parts of the local authority sector there are no statutory requirements that determine the composition of the audit committee. In Northern Ireland, the Chief Local Government Auditor has recommended that suitable independent members are appointed to all local authority audit committees. In the most recent report, ten out of eleven local authority committees had appointed at least one independent member to the committee.

CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.

In other sectors, the audit committee can be small – fewer than six members. Guidance on Audit Committees (FRC, 2016) says that an audit committee should have at least three non-executive directors. The Audit and Risk Assurance Committee Handbook (HM Treasury, 2016) states that a committee should have at least three members of which there should be two non-executive board members, one of whom will chair the committee; executive members are explicitly excluded.

In the local authority sector where membership of the committee is drawn from elected representatives, the depth of knowledge and experience that is desirable may be harder to achieve with a small number, however, there is a risk that creating a large committee will mean that it is harder to create the necessary focus. There is no consistency in the local government sector on the size of the committee. CIPFA's 2016 survey of audit committees found that size of the committee ranged from five to fifteen or more, although 47% had between six and eight members, with 2% having fewer and 50% having more. The survey showed that the average size of the committee had increased since CIPFA's 2011 survey.

Elected members of local authorities are members of the council and thus are part of the body charged with governance. Elected members bring knowledge of the organisation, its objectives and policies to the audit committee. Members who are also involved in scrutiny or standards offer additional knowledge of activity, risks and challenges affecting those areas.

Having executive members on the committee is discouraged as it could deter the committee from being able to challenge or hold to account the executive on governance, risk and control matters. This approach is consistent with audit committee practice in other parts of the public sector and in the private sector. Inviting an executive member onto the committee should be avoided unless the committee has other compensating arrangements to ensure independence, for example, a majority of independent members or an independent chair. The executive member should not chair the committee. The leader of the cabinet, administration or the elected mayor should not be a member of the audit committee. However, the audit committee can invite members of the executive to attend to discuss issues within its remit and to brief the committee on the actions they are taking.

Any audit committee that is a properly constituted committee of the council will need to abide by the rules concerning political balance, as outlined in Section 15 of the Local Government and Housing Act 1989. Under the statutory guidance, combined authorities are required to reflect the political balance of the constituent authorities as far as is practicable. One factor that is important for the success of the committee is ensuring a non-political approach to meetings and discussions. When establishing a joint audit committee, the political balance of both authorities will need to be considered.

Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential pitfalls to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee
- lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports
- effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

These factors should be taken into account when developing the committee structure and plans put in place to provide an appropriate level of support to the audit committee member.

Voting rights of independent members

Local authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. Where the audit committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members of the committee should be able to vote on that recommendation. If the council wishes to delegate decisions to the committee, for example the adoption of the financial statements, then the independent member will not be able to vote on those matters for decision. The minutes of the meeting should make clear in what capacity the committee is voting.

Recruitment process

The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirement for relevant knowledge or expertise should be clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked. Only the independent members for combined authorities have to satisfy specific definitions of their independence. Appropriate enquiries will need to be made as part of the recruitment process to ensure that any applicants satisfy the requirements, and continuation of compliance should be monitored during the term of appointment.

Independent members' appointments should be for a fixed term and be formally approved by the local authority's council or the PCC and the chief constable. Provision should be made for early termination and extension to avoid lack of clarity in the future. While operating as a member of the audit committee, the independent member should follow the same code of conduct as elected members and a register of interests should be maintained.

The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.

KNOWLEDGE AND EXPERIENCE

There is a range of knowledge and experience that audit committee members can bring to the committee and which will enable it to perform effectively. No one committee member would be expected to be expert in all areas, but there are some core areas of knowledge that committee members will need to acquire. There will also be a need for regular briefings or training to help committee members keep up to date or extend their knowledge.

Appendix C sets out a knowledge and skills framework for audit committee members and the committee chair. This can be used to guide members on their training needs and to evaluate the overall knowledge and skills of the committee. It can also be used when recruiting independent members. A distinction is made between core areas of knowledge that all audit committee members should seek to acquire and a range of specialisms that can add value to the committee.

The audit committee should review risks, controls and assurances that cover the whole operation of the authority so knowledge of specific service areas will be helpful. Other areas of specialist knowledge and experience, for example in accountancy, audit, governance and risk management, will add value to the committee.

