

County Offices
Newland
Lincoln
LN1 1YL

8 July 2016

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 18 July 2016 at 10.30 am** in **Committee Room One, County Offices, Newland, Lincoln LN1 1YL** for the transaction of the business set out on the attached Agenda.

Yours sincerely



Tony McArdle
Chief Executive

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

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

Voting Added Member

Mr P D Finch, Independent Added Person

**AUDIT COMMITTEE AGENDA
MONDAY, 18 JULY 2016**

Item	Title	Pages
1	Apologies for Absence	
2	Declaration of Members' Interests	
3	Minutes of the meeting held on 20 June 2016	5 - 14
4	Internal Audit Annual Report - 2015/16 <i>(To receive a report which gives the Head of Internal Audit opinion on the adequacy of the Council's governance, risk and control environment and delivery of the Internal Audit Plan for 2015/16)</i>	15 - 48
5	Review of Governance Framework & Development of Annual Governance Statement 2016 <i>(To receive a report which provides the Committee with the opportunity to review the contents of the Draft Annual Governance Statement)</i>	49 - 70
6	Counter Fraud Annual Report 2015/16 <i>(To receive a report which provides the Committee with information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviews the delivery of the 2015/16 counter fraud work plan)</i>	71 - 100
7	Internal Audit Progress Report <i>(To receive a report which provides an update on internal audit work undertaken in the period 1 June to 8 July 2016)</i>	101 - 122
8	Corporate Complaints and Compliments <i>(To receive a report which provides a response to the Committee's request for an annual report reviewing the effectiveness of the Council's complaints and compliments process)</i>	123 - 126
9	Work Plan <i>(To receive a report which provides the Committee with information relevant to the core assurance activities currently scheduled for the 2016/17 work plan)</i>	127 - 134
10	Draft Statement of Accounts 2015/16 <i>(To receive a report which presents the draft Statement of Accounts for Lincolnshire County Council for the financial year 2015/16 for scrutiny and comment by the Audit Committee)</i>	135 - 294

Democratic Services Officer Contact Details

Name: **Rachel Wilson**

Direct Dial **01522 552107**

E Mail Address rachel.wilson@lincolnshire.gov.uk

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

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

Contact details set out above.

All papers for council meetings are available on:

www.lincolnshire.gov.uk/committeerecords



AUDIT COMMITTEE 20 JUNE 2016

PRESENT: COUNCILLOR MRS S RAWLINS (CHAIRMAN)

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

Officers in attendance:-

Debbie Bowring (Principal Risk Officer), John Cornett (External Auditor, KPMG), David Forbes (County Finance Officer), Claire Machej (Head of Finance (Corporate)), Mike Norman (External Auditor, KPMG), Lucy Pledge (Audit and Risk Manager), Richard Wills (Executive Director, Environment and Economy) and Rachel Wilson (Democratic Services Officer)

1 APOLOGIES FOR ABSENCE

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

2 DECLARATION OF MEMBERS' INTERESTS

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

3 MINUTES OF THE PREVIOUS MEETING HELD ON 21 MARCH 2016

It was reported that there was a typographical error under minute 60, in the first paragraph - £17 should read £17m.

RESOLVED

That the minutes (including the amendment noted above) of the meeting held on 21 March 2016 be signed by the Chairman as a correct record.

4 STATEMENT OF ACCOUNTS 2015/16 - RISK UPDATE

Consideration was given to a report which provided a summary of the key risks faced by the Council in producing the Statement of Accounts 2015/16 and progress in addressing these risks.

It was reported that officers were now looking at information for schools and work was still underway. The current timeframe was that the work should be completed by the end of term so schools would know their carry forwards when they returned in September.

2

AUDIT COMMITTEE

20 JUNE 2016

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

- Other than the payroll issues with schools, all other issues were now listed as green or complete.
- Concerns were raised regarding the school payroll issues as schools were still working on their budgets, and in some cases had only just started to look at their budgets, and some needed to set extra meetings so they would meet the new deadlines.
- Members were assured that officers were confident that the accounts would be ready in time for KPMG to start work on them. However, they would not be of the quality of the previous years, but it was hoped that they would be acceptable.
- It was queried what was an acceptable level of balance in the suspense account, however members were advised that the suspense accounts had now been cleared. It was noted that a few balances had been written off.
- The Vice-Chairman thanked the staff and officers for working so hard over the past few months.
- It was reported that additional staff and agency staff had been used to assist the team in resolving the payroll issues.
- It was acknowledged that some other work had been pushed back in order to prioritise the production of the accounts. There would be a need to re-prioritise the work programme.
- It was commented that the quality of entries coming through from payroll was massively improved.

RESOLVED

That the Audit Committee note the key risks, actions and contingency arrangements identified for the production of the 2015/16 Statement of Accounts.

5 REVIEW OF SERCO CONTRACT

Consideration was given to a report which recommended Terms of Reference for a review of the contract awarded to Serco. A review had been anticipated for a while but the Council resolved at its meeting in May to ask KPMG to undertake the review in accordance with terms of reference approved by the Audit Committee.

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

- The review would focus on the management of the contract.
- It was queried whether the report would come back to the Audit Committee before it went to the meeting of the County Council on 16 September 2016. Members were advised that they would need to agree whether they would like to hold an additional meeting before the meeting on 16 September 2016.

- It was queried whether the review would examine the handover process and how it was managed, as there had been a suggestion that Serco had found themselves without the staff who had the expertise which was required.
- It was queried what the mile posts were along the handover process, and were there indications from the beginning that the deadlines would not be met.
- Members were advised that they did not want to restrict KPMG in terms of time, as it was not known what time was needed in order to complete the work.
- It was commented that there were issues which had been flagged up to the Committee and it had discussed them previously. It had been acknowledged that there were issues and that they were being addressed.
- It had always been maintained that the issues would be looked at, but that there was a need for those issues to be resolved first.
- It was confirmed that it was anticipated that the handover would need to be examined and that this was covered by paragraphs 3(ii) and 3(iii).
- It was suggested that one of the issues could have been that the contract was moved from one external contractor to another external contractor. Members were advised that this could be covered by paragraph 2(i).
- It was queried when it was identified that there was a shortage of skilled people for the tasks ahead.
- The arrangements around TUPE would also be looked at, as in the future the authority would like to be able to protect itself a bit more, as these arrangements protected the employee more than the client.
- It was suggested there should be three areas of focus:
 - The contract design tender process and award
 - Transitional planning and implementation
 - Ongoing management of the contract
- It was proposed that the authority learned from this experience, in the event that a similar process had to take place again.
- Members were advised that officers were in the process of producing a list of people and organisations that KPMG should speak to during this review. However, it was noted that this list would not be exhaustive.
- It was confirmed that work would commence after this meeting, and it was commented that it was felt that it was the right decision to wait until this Committee had taken place. It was expected that a costed and timed proposal for this work would be received shortly.
- It was noted that in terms of non-audit work, there were constraints with the public sector contract, there would be a need for KPMG to write to public sector appointments to get authorisation for this work. However, the external auditors had already spoken to them about this work and the response had been positive.
- In order to ensure no conflict of interest, the review would be carried out by a different auditor, and there was confidence that he would be able to deliver the review and attend a meeting of the Audit Committee in late August or early September. One issue with the time scale would be the timing of the school holidays. However, members were advised that the team would be very keen to engage with schools very early in the process.

4

AUDIT COMMITTEE

20 JUNE 2016

- The Committee agreed that a further meeting should be held before the meeting of Full Council, and it was confirmed that this would be a single item agenda.

RESOLVED

1. That the Terms of Reference for KPMG's review of the Serco contract as indicated at Appendix A of the report, be approved.
2. That a special meeting of the Committee be held to oversee the Review before the meeting of the County Council on 16 September 2016.

6 RISK MANAGEMENT PROGRESS REPORT - JUNE 2016

Consideration was given to a report which would assist the Committee in its role to gain assurance that the Council was effectively managing its key risks and had good risk management systems and processes in place that enabled decision makers to understand the level of risk being taken that the Council was prepared to accept. The report would provide an update on how well the Council's biggest risks were being managed as well as reporting on the progress made in assisting the Council to adapt and change the way it 'thinks' about risk.

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

- It was noted that three of the risks for adult care had limited assurance, and it was queried how much control the authority had over these risks and whether they were price led. Members were advised that there was a shortage of care workers. However, this was a national problem as well as a local one, but Lincolnshire was starting to move in the right direction.
- It was important to recognise that the environment that the public sector was working in had changed, and it was about recognising the level of risk that the authority was prepared to accept in each area of business.
- Different areas would have different appetites for risk, and it was about understanding the risk and ensuring that people who were making the decisions understood the level of risk. Members were advised that it was CMB and the Executive who set the risk appetite.
- 'Risk' implied that sometimes things would not always go in the authority's favour, but the purpose of the Audit Committee was to ensure that systems were in place to manage the risk and that they were being managed properly.
- It was commented that a common theme with a lot of the risks was recruitment and retention of staff. It was important to be able to develop people internally. It was queried whether there was a strategy to address the issue of being able to attract the right staff. It was commented that some businesses promoted courses at the university. Members were advised that these issues went beyond the County Council, and the LEP had an Employment and Skills Sub-Committee which was looking at the key areas. As a Council, directorates were about to do a major restructure, as Environment and Economy in particular was holding too many vacancies. This would be much more about

job matching, and some new jobs would be designed which had not been in the Council before.

- The authority was working with some specialists on what would make people in the social care sector come to Lincolnshire, and how it could attract professionals. There was a need for people to feel that the job was professionally challenging, but also that they would be looked after as an employee.
- The CMB was looking into a post-graduate apprenticeship scheme, but there were other elements happening as well. The Committee was advised that this information could be co-ordinated into a report for the meeting in September.
- It was commented that it was important that people felt there was a career path to follow. It was necessary for this committee to get assurance that the processes were in place to look at the authority's ability to recruit and retain staff.
- Members were advised that the operational risks from the Director areas were escalated to the Risk and Safety Group as and when required. However, the majority, if not all the risks were noted as strategic risks. It was reported that risks were monitored at a strategic level as well as at directorate level.
- It was suggested that when CMB and the Executive had refreshed the Risk Register the Committee should undergo some risk management training.
- It was commented that after the last election, there were a lot of new members, and it was suggested that it would be useful to have training on risk management.

RESOLVED

That the Committee note the current status of the strategic risks facing the Council.

7 EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report from KPMG, the County Council's External Auditors, giving an update on the 2015/16 Audit deliverables.

Members were advised that it had been a relatively quiet last quarter, and the main work had been around liaising with finance colleagues for the close down of accounts. They had also been liaising with Serco regarding the requirement for information for the agreed start date of 1 August 2016.

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

- It was queried whether there were any issues with the Pensions scheme and the actuarial value of the fund. Members were advised that it had been properly reflected in the accounts.
- There was an increased risk this year about some form of qualification in the accounts. But this would depend on what came out of the work.

6

AUDIT COMMITTEE

20 JUNE 2016

- In terms of the value for money conclusion, there would be a need to consider the impact of the Serco contract.
- The external audit team was working closely with finance colleagues, but was not able to give a firm answer on the accounts until the work had been done. The most important aspect would be getting the opinion right, even if this meant missing the deadline.

RESOLVED

That the progress report be noted.

8

INTERNAL AUDIT PROGRESS REPORT

Consideration was given to an update on internal audit work undertaken in the period 1 March to 31 May 2016.

It was reported that during this period, 6 county audits had been completed there were 13 audits in progress. All contracted Academy visits for 2015/16 were complete and the 2016/17 programme of work had started.

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

- It was queried what the escalation process was for an audit in progress when management did not agree the actions. Members were advised that there was a protocol for agreeing the Terms of Reference for the audit prior to it commencing. If it took long to agree the actions, it would be escalated to the Audit and Risk Manager who would then approach the appropriate director. It was noted that it could sometimes take time to work through the different views.
- The Audit and Risk Manager's role was to be impartial, but also to work with those areas to implement the recommendations.
- In relation to the Coroners Service, of the 7 recommendations which were overdue, five were high risk and 2 were medium risk. It was queried whether these related to legal issues. It was also queried whether an update could be included regarding whether any of the recommendations were out of the control of the authority.
- It was suggested that recommendations which were out of the control of the authority should be removed as it gave a false impression.
- The outstanding actions relating to payroll would be followed up with the Head of HR and Serco, so a more up to date position could be presented at the meeting in July.
- It was confirmed that the BCF audit would be undertaken shortly.

RESOLVED

That the Audit Committee note the outcome of the Internal Audit work.

9 REVIEW OF DRAFT ANNUAL REPORT ON AUDIT COMMITTEE WORK

Consideration was given to a report which provided the results of the workshop held on 6 May 2016 which looked at the effectiveness of the Audit Committee helping to identify any areas of improvement. The report also provided an outline for the Audit Committee Annual Report 2016.

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

- Members agreed that it had been a positive session, with a very relaxed feel which had helped people to express their thoughts.
- A member commented that they were happy with the Annual report. However, it was thought that the Audit Committee needed to be more effective, and it should always try and be positive about its work.
- It was suggested there was a need to raise awareness with officers about the role and remit of the committee, as on occasion the committee had received the same report as a scrutiny committee. There was a need for reports which were specific to the Audit Committee.
- It was suggested that if the Audit Committee were advised that the relevant scrutiny committee was aware of an issue, then that would provide a level of assurance.
- In terms of membership of the Committee, it was hoped that group leaders would look at their members to see who would be the most appropriate members to sit on the Committee, but sometimes it was down to availability. It was suggested that officers could work with Democratic Services on a councillor development. It was also suggested that it could be useful to look at the skills sets required for the Audit Committee rather than similar experience.
- It was commented that a few years ago the Committee held an informal session, with no agenda, and the managers went through the key risks in each area, and it was suggested whether another similar session could be held. The Audit and Risk Manager agreed to discuss this with CMB to identify whether they would be available to attend a workshop.
- It was commented that members should not feel worried about asking questions if they have not understood something.
- There was a need for officers to determine what they wanted members to take from the report, and it was commented that more active recommendations had been seen in other authorities. It was suggested that the recommendation should be written first, and then a report which supports the recommendation should be produced.
- When a report was produced, it should be considered what the Committee was being asked to do, and officers should always think about the Terms of reference. It was also noted that this approach would help with the writing of the Annual Report.
- It was commented that during the workshop, the suggestion of having a second independent member was discussed. It was felt that this was an idea which should be kept in mind.

- It was commented that members brought something to committees that officers did not have – experience of their communities, but it was suggested that independent members could fill any gaps in the knowledge of the Committee as they were appointed on merit. The Committee commented that they welcomed the suggestion of a second independent person.
- It was suggested that it would be good practice for the Committee to meet with the external auditors once per year.
- It was commented that some of the agendas could be quite large, and it was queried whether the meeting cycle should be reviewed.

RESOLVED

1. That the proposed improvement actions be approved.
2. That the Chairman and Vice-Chairman, in consultation with other members of the Audit Committee, draft the annual report.
3. That the comments and suggestions highlighted above be noted.

10 APPOINTMENT OF EXTERNAL AUDITORS

Consideration was given to a report regarding the appointment of External Auditors. It was reported that KPMG are the current external auditors of the Council, having been appointed under a national procurement exercise undertaken by the Audit Commission prior to its demise. The current contract would end with the audit of the 2017/18 financial statements. Under existing regulations, the Council needs to have appointed external auditors for the 2018/19 financial year by December 2017 to enable them to commence duties in April 2018. Members were advised that a number of options existed for the Council in taking this matter forward which were outlined by the report together with their respective advantages and disadvantages. It recommended that the option of participating in a national sector led procurement exercise was likely to deliver the best value for money outcome.

RESOLVED

That the appointment of external auditors for the period commencing April 2018 by means of a sector led procurement initiative being undertaken by the Local Government Association be agreed.

11 REGULATION OF INVESTIGATORY POWERS ACT 2000

Consideration was given to a report which provided an update on the Council's compliance with the Regulation of Investigatory Act 2000 regarding the use of surveillance powers and the actions taken following the inspection of the Council by the Office of Surveillance Commissioners in January 2015.

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

- It was commented that there would only be a few cases when the County Council would use these powers, and they would mainly be used by Trading Standards.
- It was queried whether this operated in areas where the Council had responsibility for safeguarding, and Members were advised that officers were not aware of this. It was noted that there was other legislation that the authority could use when dealing with safeguarding concerns.
- A member commented that they did not see the need for this policy for the County Council, but did understand how it would apply at district level. Members were advised that this would mainly be used by trading standards officers, although there were already proper mechanisms in place, but some officers could stray into this area without realising it.
- Members were asked to consider whether they thought this was a significant risk and there was a need for a policy around it.
- It was agreed that a policy be put in place, but it should be as an operational procedure.

RESOLVED

1. That the position in relation to the Council's compliance with the Regulation of Investigatory Powers Act 2000 be noted.
2. That the Committee endorse the proposal to prepare a policy on authorising surveillance where the provisions of the statutory regime do not apply.

12 WORK PLAN

Consideration was given to a report which provides the Committee relevant to the core assurance activities currently scheduled for the 2016/17 work plan.

It was requested that an update on Serco was brought to the meeting in September.

It was also agreed that an additional meeting of the Committee would be held at the end of August/beginning of September to allow members the opportunity to consider the report from KPMG on the review of the Serco contract.

RESOLVED

1. That the Audit Committee's work plan be noted
2. That the outstanding actions, designed to improve the effectiveness of the Committee be noted.

The meeting closed at 12.30 pm

This page is intentionally left blank

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Community Safety

Report to:	Audit Committee
Date:	18 July 2016
Subject:	Internal Audit Annual Report - 2015/16

Summary:

This report gives the Head of Internal Audit opinion on the adequacy of the Council's governance, risk and control environment and delivery of the Internal Audit Plan for 2015/16.

Recommendation(s):

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

Background

1. The Annual Internal Audit Report aims to present a summary of the audit work undertaken over the past year. In particular:
 - Include an opinion on the overall adequacy of and effectiveness of the governance framework and internal control system and the extent to which the Council can rely on it;
 - Inform how the plan was discharged and of overall outcomes of the work undertaken;
 - Draw attention to any issues particularly relevant to the Annual Governance Statement.
2. The detailed report is attached in Appendix A.

Conclusion

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

4. In forming my opinion I have also drawn upon other assurance intelligence in the Council.
5. During 2015/16 there have been a number of areas where we have identified the need for improved compliance and strengthening of the control processes. Overall the Council's control environment has deteriorated over the year due largely to the impact of the implementation of the new financial system and the level of assurance over the Council's IMT function.
6. Taking all the information into account - I have assessed the:
 - Governance and risk as **green/amber** – performing well with some improvements identified over the Council's governance, risk and control framework or to manage medium risks across the Council
 - Internal and Financial control environment as **red/amber**. Inadequate Performance – urgent management action identified (in progress) on major governance issue or high risk in a key system / process area which has a negative impact throughout the Council.
5. The content of the Internal Audit Annual report has also informed the development of the Councils' Annual Governance Statement 2016 – due to be presented to this Committee.
6. We have also delivered 98% of the revised audit plan to agreed performance of 100% target.
7. Audit Lincolnshire conforms to the UK Public Sector Internal Audit Standards. This has been assessed through our Quality Assurance Framework and self-assessment – an external quality assessment is planned for the Autumn of 2016.
8. A quality assurance improvement plan is in place to help us continually improve and develop.- it includes:
 - Update Internal Audit Charter and practice manual following revision PSIAS in April 2016
 - Implement upgrade to audit software (delayed due to SERCO)
 - Upgrade reporting template to help focus on risk and added value.
 - Contemporary reporting
 - Improve clarity over consultancy engagement terms of reference
 - Further develop Assurance Lincolnshire collaboration
 - Continuing professional development around new and emerging practice guidance e.g. PSIAS, Fighting Fraud Locally, CIPFFA/SOLACE delivering good governance

Consultation

a) Policy Proofing Actions Required

Not applicable

Appendices

These are listed below and attached at the back of the report	
Appendix A	Internal Audit Annual Report - 2015/16

Background Papers

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

Document title	Where the document can be viewed
Internal Audit Annual Plan -2015/16	Audit Committee minutes and papers
Internal Audit progress reports	Audit Committee minutes and papers

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

This page is intentionally left blank



Lincolnshire County Council

Internal Audit Annual Report –

2015/16



What we do best...

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

...and what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

The contacts at Audit Lincolnshire for this report are:

Lucy Pledge

Audit and Risk Manager (Head of
Internal Audit)

Lucy.pledge@lincolnshire.gov.uk

Rachel Abbott

Team Leader

rachel.abbott@lincolnshire.gov.uk

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

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

Distribution List

Corporate Management Board

Audit Committee

External Audit

Purpose of the Annual Report	-
Annual Opinion on Governance, Risk and Control	1
How we came by our opinion	
Governance	2
Risk Management	2
Internal Control	3
Financial Control	5
Counter Fraud	6
Roles and Responsibilities	6
Benchmarking – Comparison of Assurances	7
Benchmarking – Comparison of Recommendations	8
Scope of Work	9
Restrictions on Scope / Changes to Plan	10
Delivery of Plan	11
Assurance Lincolnshire Partnership	12
Effectiveness of Internal Audit	13
Quality Assurances	14
Appendix 1 - Internal Audit Assurances Given 2015/16	
Appendix 2 - Schools Audits	
Appendix 3 - Outstanding recommendations	
Appendix 4 - Quality Assurance Framework	
Appendix 5 - Continuous Improvement Plan	
Appendix 6 - Glossary of Terms	



Management Summary

Purpose of Annual Report

- 1 The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. In particular:-
 - Include an opinion on the overall adequacy of and effectiveness of the Council's governance, risk and control framework and therefore the extent to which the Council can rely on it;
 - Inform how the plan was discharged and the overall outcomes of the work undertaken that supports the opinion;
 - A statement on conformance with the PSIAS and the results of the

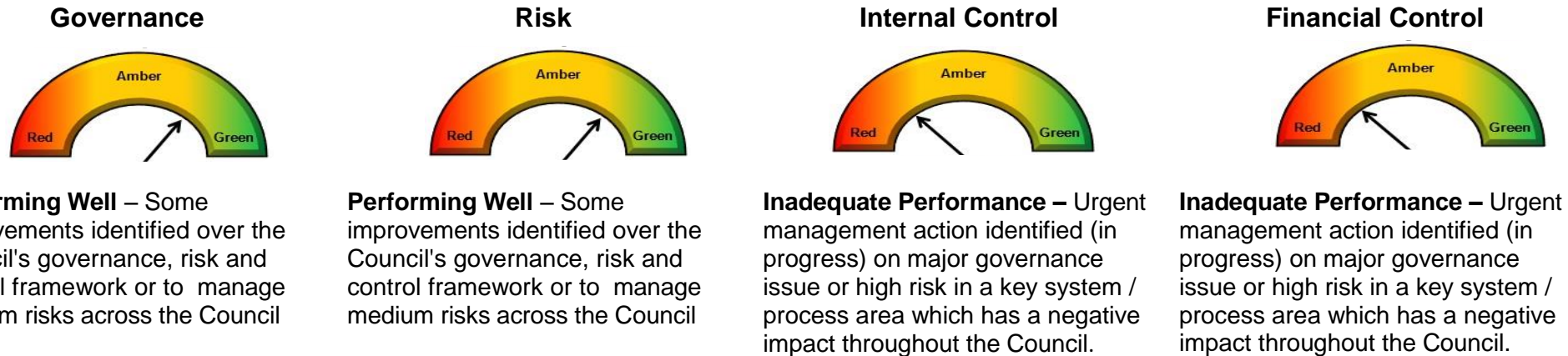
- internal audit quality assurance and improvement programme (QAIP);
- Draw attention to any issues particularly relevant to the Annual Governance Statement.

