

**Open Report on behalf of Andrew Crookham, Executive Director - Resources**

Report to:	<b>Audit Committee</b>
Date:	<b>27 March 2023</b>
Subject:	<b>Statement of Accounts 2022/23 – Accounting Policies</b>

**Summary:**

This report summarises:

- Changes to the Code of Practice on Local Authority Accounting which will be incorporated into the 2022/23 Statement of Accounts for Lincolnshire County Council and the Lincolnshire Pension Fund;
- The broad requirements of the Accounts and Audit Regulations 2015, and the latest amendment to these regulations regarding reporting timescales;
- The review of the Council's Accounting Policies for both the main financial statements and the Lincolnshire Pension Fund statements.

**Recommendation(s):**

The Executive Director of Resources asks the Members of the Audit Committee to:

- (1) Note the changes required to the Statement of Accounts from the Code of Practice 2022/23;
- (2) Note the amended deadlines of 31 May 2023 for the preparation of draft accounts, and 30 September 2023 for publication of the audited Statement of Accounts 2022/23;
- (3) Approve the Statement of Accounting Policies (Appendix A), the Accounting Policies within Disclosure Notes (Appendix B) to use in preparing the Council's accounts for the financial year ending 31 March 2023.
- (4) Approve the Accounting Policies proposed not to be published (Appendix D) in the Council's accounts for the financial year ending 31 March 2023.
- (5) Approve the Statement of Accounting Policies (Appendix C) to use in preparing the Local Government Pension Scheme (LGPS) Pension Fund accounts for the

financial year ending 31 March 2023.

## **Background**

1.1 The Council is required to prepare its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in United Kingdom 2022/23 (the Code). This ensures the accounts are prepared using "proper accounting practice". The Council is also required to comply with the Accounts and Audit Regulations 2015 in preparing, submitting for audit, and publishing its accounts.

## **Changes to the Code of Practice on Local Authority Accounting for 2022/23: Lincolnshire County Council**

1.2 The Code of Practice for 2022/23 has introduced some revisions and clarifications to the accounting requirements for the 2022/23 Statement of Accounts. For the main accounts, the key items are:

a) It is confirmed again that the provisions of IFRS 16 Leases must be implemented by local authorities in 2024/25. It is recognised that some authorities may wish to adopt the standard earlier, and a new guidance document covering the accounting requirements of IFRS16 has been published by CIPFA alongside the Code of Practice 2022/23. We intend to adopt the leasing standard from April 2024.

b) The Code confirms that the accounting treatment and disclosures required for infrastructure assets are currently provided in CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution and this bulletin should be read alongside the Code guidance notes for local authorities with material infrastructure assets. The temporary solution, which allows us to omit the disclosure of gross value and accumulated depreciation of infrastructure assets, and also allows us to not account for the derecognition of replaced components for infrastructure assets where there is insufficient evidence to support the transaction, has not been adopted. This is because we have been accounting for the derecognition of infrastructure assets and believe that our disclosures are not misleading. We will continue to follow the Code of Practice in accounting for infrastructure assets, although we are clarifying our accounting policies relating to this area.

1.3 The Annual Improvements to IFRS Standards 2018-2020 includes a revision to IFRS 9 Financial Instruments, which clarifies an element of how a restructuring of debt should be accounted for, and this would come into effect in our 2022/23 financial year. We have not restructured any debt in 2022/23 so this amendment is not relevant for the 2022/23 Statement of Accounts but will be taken into account for any future debt restructuring.

1.4 The Annual Improvements to IFRS Standards 2018-2020 also includes a revision to IAS 16 Property, Plant and Equipment, which clarifies that if any items are sold in the

course of preparing an asset for its intended use, then those sale proceeds cannot be deducted from the capital cost of bringing an asset into use but must instead be recognised as sale proceeds in the Comprehensive Income and Expenditure Statement. We do not have any instances of items being sold in these circumstances so this clarification is not relevant for our accounts.

1.5 There will also be changes in accounting standards in the future, which may impact on the Council in the 2023/24 accounts. The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to publish a bulletin which will interpret any future changes in accounting standards for the public sector. Once this is available, the impacts will be assessed and included in the 2022/23 Accounts in the disclosure notes for Accounting Standards that have been Issued but have not yet been Adopted (note 1 of the main accounts and note 2 of the Pension Fund accounts).