Skills and competencies

A number of skills are beneficial for the audit committee member to have. There are also specific skills that the audit committee chair will need. Many of these skills are not unique to the role of audit committee member and experience in other member or non-executive roles will have helped to build these skills. Many authorities have training and development plans for elected members, which may include similar skill or competency training opportunities. Evidence of appropriate skills and knowledge should also be sought where independent members are being recruited to the committee.

Self-assessment and training

Audit committee members should be willing to review their knowledge and skills, for example, as part of a self-assessment process or training needs analysis. Regardless of the knowledge and skills a member has when joining the committee, there needs to be a commitment to participate in training and development to ensure that knowledge is kept up to date. The authority should establish a programme of support that involves induction training, regular briefings and updates as well as formal training programmes. This may require the allocation of a budget to provide appropriate support.

Role of the chair

Police audit committees and some authority audit committees may advertise specifically for an independent chair. Following appointment, it would be expected that the person would remain as chair for their appointed period. Where the chair is an elected councilor, the appointment is likely to be made during the annual council and may only be for that committee cycle. Whether undertaken during recruitment or the annual committee cycle, ideally the selection of the chair will take into account the characteristics required of an effective chair. These include:

- an ability to plan the work of the committee over the year and beyond
- skills of managing meetings
- an ability to bring an objective, apolitical attitude
- a core knowledge and skills required of audit committee members
- a clear focus on the role of the committee and ambition to lead the committee in line with good governance principles
- a focus on improvement and securing agreement on actions.

The tenure of the audit committee chair remains a matter for the authority. In making this decision, it should be recognised that a period of continuity can be helpful, particularly for the development of greater knowledge and expertise, while rotation also helps to deliver a new perspective.

DEVELOPING AUDIT COMMITTEE EFFECTIVENESS

An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the authority's business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as 'influence', 'persuasion' and 'support'. A good standard of performance against recommended practice, together with a knowledgeable and experienced membership, are essential requirements for delivering effectiveness.

Using the recommended practice in this publication should help the authority to achieve a good standard of performance. The evaluation at Appendix D will support an assessment against recommended practice to inform and support the audit committee. Authorities are encouraged not to regard meeting recommended practice as a tick-box activity, and they should recognise that achieving recommended practice does not mean necessarily that the committee is effective.

The selection of audit committee members, their knowledge, skills and experience are an essential component of an effective committee. Regular briefings and training are essential to keep members up to date in their role. Members will become more effective with experience so it is helpful to have some continuity of membership on the committee.

The approach and priorities of the audit committee will need to adapt to the risks and challenges facing the authority and reflect the maturity of its governance, risk and control arrangements. For example, in a new authority or one that has gone through significant structural change, there may be little continuity of governance and control arrangements. As a result, the audit committee will focus on the establishment of appropriate arrangements.

Where an authority has been found to have significant weaknesses in its governance or control arrangements, perhaps identified through an inspection or audit, then the audit committee will support the implementation of recommendations or action plans. Where there are barriers to that improvement, the committee may need to adopt a more questioning or challenging role to help break down those barriers. In those authorities where governance, risk and control are satisfactory overall, the audit committee may give greater focus to new risks and developments, but will also want to seek assurance that satisfactory performance does not lead to complacency and lack of innovation.

COMMON AREAS OF DIFFICULTY FOR AUDIT COMMITTEES

It is not uncommon for audit committees to face difficulties or barriers to fulfilling their potential effectiveness. CIPFA's survey of audit committees in 2016 identified the principal barriers faced by both local authority and police audit committees. For local authorities, the top three were:

1. limited knowledge and experience of the members
2. the committee not being seen as a priority by other members
3. the intrusion of political interests.

For police audit committees, the top three barriers were:

1. the committee was not considered a priority by the PCC and chief constable
2. the committee was not considered a priority by senior management
3. poor relationships between committee members and staff.

The barriers reflect the different make-up of local authority and police committees.

Some of these may be common issues that audit committees in any sector may face; others may be unique to the local authority or police setting. The following assessment may be of value in helping audit committee members or those supporting the committee to recognise and address the challenges.