Annual Opinion

2. For the twelve months ended 31 March 2016, based on the work we have undertaken and information from other sources of assurance, my opinion on the adequacy and effectiveness of Lincolnshire County Council's arrangements for governance, risk management and control is shown in **Figure 1**

Page 22

Figure 1 – Head of Internal Audit Opinion



How we came to our opinion

Governance

3. Good governance underpins everything the Council does and how it delivers services often comes under close scrutiny. It is therefore vital that resources focus on agreed policy and priorities; that there is sound and inclusive decision making with clear accountability for the use of those resources. This ensures that the County Council achieves the desired outcomes for the people of Lincolnshire.
4. The Audit Committee helps to ensure that these arrangements are working effectively. They regularly review the governance framework and consider the draft and final versions of the Annual Governance Statement.
5. The Council undertakes an annual review of the Council's governance framework. Significant governance issues identified by the Council in the 2016 draft statement are:
 - Financial challenges ahead
 - Our financial control environment
 - Case management system (MOSIAC)
 - Information Management Technology (SERCO)
 - Governance Arrangements – Risk Culture
6. In early 2015 the Council commissioned an independent review on how well its scrutiny function worked. At the County Council meeting on the 18th December 2015 a number of improvement actions were agreed.

7. Taking this information into account we have assessed the governance framework as **Green / Amber** – performing well, with some improvements required.

Risk Management

8. Although we have not audited the risk management arrangements this year we can see that there is regular reporting and monitoring over the Council's strategic risks.
9. There is an established framework in place for the Council to manage the key risks facing services and successful delivery of priorities - with regular reporting to management and members.
10. The Audit Committee continues to receive regular updates on how the Council manages its strategic risks – seeking assurance over the effectiveness of Council's risk management arrangements. No issues have been identified.
11. The 2016 Annual Governance Statement has stated that the Council will need to continue to ensure its risk management processes work well and with a risk culture that promotes:
 - Taking the right risks in an informed way.
 - Having clear accountability for ownership of specific risks and risk areas (officers and councillors).
 - Having transparent and timely risk information throughout the organisation and ensuring early and effective learning both from good practice and also when things go wrong.
12. Taking all of the above information into account we have assessed the risk management as **Green / Amber** – performing well, with some improvements required.

Internal Control

13. We took account of the outcome of our internal audit work during the year. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application of the Council's control environment. Positive assurance levels have reduced compared to last year – the most significant being the Council's financial systems – in particular the Accounts Payable and Payroll modules of Agresso.

14. The following areas received a 'low' assurance opinion during the year:-

- Payroll
- Pension contributions
- Concerto Software audit

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

- Accounts payable
- Business Continuity
- Business Rates pool
- EU Procurement Changes
- Mental Health Services

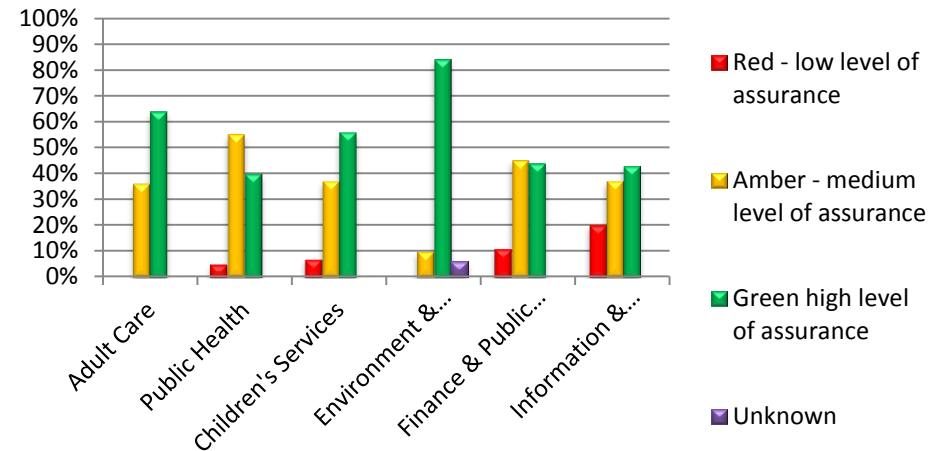
Combined Status Report

16. A Combined Assurance Status report is produced by each Director on the level of confidence they can provide on service delivery arrangements, management of risks,

operation of controls and performance for their area of responsibility. These reports are reviewed by the Audit Committee and provide key assurance evidence to support the Head of Internal Audit opinion.

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

Figure 2 – Overall Assurance Levels 2015/16



18. There are a number of areas where the management assurance provided was a low level of confidence and / or high risk currently facing the service with management action still required or where we were unable to co-ordinate the assurance information - these relate to:

Environment & Economy

The following areas are where we were unable to co-ordinate the assurance information – the assurance level is therefore unknown.

- Fleet Management
- Environmental Management
- Operational Flood Management
- Road Safety Partnership

Combined Status Report (cont)

19. Areas where management assurance provided was a low level of confidence and / or high risk currently facing the service with management action still required:-

Finance & Public Protection

- budget challenges
- implementation of new finance system (Agresso) - this has impacted assurances provided within the other Directors assurance reports.

Childrens' Services

- delay in the implementation of the new case management system (MOSIAC)
- continuity of education for children excluded from school,
- closing the attainment gap (School Improvement Service)
- implementing the new framework re special educational needs and Post 16 Learners with learning difficulties and disabilities
- Implementation of admissions software

Public Health

- Coroners

Adult Care

- delay in the implementation of the new case management system (MOSIAC)

Information & Commissioning

- ICT Governance – service reviews and improvement plans
- Information Security – records management
- ICT Service design – service catalogue, capacity management, information security management system
- ICT Service transition – service asset and configuration management
- ICT Operation – request fulfilment

20. Looking ahead the reports identified the following key messages:

People Recognising people are key to the work we do – with a commitment to developing staff and ensuring staff are delivering in an efficient way

Ensuring effective transition to new delivery models following restructures.

Money Respond to reduced budgets

Partnerships Engage effectively key partners to maximise benefits

Resilience The experience of implementation of the new financial system AGRESSO has impacted negatively on service performance. Significant staff time has been diverted from direct service delivery to address implementation challenges. Rectification of key aspects of the ICT platform needed to enable the Council to work more effectively. The operational and control issues following implementation of Agresson needs to be resolved.

The Cyber Attack in January 2016 also identified some organisational learning to help improve the Council's business continuity arrangements.

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

Financial Control

22. Our work provides an important assurance element to support the External Auditor's opinion on the Council's Statement of Accounts. During the year we reviewed:
- Key Control & Substantive Testing, including data analytics
 - Payroll
 - Accounts Payable
 - Pension contributions and other pay overs
23. Issues and risks around the implementation of Agresso figured regularly in our reports to the Project Board and the Audit Committee during 2014/15 and 2015/16.
24. The Council has experienced significant operational and control issues post implementation of Agresso in April 2015. Consequently the audit role during the first 6 months of Agresso has been in the form of support, advice and analytical work to assist in error identification and/or system faults. Given the level of error and system issues, we initially only completed a high level system review of Accounts Payable and Payroll – reporting '**Low Assurance**' at the Audit Committee's September 2015 meeting.
25. In quarter 4 Serco and LCC management reported an improved control environment and we commenced our audit work with an increased focus on control and transaction testing to help provide a greater degree of assurance over the financial accuracy of the 2015/16 accounts.
26. The outcome of our work identified an improvement in the control environment of the Accounts Payable system (now **Limited Assurance**) but there continued to be significant control weaknesses in both the design and operation of payroll controls. – our assurance opinion remains '**Low Assurance**'. The risks relating to poorly controlled payroll processes - overpayments, accounting errors, fines and reputational damage - continue to occur.
27. We were also asked by management to specifically review Pensions Contributions – this work was undertaken in during December – April 2016. On the basis of the testing completed we cannot provide assurance that pension scheme rules are consistently correctly applied or that contributions are complete and accurate.
28. PWC were also appointed by SERCO in quarter 4 to carry out a review of payroll to gain further assurance on the accuracy of the payroll systems functionality. Internal Audit have been working collaboratively with PWC and kept up to date with this exercise.
29. The audit opinion focusses on the control environment and this remains poor. Whilst it is acknowledged that the Council's strong financial control culture in the past – together with management recovery and rectification action has helped minimise the impact of the control failures and weakness - progress has been slow.
30. Taking the above evidence and information into account we have assessed Financial Control as **Red / Amber** – performing inadequately in certain key financial systems flowing directly from issues arising from the implementation of Agresso.
- Although our testing didn't find any evidence of fraud - the risk of fraud and error remains high.

Counter Fraud

31. The Council continues to have effective counter fraud arrangements in place. The delivery and outcome of proactive counter fraud plan is monitored by the Audit Committee.
32. We co-ordinate the Lincolnshire Counter Fraud Partnership whose key aim is to 'Fight Fraud Locally' and co-ordinate counter fraud resources effectively. Results of this work have helped generate net savings of over £680k.
33. Where our Counter Fraud work identifies control failures we provide improvement actions plans for management to strengthen systems and / or raise awareness of fraud risks.
34. During the year there have been 6 fraud cases, amounting to £97,380 – we have recovered £950. This figure is low because although cases were proven - the burden of proof meant there was not enough for a criminal case. A separate Counter Fraud Annual report is provided to the Audit Committee – this provides more detail on delivery of the approved Counter Fraud work plan.

37. The Council is responsible for developing and publishing an Annual Governance Statement – reporting how they have monitored the effectiveness of the governance arrangements during the year – providing information on any significant governance issues.
38. The Annual Internal Audit Report should inform the Annual Governance Statement – we recommend that the 'low and limited' assurance areas identified in paragraphs **14** and **15** are considered in the development of the Council's Annual Governance Statement. Together with the information contained in the Council's Combined Assurance Status Report (summarised in paragraphs **16 - 19**).

Roles and Responsibilities

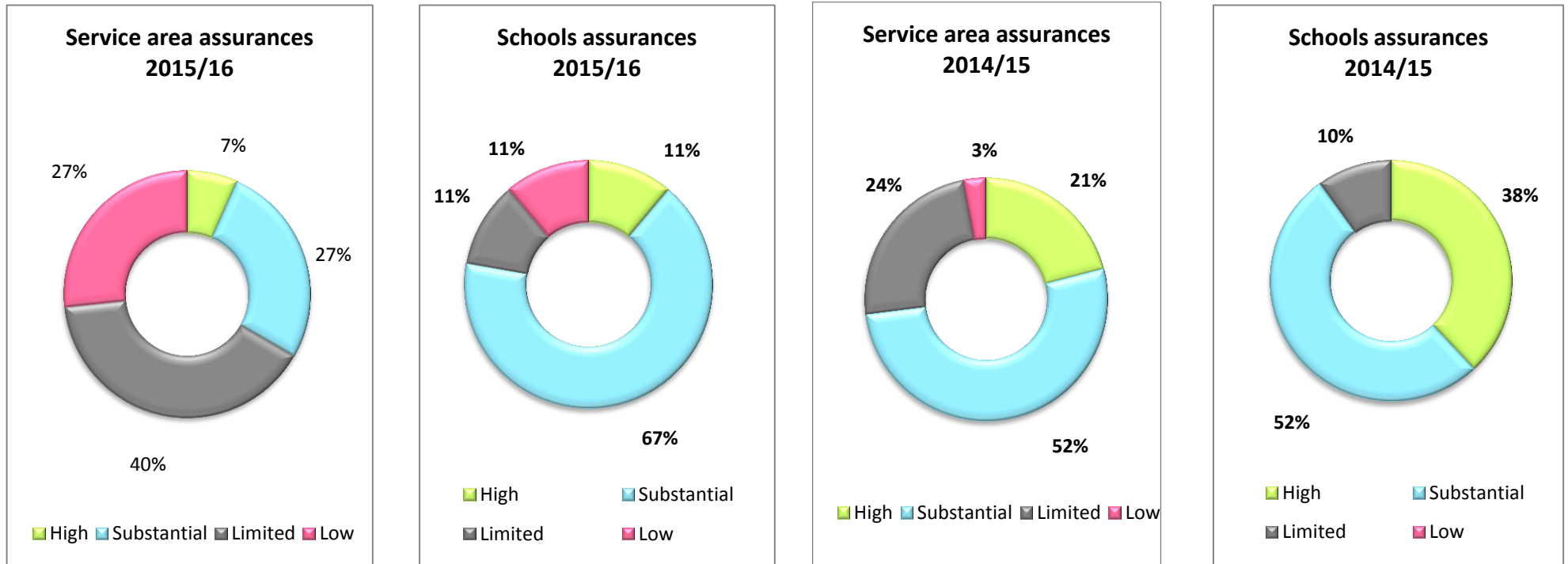
35. The Council is responsible for establishing and maintaining risk management processes, control systems and governance arrangements. Internal Audit plays a vital role in providing *independent risk based and objective assurance* and *insight* on how these arrangements are working. Internal Audit forms part of the Council's assurance framework.
36. Where Internal Audit work has identified improvements, we have worked with management to agree appropriate corrective actions and a timescale for improvement. It is the responsibility of management to implement the agreed actions.

Benchmarking – Comparison of Assurances

39 **Figure 3** below shows the assurance opinions given in 2015/16 compared to those in 2014/15. Our audit plan includes different activities each year – it is therefore not unexpected that these vary; however, the assurance levels do give an insight on the application

of the Council's control environment and forms part of the evidence that helped inform the overall annual opinion. We can see that overall assurance levels have reduced significantly during 2015/16. The detail of audit work completed during 2015/16 is shown in **Appendices 1 and 2**.

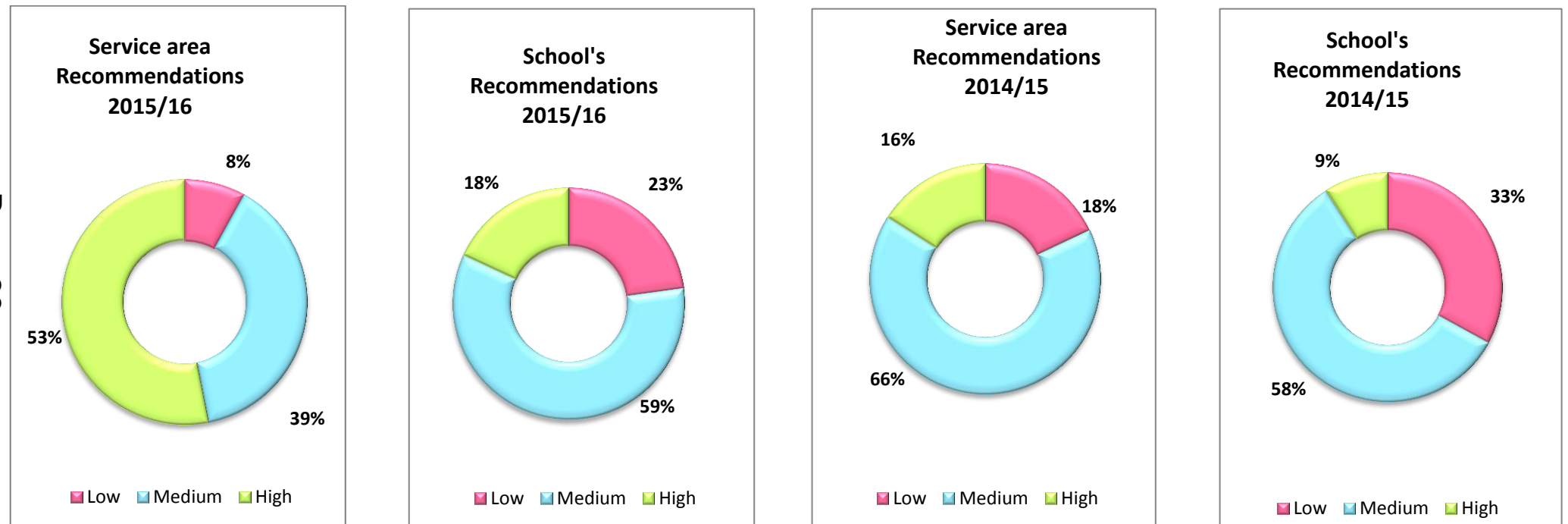
Figure 3 – Comparison of Assurances



Benchmarking – Comparison of Recommendations

40. **Figure 4** - below shows the comparison of internal audit recommendations made 2014/15 and 2015/16. We can see that there has been an increase in the number of high and medium priority recommendations in both service areas and schools. Details of systems reviewed can be found in **Appendices 1 & 2**. This information forms part of the evidence that helped inform the overall annual opinion.

Figure 4 – Recommendations made



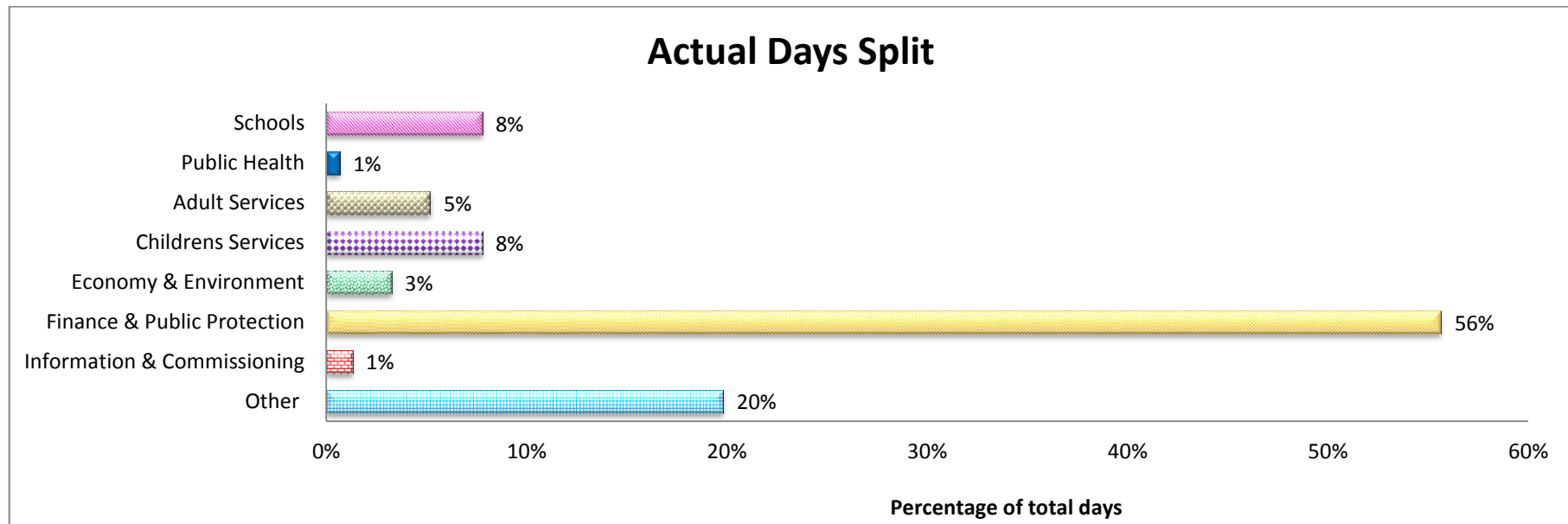
41. We track the implementation of agreed management actions. Over the past year management have implemented **73%** of recommendations due by 31st March 2016. The majority of outstanding recommendations relate to the Payroll Audit. Details of outstanding recommendations can be found in **Appendix 3**.

Scope of Work

42. Our risk based internal audit plan was prepared taking into account the critical activities and key risks to support the basis of my annual opinion. It has remained flexible to enable us to respond to emerging risks and maintain effective focus
43. The service went through restructure during the year which had an impact on our capacity to deliver. This period of transition resulted in the service having 3 vacancies for a period of 6 months – we also had 2 people leave. We are pleased to report that we have now successfully recruited but the time taken to do this has meant we needed to reduce the Council's audit plan. The audit plan was revised.

44. The Audit Committee approved the 2015/16 original audit plan of **1230 days** days on the 30th March 2015. We have delivered 98% of the revised plan by the end of the year (**773 days** and **33** pieces of work). **Figure 5** shows the audit areas we covered during the year.

Figure 5– Audit Areas covered in 2015/16 Plan



Restrictions on Scope / Changes to Plan

45. In carrying out our work we identified no unexpected restrictions to the scope of our work. We have had difficulties in gaining access to staff which resulted in some delay or inability to deliver planned work within the expected timescales.
46. One area where we have had to defer our internal audit work is around IT Audit – the challenges faced through the implementation of 2 major applications, the transition to a new provider has meant that there continues to be limited capacity within ICT to facilitate our audit work. The plan for 2016/17 includes an ICT audit needs assessment and a number of key ICT audit areas. Assurance for 2015/16 has been leveraged through the Combined Status Report
47. A number of audits were removed from the audit plan – these were due to a combination of:
- changes being requested by management - so the timing of the audit adds more value
 - the system was not in an appropriate 'state' to be audited eg not implemented
 - management could not accommodate the audit in their work plan before the end of the year
 - re-prioritising audit resources to those of highest risk eg payroll and Accounts Payable – taking into account the increase in substantive testing and reduced resources.

The areas removed from the plan included:

- Joint Waste Strategy
- Public Health Local Commissioning Framework
- Impact Assessments
- Partnerships
- SEND Transport
- Corporate Complaint procedures
- Bank Reconciliation
- Debtors

- Income
- Treasury Management
- Budget Reports

All have been included in the 2016/17 plan.

48. During the year we were also requested to undertake the following additional work:

- Ongoing audit support to the Agresso project
- Payroll II
- Pension Payovers
- School Improvement Service – Follow up
- Contract awards and management
- Highways grant work

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



Delivery of Internal Audit Plan 2015/16

50. Internal Audit's performance is measured against a range of indicators. The table **Figure 6** shows our performance on key indicators at the end of the year. We are pleased to report a good level of achievement against our targets – an area of improvement is around contemporary reporting (timescales).
51. Performance around delivery timescales were affected by a number of reasons, namely:-
- finalising the report taking longer than expected
 - handover of a number of audits
 - scheduling and priority planning creating lapsed time
 - availability of client
 - larger and more complex audits in the plan

We have improved our scheduling, liaison and escalation arrangements to help address these issues – together with reinforcing the importance of our performance framework.