### **Accounts and Audit Regulations 2015**

1.6 The Accounts and Audit Regulations 2015 set out the requirements for local authorities to prepare an annual statement of accounts, to publish such accounts and to have those accounts audited. The regulations also allow for the statement of accounts to be inspected by members of the public within a certain timeframe.

1.7 These regulations were previously amended to allow for longer timescales for the preparation, publication and audit of the accounts due to the impact of the Covid-19 pandemic. This additional leeway has now ended and the latest amendment to the regulations in 2022 reinstates the timescales which were in force prior to the pandemic.

1.8 The timescales for this year are as follows:

- The deadline for preparing draft accounts is 31 May for the 2022/23 accounts onwards.
- The deadline for publishing audited accounts is 30 September for the 6 years beginning with the 2022/23 accounts.

1.9 We are planning to present the draft Statement of Accounts 2022/23 to the Audit Committee on 19 June 2023 alongside a training session on the accounts.

### **Statement of Accounting Policies**

1.10 An important section of the published accounts is the statement of accounting policies. This summarises the rules and codes of practice used to prepare the accounts, together with any estimation techniques adopted. The policies for the Council's main financial statements have been reviewed and are attached at **Appendix A** for consideration and approval by this Committee. The policies for the Council's LGPS Pension Fund financial statements have been reviewed and are attached at **Appendix C** for consideration and approval by this Committee.

1.11 Two enhancements have been made to the accounting policies for 2022/23 which impact on the main accounts and these are marked in **bold** in **Appendix A**. They are:

- Accounting Policy 4 Property, Plant and Equipment. We've added a paragraph into this policy to clarify our approach to the derecognition of infrastructure assets. This is not a policy change but merely a clarification.

Other changes have been made to the useful lives in section d depreciation part of the policy. We have expanded the table to include more types of infrastructure assets to reflect the best practice mentioned in CIPFA bulletin 12. We have not changed our useful lives, we have simply listed more types of infrastructure assets.

We have been advised of improvements to how potholes are filled and as a result we have increased the useful lives for capital pothole filling from 1-3 years to 1-4 years.

1.12 There are no changes to the Code of Practice for 2022/23 which will have an impact on the Pension Fund Accounts, so no changes have been made to our accounting policies. The existing accounting policies are shown in **Appendix C**.

1.13 Our accounting policies for 2022/23 have been reviewed as part of an exercise to streamline our Statement of Accounts. The concept of materiality has been considered and where transactions and balances are not deemed as material, the relevant policy has been removed. As our accounting policies are reviewed annually, we can reinstate any accounting policies that become material on a year by year basis.

1.14 For 2022/23 the following Accounting Policies will be removed from the Statement of Accounts. These policies are included in Appendix D and are proposed for approval by this Committee, which would allow them to be reinstated in the Statement of Accounts in either 2022/23 or future years if required:

- Donated Assets
- Inventories
- Contingent Assets
- Events after the Reporting Date (this would be reinstated if an event occurs)
- Exceptional Items
- Acquired and Discontinued Operations
- Section on the use of capital receipts to fund transformation projects (part of Property, Plant and Equipment)

1.15 The placement of accounting policies within the Statement of Accounts has also been reviewed and where it has been judged that further understanding and clarity can be enhanced by incorporating the policy within the relevant disclosure note, we have done so. The results are attached at **Appendix B** for consideration and approval by this Committee. We are liaising with External Audit to confirm that they have no issues with the changes proposed before the changes are implemented in the Statement of Accounts.

## Conclusion

- 2.1 The amended accounting requirements, disclosures and timescales, as required by the Code of Practice and the Audit and Accounts Regulations will be incorporated into the Statement of Accounts for 2022/23.
- 2.2 The Statement of Accounts will be prepared using the Accounting Policies approved by the Audit Committee at this meeting.

## 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	Statement of Accounting Policies for main financial statements 2022/23
Appendix B	Accounting Policies incorporated into Disclosure Notes 2022/23
Appendix C	Statement of Accounting Policies for LGPS Pension Fund financial statements 2022/23
Appendix D	Accounting Policies which are proposed not be published

## Background Papers

Document title	Where the document can be viewed
CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23	Executive Director of Resources

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### **Lincolnshire County Council - Statement of Accounting Policies**

Our Accounting policies for 2022/23 have been reviewed as part of an exercise to streamline our Financial Statements. The concept of materiality has been considered and where transactions and balances are not deemed as material, the relevant Accounting Policy has been removed.