Areas of difficulty	Possible causes	Possible improvement options
Lack of experience and continuity of knowledge among audit committee members	■ Where turnover of membership is very frequent, it will be difficult for the committee to build up experience	■ Enhanced level of support and training to members will be required ■ To enhance continuity the authority could consider recruitment of independent members
Audit committee members do not feel confident in their knowledge of particular areas	■ Lack of training and support	■ Enhanced level of support and training to members
Independent members lack knowledge of the organisation and lack connections with key managers	■ Poor induction ■ Limited opportunities to engage with the organisation outside formal meetings	■ Improve induction ■ Identify appropriate meetings, briefings or other opportunities that independent members could attend to help develop better understanding
Poor management of audit committee meetings means that work is unfocused or fails to reach a clear conclusion	■ Lack of experience or skill in managing meetings by the chair ■ Committee members are unsure about their role ■ Poor support from the committee secretary	■ Training and support ■ Develop a mentoring/ coaching programme ■ Chair seeks feedback from meeting participants ■ Consider skills and experience in the selection of the chair ■ Provide training and guidance to committee members on their role ■ Improve committee support
The audit committee spends too much time on minor areas rather than strategic or wide-ranging issues	■ Agenda management fails to prioritise key areas ■ The chair does not intervene to keep focus at an appropriate level	■ Review the process of agenda development ■ Review the terms of reference and provide training ■ The chair seeks feedback from meeting participants ■ Provide the chair with committee management training
The audit committee is little known or understood in many parts of the authority	■ The audit committee fails to engage with many parts of the authority ■ Attendance is often limited to the CFO and the head of internal audit	■ Expand attendance at audit committee meetings. For example, invite heads of service when major risks or control issues are being discussed

Areas of difficulty	Possible causes	Possible improvement options
The audit committee is little known or understood by those not on the committee	■ Lack of feedback or reporting arrangements	■ Invite newly elected members to attend audit committee meetings ■ Review reporting arrangements ■ Consider an annual report that sets out how the committee has fulfilled its responsibilities
Recommendations made by the audit committee are not actioned	■ Poor relationship between the committee and the executive or senior officers ■ The audit committee's recommendations are not adequately aligned to organisational objectives	■ A senior officer provides internal facilitation to support improved relationships ■ Improve knowledge and skills among audit committee members ■ Ensure better engagement with appropriate managers or the executive at an earlier stage
The audit committee fails to make recommendations or follow up on issues of concern	■ A weak or inexperienced chair ■ Members are inexperienced or do not fully understand their role ■ Poor briefing arrangements prior to meetings ■ Committee reports fail to adequately identify the action required by the committee	■ Provide guidance and support ■ Improve briefing to the chair prior to the meeting ■ Ensure reports contain clear recommendations
The audit committee strays beyond its terms of reference, for example undertaking a scrutiny role	■ The terms of reference do not adequately scope the work of the committee ■ Misunderstanding about the role of the committee ■ Inadequate guidance from committee secretary to the chair on its role	■ Review the terms of reference and provide training and guidance

Areas of difficulty	Possible causes	Possible improvement options
Political points of view interfere with the work of the audit committee	■ Lack of understanding about the role of the committee	■ Seek feedback from those interacting with the committee or external assessment ■ Provide support for or training for the chair ■ Consider the inclusion or role of independent members
A breakdown in the relationship between committee members and the executive, PCC or chief constable or with senior management	■ Lack of understanding about the role of the committee ■ Differing perceptions on the value of the committee ■ Personality clashes	■ Review the terms of reference and provide training and guidance ■ A senior officer provides internal facilitation to support improved relationships ■ Seek an external assessment or facilitation ■ Change the chair or membership, if the constitution or opportunity arises

APPROACHES TO IMPROVEMENT AND EVALUATING EFFECTIVENESS

The areas included on audit committee agendas are regularly impacted by new legislation, professional guidance and research, so even knowledgeable and experienced audit committee members need access to briefings or training to remain effective. Where areas for development have been identified in the operation of the committee, then a more comprehensive action plan may be required.

Seeking feedback on the operation of the committee may be helpful to supplement a self-assessment. Those interacting regularly with the committee or relying on its output would be the principal sources of feedback. Where the committee is struggling, an external assessment may be an appropriate way to evaluate the committee and to develop an action plan for improvement.