Other Significant Work

52. In March 2016 we organised the Lincolnshire Audit Committee Forum. This proved to be a very successful networking event where public sector audit committees shared good practice and discussed emerging governance and risk issues. The topics included – Effective Audit Committees – Devolution – Cyber Security.
53. During the year we have undertaken some consultancy work – this is where we give advice on governance, risk and control but do not provide an assurance opinion (generally proactive work) - :

- Ongoing support to the Agresso project
- Property – Vinci / Mouchel contract
- Contract awards and management

Performance Indicator	Target	Actual @ 31/03/2016
Productivity & Efficiency		
Actual audits versus planned (by number of audits) – revised plan	100%	98%
% of recommendations agreed	100%	100%
% of overdue recommendations implemented	100% or escalated	73%
Timescales:		
Draft Report issued within 10 days of completion	100%	84%
Final Report issued within 5 days of management response	100%	86%
Draft Report issued within 2 months of fieldwork commencing	80%	48%
Quality of Service		
Client questionnaire scoring better than average for all categories	100%	100%

- Adults transformation programme

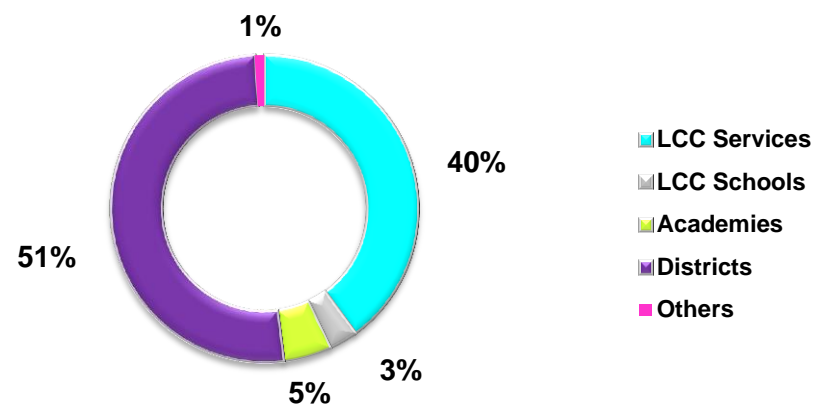
Figure 6 – Performance on key indicators

Assurance Lincolnshire Partnership

54. The County Council is part of an Internal Audit collaborative partnership, consisting of the following in-house internal audit teams:
- County Council
 - City of Lincoln
 - East Lindsey District Council
 - Leicester City Council
55. By working together the partnership aims to be:
- 'the best audit assurance provider for Lincolnshire public sector agencies'*
56. We improve the overall quality of the services provided through:
- Sharing of knowledge and experience
 - Adoption of leading audit techniques and methods
 - Pooling resources across the organisations to make savings, improve efficiency and offer greater value for money to our clients through streamlining our audit plans to audit/research specific areas of common interest.
 - Resource swaps – which strengthen resilience and sustainability – keeping local talent.
57. The County Council has a number of significant external clients:
- North Kesteven District Council
 - West Lindsey District Council
 - South Holland District Council (ceased 31.3.16)
 - Newark and Sherwood District Council
 - Lincolnshire Academies
 - Gainsborough Town Council
 - Charity

58. During the year the [Assurance Lincolnshire](#) partnership developed a draft 5 year business plan which includes – targets, marketing strategy and continuous workforce skills plans.
59. With the support of Legal Services Lincolnshire we updated our collaboration agreement and service offer agreements to other public sector bodies.
60. Our external clients help Corporate Audit and Risk Management operate within existing budgets and deliver the required 'savings'. In 2015/16 the internal audit service generated income of £275,985 – with the whole service underspending by £124,820. The underspend was mainly due to:
- Restructure transition - time taken to recruit skilled and experienced staff and vacancies being held longer than anticipated
 - IT project(s) not being delivered as planned (requested carryforward of budget in 2016/17).
61. **Figure 7** below shows the breakdown of audit days across our client base:-

Figure 7 – Days delivered across client base

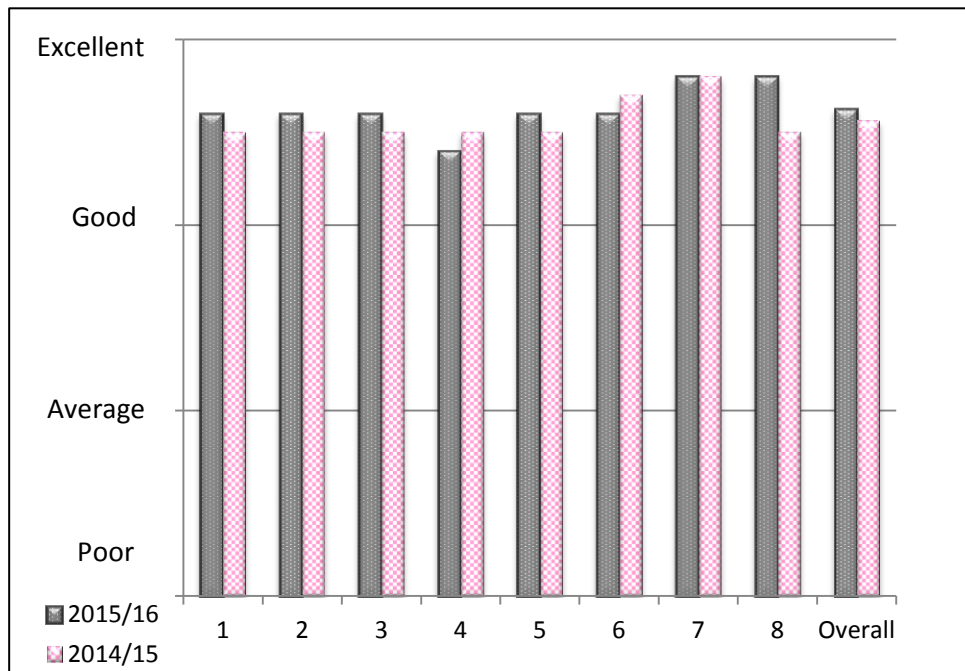


Effectiveness of Internal Audit



62. We regularly canvass opinions on audit planning, report and communication from management responsible for activities under review. They score the effectiveness of our service as excellent, good, adequate or poor.
63. The table in **Figure 8** outlines the responses by management on our service. For 2015/16 there was a 29% questionnaire return rate (Schools 22% and Service Areas 38%), the overall average rating for the service was good to excellent. Work is underway to improve the process for collecting feedback from clients.

Figure 8 – Client Feedback



Questions

A. Audit Planning

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

B. Audit Report

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

C. Communication

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

Quality Assurance

64. We recognise the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. We continually focus on delivering high quality audit to our clients – seeking opportunities to improve where we can.
65. Our commitment to quality begins with ensuring that we recruit develop and assign appropriately skilled and experienced people to undertake your audits.
66. Our audit practice includes ongoing quality reviews for all our assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.
67. Our Quality Assurance Framework (**Appendix 4**) includes all aspects of the Internal Audit activity – including governance, professional practice and communication. We are able to evidence the quality of our audits through performance and delivery of audits, feedback from our clients and an annual self-assessment.
68. There is a financial commitment for training and developing staff. Training provision is continually reviewed through the appraisal process and regular one to one meetings. A training programme has been developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.

69. Assurance Lincolnshire conforms to the UK Public Sector Internal Audit Standards. Our quality assurance framework helps us maintain a continuous improvement plan, which includes the following:
- Update Internal Audit Charter and practice manual following revision PSIAS
 - Implement upgrade to audit software
 - Upgrade reporting template to help focus on risk and added value.
 - Contemporary reporting
 - Improve clarity over consultancy engagement terms of reference
 - Further develop Assurance Lincolnshire collaboration
 - Continuing professional development around new and emerging practice guidance e.g. PSIAS, Fighting Fraud Locally, CIPFFA/SOLACE delivering good governance.

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

70. An external quality assessment has been commissioned to take place this Autumn.
71. Although internal and external auditors carry out their work with different objectives in mind, many of the processes are similar and it is good professional practice that they should work together closely. Wherever possible, External Audit will place reliance and assurance upon internal audit work.



Appendix 1 Assurances Given 2015/16

Data is for audits completed during 2015/16

Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
Finance and Public Protection					
Emergency Planning & Business Continuity	Limited	4	4	-	-
Property – Vinci-Mouchel Contract	N/A Consultancy	-	-	-	-
Business Rates Pool	Limited	5	3	2	-
Agresso Project	N/A Consultancy	-	-	-	-
Agresso Analytical Work	N/A Consultancy	-	-	-	-
Payroll – Initial Audit	Low	27	18	9	-
Pensions and other pay overs	Low	17	11	6	-
Payroll – Key Controls	Low	51	25	19	7
Accounts Payable – Key Controls	Limited	10	4	5	1
General Ledger – Key Controls	Audit Incomplete	-	-	-	-
Contract Awarding & Management	N/A - Consultancy	-	-	-	-
Income	Moved to 16/17 plan				
Bank reconciliation	Moved to 16/17 plan				
Budget Management – Agresso reporting	Moved to 16/17 plan				
Treasury management	Moved to 16/17 plan				
Key control testing	Complete				
Concerto Software audit	Low	26	8	15	3
Total		140	73	56	11
Environment and Economy					
Adult Learning	Substantial	0	-	-	-
Highways Grant work	N/A Grant Sign off	-	-	-	-
Joint waste management strategy	Moved to 16/17 plan	-	-	-	-
Local enterprise partnership	Moved to 16/17 plan				
Total		-	-	-	-

Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
Children's Services					
Troubled Families	N/A – Grant sign off	-	-	-	-
Raising the Participation Age	Substantial	0	-	-	-
CFBT School Improvement follow up	Substantial	1	1	-	-
Social Care & SEND transport	Moved to 16/17 plan				
Schools audits (Appendix 2)	Complete				
People management	Audit incomplete	-	-	-	-
Total		1	1		
Adult Services					
Transformation Programme	N/A – Consultancy	-	-	-	-
Mental Capacity Act	Limited	5	4	1	-
Lincolnshire Quality Assurance Framework (safeguarding)	Moved to 16/17 plan				
Better Care Fund –Budget Management & Reporting	Moved to 16/17 plan				
Workforce Development	Moved to 16/17 plan				
Total		5	4	1	-

Activity	Assurance	Total recs	Priority of Recommendations		
			High	Medium	Low
Public Health					
Review of Coroners' Officers	Moved to 16/17 plan				
Local commissioning framework – roll forward to 16/17 plan	Moved to 16/17 plan				
Big Society Member Grants	Limited	2	2	-	-
Integrated Community Equipment Scheme	High	0	-	-	-
Total		2	2	-	-
ICT/Chief Information & Commissioning Officer					
EU Procurement Changes	Draft report	6	5	1	-
Impact assessments	Moved to 16/17 plan				
Partnership Management	Moved to 16/17 plan				
Corporate Complaints	Moved to 16/17 plan				
Freedom of Information	Substantial	8	1	5	2
Records Management	Removed				
ICT strategy	Incomplete	-	-	-	-
Disaster recovery & resilience	Removed				
Key Application Audit – Agresso & MOSAIC	Moved to 16/17 plan				
ICT infrastructure & service delivery	Moved to 16/17 plan	-	-	-	-
PREVENT agenda	Audit Incomplete	-	-	-	-
Total		14	6	6	2
Other					
PREVENT agenda	Audit Incomplete	-	-	-	-
Total for LCC		162	86	63	13
Due by 31 March 2016		44	23	11	10
After the 31 March 2016		118	63	52	3

Appendix 2 Details of School Audits 2015/16

School	Assurance	Total Recs	Priority of Recommendations		
			High	Medium	Low
Grimoldby Primary School	Low	32	14	9	9
Pinchbeck East CE Primary School	Substantial	11	0	9	2
Saltfleetby CE Primary School	Substantial	17	2	11	4
Spalding Primary School	Substantial	14	2	8	4
Surfleet Seas End Primary School	Substantial	11	0	9	2
Theddlethorpe Primary School	Substantial	7	1	4	2
Wyberton Primary School	Substantial	17	2	14	1
Gainsborough Queen Elizabeth High School	Limited	15	2	9	4
Bourne Willoughby School	High	3	0	2	1
Total for Schools		127	23	75	29

Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Finance and Public Protection								
Payroll Audit 1 2016	2/3/16	Low	27	15	9	3	0	0
Total			27	15	9	3	0	0

Outstanding Audit Recommendations for All audits at 31/03/16

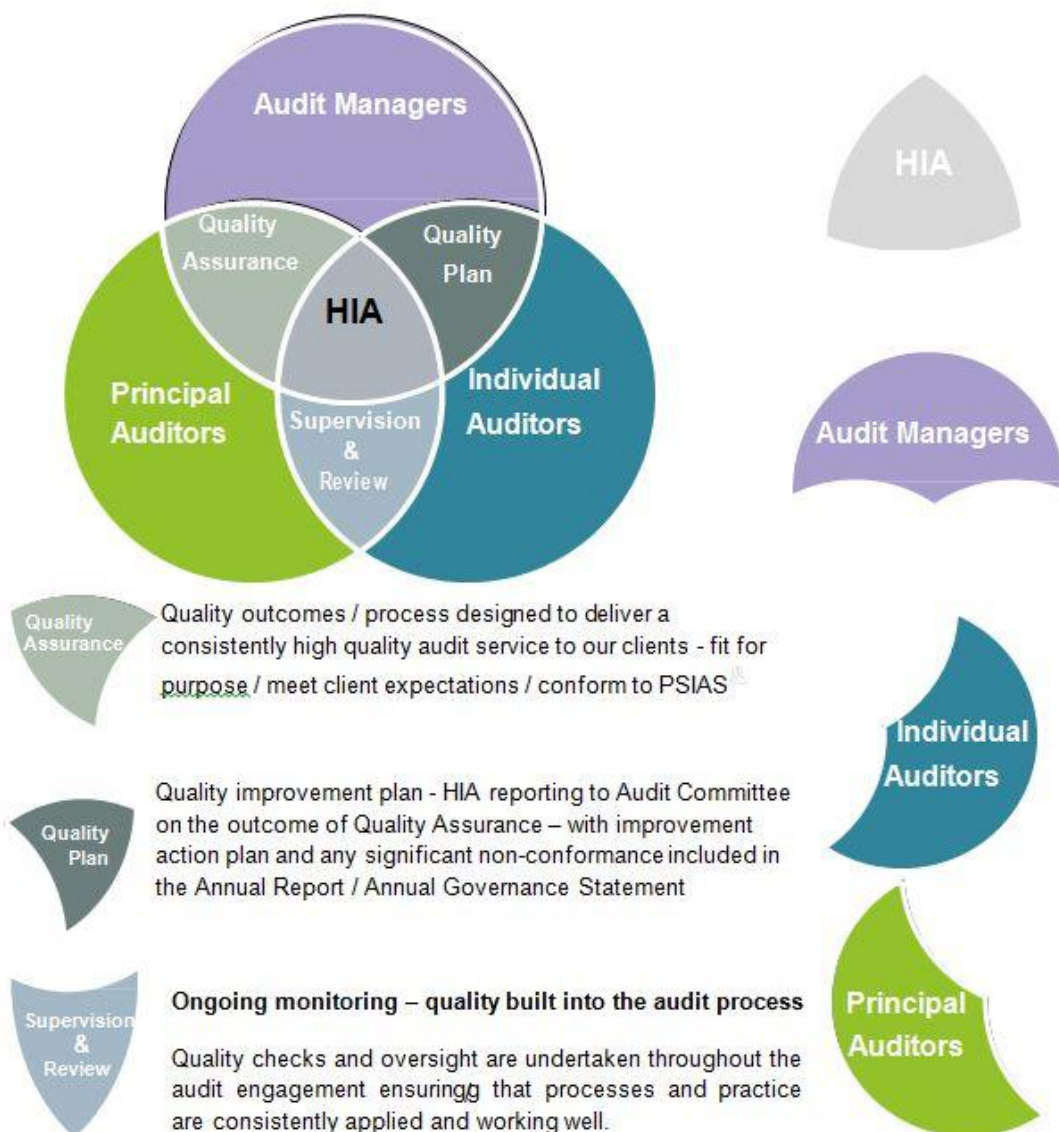
Activity	Issue Date	Assurance	Total recs	Recs Imp	Priority of Overdue Recommendations			Recs not due
					High	Medium	Low	
Finance and Public Protection								
Debtors	1/4/14*	Limited	11	6	4	1	0	0
Income	1/1/14*	Limited	8	7	0	1	0	0
Payroll Audit 1 2016	2/3/16	Low	27	3	16	8	0	0
Public Health								
Coroners	1/6/14	Limited	52	45	5	2	0	0
Environment & Economy								
Home to School Transport	1/1/15	Substantial	14	11	0	3	0	0
Chief Information & Commissioning Officer								
Information Governance	1/3/15**	Limited	15	12	3	0	0	0
Total			127	84	28	15	0	0

* The outstanding recommendations will be reviewed as part of the audit being undertaken in 2016/17.

** Information Commissioner audit provided 'reasonable assurance' with follow up planned in October 2016.

Appendix 4 – Quality Assurance Framework

Page 41



Annual self- assessment

- Head of Internal Audit - develop & maintain Quality Assurance Improvement Programme (QAIP) & improvement action plan
- Focus on evaluating conformance with Internal Audit Charter, definition of Internal Audit, Code of Ethics & the Standards
- Arrange an External Assessment – co-ordinated with Audit Committee (planned for 2016)

Periodic quality assurance assessments

- Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Provide HIA with quarterly highlight reports on outcome of reviews
- Conduct all audit engagements in accordance with audit practice standards / PSIAS
- Behave at all times in accordance with the Code of Ethics / Code of Conduct
- Promote the standards and their use throughout the Internal Audit activity
- Commitment to delivering quality services
- Obtain on-going assurance that that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards
- Undertake engagement supervision and review

Appendix 5 – Continuous Improvement Plan

Opportunities for improvement		Actions	Timescale for tasks to be achieved	Person responsible	Status
Governance					
1	Audit Committee Effectiveness	Review Terms of Reference of the Audit Committee	September 2015	Lucy Pledge & Chairman of AC	Complete
		Audit committee effectiveness workshop	May 2016	Lucy Pledge	Complete
2	Gathering of business intelligence – keeping informed	Establish formal client liaison contacts for all areas.	June 2015	Rachel Abbott	Complete
		Create Liaison template to ensure consistency and adequate coverage	June 2015	Rachel Abbott	Complete
		Schedule regular formal liaison	June 2016	Principal Auditors	
3	External Assessment	Paper to Audit Committee presenting options	September 2015	Lucy Pledge	Complete
		Walk through of assessment	October 2015	John Sketchley	Complete
4	Benchmarking	Analyse and feedback on CIPFA Benchmarking data and report to management team on key messages	September 2015 -	John Sketchley	Not complete
		Feedback to Team meeting	September 2015	Management Team	Not complete
		Review applicability and relevancy of benchmarking data sources – some information received through network and CIPFA	September 2016	John Sketchley	Not due
5	Business Continuity and contingency arrangements	Document, communicate and test Business Continuity arrangements for Team (Refer to Police Tender ITT and feedback)	September 2015	John Sketchley	Complete

Appendix 5 – Continuous Improvement Plan

Opportunities for improvement		Actions	Timescale for tasks to be achieved	Person responsible	Status
6	Risk Register	Develop and maintain a service wide risk register Discuss and evaluate at Team Meetings	June 2015	Management Team	Complete
		Feedback to Head of Audit	June 2015	Management Team	Complete
7	Purpose, Authority & Responsibility	Update Audit Charter to Reflect the updated PSIAS (Addition of Core Principles & Mission Statement)	August 2016 (November 2016 Audit Committee)	Lucy Pledge	Not due
8	Audit Committee Effectiveness	Support publication of Audit Committee Annual Report: <ul style="list-style-type: none"> Self-assessment of effectiveness Draft annual report 	May 2016 June 2016	Lucy Pledge & Cllr S Rawlins	In progress
Practice					
9	Document Retention	Align Section document retention schedule to LCC	July 2015	Rachel Abbott	Complete
		Basement Clearance to align to document retention.	August 2015	Rachel Abbott	Complete
		Clear desk policy – remind ALL staff and confirm	May 2015	Rachel Abbott	Complete
10	Quality Assurance and performance - Practice Manual	Full Manual review – conducted with the team	October 2015 May 2016	Steph O'Donnell	Draft Complete
11	Quality Assurance - External Assessment	Co-ordinate external assessment and implement any suggested improvements: <ul style="list-style-type: none"> Develop project plan Conduct self-assessment and pull together evidence pack for external assessor Engagement planning Assessment Outcome report 	June 2016 June - July 2016 August 2016 September 2016 November 2016	Lucy Pledge & John Sketchley	Not due

Appendix 5 – Continuous Improvement Plan

Opportunities for improvement		Actions	Timescale for tasks to be achieved	Person responsible	Status
12	Quality Assurance – feedback from key stakeholders	Bi- annual survey on effectiveness of Internal Audit Service	Postponed – will be picked up as part of External Assessment	-	-
13	Quality Assurance – post audit feedback	Improve post audit questionnaire return rate	September 2016	Amanda Hunt	Not due
14	Implementation of recommendations	Working with management to ensure that agreed actions are implemented – setting realistic timescales and taking ownership for implementation	September 2016	Al Simson	Not due
15	Performance – External Audit Protocol	Update External Audit protocols to ensure best use of combined audit resources for client	July 2016	Lucy Pledge	Not due
16	Performance – Combined Assurance	Review and update process (improve integration of risk management and other sources of assurances)	September 2016	Lucy Pledge & John Sketchley	In progress
17	Performance – ICT Strategy	Update ICT strategy and approach following developments within the collaboration partnership and LCC delivery through SERCO	June 2016	John Sketchley	In progress
Communication					
18	Performance reporting	Communicate to Principals need to set up staff performance meetings (1:1) and to follow framework Utilise framework	May 2016 May 2016	Rachel Abbott Principals	Complete
19	Report writing	Work to ensure significance and impact is conveyed in reports: <ul style="list-style-type: none"> Evaluating what it means in terms of the assurance What outcomes are they not achieving, always linking back to the outcome. 	October 2015	Steph O'Donnell Rachel Abbott	Complete
20	Quality Assurance outcomes	Improve outcome reporting - Key theme report Developing training and support to improve as required	July 2016	Rachel Abbott and Team Leaders Management Team	Not due
21	Contemporary reporting	Improve timescales for delivery of audit and investigations from time fieldwork commences to issue of draft and final reports	September 2016	Dianne Downs Audit and Counter Fraud Teams	Not due

Appendix 5 – Continuous Improvement Plan

Continuing Professional Development (Service / Team)				
	Area / Activity	Outcome	Date Planned	Status
22.	IT Audit Awareness / Training General	<p>Provide general awareness training for the team of key IT risks that they should be aware of in performing audits</p> <p>Provide information on Audit Lincolnshire approach to IT Audits</p>	<p>IT Audit provider to pull together a ½ day session.</p> <p>JSk to co-ordinate with help of Leicester – Nov 2015</p> <p>Attended training session – to pull together a session for the team July 2016</p>	Done through Midlands Group 20/5/16 – feedback July 2016
23.	Update on UK Public Sector Internal Audit Standards <ul style="list-style-type: none"> • April 2016 additions • Key areas 	Provide a refresher on the PSIAS and make clear links between these and our procedures and practice	July 2016	Not Due
24.	Workshop on Planning and Engagement and developing the engagement terms of reference	Improve understanding and techniques to get the most out of the planning and engagement process – ensuring that the audit / or consultancy engagement focusses on what matters	July 2016	Not Due
25.	Building on the E-learning on risk management process New module being launched at LCC	Ensure that all team is aware of the risk management processes of their clients and how this can help inform the audit process.	By September 2016	Not due

Appendix 5 – Continuous Improvement Plan

Continuing Professional Development (Service / Team)				
	Area / Activity	Outcome	Date Planned	Status
26.	Pentana (audit software)	Equip staff to use the new audit software to its full potential and maximise compliance with the PSIAS	Dependent on Pentana installation – date still pending Explore external hosting options	Still waiting on Serco
27.	Risk Appetite	Understanding of risk appetite of organisation	To incorporate into RBIA training – March 2016	Complete
28.	RBIA refresher session	Refresher for staff on AL approach to RBIA and reflecting this in reports.	Initial planning meeting 3 rd August. 7 th September Further session March 2016	Complete
29.	Principals Day	Introduce Principals to their role and provide support, guidance and signposting so that they can complete this more effectively	May 2016	Complete
30.	Appraisal training	Attend corporate training for the new Principals and new team leader so that they are better equipped to complete appraisals	Working with Dave Simpson to get a face to face event scheduled as there are not currently any planned June or July 2016	Not Due

Appendix 5 – Continuous Improvement Plan

Continuing Professional Development (Service / Team)				
	Area / Activity	Outcome	Date Planned	Status
31.	Introduction to Audit (CIPFA)	Give the new Senior Auditor and Audit Officer an introduction to auditing	17 th May 2016	Complete
32.	LCC Managers Essentials	Enrol new Principals on this training course to support skills development for new role	Enrol by June 2016 Completion date tbc	Not Due
33.	Fraud Awareness Session	Refresher information on Fraud Risks and Indicators including Fighting Fraud Locally	June / July 2016 – CoL leading	Not Due
34.	CIPFA / SOLACE Good Governance Session	Refresher information on Good Governance and key changes / messages in the new guidance	September 2016	Not due
35.	Report Writing Workshop – house style and contemporary reporting	Understand the importance of communicating results to gain understanding and influence change.	August / September 2016	Not due

Appendix 6 - Glossary of Terms

<p>High</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p>Substantial</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p>Limited</p>	<p>Our critical review or assessment on the activity gives us a limited level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p>Low</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

Page 48

Assurance Definitions

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Head of Internal Audit Annual Opinion

The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.