As our Accounting Policies are reviewed on an annual basis, we can reinstate any Accounting Policies that become material on a year by year basis. For 2022/23 the following Accounting Policies have been removed:

- Donated assets
- Inventories
- Contingent Assets
- Events after the Reporting Date
- Exceptional Items
- Acquired and Discontinued Operations

The placement of our Accounting Policies within our Financial Statements has also been reviewed and where it has been judged that further clarity can be achieved by incorporating the policy within the relevant Disclosure Note, we have done this.

This approach allows our significant Accounting Policies to remain together in one place where they can be referred to if required.

#### 1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year 2022-23 and the position at the year-end 31 March 2023. 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 2022-23 and supported by International Financial Reporting Standards and statutory guidance.

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

## 2. Changes in Accounting Policies

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

## 3. Prior period adjustments – estimates and errors

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

The following disclosures will be made:

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

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

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

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

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

### Classification

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

Operational Assets:

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

Non-Operational Assets:



- Surplus Assets; and
- Assets under Construction.

#### 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).

#### **De-recognition associated with depreciated historic cost assets**

**For assets subject to depreciation, which are carried at historic cost e.g. equipment and infrastructure assets, de-recognition takes place in the year after an asset has been fully depreciated. This represents the end of an asset's useful life. For infrastructure assets, no replacement of any part of an asset takes place before that component has reached the end of its useful life.**

#### a) Measurement after Recognition – Valuation Approach

The Council values Property, Plant and Equipment using the basis recommended by CIPFA in the Code of Practice and in accordance with the Royal Institution of

Chartered Surveyors (RICS) Valuation – Professional Standards, the RICS Valuation – Global Standards 2017 and RICS Guidance Notes.

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 because the type of 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 uses 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.

#### a) 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).

#### b) 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 on a straight line basis over their estimated useful lives, currently varying from:
  - 1-4 years for capital pothole filling;
  - 6-12 years for carriageway **surface dressing** and slurry sealing;
  - **20 years for carriageways Primary Road Network (PRN) & Non PRN**
  - **20 years for Bus infrastructure**
  - **20 years for footways/cycleways**
  - **20 years for Public Right of Way (PROW)**
  - 20 years for street furniture;

- **20 years for Traffic Management**
  - 40 years for street lighting, kerbs and drains;
  - 60 years for major road structures (**i.e. sub base, underpasses**);
  - Up to 120 years for bridge structures.
- 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, currently these vary depending on the nature of the asset, from 3 years up to 25 years for solar panels;
  - Land, Property and Equipment associated with the Energy from Waste Plant are depreciated over their estimated 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 Land or Assets Under Construction.

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 a 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.

c) 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).

d) 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 utilise these receipts to fund the capital programme in the year they are received or to carry them forward to be used in future years, subject to the flexibility described in the next paragraph. These receipts are transferred from the General Fund Balance via the Movement in Reserves to be utilised to fund the capital programme or set aside within the capital receipts reserve for future use to reduce the underlying need to borrow. Sale proceeds below £10k are below the de-minimis and are credited to the Comprehensive Income and Expenditure Statement.

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

e) Impairment of Non-Current Assets

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

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

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

Impairment losses are initially recognised against any revaluation reserve for that asset up to the balance available. Any remaining loss is charged in the Surplus or

Deficit on provision of services. This is then reversed through the Movement in Reserves Statement and charged to the Capital Adjustment Account.

#### 5. Intangible Assets

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

a) Recognition and Measurement. Intangible assets are recognised when it is more likely that future benefits will flow to the Council and the cost of the asset can be reliably measured. Assets that qualify as intangible assets shall be measured and carried at cost in the absence of an active market to determine fair value.

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 10 years. Useful asset lives are determined by the ICT budget holder and reviewed and updated annually.

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

#### 6. 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 a minimum revenue provision in the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

#### 7. 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 Major New Road Schemes, 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 for Major New Road Schemes until assets have become operational.

#### 8. 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.

#### 9. 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.

## 10. 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 40 '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.

### 11. 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 are 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 statute) 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.

#### 12. Recognition of Revenue (Income)

Revenue is accounted for in the year it takes place, not simply when cash payments are received. The Council recognises revenue from contracts with service recipients, whether for services or the provision of goods, when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligation in the contract.

Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

#### 13. Costs of Support Services

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

#### 14. Value Added Tax (VAT)

The Council's Comprehensive Income and Expenditure Statement excludes VAT unless this is not recoverable from HM Revenue and Customs. 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.

#### 15. Council Tax and Business Rates Income

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

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

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

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

#### 16. 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 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.

#### 17. Employee Benefits – Post Employment Benefits (Pensions)

The Council participates in four different pension schemes which provide scheme members with defined benefits related to pay and service. The schemes are as follows:

- Teachers' Pension Scheme: This is a notionally funded scheme administered nationally by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employers' contributions payable to teachers' pensions in the year are treated as expenditure on the Schools' service line in the Comprehensive Income and Expenditure Statement.
- National Health Service Pension Scheme (NHSPS): This is a notional funded scheme administered nationally by NHS Pensions on behalf of the Department of Health and Social Care (DHSC). 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 NHSPS in the year are treated as expenditure in the Children's Services and Adult Care and Community Wellbeing service lines in the Comprehensive Income and Expenditure Statement.

- Uniformed Firefighters Pension Scheme (FPS): From 1 April 2015, a new pension fund for Firefighters was set up. This scheme replaced the 2006 & 1992 Firefighters schemes for new Firefighters. 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 Home Office. 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 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;
  - unlisted securities – current bid price;
  - property – market value.

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 or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Other Budgets;
  - 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.

#### 18. 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. Where a school transfers to Academy status and has signed a long term (125 year) lease, the school is removed from the Council's Balance Sheet.

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.

Any school with an overall cumulative deficit on its Dedicated Schools Grant (DSG) must produce a management plan detailing how it will return to a balanced position in the future. ***Accumulated deficits must be held in a Dedicated Schools Grant adjustment account rather than being charged to the General Fund. The Dedicated Schools Grant adjustment account is an unusable reserve. There***

***is currently no accumulated deficit relating to schools' budgets funded by the Dedicated Schools Grant.***

#### 19. 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 £20.000m aggregated gross turnover has been set for determining whether or not group accounts will be prepared.

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.

#### 20. Financial Instruments

Financial liabilities 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 charges to the Financing and 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. Regulations state that the period to spread discounts is limited to a minimum period equal to the outstanding term on the replaced loan or 10 years if this is shorter. Premiums may be spread over the longer of the outstanding term on replaced loan or the term of the replacement loans, or a shorter period if preferred. The Council will spread premiums over the term that was remaining on the loan replaced and spread discounts in line with regulation. When matching premium and discounts together from a re-scheduling



exercise, the Council's policy is to spread the gain/loss over a ten year period or the term that was remaining on the loan replaced if greater 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.

The Council receives interest free funding from Salix Finance as part of a revolving fund to finance energy saving projects (Soft Loans Receivables). The benefit of a loan to the Council at a below-market rate of interest is treated as a grant or contribution receivable within the Comprehensive Income and Expenditure Statement. The benefit is measured as a difference between the cash actually advanced to the Council and the fair value of the loan on recognition, discounted at a comparable market rate of interest for a loan. The amortised cost of the loan in the Balance Sheet is reduced as the benefit has been stripped away. 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 in the Movement in Reserves Statement.

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

Financial Assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes that financial assets are measured at:

- Amortised Cost
- Fair Value Through Profit or Loss (FVPL); and
- Fair Value Through Other Comprehensive Income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument). These types of asset will be measured at fair value.

#### Financial Assets Measured at Amortised Cost

Financial Assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and 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 most of the financial assets held by the Council, 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.

The following financial assets held by the Council are measured at amortised cost using an effective interest rate that takes account of other considerations attributable to the asset over its lifetime such as premiums paid or interest forgone. Interest payable in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement will then be recognised on a smoothing effective interest rate basis over the life of the loan.

- Secondary Certificates of Deposit and Bonds - are purchased at an amount different to par and hence a price premium is usually incurred on purchase. The price of the instrument is the amortised cost at initial measurement (its fair value) debited to Investments on the Balance Sheet. This price premium is factored into the cash flows of the instrument over its life, that will result in a smoothing effective interest rate that when discounted will bring back cash flows to the price paid (initial measurement at fair value).

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally lower effective rate of interest than the rate receivable from the Instrument, with the difference serving to decrease the amortised cost of the loan in the Balance Sheet over its life.