Appendix E contains an assessment tool to help audit committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the audit committee should be able to identify evidence of its impact or influence linked to specific improvements.

APPENDIX A

Sector and devolved government guidance

PART 1 – COMPARISON OF SECTOR AND DEVOLVED GOVERNMENT REGULATIONS AND GUIDANCE ON KEY AREAS RELATED TO AUDIT COMMITTEES

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Establishment of audit committee	■ Required	■ Required	■ Required ■ It is recommended that this should be a combined body for both PCC and chief constable	No guidance
Composition of the audit committee	■ Committees must have at least one independent person as defined by guidance ■ The committee should reflect the political balance of the constituent authorities, as far as is reasonably practical ■ The committee may not include an officer of the combined authority or a constituent council	■ Committees must have at least one lay member. Up to one-third of the committee membership may be lay members. Only one of the committee's members may be from the council's executive and this must not be the leader or the elected mayor	■ Police audit committees should comprise between three and five members who are independent of the PCC and the force (where applicable)	No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specified functions of the audit committee	a) Review and scrutinise the authority's financial affairs b) Review and assess the authority's risk management, internal control and corporate governance arrangements c) Review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions d) Make reports and recommendations to the combined authority	a) Review and scrutinise the authority's financial affairs b) Make reports and recommendations in relation to the authority's financial affairs c) Review and assess the risk management, internal control and corporate governance arrangements of the authority d) Make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements e) Oversee the authority's internal and external audit arrangements f) Review the financial statements prepared by the authority	Consider the internal and external audit reports of both the PCC and the chief constable Advise the PCC and the chief constable according to good governance principles and adopt appropriate risk management arrangements in accordance with proper practices	No guidance
Responsibilities of the audit committee in relation to external audit	■ No guidance	■ Oversee external audit arrangements	■ Review external audit reports	No guidance

Guidance area	England Combined authorities	Wales Local authorities	England and Wales Police	England, Northern Ireland and Scotland Local authorities
Specific guidance	■ Cities and Local Government Devolution Act 2016 ■ Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016	■ Local Government (Wales) Measure 2011 Statutory Guidance from the Local Government Measure 2011	Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018)	N/A

PART 2 – GOVERNMENT GUIDANCE BY SECTOR AND DEVOLVED GOVERNMENT ON MATTERS THAT MAY BE INCLUDED IN AUDIT COMMITTEE TERMS OF REFERENCE

Accounts and Audit Regulations are statutory instruments issued by the UK or the devolved governments. The various regulations impose requirements on 'relevant bodies', eg a local authority, a fire and rescue authority or police body, in relation to governance, internal control, financial reporting and internal audit.

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where it is the audit committee of a relevant body that undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.

The following is a summary for each sector and/or region of the sets of regulations affecting them, highlighting key regulations. The regulations are subject to periodic update by the appropriate government body and audit committee members should be made aware of any changes by their organisation.

Local authorities in England (including combined authorities and fire and rescue authorities)

Relevant government guidance	Accounts and Audit (England) Regulations 2015
Governance and risk management arrangements	Regulation 3 requires that: *A relevant authority must ensure that it has a sound system of internal control which –* *(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;* *(b) ensures that the financial and operational management of the authority is effective; and* *(c) includes effective arrangements for the management of risk*
Authority's financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body's system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

Local authorities in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018
Governance and risk management arrangements	Regulation 5 requires the following: *5.—(1) The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and whichincludes—* *a) arrangements for the management of risk, and* *b) adequate and effective financial management*
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices
Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government Measure (Wales) 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

Local authorities in Scotland

Relevant government guidance	Local Authority Accounts (Scotland) Regulations 2014
Governance and risk management arrangements	Regulation 5 requires the following: *A local authority is responsible for ensuring that the authority has a sound system of internal control which –* *(a) facilitates the effective exercise of the authority's functions; and* *(b) includes arrangements for the management of risk*
Financial affairs and financial statements	Regulation 5 requires the following: *A local authority is responsible for ensuring that the financial management of the authority is adequate and effective* Regulation 6 relates to accounting records and control systems Regulations 8, 10 and 11 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires the authority to: *conduct a review at least once in each financial year of the effectiveness of its system of internal control.*