Governance

Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management - plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.



Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director for Finance and Community Safety

Report to:	Audit Committee
Date:	18 July 2016
Subject:	Review of Governance Framework & Development of Annual Governance Statement 2016

Summary:

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

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

A 'good' Annual Governance Statement is an open and honest self-assessment of how well we have run our business across all activities - with a clear statement of the actions being taken or required to address any areas of concern.

The Audit Committee oversees the development of the Annual Governance Statement and recommends its approval to the Council.

This paper provides the Committee with the opportunity to review the contents of the draft statement - ensuring that it accurately reflects the Committee's understanding of the Council's governance and assurance arrangements. This is a key activity in the Committee's terms of reference.

Recommendation(s):

That the Committee considers the contents of the Annual Governance Statement 2016, and:

1. agree that it accurately reflects how the Council is run;
2. that the statement includes the significant governance issues / key risks it would have expected to be published;
3. identify any changes it wishes to make to the statement.

Background

What do we mean by Governance?

1. Each year the Council is required to reflect on how its governance arrangements have worked – identifying any significant¹ governance issues that it feels should be drawn to the attention of the public – in the interests of accountability and transparency. We do this through the Annual Governance Statement.

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

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

"If management is about running the business – governance is about seeing that it is run properly"²

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

What is the Governance Framework?

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

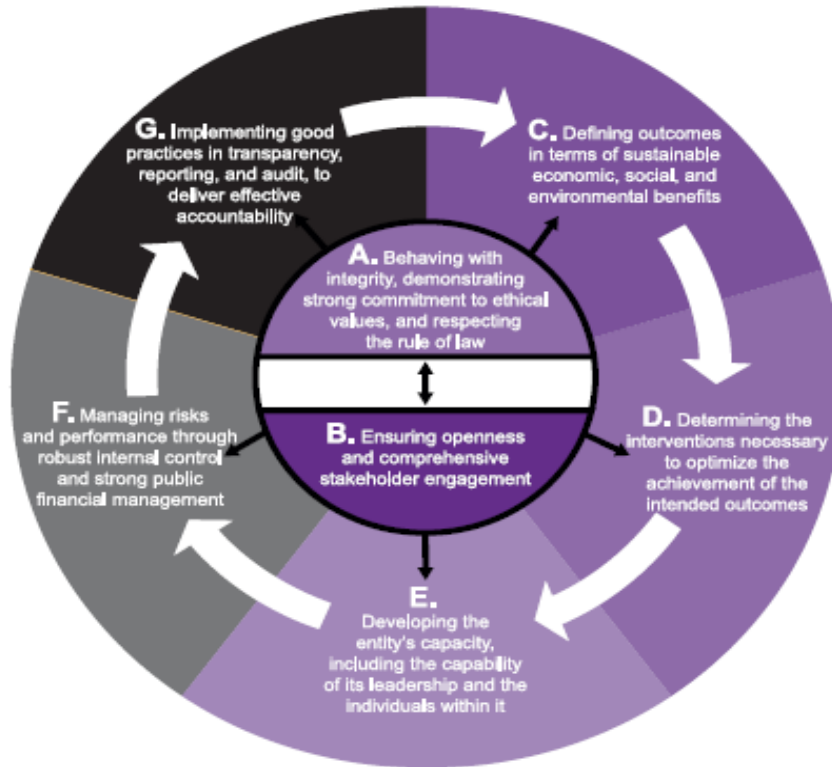
5. In April 2016, CIPFA / SOLACE published an updated 'Delivering Good Governance in Local Government – Framework and Guidance'. This sets out the latest good practice operating in the current public sector environment. It defines six core principals by which a Council can test out their governance arrangements. These are shown in **Figure 1**. This guidance will apply to the Annual Governance Statement 2016/17.

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

² Robert Tricker. An expert in Corporate Governance.

Figure 1 – Good Governance principals

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



The International Framework notes that:

Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

6. The Council will undertake a 'health check' against these good governance principles and best practice to test out the effectiveness of its own and key partners governance arrangements during 2016.

Annual Review of our Governance Framework

7. The annual review and development of the Annual Governance Statement is undertaken by the Governance Group in consultation with the Executive Directors. The Council's Governance Group comprising of:
 - Monitoring Officer - Executive Director – Environment and Economy
 - Section 151 Officer - Executive Director – Finance and Public Protection
 - County Finance Officer

- Audit and Risk Manager (Head of Internal Audit)
 - Chief Legal Officer
 - Democratic Services Manager
8. The sources of information used to develop the Governance Statement include:
- The assurance arrangements of the Council, particularly each Directors Combined Assurance Status reports.
 - Head of Internal Audit annual audit opinion (Annual Report 2015/16)
 - Council's Strategic Risk Register and risk management arrangements
 - External Audit Annual Audit Letter
 - Ombudsman investigations
 - Complaints and lessons learnt
 - Comments of the Corporate Management Board

Governance Issues

9. As a result of our annual review we have identified the following areas where further work is required to improve systems or monitor how the key risks facing the Council are being managed. These are:
- Financial challenges ahead
 - Financial control environment
 - Information Management Team (SERCO)
 - Case Management System (MOSAIC)
 - Establishing the Combined Authority
 - Risk Culture
10. These areas are highlighted because of the need for the Council to be realistic and open about those functions and activities which require, or are likely to require, support (including but not limited to financial support) over the next year in order to ensure that they are working effectively and efficiently. This in turn should ensure that any future problems in those areas are averted or at the very least minimised. They also represent some of the key areas that will help us deliver our Business Plan.
11. The draft Annual Governance Statement can be found in Appendix A. It is presented to the Committee for your consideration and 'challenge' of the contents eg:
- Does it accurately reflect the Committee's understanding of how the Council is run?
 - Reflecting on evidence presented to the Committee during the year and other relevant information are the significant governance / key risks those that the committee expected to see published? Are there any surprises / gaps?

Note: Recognising that the statement is a reflective / backward look at the Council from April 2015 to June 2016 but does need to be contemporary at the time of publication.

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

Conclusion

13. The Council has a strong control environment which is demonstrated by the realistic and open assessment of its functions and activities.
14. Officers have identified a number of governance issues to be included in the Annual Governance Statement. The Audit Committee is asked to independently review and approve these for ‘realism’.
15. The final Annual Governance Statement will be presented to the Committee in September for approval.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire County Council - Annual Governance Statement June 2016

Background Papers

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

Document title	Where the document can be viewed
Local Code of Governance	Audit Committee minutes and papers

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

This page is intentionally left blank

Annual Governance Statement - Draft

Page 55

2015/2016

Version 3 16.06.16

DRAFT

Lincolnshire County Council in statistics

Lincolnshire has **731,500** residents comprising **306,971** households.

The number of residents aged 75 years and over is projected to double over the next 20 years to **139,000**.

The average annual house price, all types, is **£176,119**.

Lincolnshire has **87** exciting and varied venues licensed by LCC for civil marriage/partnership.

104,195 pupils are enrolled at **361** schools across Lincolnshire

Lincolnshire's secondary schools have outperformed the national rise in GCSE results. **56.1%** of Lincolnshire's pupils achieved 5A* - C grades.

The unemployment claimant rate as a percentage of the working age population is **1.5%**.

Lincoln's hire bike scheme launched in 2013 and **100** bikes are now available to rent from **19** docking stations across Lincoln.

320,000 passengers used CallConnect in 2015, a service designed to provide accessible transport for the most rural and isolated areas of the county. Adjusting for the difference in working days compared to 2014, this represents a **1.3%** increase in patronage.

200,000 people visited Lincoln Castle in the first 6 months after its £22 million refurbishment.

Lincoln Castle is now the only place in the world where an original **1215** Magna Carta and **1217** Charter of the Forest can be seen side by side, on permanent loan from Lincoln Cathedral.

49.6% of Lincolnshire's household waste is recycled. The remaining black bin waste which used to go to landfill is now processed at the Energy from Waste facility at North Hykeham and presents an opportunity to develop a District Energy Network to benefit local businesses and residents.

DRAFT

Annual Governance Statement for Lincolnshire County Council 2015/16

How has this Statement been prepared?

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

To help us do this the Council's Audit Committee undertakes a review of the Council's governance framework¹ – considering and challenging evidence and information supplied by an Officer Group (comprising of the Chief Financial Officer, Monitoring Officer, Head of Internal Audit, Head of Legal Services and Democratic Services Manager).

On the xxxxxx the draft statement was agreed and signed off by the Corporate Management Team.

On the 18th July 2016 the Audit Committee considered the significant governance issues identified in the Statement – ensuring that the Statement properly reflects how the Council is run and identified any improvement actions.

The final statement was formally approved by the Audit Committee on the 19th September 2016 - where it was recommended for signing by the Leader of the Council, Chief Executive and the Executive Director – Finance and Public Protection.

¹ The Council has adopted a governance and assurance structure which is consistent with the principles of the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government – 2012 Edition

Introduction by Pete Moore Executive Director, Finance and Public Protection

"If management is about running the business – governance is about seeing that it is run properly"²

Good governance is required by the Council to ensure it achieves its objectives and policy priorities in an effective and well managed way. It runs throughout the Council from decision making and scrutiny at the top to service delivery on the front line. It relies on good management, effective processes and other appropriate controls. The Governance Group within the Council has assessed that overall governance arrangements are working effectively. However, the Council has faced and continues to face a number of challenges, which include:

- The continued significant reductions in Government funding through to 2019/20, requiring a continued programme of efficiency savings and service reductions to balance the budget. This is requiring the Council to re-assess how it assesses and manages risks.
- The implementation of key IT systems including Agresso and Mosaic. Problems in the implementation of the former has weakened aspects of the financial control environment during 2015/16.
- The development of new areas of governance covering the devolution arrangements, including a potential combined authority with a mayor.

The Council will continue to monitor the operation of its governance arrangements and make appropriate adjustments, where and when required.

² Robert Tricker. An expert in Corporate Governance.

What is Corporate Governance?

Lincolnshire County Council spends around £1,000 million of public money every year. It is our duty to **“ensure the greatest benefits for the people in Lincolnshire from the resources we use.”**

The public have a right to expect high standards and value for money in how we spend this money to improve the lives of the people of Lincolnshire.

Local Government has been and will continue to undergo significant change. The way we operate and deliver services – either directly, with or through other organisations will provide challenges for managing risk, ensuring transparency and demonstrating accountability. We need to aim for the standards of the best and our governance arrangements should not only be sound but also seen to be sound.

The Framework consists of the systems and processes, cultures and values by which the Council is directed and controlled. It sets out how we

account to and engage with the people of Lincolnshire - it's about **Community Leadership**.

It helps us monitor our progress in achieving our goals and whether or not those goals are leading to effective and top quality services.

Our Governance Framework brings together an underlying set of legislative requirements, good practice principles and management processes.

Updated good practice guidance was published in April 2016 – we will benchmark our governance arrangements against these during 2016 – reporting the outcome in our Annual Governance Statement for 2016/17.

Whose responsibility is it?

Having good governance arrangements is important to everyone involved in the Council. However, it is a key leadership responsibility of the Leader of the Council and of the Chief Executive. They are accountable for ensuring good governance in the Council.

Figure 1 - Our governance framework

Source of Assurance

- Services are delivered economically, efficiently & effectively
- Management of risk
- Effectiveness of internal controls
- Democratic engagement & public accountability
- Budget & financial management arrangements
- Roles & responsibilities of Members & Officers
- Standards of conduct & behaviour
- Compliance with laws & regulations, internal policies & procedures
- Actions plans dealing with significant issues are approved, actioned & reported upon

- Constitution (incl. statutory officers, scheme of delegation, financial management & procurement rules)
- Audit Committee
- Internal & external audit
- Independent & external sources
- Council Executive & Scrutiny
- Medium Term Financial Strategy
- Complaints system
- HR policies & procedures
- Whistleblowing & other countering fraud arrangements
- Risk management strategy & framework
- Performance management system
- Codes of conduct
- Corporate Management Team

- Statement of accounts
- External audit reports
- Internal audit reports
- Local Government Ombudsman report
- Risk Management Reports
- Counter fraud reports
- Scrutiny reviews
- Effectiveness reviews of Audit Committee
- Combined Assurance Status Reports
- Overview & Scrutiny Annual Report
- Performance & Delivery Reports
- Annual Report

Opportunities to Improve – our key risks

- Financial Challenges Ahead
- Financial Control Environment
- Case Management (MOSIAC)
- Information Management Team (SERCO)
- Establishing the Combined Authority
- Governance Arrangements – Risk Culture

Assurances Received

Assurance Required Upon

Code of Corporate Governance

Annual Governance Statement

The Council – How it works

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

All 77 Councillors meet at full Council to agree the budget and policy framework. In 2015/16 ten Councillors form the Executive. The Executive make the decisions that deliver the budget and policy framework.

The remaining 67 Councillors form scrutiny committees. These committees develop policy and scrutinise decisions made by the Executive and key decisions made by officers – holding them to account. A number of Committees deal with Regulatory issues.

The conduct of Council's business is defined by formal procedures and rules – known as the Constitution. This explains the roles and remits of all committees and the delegation arrangements that are in place. It also contains the Budget and Policy Framework, finance and other procedure rules and the Codes of Conduct for Members and Employees.

Council elections were held on the 2nd May 2013. This resulted in a change in the ruling political group on the Council, which is now the Lincolnshire Administration – a coalition of Conservatives, Liberal Democrats and Independents.

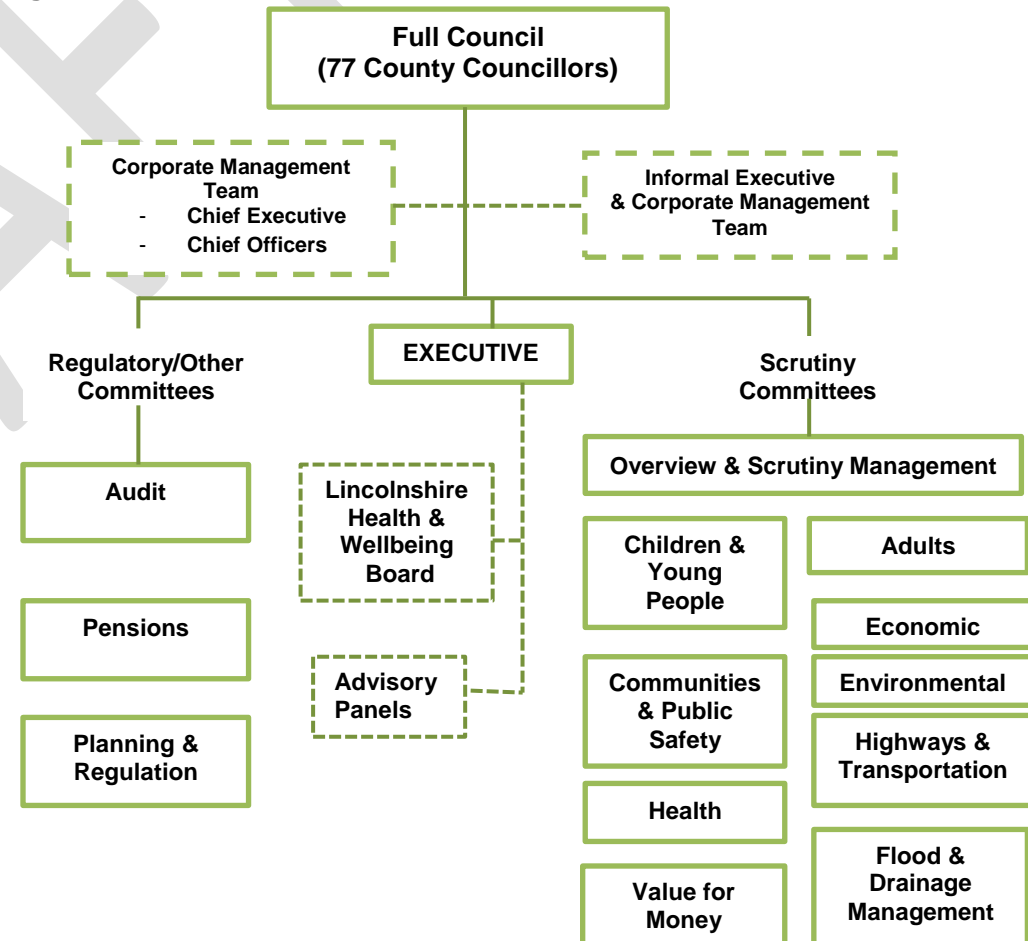
In times motivated by change we are committed to sharing as much information about our plans and programmes as possible. Meetings are therefore normally open to the public and we undertake extensive consultation on major changes to the way we propose to deliver our services.

With substantial funding cuts and cost pressures to absorb we undertook a fundamental budget review – including a widespread public consultation. This helped us identify our overriding priorities, particularly services which keep individuals and communities secure. We deliberately set a one year budget to enable us to respond to changes following the general election. We are delivering £41m savings this year, with an estimated £78m in further savings required over the next three years. This will be through better ways of doing things and being more efficient in how we operate.

We still a way to go and some difficult decisions to make. The risk of service failure will increase in a lower funded environment. Risk will be a key driver in determining future budget reductions. Having a strong governance framework during this period will be vital to our success.

Having far closer co-operation with health partners and community groups will play a key part in how we run our business. Collaborative governance and accountability arrangements will need to be fully developed – balancing accountability for successful delivery of outcomes with proportionate and pragmatic approaches based on acceptable levels of risk and affordability.

Figure 2 – Council Committee Structure



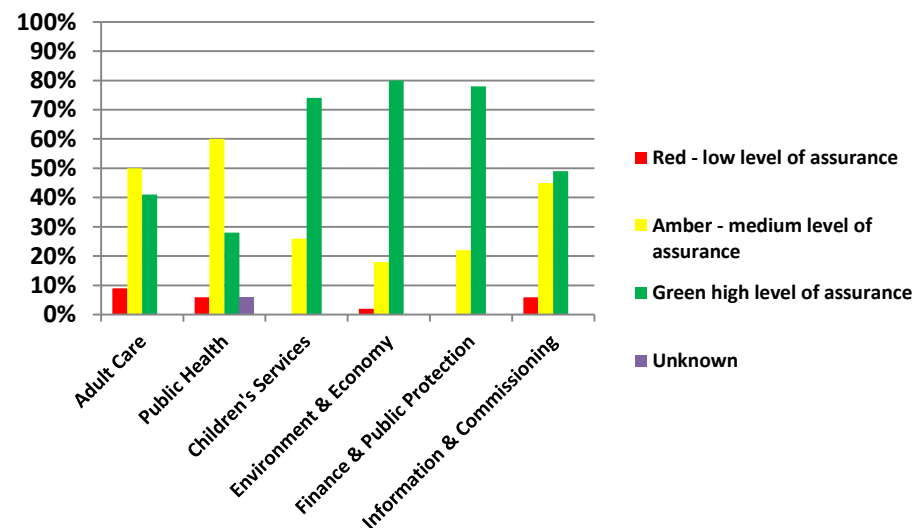
How do we know our arrangements are working?

There are a number of ways we assess if our governance arrangements are working.

Our managers have the day to day responsibility for managing and controlling services - they are accountable for their successful delivery. They set 'the tone from the top' and develop and implement the policies, procedures, processes and controls – ensuring compliance.

A Combined Assurance Status report is produced by each Director on the level of confidence the Council can have on its service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. These reports are reviewed by the Audit Committee. **Figure 3** shows the current assurance levels for each Executive Director – it gives a positive assurance picture for the Council. This is likely to be the last year where the Council will be able to give this level of positive assurance. The future will mean that the Council will need to be comfortable with taking more high risk decisions and accepting that there may be service failures as a consequence of budget and service reductions.

Figure 3 – Overall Assurance Levels 2015



We communicate the vision and purpose of the authority to the public by setting out our objectives and priorities for the year within our [LCC Business Plan](#)

We make sure the public receive high quality services by measuring our success and publicly reporting our overall financial position in our [Statement of Accounts](#).

The Leader's [Statement](#) at the Councils Annual General Meeting on the 20th May 2016 also gives an account of the achievements of the Council during the year.