Transaction costs paid to a custodian for purchasing these instruments are deemed as immaterial and hence charged directly to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement when incurred, not included within the amortised cost calculation of the instrument.

- Soft Loans – The Council can make loans to third parties at less than market rates (soft loans) for 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 foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the third party recipients of the loans, 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 Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council has set a £50k de minimis limit to the value of soft loans or the loss calculated by 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.

#### Expected Credit Loss Model – for Assets Measured at Amortised Cost

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) that are more than 30 days past the due date, held by the Council. These are individually assessed to determine whether or not the trade receivable (debtors) are likely to default on their obligations.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default, then no loss allowance is required or recognised.

Impairment losses will be charged to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services and credited to the Financial Assets at Amortised Cost Loss Allowance.

The Council has set a de minimis level of £25k to the resultant impairment loss for financial assets at amortised cost, below which the impairment is deemed immaterial and not recognised.

The Council has a portfolio of a different types of loans measured at amortised cost. Where possible losses have been assessed on these loans on a collective basis as the Council does not have reasonable and supportable information that is

available without undue cost or effort to support the measurement of expected losses on an individual instrument basis.

The Council has grouped the loans into the following groups for assessing loss allowances:

- Group 1 – treasury investments governed by the Council's Annual Investment Strategy for Treasury Investments. These are loans made to highly credit rated counterparties under the credit analysis followed within the Investment Strategy. As such they are deemed low risk so the 12 month Expected Credit Loss model is used. The Historical Default Table issued by Credit Rating Agencies and provided by the Council's Treasury Advisors is used to calculate the expected 12 month impairment losses.
- Group 2 – loans or soft loans to third parties for Service Reasons. These types of loans tend to be higher risk as credit worthiness is often not the prime consideration in making the loan. They will be assessed on an individual basis taking into consideration external credit ratings, economic conditions impacting the third party, the current financial position and financial forecasts of the third party and any history of defaults or extended credit terms. Due to the high risk nature, the lifetime Expected Credit Loss model would normally be followed for these loans (See \*Note below).
- Group 3 – loans to Council owned Companies for Service Reasons. These types of loans tend to be higher risk as credit worthiness is often not the prime consideration in making the loan. They will be assessed on an individual basis taking into consideration external credit ratings, economic conditions impacting the company, the current financial position and financial forecasts of company and any history of defaults or extended credit terms. Due to the high risk nature, the lifetime Expected Credit Loss model would normally be followed for these loans.

\*Note

Where the Council makes loans to companies in financial difficulties to ensure continuation of vital services, fifty percent of the loan is thus deemed credit impaired on origination. This will mean that:

- as lifetime expected credit losses are taken into account in the cash flows used for calculating the effective interest rate, no loss allowance is needed on initial recognition;
- a loss allowance will then be built up on the basis of the cumulative change in lifetime expected credit losses since initial recognition;
- the annual impairment gain or loss will be the change in lifetime expected credit losses over the year.

Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

Financial assets held by the Council that fall into this category include Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) Money Market Funds.

Financial assets are measured at FVPL where they fail to meet the business model and principal or interest tests of the other two classifications. For the Council, financial assets under this category meet the business model of collecting contractual cash flows, but the cash flows are not solely payments of principal or interest, for example they include dividend payments.

These funds are pooled investment funds that invest in short-term assets that aim to offer returns in line with money market rates and preserve the value of investments. They are instant access, whereby units of the fund are bought and sold and dividends paid in accordance with daily yields returned, set at the end of each day. The Net Asset Value of these funds only vary by an insignificant amount due to changing values of the assets in the fund, therefore generally the price of the fund (fair value) will equal the carrying amount of units held.

Financial assets measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services, specifically within the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

The Council has set a de minimis level to the adjustment to fair value of £50k for financial assets measured at fair value, below which the change in fair value will not be recognised and the asset will be held on the Balance Sheet at its carrying value.

Statutory provision as defined in SI 2018/1207 means that until 31 March 2023, English Local Authorities are prohibited from charging to a revenue account fair value gains or losses, unless the gain or loss relates to impairment or the sale of the asset. Instead that amount is charged to an account established solely for the purpose of recognising fair value gains and losses. This statutory override will not be applicable for CNAV/LVNAV Money Market funds as gains and losses to fair value will be zero and will not impact on the revenue account.

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.