Approval of annual governance statements	Regulation 5 relates to the approval of an AGS prepared in accordance with proper practices in relation to internal control
Internal audit	Regulation 7 requires a local authority to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing
Review of effectiveness of internal audit	Regulation 7 requires a local authority to assess the efficiency and effectiveness of its internal auditing in accordance with the recognised standards and practices

Local authorities in Northern Ireland

Relevant government guidance	Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015
Governance and risk management arrangements	Regulation 4 requires a local government body to ensure that the financial management of the local government body is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk
Authority's financial affairs and financial statements	Regulation 5 relates to accounting records and control systems Regulations 7 and 8 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 4 requires a review of the effectiveness of the body's system of internal control and to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control
Approval of annual governance statements	Regulation 4 requires the body to approve a statement on internal control, prepared in accordance with proper practices in relation to internal control The accompanying guidance from the Department of the Environment identifies the CIPFA/Solace 2007 Framework and 2012 Addendum as proper practices – these have now been replaced by the 2016 Framework
Internal audit	Regulation 6 requires the local government body to undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time The accompanying guidance from the Department of the Environment identifies the PSIAS as the appropriate internal audit standard

Police in England

Relevant government guidance	Accounts and Audit (England) Regulations 2015 – see also the statutory guidance Financial Management Code of Practice for the Police Forces of England and Wales (FMCP) (Home Office, 2013 – due to be updated in 2018)
Governance and risk management arrangements	Regulation 3 requires the following: *A relevant authority must ensure that it has a sound system of internal control which –* *(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;* *(b) ensures that the financial and operational management of the authority is effective; and* *(c) includes effective arrangements for the management of risk.*
Authority's financial affairs and financial statements	Regulation 4 relates to accounting records and control systems Regulations 7, 8, 9 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 6 requires members of the body to consider the findings of the review of the effectiveness of the body's system of internal control
Approval of annual governance statements	Regulation 6 relates to the approval of an AGS prepared in accordance with proper practices in relation to accounts
Internal audit	Regulation 5 requires a relevant body to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

Police in Wales

Relevant government guidance	Accounts and Audit Regulations (Wales) 2014 and the Accounts and Audit (Wales) (Amendment) Regulations 2018 – see also the FMCP
Governance and risk management arrangements	Regulation 5 requires the following: *A local authority is responsible for ensuring that the authority has a sound system of internal control which –* *(a) facilitates the effective exercise of the authority's functions; and* *(b) includes arrangements for the management of risk.*
Financial affairs and financial statements	Regulation 6 relates to accounting records and control systems Regulations 8 and 10 relate to the statement of accounts
Review of effectiveness of system of internal control	Regulation 5 requires that the body to conduct a review at least once in a year of the effectiveness of its system of internal control and consider the findings of the review
Approval of annual governance statements	Regulation 5 requires the body to approve a statement on internal control prepared in accordance with proper practices

Internal audit	Regulation 7 requires a local government body to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control
Review of effectiveness of internal audit	Regulation 7 requires that a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit In addition, the Local Government (Wales) Measure 2011 has an explicit requirement for the audit committee to oversee the authority's internal audit arrangements

APPENDIX B

Suggested terms of reference – local authorities and police

INTRODUCTION

This appendix contains two sets of suggested terms of reference, one for local authorities and one for police. The principal difference between them is that the police audit committee must ensure that its terms of reference are in accordance with the Financial Management Code of Practice for the Police Forces of England and Wales (Home Office, 2013 – due to be updated in 2018) and remain an advisory body.

In developing the terms of reference for an organisation, care should be taken to ensure that the specific regulations appropriate for the authority are taken into account. Appendix A sets out these requirements. In addition, where the terms of reference refer to internal audit, regard should be had for how the internal audit charter has allocated responsibilities to the committee. Some of the internal audit responsibilities identified in the terms of reference may not be carried out by the audit committee but by others.

SUGGESTED TERMS OF REFERENCE – LOCAL AUTHORITIES

Governance

The terms of reference should set out the committee's position in the governance structure of the authority.

Statement of purpose

1 Our audit committee is a key component of [name of authority]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

2 The purpose of our audit committee is to provide independent assurance to the members [or identify others charged with governance in your authority] of the adequacy of the risk management framework and the internal control environment. It provides independent review of [name of authority]'s governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.