If for any reason someone feels that the Council has failed to do something that should have been done or has done something badly or feel that they have been treated unfairly we have a [Complaints Policy](#) to proactively deal with complaints and learn from our mistakes.

From time to time the council makes decisions that others want to challenge. Apart from our own complaints mechanisms, people who are

dissatisfied after that process may take a complaint to the Local Government Ombudsman.

There is one other route for challenge, that of judicial review. This is a legal challenge on the processes that we have followed or allegedly with which we have not complied. The Council was challenged by a Claimant about the Council's Library service plans for a second time at a Judicial Review in July 2015. The Court considered the Claimant's arguments but these were dismissed by the Court.

Role of Monitoring Officer

The Executive Director – Environment and Economy is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by us as detailed in the [Constitution](#)

The Monitoring Officer is responsible for ensuring the Council complies with its duty to promote and maintain high standards of conduct by members and co-opted members of the authority. The Council has adopted a Councillors' Code of Conduct and has a Local Scheme by which the Monitoring Officer deals with complaints that Members may have failed to comply with the requirements of that Code.

In 2015/16 the Monitoring Officer dealt with fewer informal and formal Code of Conduct complaints than in the previous year. In December 2014, the Council added the attribute of "Respect" to the 7 Principles for Standards in Public Life already contained within the Code. It is possible that this has had a positive influence in the way councillors have acted.

In most cases of complaint, the Monitoring Officer found that the complaint did not fall within the Code of Conduct scheme or were dealt with informally. One complaint required an Investigation and a report was submitted to a Standards Panel of the Audit Committee for consideration. The determination was that there had been a breach of the Code and it was referred to the relevant Group Leader for action.

The Monitoring Officer provided an [Annual Report](#) to the Council on how he discharged his duties during the year on the 20th May 2016. It gave assurances that:

- the Council acted and operated within the law
- that appropriate arrangements in place and operated effectively under the Regulation of Investigatory Powers Act and the Council's Whistleblowing policy.
- effective officer and member register of interest process in place
- action taken arising from the published findings by the Local Government Ombudsman

Effective Scrutiny and Review

Our [Overview and Scrutiny](#) Management Committee exists to review and scrutinise any decision made by the Executive, Executive Councillor or key decision made by an officer. It examines the County Council's overall performance and advises our Overview and Scrutiny Committees of any areas of performance requiring detailed consideration.

In early 2015 the Council commissioned an independent review on how well its scrutiny function worked. In December 2015 the Constitution was amended to transfer responsibility for scrutinising corporate performance and finance from the Value for Money Scrutiny Committee to the Overview and Scrutiny Management Committee. A number of other recommended improvements were made and accepted as part of the [Scrutiny Review](#)

Each year an [Overview and Scrutiny Annual Report](#) is produced which shows the activities undertaken by the 10 Committees and how they have contributed to the delivery of agreed priorities and outcomes.

Managing our Risks

Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability. This will put us in a stronger position to deliver our goals and provide excellent services. Our risk management process is well established in the way we work. The Audit Committee is responsible for reviewing how effective our risk management procedures are. Our

Strategic Risk Register is regularly reviewed and more details can be found in our [Risk Management Strategy](#)

Our strategic risk management team supports management to help create an environment of 'no surprises'. An Internal Audit Review identified some opportunities to improve risk information around key decisions, projects and the level of risk the Council is prepared to take across its different business units.

For more information go to: [Assurance Lincolnshire's Risk Management Service](#)

Tackling Fraud Locally

We are dedicated to promoting a strong culture to prevent and detect fraud. This is supported by our [Counter Fraud Policy](#) and our [Whistleblowing Policy](#)

Our response to Central Government's expectations for tackling fraud and corruption is reflected in the Counter Fraud Policy and annual work plan.

Progress and delivery of our counter fraud work plan is monitored through our Audit Committee with an Annual Report produced to provide information on the overall effectiveness of the Council's Counter Fraud arrangements.

Tackling Fraud Locally (cont)

The Council secured £200,000 funding from the Department of Communities and Local Government to help create a Lincolnshire Counter Fraud Partnership – working with Lincolnshire Districts to tackle corporate fraud over a 2 year period. Results of this work have helped generate net savings of over £680k.

Chief Financial Officer

The Council has designated the Executive Director – Finance and Public Protection as the Chief Finance Officer under Section 151 of the Local

Government Act 1972. He leads and directs the Financial Strategy of the Council.

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

Our Audit Committee

The Audit Committee is a vital group that oversees and promotes good governance, ensures accountability and reviews the way things are done. The Audit Committee provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability. The Committee exists to challenge the way things are being done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment.

Our External Auditors attend Audit Committee meetings. At least once a year a private meeting is held with them to help provide the Audit Committee with independent insight on key issues facing the Council and how well its governance arrangements are working.

Our Internal Audit team is one of the Audit Committee's key independent assurance providers.

We have a non-elected member on the Committee. The ability of an independent member to offer different perspectives and constructive suggestions will improve the way we work. For more information go to: [Audit Committee Meetings](#)

Internal Audit

Internal Audit provides independent assurance designed to add value and improve how the Council operates. It helps the Council achieve its priorities and objectives by bringing a systematic and disciplined approach

to evaluate and improve the management of risk, control and governance processes. It provides constructive and independent challenge to management on the way things are done.

We review of the effectiveness of our Internal Audit service - ensuring it conforms to the UK Public Sector Internal Audit Standards including CIPFA's advisory note on the standards and their statement on the role of the Head of Internal Audit in public service organisations. An external assessment is scheduled for September 2016.

Our [Internal Audit Charter](#) sets out Internal Audits role and remit.

Each year the Head of Internal Audit (Audit and Risk Manager) provides an independent opinion on the effectiveness of the Council's governance, risk and control environment. This helps inform the Annual Governance Statement and is reported to the Audit Committee. For more information go to: [Audit Committee Meetings](#)

External Audit

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

KPMG, our External Auditors, audit our financial statements and provide an opinion on these.

They also assess how well we manage our resources and deliver value for money to the people of Lincolnshire.

Governance Issues

Whilst we are generally satisfied with the effectiveness of our governance framework and assurance arrangements our review identified the following areas where further work is required to improve systems or monitor how the key risks facing the Council are being managed:

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2016/17	Implementation Date
Financial Challenges Ahead			
<p>Since I last reported there have been a number of key, national announcements – the Spending Review 2016, the Local Government Finance Settlement and the Chancellor's Budget. These confirmed significant, further reductions in public spending and Government financial support to the Council for the remainder of this Parliament.</p> <p>During 2014 and 2015 the Council undertook two significant reviews of its budgets and identified a number of options to significantly reduce budgets going forward. Because of the late settlement and other grant announcements the Council published just a one year budget (2016/17). This incorporated budget savings and also significantly draws on the Financial Volatility Reserve in 2016/17.</p> <p>Looking forward the Council has updated its 4 year financial model to take account expected funding levels, budget pressures and anticipated savings. At this stage it is estimated that in addition to those savings identified in the FBR and Financial Challenge work the Council will need to find an additional £78m in base budget savings over the 3 years 2017/18 to 2019/20, with the most significant pressures likely to fall in 2018/19.</p>	<p>Executive Director Finance and Public Protection</p>	<p>Ongoing monitoring of budgets and plans to ensure the savings options previously agreed are delivered.</p> <p>The Corporate Management Board will be doing further work with the Executive to identify further savings options for 2017/18 and an indication of options for the following two years. A new Council will be elected in May 2017 and may wish to review options for the following two years.</p> <p>The Council will need to consider submitting a 4 year efficiency plan to</p>	<p>Ongoing</p> <p>It is expected that budget options will be available for wider discussion and scrutiny in the Council in the early autumn and that will work will feed into the wider consultation and budget processes leading to the final budget decisions in February 2017.</p> <p>This will need to be considered at the full</p>

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2016/17	Implementation Date
<p>Within the final settlement announced in February 2016 the Government also invited councils to submit a 4 year 'efficiency plan' by 14th October 2016 in order to secure DCLG grant funding for the financial years 2017/18 to 2019/20.</p>		<p>help secure Government funding in future years.</p>	<p>Council meeting in September 2016.</p>
Financial Control Environment			
<p>The control environment has been significantly impacted during 2015/16 by the implementation of the Agresso system (HR and Financials), new business processes involved and the change to a new contractor (Serco) in April 2015. Internal controls were weakened during this period and it has taken much longer than anticipated for Serco to solve problems and implement improvements. Whilst some key improvements have been made (especially around creditor payments) there are still a number of both historical and current issues outstanding with respect to HR / payroll. This has also had a knock on impact in terms of postings to the general ledger and the availability of financial management information for the majority of 2015/16. The Finance Department has worked with budget holders to provide monitoring information and outturn estimates through alternative means. At the time of writing (June 2016) the majority of the year end activity has been completed. The one issue still being worked on relates to refining the detailed payroll entries in the school accounts. This should be complete by the end of July. It is envisaged that External Audit of the financial statements will start as scheduled on the 1st August 2016.</p>	<p>Executive Director Finance and Public Protection</p>	<p>Controls and monitoring mechanisms in respect of the Serco contract. This has been enhanced over the last 6 months both through a Member / Officer Recovery Board to monitor progress with Serco and ongoing dialogue between Senior Council Officers and Serco Board Members.</p> <p>Follow up of internal audit review of payroll. A separate independent payroll audit by PWC has also been commissioned by Serco and this is due to report in May 2016. An action plan to resolve issues identified will need to be agreed subsequently.</p> <p>Regular dialogue and liaison with External Auditors on close down and year end audit</p>	<p>Ongoing until all issues resolved.</p> <p>Complete any improvements identified by September 2016.</p> <p>Ongoing but complete by September 2016.</p>

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2016/17	Implementation Date
An independent, internal audit update on payroll has identified a number of control weaknesses that will need to be addressed.			
Case Management System (Mosaic)			
Delivery of the new Case Management System for Adults, Children's and Public Health for use by the Council, Serco and other delivery partners.	Chief Information and Commissioning Officer	To complete integration, testing, and transition to the new system.	By the end of 2016
Information Management Team (SERCO)			
Delivery IMT transformation projects is behind schedule which is delaying improvements to the Council's IT operations and service efficiencies across the Council.	Chief Information and Commissioning Officer	Various dates for projects tracked through the Transformation Board.	Through to 31.03.17
Establishing the Combined Authority			
Shortly after the General Election in May 2015, the Government indicated that they wished to see Combined Authorities led by a directly elected mayor. Although aimed at cities, our Council along with the other councils in the Greater Lincolnshire Local Enterprise Area (LEP) conferred and concluded that they wished to submit an expression of interest. They were clear that this was to be a combined authority established for the specific intent of receiving devolved powers and funding from Her Majesty's Government. Conversations took place with other organisations and a submission (<i>Greater Lincolnshire: A place to grow – faster than anywhere</i>) was made by the deadline of 4 September with a total of	Chief Executive Executive Director Environment & Economy	Consultation with residents and businesses in Greater Lincolnshire (Humber to the Wash) Decision on Mayoral Combined Authority for Greater Lincolnshire and agreement of next steps	July / August 2016 August / October 2016

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2016/17	Implementation Date
<p>21 signatories.</p> <p>The submission did not propose any powers being ceded by existing councils to the Combined Authority. Thus no direct governance issues arose for the County Council.</p> <p>During the final quarter of the 2015-16 financial year, a lot of work was undertaken by the chief executives and leaders of the ten constituent councils to produce devolution proposals that were negotiated with civil servants. The Government insisted that they would not consider proposals unless a directly elected mayor was included in a governance scheme for a Combined Authority. Council leaders acceded to this, with provision for a combined authority comprising the ten authorities and the Greater Lincolnshire LEP Chair.</p> <p>There will be indirect consequences for governance in the Council in the short term. It is anticipated that the Leader will be the County Council's representative. There are areas of devolved powers in which the Council has interests – transport, highways and skills development, for example. We will need to explore the relationships between our council and the Combined Authority, but it is anticipated that few significant governance problems will arise. The constituent councils will have to fund the operation of the Combined Authority, which will have a financial implication for the Council, albeit it is expected to be relatively small.</p>			
Governance Arrangements			

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2016/17	Implementation Date
<p>Risk Culture</p> <p>Management of risks needs to be done in an effective way to allow the Council to achieve its strategic objectives and agreed priorities. Both councillors and officers will need to be comfortable in taking high risk decisions. Risk assessment and management is built into key decision making and into the delivery of services. Because of budget retrenchment and reductions in officer numbers and resilience this may lead to some deterioration of the Council's risk control environment, particularly on medium and lower priority activities. The Council's risk appetite and thresholds for risk may need to be reviewed allowing for a high degree of pragmatism that balances cost, affordability, quality and risks.</p> <p>The Council will need to continue to ensure its risk management processes work well and with a risk culture that promotes:</p> <ul style="list-style-type: none"> • Taking the right risks in an informed way. • Having clear accountability for ownership of specific risks and risk areas (officers and councillors). • Having transparent and timely risk information throughout the organisation and ensuring early and effective learning both from good practice and also when things go wrong. 	<p>Executive Director Finance and Public Protection</p>	<p>Continue with risk awareness training and workshops with councillors and members.</p> <p>Executive Directors to ensure the Strategic Risk Register is updated on an annual basis.</p>	<p>Refresh programme in October to January when changing budget priorities are known. Second programme for new councillors after elections 2017.</p> <p>December to February as changes to service and commissioning priorities are identified as part of the annual budget / business plan processes.</p>

Conclusion

We are satisfied that plans are in place that will address the areas identified above and will monitor their implementation and operation as part of performance management. The Audit Committee will help provide us with independent assurance during the year.

Signed

..... Date/...../.....
Executive Director – Finance &
Public Protection

..... Date/...../.....
Chief Executive

..... Date/...../.....
Leader of the Council

DRAFT

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Community Safety

Report to:	Audit Committee
Date:	18 July 2016
Subject:	Counter Fraud Annual Report 2015/2016

Summary:

This report provides information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviews the delivery of the 2015/16 counter fraud work plan.

Recommendation(s):

To assess the overall effectiveness of the Council's arrangements to counter fraud and corruption and the progress made to implement policy.

Background

The Counter Fraud Annual Report provides an overview of the investigation and proactive counter fraud work completed in 2015/16.

This summary provides information to enable the Committee to review the outcomes and overall effectiveness of the Council's arrangements.

The progress reports submitted throughout the year and this annual report are the key sources of assurance for the Committee on the adequacy of Council's counter fraud activities.

The report supports the Committee in discharging its terms of reference around:

- To review the assessment of fraud risks and the potential harm to the council from the risk of fraud
- To monitor the counter fraud strategy, actions and resources.

In considering this report the Audit Committee may wish to consider the following:

- How the Council's counter-fraud strategy measures against best practice?
- Has the Committee an awareness of the major fraud risks the Council faces?

- Is confident that good counter fraud practice is adopted in the Council and its partners
- Obtained assurance on the delivery of counter-fraud plans to address these risks?
- Overseeing any major areas of fraud identified and the implementation of consequential action plans

Conclusion

The Council has maintained its commitment to countering fraud and the arrangements in place to support this are effective. The recoveries secured from our investigation work were limited in 2015/16. However, during the year we concluded our work on the 2014/15 National Fraud Initiative exercise and instigated recovery of over £30k in our proactive review of the data matches identified in that process – this represented an 88% increase on the total identified in the previous exercise (2012/13). We will soon be providing data for the 2016/17 exercise.

Through our investigative work we have been able to ensure sanctions are taken wherever possible and have achieved results in that respect – including successful prosecutions and dismissals. Our 'lessons learned' approach includes production of action plans following investigations. These aim to prevent reoccurrence of the issues arising again – therefore, fraud prevented and the associated future savings made are also positive outcomes and measures of success.

In 2015/16, we continued to promote fraud awareness heavily to ensure a strong counter fraud response. We have targeted specific areas of high fraud risk – for example, procurement fraud and have worked closely with commissioning teams in this area. We have used various media outlets and communication channels to maximise the promotion of our counter fraud arrangements in an effort to reach all stakeholders. The increased usage of our Whistleblowing line provides evidence this has succeeded.

The Lincolnshire Counter Fraud Partnership has been highly successful with 2 projects (Council Tax Single Person Discount and Council Tax Reduction) identifying £680k in savings for the partners involved. The partnership has also been involved extensively in promotional activities with a view to developing an anti-fraud culture throughout Lincolnshire. The Council's Counter Fraud and Investigation Team will continue to work closely with the LCFP to build upon the results achieved. The partnership is currently developing a fraud healthcheck to review the response to fraud and corruption. This draws on a fraud assessment tool produced by CIPFA and the Fighting Fraud and Corruption Locally strategy.

Policy documents, including the Counter Fraud Policy, Fraud Response Plan Money Laundering Policy and Whistleblowing Policy are due for review in 2016/17. This will further strengthen and update the counter fraud response already in place. All documents will reflect guidance issued within Fighting Fraud and Corruption

Locally – the recently refreshed counter fraud strategy aimed at local government organisations.

Our counter fraud work plan for 2016/17 is already aligned to themes included within the CIPFA Code of Guidance for Managing the Risk of Fraud and Corruption. The Counter Fraud and Investigation Team assist the audit committee through a regular programme of self-assessment to ensure the Council's counter fraud arrangements continue to conform with the principles contained within the code. The Council will complete the Lincolnshire Counter Fraud Partnership's healthcheck to further support this process.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

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

Background Papers

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

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



For all your assurance needs

Lincolnshire County Council Counter Fraud Annual Report 2015/16



What we do best

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

..... And what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

The contacts at Assurance Lincolnshire for this report are:

Lucy Pledge
Audit and Risk Manager
01522 553692
Lucy.pledge@lincolnshire.gov.uk

Matt Drury
Principal Investigator
01522 553690
matt.drury@lincolnshire.gov.uk

Page 77



Key Messages	1
Fraud Investigations 2015/16	2 - 4
Proactive work	5 - 6
Lincolnshire Counter Fraud Partnership	7
Conclusion and next steps	8
Appendix A	
▪ Counter Fraud Work Plan 2015/16	9 - 12
Appendix B	
▪ Fraud referrals – 2011/12 to 2015/16	13

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

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

1. The Council has a **zero tolerance** stance to all forms of fraud, corruption and theft, both from within the Authority and from external sources. We recognise fraud can:
 - undermine the standards of public service that the Council is attempting to achieve
 - reduce the level of resources and services available for the residents of Lincolnshire
 - result in major consequences which reduce public confidence in the Council
2. As part of our commitment to 'Fighting Fraud and Corruption Locally' we have a dedicated Counter Fraud and Investigations Team who are trained to deliver a professional counter fraud service to the highest standards.
3. The purpose of the annual report is to:
 - Provide assurance to the Audit Committee on the overall effectiveness of the Council's arrangements to counter fraud and corruption
 - Inform how the Counter Fraud plan for 2015/16 was discharged and the overall outcomes of the proactive counter fraud work and investigations undertaken
4. The Counter Fraud and Investigation Team has delivered the majority of planned work for 2015/16 - 86%. The areas within the Counter Fraud Work Plan 2015/16 that remain outstanding are already at an advanced stage and will be completed at an early stage in the 2016/17 plan.
5. In 2015/16 we continued to focus heavily on awareness work in specific areas most at risk to fraud. Procurement fraud has previously been identified as a threat. In response to this we delivered:
 - a series of awareness sessions with contracts teams across the Council. These workshops were tailored and designed to improve understanding of relevant frauds and promoting how concerns can be reported.
 - a large training event on procurement fraud for officers involved in commissioning and managing contracts at the Council and key partners from district councils within Lincolnshire and beyond
6. Recoveries secured from our investigation work in 2015/16 were not as high as previous years although we did identify and recover over £30k from enquiries made into data matches resulting from the National Fraud Initiative 2014/15 process. Other positive outcomes are that our recommended actions from investigations made are designed to prevent further fraud issues reoccurring and contribute to future savings.
7. Lincolnshire Counter Fraud Partnership has overseen significant results with its partner authorities during 2015/16. Over £680k in savings have been identified from two projects on Council Tax Reduction and Single Person Discount. The Counter Fraud and Investigation Team work closely with the Lincolnshire Counter Fraud Partnership and have delivered joint work to promote our counter fraud and whistleblowing arrangements during the year.
8. There have been significant developments nationally in counter fraud during 2015/16. The CIPFA Counter Fraud Centre (CCFC) issued 'Fighting Fraud and Corruption Locally'. This is the new strategy to tackle fraud and corruption in local government for 2016 - 2019. The strategy is designed to provide the foundation for a tougher response to fraud against local authorities. The new strategy introduces 6 themes - local authorities will be expected to measure performance against these to ensure their response is comprehensive and effective. The vision is that, by 2019, local authorities will have developed a robust response to fraud. The themes are:
 - Culture
 - Capability
 - Capacity
 - Competence
 - Communication
 - Collaboration
9. One of key areas of work in 2016/17 will be to benchmark against these themes of good practice and to refresh our Counter Fraud Policy.

Investigations

10. We received 11 new referrals of suspected fraud during 2015/16 – this was lower than the previous year although this can be explained by the large amount of social care and financial abuse cases reported to us in 2014/15. We carried out 6 investigations during the year and identified an increase in fraud cases at schools. In response we intend to undertake a proactive counter fraud exercise aimed at schools in 2016/17.
11. It should be noted that we operate the whistleblowing line on behalf of our partners at District Councils and pass reports to them or other agencies when required. The Lincolnshire Counter Fraud Partnership's efforts to promote reporting of fraud concerns have actually resulted in an increase in the use of this facility – numbers are included in our annual whistleblowing reports made to this committee.