#### Expected Credit Loss Model –For Assets Measured at Fair Value through Profit and Loss

The impairment requirements do not apply to financial assets classified as 'fair value through profit or loss', as current market prices are considered to be an

appropriate reflection of credit risk, with all movements in fair value (including those relation to credit risk) impacting on the carrying amount being posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement as they arise.

#### Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets are measured at FVOCI when the business model for holding the asset includes collecting contractual cash flows and selling assets. The Council does not hold any financial assets that meet this definition.

In line with the Code however, the Council has decided to designate some small equity holdings in companies held for service reasons to the category of FVOCI instead of FVPL. This designation is irrevocable and deemed to be a reliable accounting policy for these financial assets, based on the following reasons:

- The holdings are equity instruments as defined by the Code to exclude puttable shares (e.g. those where the issuer has a contractual obligation to exchange the shares for cash if the holder exercises an option for the return of their investment).
- They naturally fall into the FVPL classification of investments.
- The shares are held for a clear service benefit and not held for trading.
- Future gains or losses are expected to be insubstantial.

Assets designated at FVOCI will be carried in the Balance Sheet at Fair Value, with dividends credited to the Surplus or Deficit on the Provision of Services when the right for the Council to receive the payment is established. Movements in fair value will be credited to the Other Income and Expenditure Account and released to the General Fund. The impact on the General Fund will be removed through Movement in Reserves Statement to the Financial Instruments Revaluation Reserve. Gains or losses will be charged directly to the General Fund via the Financing and Investment Income and Expenditure in the Surplus or Deficit on the Provision of Services.

The Council has set a de minimis level to the adjustment to fair value of £50k for financial assets measured at fair value, below which the change in fair value will not be recognised and the asset will be held on the Balance sheet at its carrying value.

#### Expected Credit Loss Model – For Assets Measured at Fair Value through Other Comprehensive Income

The Council recognises expected credit losses on financial assets measured at FVOCI either on a 12-month or lifetime basis depending on an individual assessment of the credit risk of each financial asset as follows:

Has credit risk increased significantly since initial recognition?

- No: 12 month credit loss model.
- Yes: lifetime credit loss model.
- No information available to assess: lifetime credit loss model.

Consideration will be made to external credit ratings, economic conditions impacting the company, the current financial position and financial forecasts of company and any history of defaults or extended credit terms when assessing the credit risk of these assets.

Impairment losses will be charged to Other Comprehensive Income and Expenditure and credited to the Financial Instruments Revaluation Reserve.

Where financial assets have been designated into the FVOCI category they are outside the scope of impairment for the same reasons that FVPL assets are.

The Council has set a de minimis level of £25k to the resultant impairment loss for financial assets at FVOCI, below which the impairment is deemed immaterial and not recognised.

#### 21. Fair Value Measurement

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.

For financial instruments measured in fair value (FVPL and FVOCI) is therefore based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- 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.

#### 22. Recognition of Revenue (Income)

Revenue is accounted for in the year it takes place, not simply when cash payments are received.

The Council recognises revenue from contracts with service recipients, whether for services or the provision of goods, when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligation in the contract.

Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

#### 23. Council Tax and Business Rates Income

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

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

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

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

#### 24. Accounting Policies now included within the relevant Disclosure Note

- Usable Reserves – within Note 12
- Unusable Reserves – within Note 13
- Heritage Assets – within Note 16



- Investment Properties – within Note 17
- Debtors – within Note 20
- Assets Held for Sale – within Note 21
- Cash and Cash Equivalents – within Note 22
- Creditors – within Note 23
- Provisions – within Note 24
- Private Finance Initiatives (PFI) and Similar Contracts – within Note 26
- Termination Benefits – within Note 37
- Contingent Liabilities – within Note 42

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### Lincolnshire County Council - Accounting Policies within Disclosure Notes

## NOTE 12. USABLE RESERVES

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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.

(TABLE)

## NOTE 13. UNUSABLE RESERVES

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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.

The following table summarises the Unusable Reserves held by the Council:

(TABLE)

## NOTE 16. HERITAGE ASSETS

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Heritage assets are **defined as** 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.

**Windmills will be valued at existing use value by the Council's Valuer and where there is insufficient market data, Depreciated Replacement Value is used as a proxy. These valuations will be included on the Council's rolling programme and will be valued every 5 years.**

### 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.

**Lincoln Castle and Temple Bruer will continue to be carried at historic cost. This is the capital expenditure on enhancements recognised since records began 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.**

### 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. **Collections include Fine Art Collection; the Tennyson Collection; Local Studies and Archive Collections; Lincolnshire Regiment, Militaria and Arms and Armour Collections; and Agriculture Collections.**

Many items are unique and of high cultural significance on a national or international scale (for example: the Tennyson collection, and the Bishops Rolls and Registers). Other items are of local interest for Lincolnshire.