4 To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

5 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

6 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

7 To monitor the effective development and operation of risk management in the council.

8 To monitor progress in addressing risk-related issues reported to the committee.

9 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

10 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.

11 To monitor the counter-fraud strategy, actions and resources.

12 To review the governance and assurance arrangements for significant partnerships or collaborations.

To fulfil the requirements of the Local Authority Measure within their terms of reference, local authorities in Wales should identify those aspects which are specified in the Measure. See Appendix A for details. CIPFA considers that the requirement to review and make recommendations on the authority's financial affairs will be fulfilled by reference to items 5, 9 and 10 in these suggested terms of reference as well as those under financial reporting.

Internal audit

13 To approve the internal audit charter.

14 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

15 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

16 To approve significant interim changes to the risk-based internal audit plan and resource requirements.

17 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

18 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

19 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

a) updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work

b) regular reports on the results of the QAIP

c) reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.

20 To consider the head of internal audit's annual report:

a) The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.

b) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.

21 To consider summaries of specific internal audit reports as requested.

22 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

23 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

24 To consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (see Appendix A).

25 To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

26 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

27 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

28 To consider specific reports as agreed with the external auditor.

29 To comment on the scope and depth of external audit work and to ensure it gives value for money.

30 To commission work from internal and external audit.

31 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

32 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

33 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

34 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

35 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

36 To publish an annual report on the work of the committee.

SUGGESTED TERMS OF REFERENCE – POLICE

There is no formal requirement as to how the audit committee relates to the governance structures of the PCC and the chief constable, but it is recommended that this is clearly set out in the terms of reference.

Statement of purpose

1 Our [audit] [joint audit] committee is a key component of [name of body]'s corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

2 The purpose of our [audit] [joint audit] committee is to provide independent advice and recommendation to [select from 'the police and crime commissioner' (or name), 'the chief constable' (or name)] on the adequacy of the governance and risk management frameworks, the internal control environment, and financial reporting, thereby helping to ensure efficient and effective assurance arrangements are in place. To this end the committee is enabled and required to have oversight of, and to provide independent review of, the effectiveness of [name of body]'s governance, risk management and control frameworks, its financial reporting and annual governance processes, and internal audit and external audit.

3 These terms of reference will summarise the core functions of the committee in relation to the office of the police and crime commissioner (OPCC) and to the constabulary and describe the protocols in place to enable it to operate independently, robustly and effectively.

Governance, risk and control

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

4 Review the corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.

5 Review the annual governance statement[s] prior to approval and consider whether [it] [they] properly [reflects] [reflect] the governance, risk and control environment and supporting assurances and identify any actions required for improvement.

6 Consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

7 Consider the framework of assurance and ensure that it adequately addresses the risks and priorities of the OPCC/the constabulary.

8 Monitor the effective development and operation of risk management, review the risk profile, and monitor progress of the PCC/the chief constable in addressing risk-related issues reported to them.

9 Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

10 Review arrangements for the assessment of fraud risks and potential harm from fraud and corruption and monitor the effectiveness of the counter fraud strategy, actions and resources.

11 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

12 Annually review the internal audit charter and resources.

13 Review the internal audit plan and any proposed revisions to the internal audit plan.

14 Oversee the appointment and consider the adequacy of the performance of the internal audit service and its independence.

15 Consider the head of internal audit's annual report and opinion, and a regular summary of the progress of internal audit activity against the audit plan, and the level of assurance it can give over corporate governance arrangements.

16 To consider the head of internal audit's statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement – these will indicate the reliability of the conclusions of internal audit.

17 Consider summaries of internal audit reports and such detailed reports as the committee may request from the PCC/the chief constable, including issues raised or recommendations made by the internal audit service, management response and progress with agreed actions.

18 Consider a report on the effectiveness of internal audit to support the AGS, where required to do so by the Accounts and Audit Regulations (Wales) 2014 (see Appendix A).

19 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To make recommendations on safeguards to limit such impairments and periodically review their operation.

External audit

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

20 Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by either PSAA or the auditor panel as appropriate.

21 Comment on the scope and depth of external audit work, its independence and whether it gives satisfactory value for money.