Page 80

2. Results from investigations during 2015/16:

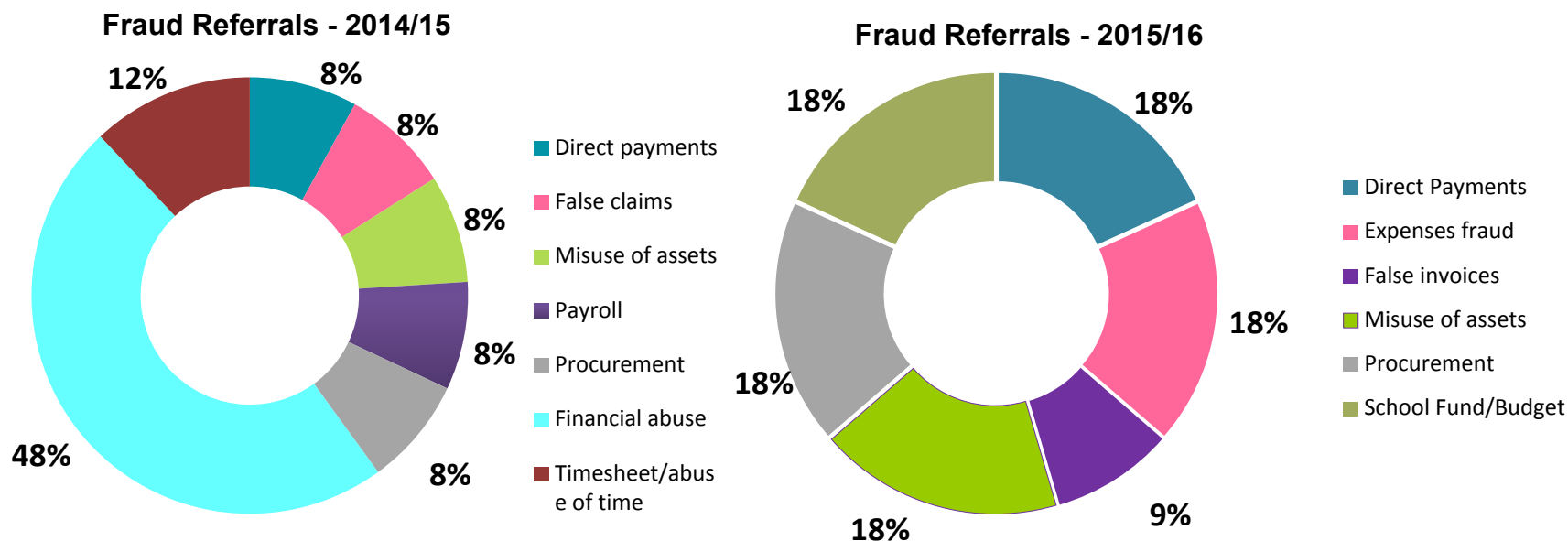
- We investigated a referral of financial mismanagement at a school. The main issues related to misuse of school assets, misappropriation of income and irregularities around staff appointments, pay and expenses. There was insufficient evidence to meet the requirements for a criminal case. However, following our employment investigation an individual involved was summarily dismissed. A further employee also resigned before the disciplinary process was completed
- 3 individuals were convicted with money laundering and fraud offences in January 2016 after a complex and lengthy police investigation. This related to a bank mandate fraud committed against the Council and Mouchel in June 2011. A custodial sentence of 5 years was given to the main perpetrator. Two accomplices received sentences of 18 months imprisonment
- An employee was investigated following allegations of submitting false mileage claims. We found evidence to support the allegations made and the individual was summarily dismissed. We also recovered the £750 obtained through the fraudulent claims

- A school was victim of an invoice 'scam' and subjected to threatening demands for payment for goods allegedly supplied - the school subsequently paid the invoice. Following our investigation the invoice was withdrawn and the payment recovered



Referrals

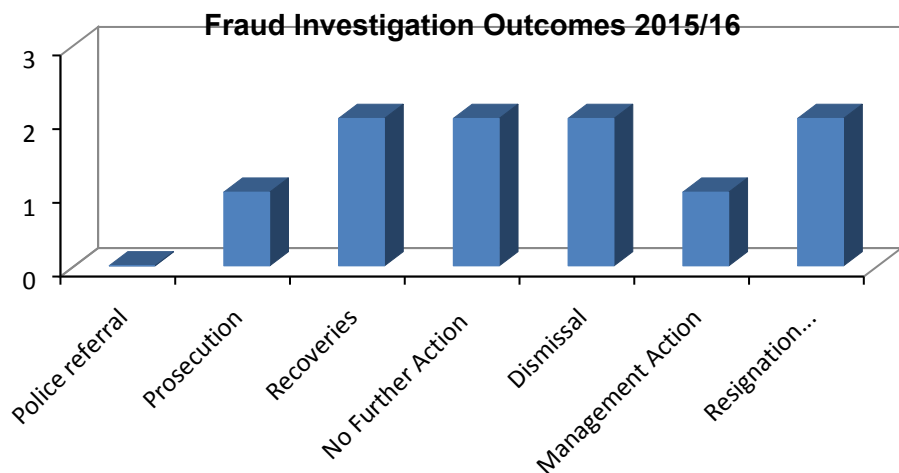
13. During 2015/16 we have continued to receive referrals relating to procurement, misuse of assets and expenses fraud. This is demonstrated by the charts below. We plan to continue our proactive work around procurement fraud in 2016/17 and we also intend to expand our continuous testing regime of expenses claims submitted. This will allow us to obtain and analyse data on a regular basis to identify any trends or potentially fraudulent activity at an early stage.
14. The charts demonstrate that there was a spike in financial abuse cases in 2014/15 – this correlated with proactive work carried out in that year. In 2015/16 we focused our efforts in other areas and did not receive any referrals of financial abuse – this demonstrates the value of proactive work. We plan to continue our liaison with social care and safeguarding staff to ensure that the potential fraud risks in this area remain on the agenda and are investigated where necessary. The charts show a more even spread across several categories of referral was recorded in 2015/16 with no particular trends apparent:



15. A summary of referrals received over the last 5 years can be found at Appendix B

Outcomes

16. We analysed the results from the cases completed in 2015/16 including cases commenced in previous years). The results support our compliance with the zero tolerance approach laid out in our Counter Fraud Policy. Please see the chart below:



- much of the value (£87k) related to an investigation at a school. The case was proven and the individual summarily dismissed from their position. However, the burden of proof required for criminal cases could not be met, therefore no police investigation ensued
- 2 cases related to missing cash worth over £4.2k at separate Council establishments. We were unable to identify, with any certainty, the perpetrators responsible due to the poor state of records maintained
- 2 further cases are ongoing and we hope to make recoveries in 2016/17

It can be frustrating when recoveries cannot be made from our investigations. The work completed and recommendations made within our action plans should ensure that further losses have been prevented and therefore can be viewed positively as future savings made.

19. Action plans will continue to be produced from our work on investigations and proactive counter fraud exercises to aid organisational learning and to prevent issues reoccurring by understanding risks and ensuring controls are improved.

Recoveries

17. The level of recoveries from investigations in 2015/16 have not reached the heights of the results achieved in 2012/13 and 2013/4 when over £1m was clawed back. During the year, we recovered £950 from investigations completed. We have also secured recovery of over £30k from our follow up work on data matches identified through the National Fraud Initiative 2014/15.

18. Recoveries made are not the only measurement of success in terms of counter fraud activity. 6 cases were investigated during 2015/16 and we calculated their value at over £97k. These cases can be summarised as follows:

Awareness

20. We have continued to place emphasis on fraud awareness work during 2015/16 and have achieved sustained coverage across several media channels. For example, we have issued press releases aimed at external stakeholders e.g. members of the public, local businesses etc. Subsequently, local media outlets published articles using these details both through printed/internet media and via social media channels such as Twitter. This has helped in promoting our counter fraud response to a broader audience and has contributed to an increase in whistleblowing calls received.
21. For internal stakeholders and partners we have used different options to promote fraud awareness and how concerns about fraud may be reported. We have produced regular articles to notify Council staff about counter fraud arrangements and encouraging them to report potential fraudulent activity. We have also liaised with the Council's Communications Team to alert officers of scams that may be aimed at the authority. We have also updated the Assurance Lincolnshire internet pages to include a direct link to counter fraud and investigation information.

Page 83

Procurement Fraud

22. In 2015/16 we commenced a proactive review of Procurement Fraud. It is accepted that this area of fraud is the largest single area of fraud loss to local government – estimated at almost £900m annually, although the rate of fraud detected remains relatively low. The Department for Communities and Local Government has recently written to Council leaders to emphasise the importance of tackling fraud in this area. The scale and wide ranging nature of procurement within the public sector makes this area vulnerable to abuse and therefore, is a difficult area for councils to control.
23. We have made presentations to several procurement and contract management teams during 2015/16 including:

- Public Health
- Environment and Economy (Highways)

- Procurement Lincolnshire - People Team
- Procurement Lincolnshire - Infrastructure Team

These workshops were well attended and received and we plan to deliver similar tailored presentations to the remaining devolved teams within the Council and to our partners at District Councils in 2016/17 as part of a drive to combat procurement fraud.

24. In conjunction with the Lincolnshire Counter Fraud Partnership and an external training provider we helped arrange and deliver a training event to over 70 delegates during February 2016. The conference covered the main risks around procurement, potential indicators, guidance on prevention and relevant legislation. We also clarified the Council's whistleblowing arrangements and encouraged reporting of concerns by officers. Contract officers across the authority and other areas including legal services and finance attended. Interested parties from District Councils across Lincolnshire and colleagues from other County Councils were also present. This has allowed us to promote the issue of procurement fraud and the work we plan to deliver. We have now established numerous contacts across the council and its partners and we intend to build upon this in our 2016/17 Counter Fraud Work Plan.
25. The issue of combating procurement fraud within local government is complicated by the size and variety of services commissioned. Our approach is to review particular areas or 'pockets' of procurement and contracts at increased risk to fraud – we plan further in depth reviews during 2016/17. We recently had input into the Council's updated Contract and Procurement Procedure Rules to ensure they reflect fraud risks and controls. We also intend to promote our whistleblowing procedures with contractors and service providers to ensure awareness across all stakeholders.

National Fraud Initiative 2014/15

26. We have now completed our review of the data matches from the 2014/15 National Fraud Initiative exercise. This process is designed to identify fraud, error and overpayments. The final figure of payments identified and recovered was £30,384. These amounts can be broken down as:

- 2 cases where payments continued to be made to care homes after residents had died – value £10,823
- 2 cases where direct payments were made after the intended recipient's death. Payments recovered totaled £13k
- Overpayment made to a deceased pensioner – total £2,632
- Duplicate payment made to a supplier worth £4,227

None of these cases involved any evidence of fraud and represent genuine cases of overpayment. Controls are in place to prevent this type of error and they are generally effective. On occasion, some cases 'slip through the net'. The National Fraud Initiative exercise helps identify such cases and plugs the gap.

Other Proactive work

27. Due to control issues identified since the implementation of Agresso there been an increased risk of fraud and error, particularly around the systems in place for Payroll and Accounts Payable. In response to this, we have carried out extensive testing on both areas with data analysis techniques being used to help identify potentially fraudulent transactions – areas targeted included duplicate and fraudulently instigated payments, potential conflicts of interest, purchasing card transactions and claims for expenses and allowances. The issues around erroneous payments made have been well documented, but it is reassuring that we did not

highlight any evidence of fraudulent payments being made.

28. We completed a review of honoraria payments made to employees during 2015/16 – this has previously been highlighted as an area at risk to fraud. We found no evidence of such payments being instigated fraudulently and found the process to be robust.

Midlands Fraud Group

29. We continue to head the Midland Counties Fraud Group. The most recent meeting was in July 2015 and another meeting will take place in summer 2016. We maintain regular contact with our colleagues in the group and liaise on fraud risks, best practice and advice. This has proved to be a valuable source of information to group members.



30. The Lincolnshire Counter Fraud Partnership has achieved significant results with its partner authorities during 2015/16. The following projects were approved and supported by the partnership:

- An exercise to identify Council Tax Single Person Discount (SPD) fraud removed discounts in 2229 cases and generated net revenue of £573k. A further 610 penalties were imposed at a value of £42k
- A scheme to address Council Tax Reduction (CTR) fraud led to 165 investigations taking place. This resulted in overpayments of £62k being identified and 42 penalties worth £3k were imposed. It is planned roll out this project at further councils across the partnership

31. Other significant achievements during 2015/16 include:

- Raising fraud awareness by regular promotion of fraud and issuing county wide press releases (e.g. Single Person Discount project). This work demonstrates Lincolnshire local authorities commitment to tackling fraud. Eye catching pop-up displays have been developed to raise awareness of the Confidential Reporting line. The overall response from the awareness work is having a positive effect with the fraud message 'getting out there'
- Sharing fraud intelligence and best practice by developing effective fraud networks (internal and external) – arrangements are helping to implement effective 'fraud proofing' across all Lincolnshire authorities and enabling a proportionate response to existing and emerging risks
- Strengthening governance arrangements by working with Lincolnshire authorities to identify key fraud risks and develop a fraud healthcheck which will assess against the themes of Fighting Fraud and Corruption Locally

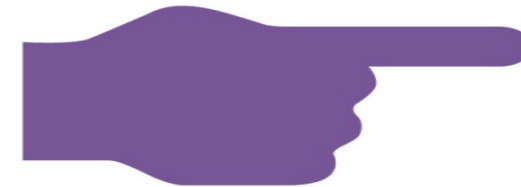
32. The main priorities for the partnership in 2016/17 will be:

- Development and delivery of fraud healthchecks to partner authorities and identification of cost effective approaches for dealing with fraud and error
- to develop and release an e-learning module. This will involve appointing a provider to deliver the package and preparation of a communications plan
- establishment of fraud risk registers across partner authorities
- pro-active fraud work on procurement and housing tenancy
- ongoing fraud awareness work

33. The Lincolnshire Counter Fraud Partnership was a key partner involved in delivering the procurement fraud workshop in February 2016.



34. The Counter Fraud and Investigation Team have completed 86% of the Counter Fraud Work Plan for 2015/16 (please refer to Appendix A). The 2 areas carried forward into the plan for 2016/17: completion of the Council's Fraud Risk Assessment and the development of an e-learning platform are on track to be delivered by September 2016 - both areas will be delivered in collaboration with the Lincolnshire Counter Fraud Partnership. Ongoing pro-active work on procurement and contracts will continue during 2016/17.
35. The information in this report supports our view that the counter fraud response at Lincolnshire County Council continues to work effectively. The collaboration between the Counter Fraud and Investigations Team and the Lincolnshire Counter Fraud Partnership has allowed a wide ranging approach to addressing key fraud risks to the Council and its partner authorities. Extensive and varied communication channels have been used to promote fraud awareness among a wider audience and increased whistleblowing traffic is evidence this is working well.
36. In 2016/17 we plan to expand our engagement with stakeholders including the Corporate Management Board. Our proactive work will include an exercise aimed specifically at schools – an area not previously targeted and we will continue in our drive to tackle high risk areas such as procurement. A number of our policy documents are due for review – this includes the Counter Fraud Policy, Fraud Response Plan and the Whistleblowing Policy. We will seek to refresh these documents and promote awareness accordingly. We believe that this will further strengthen the counter fraud arrangements already in place.



Counter Fraud Work Plan 2015/16

Appendix A

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
Anti Fraud Culture					
Raising Awareness	Briefings sessions Training for members, management, staff, key partners (general and specific fraud areas)		April 2015	March 2016	Completed Briefing sessions focused on procurement fraud. Procurement Fraud training event delivered February 2016.
Engagement and Training	Updates – risks, results and information Newsletter - awareness		April 2015	March 2016	Completed Regular updates across media channels – press releases, County News, daily staff bulletins
Website development and maintenance	Develop e-learning and microsite (Assurance Lincolnshire)		April 2015	March 2016	Ongoing Microsite currently updated and e-learning tool being developed
Sub Total		30			
Deterrence					
Promotion of counter Fraud Activity	Investigation outcomes and learning points		April 2015	March 2016	Completed Action plans produced following all investigations

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
	Publicising key issues and fraud prevention measures				Regular promotion, where possible, aimed at deterring fraud
Sub Total		10			
Prevention					
Organisational learning	Reports and action plans		April 2015	March 2016	Completed Action plans produced following all investigations
Use of data analytics	Use of data analysis within pro-active counter fraud exercises		April 2015	March 2016	Completed Data analysis used on a regular basis – payroll, honoraria and procurement
Advice	Enhancing fraud controls and process – new and existing systems		April 2015	March 2016	Completed Provided when required
Sub Total		40			
Detection					
Update Fraud Risk Profile	Fraud risk assessment work		April 2015	June 2015	Ongoing Majority of work completed – To be finalised in 2016/17 (Quarter 2)
Pro-active counter fraud exercises	Review of contracts and procurement using data analysis, intelligence and liaison with contract teams		July 2015	September 2015	Completed (as far as possible during 2015/16) Met with contract leads to identify fraud risks. Awareness sessions delivered t devolved

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
					procurement and contract teams Data analysis to identify contracts for closer scrutiny Work to continue in 2016/17
National Fraud Initiative 2014/15	Review and analysis of matches identified in NFI process (prioritising areas where recoveries can be made or where higher risk)		April 2015	June 2015	Completed Amount recovered - £30384
Lincolnshire Counter Fraud Partnership	Co-ordination of the joint group devised from DCLG funding – oversight and development		April 2015	March 2016	Completed Work ongoing against Work Plan
Midlands Fraud Group	Hosting and co-ordination of Midlands Fraud Group meetings		July 2015 January 2016	July 2015 January 2016	Completed Meeting hosted in July 2015. Work priorities caused delay in planned January 2016 meeting – rearranged for Summer 2016
Sub Total		170			
Investigation					
Whistleblowing and Fraud Investigation	In line with investigation manual and recommended best practice		April 2015	March 2016	Completed On-going work whenever required

Area	Indicative Scope	Planned Days	Start Date	End Date	Status
Sub Total		300			
Sanctions and Redress					
Pursue civil, disciplinary and/or criminal sanctions	Action taken during investigation process		April 2015	March 2016	Completed On-going work whenever required
Sub Total		5			
Contingency					
Sub Total		65			
Grand Total		650			

Fraud referrals made (from 2011/12 to 2015/16)

Appendix B

Fraud Type	2011/12	2012/13	2013/14	2014/15	2015/16
Abuse of position	2	2	-	-	-
Bank account payments	1	-	-	-	-
Direct Payments	-	-	3	2	2
Expenses fraud	1	-	1	-	2
False invoices	-	1	-	-	1
False claims	-	-	-	2	-
False accounting	2	-	-	-	-
Grants	2	-	-	-	-
Insurance fraud	3	-	-	-	-
Imprest (cash)	-	-	1	-	-
Misuse of assets	2	2	-	2	2
Payroll	2	2	-	2	-
Pension	1	-	-	-	-
Procurement	2	-	1	2	2
Recruitment	-	1	1	-	-
School Fund/Budget	-	-	2	-	2
Financial abuse	3	5	-	12	-
Timesheet/abuse of time	1	1	-	3	-

This page is intentionally left blank

Counter Fraud Policy

Protecting Lincolnshire County Council Resources

Counter Fraud Policy Statement

INTRODUCTION

Lincolnshire County Council has a **zero tolerance** stance to all forms of fraud, corruption and theft, both from within the Authority and from external sources. We recognise fraud can:

- undermine the standards of public service that the Council is attempting to achieve
- reduce the level of resources and services available for the residents of Lincolnshire
- result in major consequences which reduce public confidence in the Council

FRAUD is a deception which is deliberate and intended to provide a direct or indirect personal gain. The term “fraud” can include criminal deception, forgery, blackmail, corruption, theft, conspiracy or the covering up of material facts and collusion. By using deception a fraudster can obtain an advantage, avoid an obligation or cause loss to another party.

CORRUPTION is the deliberate misuse of your position for direct or indirect personal gain. “Corruption” includes offering, giving, requesting or accepting a bribe or reward, which influences your actions or the actions of someone else. The Bribery Act 2010 makes it possible for Senior Officers to be convicted where they are deemed to have given their consent or tacit approval in giving or receiving a bribe.

It also created the Corporate Offence of “Failing to prevent bribery on behalf of a commercial organisation” (corporate liability).

To protect itself against the corporate offence the Act also requires organisations to have “adequate procedures in place to prevent bribery.” This policy statement, the LCC Code of Conduct and Whistleblowing policy are designed to meet that requirement.

THEFT is where someone steals cash or other property. A person is guilty of “theft” if he or she dishonestly takes property belonging to someone else and has no intention of returning it.

We are committed to the highest possible standards of openness, probity, honesty, integrity and accountability. We expect all staff, councillors and partners to apply these standards which are included in our Code of Conduct, supported by the Council’s values to be Professional, Respectful, Resourceful and Reflective.

We will seek to deter and prevent fraud, corruption and theft to ensure that all risks in these areas are reduced to the lowest level possible. Where we suspect or detect fraud, corruption or theft we will thoroughly investigate and deal with any proven fraud in a consistent and balanced way. We will apply appropriate sanctions against those committing fraud and will attempt to recover all losses.

SCOPE

This policy applies to:

- All County Council Employees and Councillors
- Staff and Committee Members of Council funded voluntary organisations
- County Council's Partners
- County Council Suppliers, Contractors and Consultants
- LCC residents

AIMS AND OBJECTIVES

We aim to:

- reduce fraud and loss within the Council to an absolute minimum and maintain that level
- protect the Council's valuable resources by ensuring they are not lost through fraud but are used for improved services to Lincolnshire residents
- promote our Counter Fraud culture which highlights the Council's **zero tolerance** of fraud, corruption and theft, which defines roles and responsibilities and actively engages everyone – the public, councillors, staff, managers and policy makers
- provide a best practice Counter Fraud Service which:
 - proactively deters, prevents and detects fraud, corruption and theft
 - investigates suspected or detected fraud, corruption and theft
 - enables the Council to apply appropriate sanctions and recover all losses
 - provides recommendations to inform policy, system and control improvements, thereby reducing the Council's exposure to fraudulent activity

PRINCIPLES

We will not tolerate abuse of our services or resources and have high expectations of propriety, integrity and accountability from all parties identified within this policy.

We will ensure that the resources dedicated to our Counter Fraud activities are sufficient and those involved are trained to deliver a professional counter fraud service to the highest standards.

Fraud is a crime and will result in disciplinary, legal and/or criminal action against the individual(s) concerned. We will ensure consistency, fairness and objectivity in all our investigation work – everyone will be treated equally.

We want everyone to report any genuine suspicions of fraudulent activity. However, we will not tolerate malicious or vexatious allegations or those motivated by personal gain and, if proven, we may take disciplinary or legal action.

We will work with our partners (e.g. the police, district councils and other investigative bodies) to strengthen and continuously improve our arrangements to counter fraud and corruption.

RESPONSIBILITIES

STAKEHOLDER	SPECIFIC RESPONSIBILITIES
Chief Executive	Ultimately accountable for the effectiveness of the Council's arrangements for countering fraud and corruption.
Monitoring Officer	To advise Councillors and Officers on ethical issues, standards and powers to ensure that the Council operates within the law and statutory Codes of Practice.
Assistant Director – Finance (Section 151 Officer)	To ensure the Council has an adequately resourced and effective Counter Fraud and Internal Audit service.
Audit Committee	To monitor the Council's policies and consider the effectiveness the Whistleblowing and Counter Fraud & Corruption arrangements.
Councillors	To support and promote the development of a strong counter fraud culture.
External Audit	Subject to the concept of materiality, provides reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity.
Corporate Audit & Risk Management (Counter Fraud and Investigations Team)	To develop and implement the Counter Fraud Policy and promptly investigate cases of suspected fraud reported under this policy, via the Whistleblowing arrangements or the National Fraud Initiative. To make recommendations to improve controls and reduce the risk of fraud in the future.
Managers	To promote staff awareness, refer all suspected fraud to the Counter Fraud Investigations Team and apply the policy of zero tolerance . To ensure that they assess the risk of fraud, corruption and theft in their service areas and reduce these risks by implementing strong internal controls.
Staff	To comply with Council policies and procedures, to be aware of the possibility of fraud, corruption and theft, and to report any genuine concerns to management, the counter Fraud Investigation Team or via the Whistleblowing arrangements.
Public, Partners, Suppliers, Contractors and Consultants	To be aware of the possibility of fraud and corruption against the Council and report any genuine concerns / suspicions.