**The collections are relatively static, acquisitions and donations rare. When they do occur, acquisitions will be measured at cost and donations will be recognised at a valuation determined in-house. Collections will be valued based on the insurance valuations held by the Council. Insurance valuations will be reviewed and updated on an annual basis.**

The Council's collections bring a wealth of enjoyment and education to those living in Lincolnshire and beyond. The Council 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 Decision details area

<http://lincolnshire.moderngov.co.uk/ieDecisionDetails.aspx?ID=350>.

Depreciation is not charged on Heritage Assets.

- a) Reconciliation of the carrying value of Heritage Assets held:

(TABLE)

(TABLE)

**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.**

- b) Additions to Heritage Assets

There have been additions of £0.01m to Ellis Mill, £0.01m to Alford Windmill, £0.01m to Heckington Windmill and £0.05m to Burgh Le Marsh Windmill.

**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).** There have been no material disposals of Heritage Assets during 2021-22.

# NOTE 17. INVESTMENT PROPERTIES

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**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.**

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

(TABLE)

There are no restrictions on the Council's right to the remittance of income for its investment properties. **Rental income 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.** The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

**Depreciation is not charged on Investment Properties.**

b) Movement on Investment Properties

(TABLE)

(TABLE)

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

**d) 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 using the current market conditions and recent sales prices and other relevant information for similar assets in the local area. The fair value of Investment Property held under a lease is the lease interest in the asset.**

**e) Revaluation Gains and Losses and Disposal of Investment Properties. 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.**

f) Revaluations

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

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

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

The market value approach takes into account the similar assets in the market, existing lease terms and rentals and market evidence, which comes from numerous sources. If there is more than one value available for the same property on different basis, the highest valuation figure is used. Included within the Fair Value Valuation Method on the County Farms assets, there are a number of 'Special Assumptions' that have been used, relating to the limitations and restrictions on sale. These assumptions apply to a proportion of the overall value and are unlikely to lead to a change in the estimated valuation.

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

## NOTE 20. DEBTORS

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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.

Debtors are initially recognised and measured at fair value of the consideration payable in the accounts. Most debtors are considered to be contractual and these are then subsequently measured at amortised cost.

If settlement is over a year this is accounted for as long term debtor. When considering the amortised cost 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 amortised cost.

For estimated manual debtors, a de minimis level of £25k for individual revenue items and £50k for capital items is set.

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

(TABLE)

## NOTE 21. ASSETS HELD FOR SALE

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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 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.

Depreciation is not charged on non-current assets held for sale.

(TABLE)



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) **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 utilise these receipts to fund the capital programme in the year they are received or to carry them forward to be used in future years. ~~however the Council may use the flexibility to apply capital receipts to fund certain types of revenue expenditure as described in accounting policy 4e.~~ **These receipts are transferred from the General Fund Balance via the Movement in Reserves.** ~~to be utilised to fund the capital programme or set aside within the capital receipts reserve for future use to reduce the underlying need to borrow.~~

## **NOTE 22. CASH AND CASH EQUIVALENTS**

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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. Where a bank overdraft is assessed as part of the Council's cash management it will be included within Cash and Cash Equivalents.

(TABLE)

## NOTE 23. CREDITORS

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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 initially recognised and measured at fair value in the accounts. If payment is deferred to over a year, this is accounted for as a long term creditor. When considering the amortised cost 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 amortised cost.

For estimated manual creditors, a de minimis level of £25k for individual revenue items and £50k for capital items is set.

(TABLE)

## NOTE 24. PROVISIONS

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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

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

Provisions are charged to relevant revenue service account in the Comprehensive Income and Expenditure Statement in the year the Council has an 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.

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.**

The below table shows an analysis of short and long term provisions:

(TABLE)

## **NOTE 26. PRIVATE FINANCE INITIATIVES (PFI) AND SIMILAR CONTRACTS**

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

**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.**

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:

(TABLE)

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 non-current assets held by the Council, and the movement in their values during 2021-22. These assets are included in the non-current assets shown in Note 15 Property, Plant and Equipment.