22 Consider the external auditor's annual management letter, relevant reports and the report to those charged with governance.

23 Consider specific reports as agreed with the external auditor.

24 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

The committee will provide advice and recommendations to the PCC or chief constable in relation to the following areas:

25 Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit of the financial statements that need to be brought to the attention of the PCC and/or the chief constable.

26 Consider the external auditor's report to those charged with governance on issues arising from the audit of the financial statements.

Accountability arrangements

The committee will do the following:

27 On a timely basis report to the PCC and the chief constable with its advice and recommendations in relation to any matters that it considers relevant to governance, risk management and financial management.

28 Report to the PCC and the chief constable on its findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

29 Review its performance against its terms of reference and objectives on an annual basis and report the results of this review to the PCC and the chief constable.

30 Publish an annual report on the work of the committee.

APPENDIX C

Audit committee members – knowledge and skills framework

CORE AREAS OF KNOWLEDGE

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	■ An overview of the governance structures of the authority and decision-making processes ■ Knowledge of the organisational objectives and major functions of the authority	■ This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers
Audit committee role and functions (Chapters 3 and 6)	■ An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements ■ Knowledge of the purpose and role of the audit committee	■ This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others
Governance (Chapter 4)	■ Knowledge of the seven principles of the CIPFA/Solace Framework and the requirements of the AGS ■ Knowledge of the local code of governance	■ The committee will review the local code of governance and consider how governance arrangements align to the principles in the framework ■ The committee will plan the assurances it is to receive in order to adequately support the AGS ■ The committee will review the AGS and consider how the authority is meeting the principles of good governance

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Internal audit (Chapter 4)	■ An awareness of the key principles of the PSIAS and the LGAN ■ Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled	■ The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards ■ The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards ■ In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed ■ The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan
Financial management and accounting (Chapter 4)	■ Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them ■ Understanding of good financial management principles ■ Knowledge of how the organisation meets the requirements of the role of the CFO, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and the CIPFA Statement on the Role of Chief Financial Officers in Policing (2018)	■ Reviewing the financial statements prior to publication, asking questions ■ Receiving the external audit report and opinion on the financial audit ■ Reviewing both external and internal audit recommendations relating to financial management and controls ■ The audit committee should consider the role of the CFO and how this is met when reviewing the AGS
External audit (Chapter 4)	■ Knowledge of the role and functions of the external auditor and who currently undertakes this role ■ Knowledge of the key reports and assurances that external audit will provide ■ Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken	■ The audit committee should meet with the external auditor regularly and receive their reports and opinions ■ Monitoring external audit recommendations and maximising benefit from audit process ■ The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Risk management (Chapter 4)	■ Understanding of the principles of risk management, including linkage to good governance and decision making ■ Knowledge of the risk management policy and strategy of the organisation ■ Understanding of risk governance arrangements, including the role of members and of the audit committee	■ In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces ■ Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee ■ The committee should also review reports and action plans to develop the application of risk management practice
Counter fraud (Chapter 4)	■ An understanding of the main areas of fraud and corruption risk to which the organisation is exposed ■ Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Knowledge of the organisation's arrangements for tackling fraud	■ Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy ■ An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment
Values of good governance (Chapter 5)	■ Knowledge of the Seven Principles of Public Life ■ Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff ■ Knowledge of the whistleblowing arrangements in the authority	■ The audit committee member will draw on this knowledge when reviewing governance issues and the AGS ■ Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported

Knowledge area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny) (Chapter 5)	■ Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: – regulatory requirements – treasury risks – the organisation's treasury management strategy – the organisation's policies and procedures in relation to treasury management ■ See also Treasure Your Assets (CfPS, 2017)	■ Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny

SPECIALIST KNOWLEDGE THAT ADDS VALUE TO THE AUDIT COMMITTEE

This section may be of particular benefit when recruiting independent members.