APPROACH TO COUNTERING FRAUD

We will fulfil our responsibility to reduce fraud and protect our resources by a strategic approach consistent with that outlined in the Local Government Fraud Strategy - Fighting Fraud Locally. The three key themes are **Acknowledge – Prevent – Pursue**:

A C K N O W L E D G E	COMMITTING SUPPORT	The Council's commitment to tackling the fraud threat is clear within the annual Counter Fraud Work Plan. We have strong whistleblowing procedures and support those who come forward to report suspected fraud. All reports will be treated seriously and acted upon. We will not, however, tolerate malicious allegations.
	ASSESSING RISKS	We will continuously assess those areas most vulnerable to the risk of fraud. These risk assessments will inform our annual Proactive Counter Fraud Work Plan – the Counter Fraud and Investigations Team will carry out work in these high risk areas to detect existing and new types of fraudulent activity.
	ROBUST RESPONSE	We will strengthen measures to prevent fraud – the Audit and Investigation Teams will work with managers and policy makers to ensure new and existing systems and policy initiatives are adequately fraud proofed.
P R E V E N T	BETTER USE OF INFORMATION & TECHNOLOGY	We will make greater use of data and analytical software to prevent and detect fraudulent activity. We will look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud.
	ANTI FRAUD CULTURE	We will promote and develop a strong counter fraud culture, raise awareness and provide information on all aspects of our counter fraud work. This will include publicising the results of all proactive work, fraud investigations, successful sanctions and any recovery of losses due to fraud.
P U R S U E	FRAUD RECOVERY	A crucial element of our response to tackling fraud is recovering any monies lost through fraud – this is an important part of our strategy and will be rigorously pursued, where possible.
	PUNISHING FRAUDSTERS	We will apply realistic and effective sanctions for individuals or organisations where an investigation reveals fraudulent activity. This may include legal action, criminal and/or disciplinary action, where appropriate.
	ENFORCEMENT	Appropriately trained investigators will investigate any fraud detected through the planned proactive work, cases of suspected fraud referred from internal or external stakeholders or received via the whistleblowing arrangements.

OUTCOMES

Investigation activity itself does not represent the outcomes of our counter fraud work. We recognise that by preventing fraud we will reduce losses and the delivery of our counter fraud work plan will improve overall outcomes and achieve the aims & objectives of this policy. We will measure the effectiveness of our counter fraud arrangements by focusing on outcomes such as:

- high levels of fraud awareness (survey results /)
- zero tolerance to fraud (number of referrals / disciplinary results)
- reduced losses
- levels of recovery
- levels of reporting
- delivery of the annual counter fraud work plan (ensuring best practice)
- reducing the risk of fraud
- successful prosecutions and other sanctions

REPORTING, ADVICE AND SUPPORT

If you genuinely believe that someone is committing a fraud or you suspect corrupt practices, these are your reporting options:

- your line manager (or a more senior manager if you suspect your line manager is involved)
- Stephanie Kent (Audit Manager) stephanie.kent@lincolnshire.gov.uk
- Lucy Pledge (Head of Service) lucy.pledge@lincolnshire.gov.uk
- Councillor Neville Jackson, Counter Fraud Champion
- Whistleblowing facility:

Telephone: 0800 0853716 (dedicated confidential free phone number)

Email: whistleblowing@lincolnshire.gov.uk

In writing: Lincolnshire Local Authorities
PO Box 640
Lincoln
LN1 1WF

To avoid potentially contaminating the evidence, managers should not investigate themselves and instead immediately report all suspicions of fraud or corruption to the Counter Fraud and Investigations Team – refer to the Council's Fraud Response Plan for more detail.

We will treat all concerns or suspicions with discretion and in confidence. If you need advice or support or would like to report a concern, please contact Stephanie Kent on 01522 553682.

POLICY CONTROL

Owner/ Policy Lead Officer: Stephanie Kent (Audit Manager)
Location: Orchard House, County Offices, Lincoln
Consultation: Audit Committee / Executive
Review Arrangements: Every two years (Policy Lead Officer/Audit Committee)

FURTHER INFORMATION

- Counter Fraud Leaflet
- The Constitution
- Finance and Contract Regulations
- Whistleblowing Policy
- Fraud Response Plan
- Code of Conduct (Staff)
- Money Laundering Policy
- Annual Counter Fraud Work Plan
- Audit Lincolnshire Website
- Code of Conduct (Councillors)

This page is intentionally left blank

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Community Safety

Report to:	Audit Committee
Date:	18 July 2016
Subject:	Internal Audit Progress Report

Summary:

This report provides an update on internal audit work undertaken in the period 1st June to 8th July 2016.

Recommendation(s):

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

Background

This report provides details of the internal audit work finalised during the period 1st June 2016 to 8th June 2016 to ensure timely reporting

Conclusion

1. During the period we have completed 5 County audits to final report
2. This concludes completion of the 2015/16 with the following exceptions:
 - The audits of the Better Care Fund and Safeguarding referrals have been moved into the 2016/17 plan due to delays in starting these audits. We have now agreed revised scopes and the audits are in progress.
 - HR absence management has been put on hold due to HR work commitments – this will resume shortly.
 - Key control testing – General Ledger is in the final stages of substantive testing

The outcomes of these audits will be reported to Audit Committee in due course.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

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

Background Papers

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

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

Internal Audit Additional Progress Report

Contents

	Page
Introduction	1
Key Messages	1
Internal Audit work completed in the period 1st June to 8th July 2016	1
Appendices	
Appendix 1 – Assurance Definitions	9
Appendix 2 – Executive Summaries of reports giving Limited or Low Assurance	10

Contact Details:
Lucy Pledge CMIIA
Audit & Risk Manager



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

Introduction

1. The purpose of this report is to:

- Provide timely details of the audit reports issued during the period 1st June 2016 to 8th July 2016
- Advise on completion of the 2015/16 plan

Key Messages

2. During the period we have completed 5 County audits to final report

3. This concludes completion of the 2015/16 with the following exceptions:

- The audits of the Better Care Fund and Safeguarding referrals have been moved into the 2016/17 plan due to delays in starting these audits. We have now agreed revised scopes and the audits are in progress.
- HR absence management has been put on hold due to HR work commitments – this will resume shortly.
- Key control testing – General Ledger is in the final stages of substantive testing

The outcomes of these audits will be reported to Audit Committee in due course.

Internal Audit work completed in the period 1st June 2016 to 8th July 2016.

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

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance
<ul style="list-style-type: none"> ■ Integrated Community Equipment Scheme 		<ul style="list-style-type: none"> ■ Mental Capacity Act ■ Accounts Payable 	<ul style="list-style-type: none"> ■ Payroll ■ Pension and Other Pay Overs

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

5. Since our last progress report we have issued 5 corporate final reports. 1 of these provides High Assurance:

Integrated Community Equipment Service

The Integrated Community Equipment Service (ICES) provides short and long term loans of equipment, through a Joint Commissioning approach between LCC and the Clinical Commissioning Groups.

A competitive tendering has been undertaken and the new five year ICES contract awarded during summer 2015, commencing April 2016.

Our audit concludes that the Council's planned arrangements for managing and monitoring the ICES service under the new ICES contract represent a sound framework of control. In our view, implementation of these arrangements will put the Council in a good place to achieve effective and robust monitoring of the ICES contract.

6. The remaining 4 reports give either limited or low assurance. The management summaries of the Limited reports can be found at appendix 2, whereas the two Low assurance reports will be the subject of a separate meeting.

Appendix 1 - Assurance Definitions¹

<p>High</p>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<p>Substantial</p>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<p>Limited</p>	<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<p>Low</p>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

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

Appendix 2 – Executive Summaries of reports giving Limited or Low Assurance

Mental Capacity Act

Introduction and Scope

The Mental Capacity Act 2005, covering England and Wales, provides a statutory framework for people who lack capacity to make decisions for themselves. It sets out who can take decisions, in which situations, and how they should go about this.

The legal framework provided by the Mental Capacity Act 2005 is supported by A Code of Practice (the 2005 Code), which provides guidance and information about how the Act works in practice.

Whilst the Act does not impose a legal duty on anyone to ‘comply’ with the 2005 Code certain categories of people including social workers, care managers, etc. are legally required to ‘have regard to’ relevant guidance in the Code of Practice. They must be aware of the Code of Practice when acting or making decisions on behalf of someone who lacks capacity to make a decision for themselves, and they should be able to explain how they have had regard to the Code when acting or making decisions.

Scope and Coverage

Our review sought to provide assurance that the adult care workforce have regard to the Code when acting or making decisions.

In forming our assurance opinion we have reviewed the following areas:

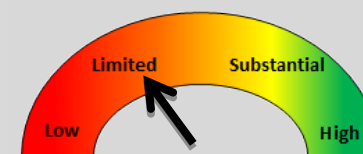
- Training of the adult care workforce relating to the Mental Capacity Act 2005 and the Code of Practice
- Application of the code guidance in practice
- Monitoring the application of the code by senior management within adult services.
- Management of Deprivation of Liberty Safeguard (DoLS) risks.

In accordance with the scope of this audit agreed with management our assessment of the management of DoLS risk is based upon a high level review and we have not undertaken any sample testing of applications required decisions.

Executive Summary

Assurance Opinion

Limited



Application of Code of Practice

Arrangements have been put in place which taken together are intended to ensure that decisions taken on behalf of someone who lacks capacity consistently have due regard to guidance contained in the Code of Practice.

To achieve this managers have developed processes aimed at ensuring that the adult care workforce are suitably trained, have access to relevant guidance and that the quality of their work is properly monitored.

We are not confident however that these arrangements are presently sufficiently robust and consistently applied in practice to provide the necessary assurance that the Authority requires.

We found weaknesses in processes which could increase the risk of inappropriate care for service users and successful litigation against the Council;

- Training has been provided to the adult care workforce relating to the Mental Capacity Act 2005 and the Code of Practice, but not all practioners however have completed the mandatory training. Refresher training is required for practioners and although a known requirement a program of training has yet to be undertaken.
- Practice standards, including one specific to mental capacity, have been put in place and are the yardstick against which the quality of service delivery and compliance with legal requirements are measured. A system of Quality Practice Audits, essentially file

reviews of cases, was introduced at the same time as the standards in order to confirm that the standards are being followed.

We found a number of issues which undermine the value of the audit process;

- There is a continuing trend of fewer scheduled audits actually taking place, with rates of completion rising to 50% within some teams,
- Not all the audits performed were correctly undertaken leading to cases being wrongly designated as failing to comply with the mental capacity act. There is no common reason for this occurring.
- At the time that we reviewed the audit process quarterly rates of noncompliance with Practice Standard 6 over the previous 12 months ranged from 3 to 6% per quarter. The required standard for compliance is 100%. Managers do not presently have a complete understanding of the reasons for noncompliance.

These matters are considered more fully below.

Management of Deprivation of Liberty Safeguard (DoLS) risks

Since the “Cheshire West” decision the number of applications received by the DoLS Team has increased from fifty-six applications per annum to forty-five per week. We conducted a high level review and established that processes are in place to manage increased numbers of applications effectively through the use of

- the ADASS risk model for assessing applications,
- clearly documented process and custom designed forms, and
- continuous monitoring of the status of applications.

There are a number of areas where processes need improvement:

The adult care workforce have been provided with training relating to the Mental Capacity Act 2005 and the Code of Practice in several formats including e-learning (9modules) via Lincs2Learn from February 2015 to present.

- Completion of the e-learning modules is mandatory but not all staff have completed the modules. Operational Managers should ensure that all of their staff undertake all mandatory training on a timely basis.

- In addition face-to-face courses were offered via Lincolnshire Safeguarding Adults Board – “Mental Capacity Act Awareness” and “Mental Capacity Act Application to Practice” from Sept 2014 to June 2015, but none of the Council’s staff attended any of the sessions.

In October 2013 Adult Care introduced its Quality Practice Standards setting out best practice for assessment and care management activity across 14 key elements of practice, including mental capacity. These were revised in April 2015 to reflect better the Care Act and introduce a 15th standard specifically for Carers. The Quality Practice Audit process was introduced to accompany the standards requiring supervisors and line managers to undertake a continuous programme of reviews of randomly selected cases for each practitioner against the standards, to determine the extent to which the practice standards were evident in their case work and recording.

As well as providing quality assurance for the directorate management team, the quality standards and audit process aims to provide a framework for the examination of practice on an individual and team level, enabling managers to support individual staff with learning and professional development and highlight trends indicating wider learning and development issues to inform workforce and practice development work.

The outcomes of these audits are summarised on a quarterly basis which is shared with the Quality and Safeguarding board and distributed to operational management teams and all teams involved in quality and development activity.

We found that;

- There has been a continued decline in the percentage of audits being completed and returned. There are 3 teams which have over 50% of their audits still to be returned with one of those teams only completing one audit out of 17.

This requires further investigation and addressing by operational management teams.

- An inconsistent approach to audits undertaken has led to cases being wrongly designated as failing to comply with the Mental Capacity Act. We re-performed a sample of practice audits undertaken and concurred with conclusions drawn. Our limited testing, did not identify any instances where cases were wrongly assessed as being compliant.

Management should identify the reasons for inconsistencies and take action to ensure through training to a consistent approach to audits in the future.

- The proportion of cases where Practice Standard 6 has not been met, is in the range of 3% to 6% which managers consider to unacceptably high given the potential risks to the Council associated with failing to comply with legal obligations and the possible impact on vulnerable service users.

Managers need to gain an understanding of the reasons for noncompliance and take necessary action to ensure consistent and full compliance.

We did note areas of good practice during the course of our review. We found that;

- All staff have access to online guidance concerning all aspects of social care including Mental Capacity.
- Since 2013, Adult Social Care has put in place Practice Standards that set out the standards which all practitioners are expected to follow. Practice Standard 6 specifically deals with mental capacity.
- The Quality and Safeguarding board, operational management teams and all teams involved in quality and development activity receive a report produced by the Quality Development Team each quarter which summarises compliance with the practice standards including Practice Standard 6.

We would like to thank the Safeguarding Commissioning Manager, Lead Professional and the DoLS Coordinator for their help in undertaking our work.

Management Response

There have been some delays in the roll out of the relevant training in the Mental Capacity Act across Adult Care.

Adult Care DMT has identified this training as a mandatory requirement for relevant teams and training has now been scheduled to be completed in 2016.

Adult Care have developed a number of practice standards and a programme of audits to monitor and improve practice standards. This process should be recognised as good practice and is not common across all Local Authorities.

The Quality Practice Standards are monitored and reviewed with a focus on continuous improvement and ongoing professional development. The spreadsheet based tool is now being developed to operate online which will provide greater flexibility and consistency in application and help reduce transaction costs across Adult Care.

100% compliance with each practice standard is the ambition of Adult Care but practically there will be some instances where the practice standards have not been fully met. In such instances additional training and support will be provided to teams.

There have been some capacity constraints within Adult Care Management to facilitate the volume of Audits requested by Adult Care DMT. However the process has now been reviewed to allow greater flexibility. The Quality Practice Standard Audits have now also been made a mandatory requirement.

Quality Practice Audits will be monitored and performance managed via supervision and line management arrangements and via the Adult Care Quality and Safeguarding Board,

The recommendations within this Audit are accepted and will be addressed via Adult Care DMT.

Management Actions	No	All to be completed by:
High Priority	4	31/12/2016
Medium Priority	1	31/12/2016

Financial Control Systems Work – Accounts Payable

Background and Context

Agresso was implemented at Lincolnshire County Council in April 2015. Since that time the authority has identified and experienced significant operational and control issues around the Accounts Payable system. More recently information produced has suggested that the system has become more stable with improved performance and reduction in backlogs. However, issues continued to occur and the risk of fraud and error remained high.

Consequently, our role during much of 2015/16 was to provide advice, support and analytical work to assist in error identification and/or system faults. For example, we have been involved in matching and analysing datasets to identify duplicate payments made through the Accounts Payable system.

In quarter 4, Serco and LCC management reported an improved control environment and we commenced this audit review of Accounts Payable with an increased focus on key control and transaction testing to help provide a greater degree of assurance over the financial accuracy of the 2015/16 accounts.

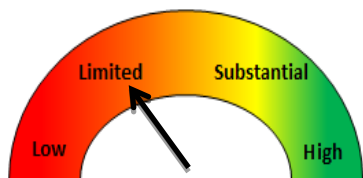
Scope

Our main focus was to provide assurance on the risks associated with the application of key controls and the completeness and accuracy of transactions in the following areas:

- Supplier creation and maintenance
- Exception Reporting
- Payment Runs (including system workflow, purchasing card use, duplicate payments and use of Faster Payments and CHAPS)

As part of this review of the Accounts Payable system we performed the following audit work:

- System documentation / mapping, evaluation and walkthrough
- Key control testing
- Analytical Review – data matching / trend analysis / exceptions
- Substantive testing
- Sample testing of error correction for accuracy / completeness
- Error resolution – review feedback from Schools / LCC Directorates



Limited Assurance

Management Actions	Number	All to be completed by:
High Priority	5	31 December 2016
Medium Priority	4	31 December 2016

Key Messages



The Financial Control Environment (Status Report) produced in September 2015 and subsequently presented to the Audit Committee in September 2015 highlighted significant issues in the system for Accounts Payable since the implementation of Agresso. Particular issues of concern raised included the processing of duplicate payments and the increase in backlogs of tasks leading to delays in payments to suppliers.

This review of key controls around Accounts Payable and the 'direction of travel' of those control issues raised in September 2015 has confirmed significant progress made in the intervening period although there remain some areas of concern – hence, we are only able to give a Limited assurance opinion.

Our review verified that the level of outstanding tasks within the accounts payable workflow have significantly declined in recent months with the result that payments are generally being made more promptly and without the severe delays previously experienced.

The frequency of critical payments using CHAPS and Faster Payment routes i.e. outside of the Accounts Payable system has also fallen (in the case of CHAPS to a 'business as usual' level). The level of duplicate payments being identified has also decreased. These improvements provide positive assurance that progress is being made and the direction of travel is encouraging. It is clear that issues still remain around the process for Accounts Payable, particularly around stakeholder confidence. This view was reinforced by a user feedback survey we carried out as part of this review. The survey identified that 76% of respondents felt the level of service provided

Key Messages



around Accounts Payable had been unsatisfactory. The same survey identified that 63% of respondents ranked the level of improvement as 'poor'. Whilst this type of response was probably to be expected, it is clear that further improvements are required to win back faith in the service offered.

The attached action plan seeks to recommend improvements over the control environment of the Accounts Payable system. Those of most significance are:

Duplicate payments:

Over 1000 duplicate payments (value over £3m) have been identified since Agresso implementation to date. It is recognised that in terms of the total accounts payable activity this amount is not material – around 0.003% of payments affected. However, the issues are significant and action is required to instigate further improvement in this area.

We found that many of the duplicate payments made have been instigated by human error i.e. the actions of suppliers and users. Therefore, a key consideration moving forward has to be the promotion of 'ownership' among users and suppliers to ensure that the impact of not following correct process is fully understood. The development of exception reporting such as a duplicate payment report would also help prevent such payments being made.

The process to identify and recover duplicate payments made is currently 'on hold' due to other year end priorities and therefore recovery action has stalled. Over £392k in confirmed overpayments remains outstanding from enquiries completed to November 2015 and this will rise once the full year's data is reviewed. It will be necessary to decide on an approach of how to pursue these amounts once the exercise resumes.

Accounts Payable Workflow:

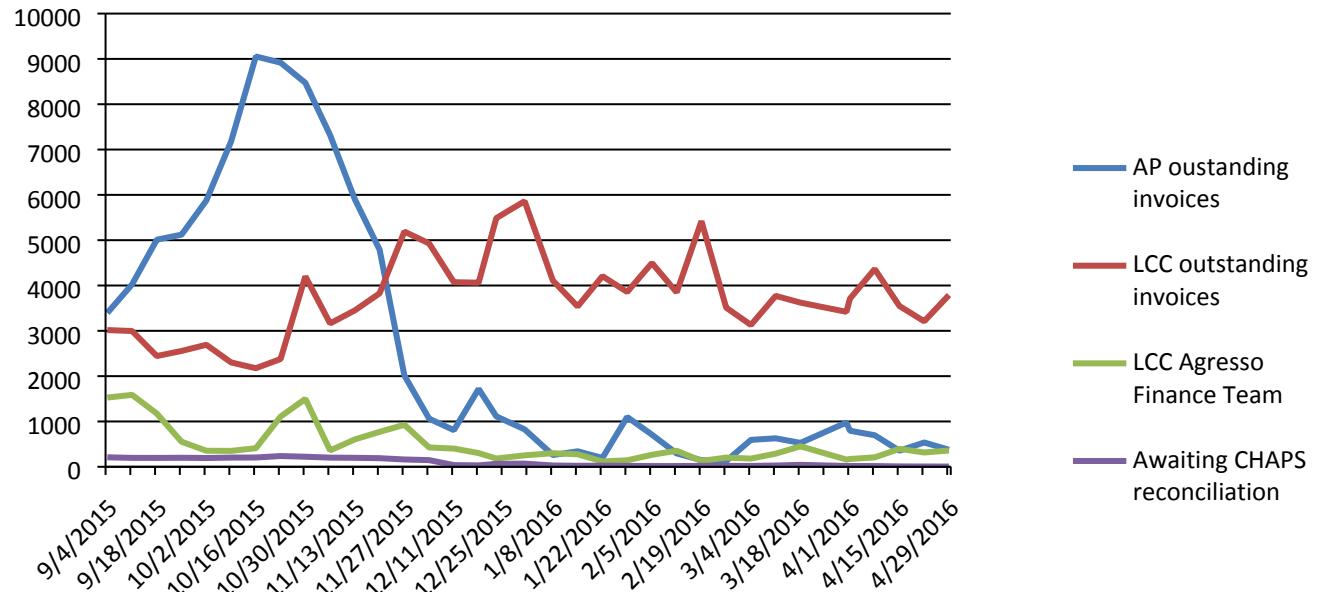
While there has been encouraging progress made in all areas against the backlogs previously identified within the workflow, the results relating to outstanding LCC officer tasks have not shown the levels of improvement noted among Accounts Payable team cases – this is demonstrated in the chart below.

Key Messages



This is inevitable to a certain extent due to the volume of users (requisitioners and budget holders). However, review of supporting statistics provides evidence that necessary action to clear and address tasks is not taken promptly in some cases. As a result, backlogs occur and the consequence is delay in payment made to suppliers.

Outstanding tasks - Accounts Payable workflow



It is clear that the numerous issues experienced with Agresso have affected stakeholder confidence in the system and this has led to a degree of disengagement. It is important that improved communication and training is provided to ensure that faith in the system is restored. This would promote ownership among officers responsible for the smooth progression of payments through the system wherever possible, and would help officers understand the impact of delaying action on tasks. Any education of users should also include the importance of correct processing in preventing errors requiring rectification in the first place.