(TABLE)

**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.**

#### 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 2021-22:

(TABLE)

#### d. PFI Contract Liabilities

**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 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.

(TABLE)

## NOTE 37. TERMINATION BENEFITS

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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 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.

As a result of further reductions to local government funding, the Council is undertaking a review and reshaping of services. In 2021-22 the Council has incurred liabilities of £2.054m (£0.966m in 2020-21) in relation to termination benefits.

- £1.318m for redundancy payments (£0.619m in 2020-21); and
- £0.736m for pension strain (£0.347m in 2020-21).

Further information on termination benefits can be found in Note 36 on Exit Packages which details the number of exit packages and total cost over bands and Note 29 on Defined Benefit Pension Schemes which details the effect termination benefits have had on pensions in 2021-22.

## **NOTE 42. CONTINGENT LIABILITIES**

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**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 disclosing Contingent Liabilities of £500k.**

At 31 March 2022 the Council has the following material contingent liabilities:

### **Lincolnshire Pension Fund Significant Accounting Policies 2022/23**

#### **Fund account – revenue recognition**

##### **a. Contributions income**

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all Funds which rise according to pensionable pay; and
- Employer contributions are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions, for example, in respect of early retirements, are accounted for in the year the event arose.

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. They are calculated in accordance with the LGPS Regulations 2013:

- Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.
- Bulk transfers are accounted for in accordance with the terms of the transfer agreement.

##### **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.

###### **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) Changes in the net market value of investments

Changes in the net market value of investments are recognised as income/expense 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 part of the overall cost of transactions (e.g. purchase price).

f. Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance: Accounting for Local Government Pension Scheme Management Expenses (2016), using the headings shown below. All items of expenditure are charged to the Fund on an accruals basis.

i) Administrative expenses

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 staff costs associated with the governance and oversight are charged directly 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

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments.



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.

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 Morgan Stanley Investment Management Ltd (for the Private Markets Portfolio) that an element of their fee will be performance related.

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.

### **Net assets statement**

#### **g. Financial assets**

All investment 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. Any amounts due or payable in respect of trades entered into, but not yet completed at 31 March each year are accounted for as financial instruments held at amortised cost. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund and are classified as Fair Value through Profit and Loss (FVPL).

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 14). 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).

Alternatives, private equity, property venture and infrastructure valuations are based on the most recent valuations provided by managers at the year-end date. Where more up-to-date valuations are received during the accounts preparation or audit period, their materiality, both individually and collectively will be considered, and the accounts revised to reflect these valuations if necessary. If valuations are not produced by the manager at 31 March, then the latest available valuation is used, adjusted for purchases and sales which occur between the valuation date and 31 March.

The investment in the LGPS asset pool, Border to Coast Pensions Partnership, is also carried at fair value. This has been classified as Fair Value through Other Comprehensive Income (FVOCI) rather than FVPL as the investment is a strategic investment and not held for trading.

#### 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.

#### 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.

Future value of forward currency contracts are based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. The contracts are valued using Northern Trust closing spot/forward foreign exchange rates on 31 March.

#### j. Cash and cash equivalents

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

A financial liability is recognised in the net assets statement on the date the Fund becomes legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the Fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost, are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest.

#### 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. At year end, the promised retirement benefits have been projected using a roll forward approximation from the latest formal funding valuation. 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 18).

#### 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 for information (see Pension Fund Note 21).

#### n. Contingent assets and contingent liabilities

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.

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.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes (see Pension Fund Note 24 and 25).

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## **Lincolnshire County Council - Accounting Policies which are proposed not to be published**

### **1. 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.

### **2. 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.

### **3. Contingent Assets**

A contingent asset is where there is a possible transfer of 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 disclosing Contingent Assets of £500k.

### **4. Events after the Reporting Date**

These are events that occur between the end of the reporting period and the date when the Statement of Accounts is 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.

## **5. Exceptional Items**

Exceptional items are material amounts of income or expenditure which occur infrequently in the course of the Council's normal business and are not expected to arise at regular intervals. When these items of income or expense are material, their nature and amount will be disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts depending on how significant the items are to an understanding of the Council's financial performance.

## **6. Acquired and Discontinued Operations**

Where the Council takes on new activities or ceases providing services, the costs relating to these activities will be identified in the Comprehensive Income and Expenditure Statement on the surplus or deficit on 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.