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Accountancy	■ Professional qualification in accountancy	■ More able to engage with the review of the accounts and financial management issues coming before the committee ■ Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues ■ More able to engage with the external auditors and understand the results of audit work
Internal audit	■ Professional qualification in internal audit	■ This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing ■ The committee would be more able to provide oversight of internal audit and review the output of audit reports
Risk management	■ Risk management qualification ■ Practical experience of applying risk management ■ Knowledge of risks and opportunities associated with major areas of activity	■ Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice ■ Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers
Governance and legal	■ Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law	■ Legal knowledge may add value when the committee considers areas of legal risk or governance issues
Service knowledge relevant to the functions of the organisation	■ Direct experience of managing or working in a service area similar to that operated by the authority ■ Previous scrutiny committee experience	■ Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context

Knowledge area	Details of supplementary knowledge	How the audit committee member is able to add value to the committee
Programme and project management	■ Project management qualifications or practical knowledge of project management principles	■ Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews
IT systems and IT governance	■ Knowledge gained from management or development work in IT	■ Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls

CORE SKILLS

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	■ Able to focus on material issues and overall position, rather than being side tracked by detail	■ When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation, but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail
Questioning and constructive challenge	■ Able to frame questions that draw out relevant facts and explanations ■ Challenging performance and seeking explanations while avoiding hostility or grandstanding	■ The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found
Focus on improvement	■ Ensuring there is a clear plan of action and allocation of responsibility	■ The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities ■ Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken
Able to balance practicality against theory	■ Able to understand the practical implications of recommendations to understand how they might work in practice	■ The audit committee should seek assurances that planned actions are practical and realistic

Skills	Key elements	How the audit committee member is able to apply the skill
Clear communication skills and focus on the needs of users	■ Support the use of plain English in communications, avoiding jargon, acronyms, etc	■ The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience
Objectivity	■ Evaluate information on the basis of evidence presented and avoiding bias or subjectivity	■ The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views
Meeting management skills	■ Chair the meetings effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting	■ These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members

APPENDIX D

Self-assessment of good practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement and this publication. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

	Good practice questions	Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (applicable to local government only)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	■ good governance			
	■ assurance framework, including partnerships and collaboration arrangements			
	■ internal audit			
	■ external audit			
	■ financial reporting			
	■ risk management			
	■ value for money or best value			

	Good practice questions	Yes	Partly	No
	■ counter fraud and corruption			
	■ supporting the ethical framework			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?			
Membership and support				
12	Has an effective audit committee structure and composition of the committee been selected? This should include: ■ separation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)			
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			
14	Does the chair of the committee have appropriate knowledge and skills?			
15	Are arrangements in place to support the committee with briefings and training?			
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?			
18	Is adequate secretariat and administrative support to the committee provided?			

	Good practice questions	Yes	Partly	No
Effectiveness of the committee				
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
20	Are meetings effective with a good level of discussion and engagement from all the members?			
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?			
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?			
23	Has the committee evaluated whether and how it is adding value to the organisation?			
24	Does the committee have an action plan to improve any areas of weakness?			
25	Does the committee publish an annual report to account for its performance and explain its work?			

APPENDIX E

Evaluating the effectiveness of the audit committee

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting the principles of good governance and their application to decision making	■ Supporting the development of a local code of governance ■ Providing robust review of the AGS and the assurances underpinning it ■ Working with key members/PCC and chief constable to improve their understanding of the AGS and their contribution to it ■ Supporting reviews/audits of governance arrangements ■ Participating in self-assessments of governance arrangements ■ Working with partner audit committees to review governance arrangements in partnerships		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Contributing to the development of an effective control environment	■ Actively monitoring the implementation of recommendations from auditors ■ Encouraging ownership of the internal control framework by appropriate managers ■ Raising significant concerns over controls with appropriate senior managers		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	■ Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking ■ Monitoring improvements ■ Holding risk owners to account for major/strategic risks		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	■ Specifying its assurance needs, identifying gaps or overlaps in assurance ■ Seeking to streamline assurance gathering and reporting ■ Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	■ Reviewing the audit charter and functional reporting arrangements ■ Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements ■ Actively supporting the quality assurance and improvement programme of internal audit		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	■ Reviewing how the governance arrangements support the achievement of sustainable outcomes ■ Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place ■ Reviewing the effectiveness of performance management arrangements		
Supporting the development of robust arrangements for ensuring value for money	■ Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee ■ Considering how performance in value for money is evaluated as part of the AGS		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	■ Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014) ■ Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks ■ Assessing the effectiveness of ethical governance arrangements for both staff and governors		

Areas where the audit committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment: 5 – 1 See key above
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability	■ Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English ■ Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency ■ Publishing an annual report from the committee		