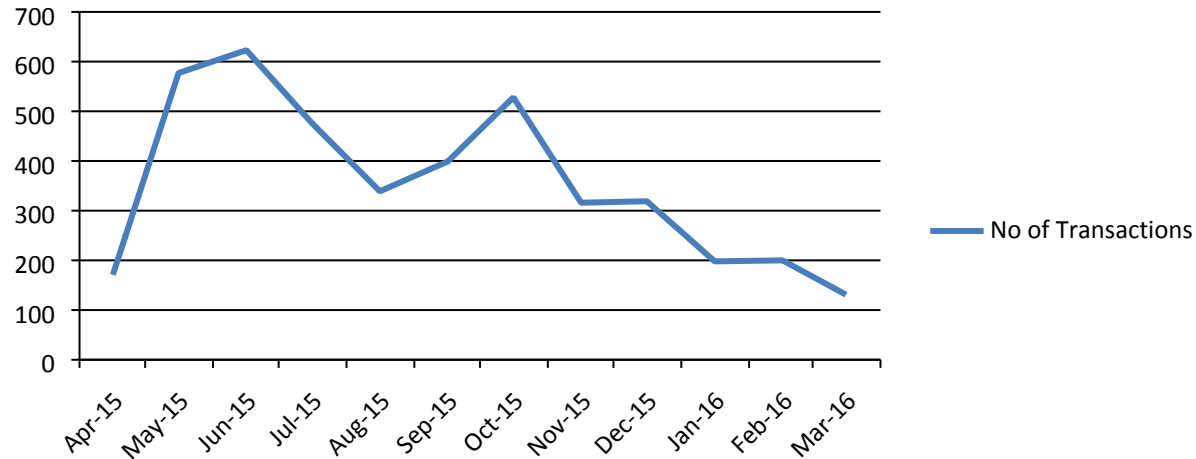
One of the consequences of delayed payments has been the requirement to use the Faster Payment method to ensure 'critical' payments are made. Over 4000 payments have been made via

Key Messages



this 'bolt on' solution. The situation is improving (please see the chart below) – there were less than 200 such payments made in April 2016. However, this is not a sustainable payment option and its use could be reduced through improved payment performance.

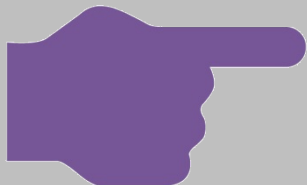
Number of Transactions



System Issues: A feature of the Agresso system since implementation has been the unexplained system anomalies and peculiarities that have required reactive action and 'fixes' to correct them. Examples include payments 'falling off workflow' for no known reason and the recent increase in items in the 'workflow with no step' category. These 'black holes' ultimately cause delays through not allowing the payment to progress through the workflow and in some cases have caused issues such as duplicate payments.

These system issues affect user confidence in the system and supplier confidence in the Council's ability to pay in accordance with payment terms.

Areas of Good Practice



Compliance with key controls: Our sample testing found that key controls within the Accounts Payable system to ensure authorisation and completeness of payments are complied with and generally operating in an effective manner. Particular areas of good practice included the process for payment runs and supplier masterdata.

Fraud Controls: Clearly the control environment since Agresso was implemented has been affected and the risk of fraud and error has increased as a result. The issues around errors on the system (e.g. duplicate payments etc) has been well documented. However, our data analysis and substantive testing aimed at identifying possible fraud has not highlighted any major issues. We have identified a possible conflict of interest between an officer and supplier but our enquiries on that issue are ongoing.

Purchasing card use : In view of the increased risk of fraud we selected an extensive sample of purchasing card items for analysis. No fraudulent transactions were identified and advice to users was only required in a limited number of cases.

Accounts Payable Team : The SERCO team in place includes some experienced officers knowledgeable in accounts payable systems and processes – this has helped limit the impact of some of the payment issues. We understand that the Accounts Payable Team Leader is due to retire in August 2016 so succession planning will be vital in building upon the recent improvements made.

The findings and recommendations included in the Action Plan below are designed to improve and strengthen the control arrangements and effectiveness of the Accounts Payable system.

Management Response

This is a timely and constructive report. Whilst the overall position is not yet acceptable there has been sustained real improvement in the system and related business processes over the past year. The conclusions and related recommendations are accepted in their entirety. Delivery of the agreed actions will result in a return to a 'business as usual' environment later this calendar year. In that regard the planned update to release 4.7 of Agresso combined with continued guidance and education of system users are key activities. Work on improving overall user 'confidence' in the system applies to a far wider range of Agresso functionality and will be dealt with in that context.

This page is intentionally left blank

Regulatory and Other Committee

Open Report on behalf of Tony Hill, Executive Director Public Health Lincolnshire

Report to:	Audit Committee
Date:	18 July 2016
Subject:	Corporate Complaints and Compliments

Summary:

The report is in response to the request from this committee to provide an annual report reviewing the effectiveness of the Council's complaints and compliments process.

It explains that an annual report cannot be provided at this time as a new process of capturing data has been developed in response to the Corporate Complaints Review which took place last year. Lincolnshire County Council Complaints Review was presented to CMB in October 2015 CMB. One of the four objectives of the review was to look at ways to gather better data to improve intelligence and help shape services. To address the recommendations identified in the review a Working Group was set up in February 2016. The group has produced a new Corporate Complaints and Compliments Policy and supporting Procedure (endorsed by CMB in May) and has developed a list of indicators to support data collection and further actions as proposed in this report.

Recommendation(s):

That Audit Committee support the proposed indicators and the follow-on actions required to be undertaken by the Corporate Complaints and Compliments Working Group.

Background

This report is in response to the request from this committee to provide an annual report reviewing the effectiveness of the Council's complaints and compliments process, including how well the Council has dealt with complaints as demonstrated by the Local Government Ombudsman's report.

The 2015 Review of the Council's approach to managing complaints (both statutory & corporate) identified that data quality is a problem due to service areas dealing with complaints and compliments locally rather than logging them centrally. It also

questioned whether customer intelligence was being used effectively to shape and improve services through reporting and discussion within service areas.

A Corporate Complaints and Compliments Working Group was set up in February 2010 to address all the recommendations made as part of the review and a new Corporate Complaints and Compliments Policy and supporting Corporate Complaints and Compliments Procedure was approved by CMB in May of this year.

The review recommendations in relation to data collection and audit were:

All complaints to be held on one IT system	<ul style="list-style-type: none"> • To allow staff to view a record of all customer feedback • To facilitate enforcement of single points of contact in certain cases • To facilitate better reporting
Workflow to be revisited rather than simply lifted from IMP	<ul style="list-style-type: none"> • To ensure the process is fit for purpose
Quarterly feedback reports to be sent to Directors – including detail of where fault has been found, trends etc.	To ensure good data is available to Directors
Customer feedback to be included as a standing item at DMTs	To ensure learning is fed back into the area, and customer intelligence is used effectively in service planning
Quarterly complaints reports to be sent to CMB	To ensure learning is shared across the organisation To assist CMB in their strategic leadership of the system

The working group discussed the above recommendations and identified that, in order to ensure information is used effectively to improve services, the following indicators be proposed for the revised system and actions be taken forward:

1. Total number of cases
2. Percentage of complaints acknowledged within one working day
3. Percentage of responses given within agreed timescale (both LCC and Serco responsibility as not all complaint responses go through Serco)
4. Total number of repeat (same issue) complaints - discussions currently taking place between LCC and Serco around responsibility of putting together thematic trend analysis.
5. Total number of cases closed within 10 working days
 - Total number of closed cases Upheld (stating reason)
 - Total number of closed cases Partially Upheld (stating reason)
 - Total number of closed cases Not Upheld (stating reason)
6. Total number of cases resolved and closed within agreed timescale

- Total number of cases resolved and closed at Stage 1
 - Total number of cases resolved and closed at Stage 2
7. Total number of unresolved open cases outside timescale
 - Total number of unresolved open cases at Stage 1(stating reason)
 - Total number of unresolved open cases at Stage 2 (stating reason)
 8. Total number of cases referred (eg Local Government Ombudsman) – we will not always be aware when this happens so, this may be difficult to capture
 9. Main issue complained about in cases closed
 10. Main issue complained about in cases open
 11. Percentage of feedback/lessons learned documentation completed

Actions to be taken forward by the Corporate Complaints & Compliments Working group:

- To develop and agree a centrally maintained tracking system and process to ensure consistent capture and analysis of data (including identification of themes within and across service areas) on complaints and compliments
- To agree roles and responsibilities for service areas and Serco, in the provision and collation of data as listed above (to include whether CSC data reports go to service area for them to say what changes they have made ahead of presentation to Scrutiny or CMB)
- To agree process for presenting a quarterly complaints & compliments report (including suggested improvements) to DMTs and for DMTs to clearly identify and relay actions resulting from discussion on report to service areas
- To agree process for presenting a quarterly complaints & compliments report to CMB identifying service area themes and corporate themes, lessons learned and improvements made
- To consider the formation of a joint working group (service areas and Serco) that would meet on a quarterly basis to look at sample of complaints and track lessons learned

Quality Assurance

Quality Assurance across various CSC services is undertaken against the CSC Specification; this will include sampling complaint acknowledgements and responses issued by the CSC. The quarterly working group would also undertake quality assurance of complaint responses (including complainant satisfaction) from LCC and the effectiveness of the process.

Conclusion

There is still work to be undertaken to take the proposed indicators forward and to develop the process. Advice and suggestions from Audit Committee can be presented to the Working Group to include as part of their next stage discussions.

Consultation

a) Policy Proofing Actions Required

An Equality Impact Assessment (EIA) was presented to CMB, with the new Corporate Complaints and Compliments Policy and its supporting Corporate Complaints and Compliments Procedure. The EIA is a living document that is being revised as supporting documents, for example, leaflets are being developed.

Background Papers

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

Document title	Where the document can be viewed
Lincolnshire County Council Complaints Review (confidential)	

This report was written by Bev Finnegan, who can be contacted on 01522 550516 or bev.finnegan@lincolnshire.gov.uk.

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Community Safety

Report to:	Audit Committee
Date:	18 July 2016
Subject:	Work Plan

Summary:

This report provides the Committee with information relevant to the core assurance activities currently scheduled for the 2016/17 work plan.

Recommendation(s):

1. Review and amend the Audit Committee's work plan ensuring it contains the assurances necessary to approve the Annual Governance Statement 2016.
2. Review the outstanding actions designed to improve the effectiveness of the Committee.

Background

- 1 The work plan has been pulled together based on the core assurance activities of the Committee as set out in its terms of reference and best practice (see Appendix A – work plan to March 2017).
- 2 It has been identified that the members of the Audit Committee would benefit from a Lincolnshire Counter Fraud Partnership awareness session and this will take place at this meeting of the Committee.
- 2 Appendix B shows the Committee's action plan – which helps keep track of actions agreed during meetings. Last year a number of areas for consideration were identified:-
 - Reviewing and encouraging transparency in partnership decision making
 - Understanding and seeking assurance over the governance and risks associated with our key partners

- Facilitating risk management training and awareness for members and staff. To clarify the understanding of the level of risk which the Council is prepared to accept across its key activities/business units
- Overview of the Constitution
- Compliance with the Transparency Code.

Does the Committee still want to seek assurance around these areas?

Conclusion

The work plan helps the Committee ensure that the Committee effectively delivers its terms of reference and keep track of areas where it requires further work and/or assurance.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Work Plan to March 2017
Appendix B	Audit Committee Action Plan 2016/17

Background Papers

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

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

Audit Committee Work Plan – 2016/17		
18 th July 2016	Assurances Required/Being Sought	Relevancy – Terms of Reference
Lincolnshire Counter Fraud Partnership – awareness session.	Propose session starts at 10 with meeting commencing at 10.30	
Core Business		
Review of Head of Internal Audit's Annual Report and Opinion 2016	Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why.	<p>To consider reports dealing with the management and performance of internal audit.</p> <p>To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.</p> <p>To oversee the production of the Council's Annual Governance Statement and to recommend its adoption.</p> <p>To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice</p>
Scrutiny of the Council's Financial Statements 2015/16 (with specialist support/advisor)	<p>By asking questions (supported by independent advisor), confirm the integrity of the Council's financial statements prior to audit/publication.</p> <p>Improving how the Council discharges its responsibilities for public reporting e.g. better targeting at the audience and plain English.</p>	<p>To review the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p> <p>Duty to approve the authority's statement of accounts, income and expenditure and balance sheet.</p>

Audit Committee Work Plan – 2016/17

<p>Review of the Council's Governance and Assurance arrangements and the Draft Annual Governance Statement 2016</p>	<p>Confirm that the Annual Governance Statement reflects the Committee's understanding of how the Council is run and that any significant governance issues / risks have been identified / published.</p> <p>Constructively challenge the information and evidence being presented.</p> <p>Ensuring value for money assurance arrangements are reported on and assessing how this features in the Annual Governance Statement.</p> <p>Improving how the Council discharges its responsibilities for public reporting e.g. better targeting at the audience and plain English</p>	<p>To oversee the production of the Council's Annual Governance Statement and to recommend its adoption</p> <p>To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice</p>
<p>Annual Report reviewing the effectiveness of the Council's complaints and compliments process, including how well the Council has dealt with complaints as demonstrated by the Local Government Ombudsman's Report.</p>	<p>That the Council's process and procedures for dealing with complaints and compliments is effective.</p>	<p>Whether the council is compliant with its own and other published standards and controls.</p>
<p>Approval of Counter Fraud Annual Report 2015/16 reviewing the delivery of the Counter Fraud Work Plan.</p>	<p>On the overall effectiveness of the Authority's arrangements to counter fraud and corruption.</p>	<p>Monitoring Council policies on the confidential reporting code, anti-fraud and anti-corruption policy.</p>
<p>Internal Audit Progress Report</p>	<p>Understand the level of assurances being given as a result of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets</p>	<p>To consider reports dealing with the management and performance of internal audit</p> <p>To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale</p>

Audit Committee Work Plan – 2016/17		
26 th September 2016	21 st November 2016	30 January 2017
Core Business	Core Business	Core Business
Internal Audit Progress Report	Outcome of the Internal Audit External Assessment	Internal Audit Progress Report
External Audit Governance Report on the Audit of the Council's Financial Statements and their assessment of the Council's arrangements to secure Value for Money in its use of resources	Whistleblowing Annual Report	External Audit Progress Report and Plan
Approval of the Council's Statement of Accounts for 2015/16	Risk Management Progress Report	
Approval of the Council's Annual Governance Statement 2016	Counter Fraud Progress Report	
Other Assurance	Other Assurance	Other Assurance
		Combined Assurance Status Reports
27 March 2017		
Core Business		
Internal Audit Progress Report		
External Audit Progress Report and Plan		
Draft Internal Audit Plan 2017/18		
Draft Counter Fraud Plan 2017/18		
International Audit Standards on the risks associated with the impact of potential fraud and error on the Financial Statements		
External Audit Plan		
External Audit Grant Certification Report		

Audit Committee Action Plan – 2016/17

Action	Terms of Reference Outcome	Key Delivery Activities	Who by and When
1. Clarify who should attend the Audit Committee and expectations on the information being presented.	Ensure that relevant and focussed reports are presented. Provide more certainty that assurance is relevant and reliable Promote constructive challenge during meetings Strengthen accountability arrangements and the effectiveness of the Audit Committee	Develop reporting protocol	Audit and Risk Manager 30 th June 2016 Revised date: 30 th September 2016
2. Develop Action plan following self assessment workshop considering the following:	Improve effectiveness of the committee	<ul style="list-style-type: none"> • Work with Councillor Development Group to develop a person spec with key attributes for people on an Audit Committee • Recruit an additional 'independent' member • Review the meeting cycle and agenda content with Democratic Services and the Chairman • Deliver risk management training and awareness for members and staff. • Ensure that there is a private meeting with External 	Audit and Risk Manager 30 th September 2016

		<p>Auditor at least once a year.</p> <ul style="list-style-type: none"> • End of meeting debrief / lunch • Briefing / update on key risks between meetings • Arrange informal meeting with CMB 	
<p>3. A number of areas for consideration regarding the work plan were identified last year, namely:-</p> <ul style="list-style-type: none"> • Reviewing and encouraging transparency in partnership decision making. • Understand and seek assurance over the governance and risks associated with our key partners. • Overview of the constitution • Compliance with the Transparency Code 			

This page is intentionally left blank

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director Finance and Community Safety

Report to:	Audit Committee
Date:	18 July 2016
Subject:	Draft Statement of Accounts 2015/16

Summary:

The draft Statement of Accounts for Lincolnshire County Council for the financial year 2015/16 is attached to this report (APPENDIX A). Members of the Audit Committee are asked to scrutinise and comment on the draft Statement of Accounts. The final Statement of Accounts for 2015/16 will be presented to the Audit Committee in Spetember for approval.

Recommendation(s):

Members of the Audit Committee are asked to scrutinise and comment on the draft Statement of Accounts, within the framework set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and other statutory guidance.

Background

1.1 The County Council prepares its annual Statement of Accounts in line with the proper accounting practices required by section 21(2) of the Local Government Act 2003 and set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice (SeRCoP).

1.2 In addition to this guidance the County Council's accounts are prepared using the accounting policies set out at note one on pages 18 to 37 of the accounts. The accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are reflected in the Statement of Accounts. These policies are reviewed annually to ensure they remain current and were reported to this committee at its meeting on 21 March 2016.

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

Members of the Audit Committee are asked to scrutinise and comment on the Statement of Accounts.

1.4 Councillors may wish to initially focus on the Review of Financial Performance in 2015/16 on pages 3 to 11. This attempts to provide a straight forward overview of the Council's financial health and performance and highlights the significant areas of financial activity during the year.

1.5 Councillors should note that separate reporting takes place on expenditure incurred over 2015/16 relative to the approved budget. This review of financial performance will be considered by Overview and Scrutiny Management on 28 July and presented to Executive on 6 September. Recommendations arising in terms of the treatment and use of over and underspendings will be considered by full Council on 16 September.

Conclusion

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

2.2 The statements are subject to external audit and the Council's External Auditor (KPMG) will give an opinion on whether the accounts give a 'true and fair' view. The results of the external audit will be reported back to the Audit Committee in September. The Audit Committee will then be asked to approve the final Statement of Accounts for 2015/16.

2.3 The accounts and supporting information are available for inspection by the public during the period 1 July 2016 to 11 August 2016 inclusive.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Statement of Accounts 2015/16

Background Papers

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

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

Lincolnshire County Council
Statement of Accounts 2015-16

Note	Contents:	Page
Narrative Report		
	Introduction to the Accounts	3
	Review of 2015-16	5
	Statement of Responsibilities for the Statement of Accounts	12
Financial Statements		
	Movement in Reserves Statement	13
	Comprehensive Income and Expenditure Statement	15
	Balance Sheet	16
	Cash Flow Statement	17
Notes to the Financial Statements		
Note 1	Statement of Accounting Policies	18
Note 2	Accounting Standards that have been issued but have not yet been adopted	38
Note 3	Critical Judgements in Applying Accounting Policies	39
Note 4	Assumptions Made about the Future and Other Major Sources of Estimation and Uncertainty	40
Note 5	Exceptional Items	41
Note 6	Material Items of Income and Expenditure	41
Note 7	Events After the Balance Sheet Date	41
Note 8	Adjustments between Accounting Basis and Funding Basis under Regulations	42
Note 9	Transfers to/from Earmarked Reserves	44
Note 10	Other Operating Expenditure	46
Note 11	Financing and Investment Income and Expenditure	46
Note 12	Taxation and Non-Specific Grant Income	46
Note 13	Property, Plant and Equipment	47
Note 14	Heritage Assets	51
Note 15	Investment Properties	53
Note 16	Intangible Assets	55
Note 17	Financial Instruments and Nature and Extent of Risks Arising from Financial Instruments	57
Note 18	Inventories	63
Note 19	Debtors	63
Note 20	Assets Held for Sale	64
Note 21	Creditors	64
Note 22	Provisions	65
Note 23	Other Long Term Liabilities	67
Note 24	Usable Reserves	67
Note 25	Unusable Reserves	67
Note 26	Operating Activities	72
Note 27	Investing Activities	73
Note 28	Financing Activities	73
Note 29	Amounts Reported for Resource Allocation Decisions (Segmental Reporting)	74
Note 30	Acquired and Discontinued Operations	80
Note 31	Agency Services	80
Note 32	Pooled Budgets	81
Note 33	Members' Allowances	84
Note 34	Officers' Remuneration	84
Note 35	Exit Packages	86
Note 36	Termination Benefits	86
Note 37	External Audit Costs	86
Note 38	Dedicated Schools Grant	87
Note 39	Grant Income	88
Note 40	Related Parties	90
Note 41	Capital Expenditure and Capital Financing	91
Note 42	Leases	92
Note 43	Private Finance Initiatives (PFI) and Similar Contracts	94
Note 44	Pension Schemes Accounted for as Defined Contribution Schemes	96
Note 45	Defined Benefit Pension Schemes	97
Note 46	Contingent Liabilities	106
Note 47	Contingent Assets	106

Lincolnshire County Council Pension Fund	107
(including the Pension fund account, net assets statement (balance sheet) and notes).	
Lincolnshire Fire and Rescue Pension Fund	135
(including the Pension fund account, net assets statement (balance sheet) and notes).	
Audit Opinion	138
Annual Governance Statement	139
Appendix A - Officer Remuneration split between staff employed in schools and all other parts of the Council.	149
Glossary of Terms	151

Statement of Accounts 2015-16

Explanatory Foreword

Introduction to the Accounts

The Statement of Accounts for the year 2015-16 is set out on pages 13 to 17.

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

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

Content

The Explanatory Foreword

This provides a general introduction to the Accounts, focusing on explaining the more significant features of the Council's financial activities during the period 1 April 2015 to 31 March 2016. It is based on the information contained in the Statement of Accounts and the Council's Financial Performance Report for 2015-16.

Movement in Reserves Statement for the period 1 April 2015 to 31 March 2016

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement for the period 1 April 2015 to 31 March 2016

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet as at 31 March 2016

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement for the period 1 April 2015 to 31 March 2016

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

Notes to the Accounts

These comprise of a summary of significant accounting policies, further information and detail of entries in the prime Statements above and other explanatory information.

The Statement of Responsibilities for the Statement of Accounts

This details the financial responsibilities of the Council, the Chairman of the Council and the Executive Director - Finance & Public Protection.

The Governance Statement

This identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for.

Audit Opinion

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

The Lincolnshire Pension Fund Account

This shows the operation of the Lincolnshire Pension Fund run by the Council for its own employees and employees of the seven District, City and Borough Councils in Lincolnshire along with other scheduled and admitted bodies.

The Lincolnshire Fire and Rescue Pension Fund Account

This shows the operation of the Lincolnshire Fire and Rescue Pension Fund run by the Council for its own Fire-fighter employees.

A review of performance in 2015-16 by the Executive Director - Finance and Public Protection

Review of the Year

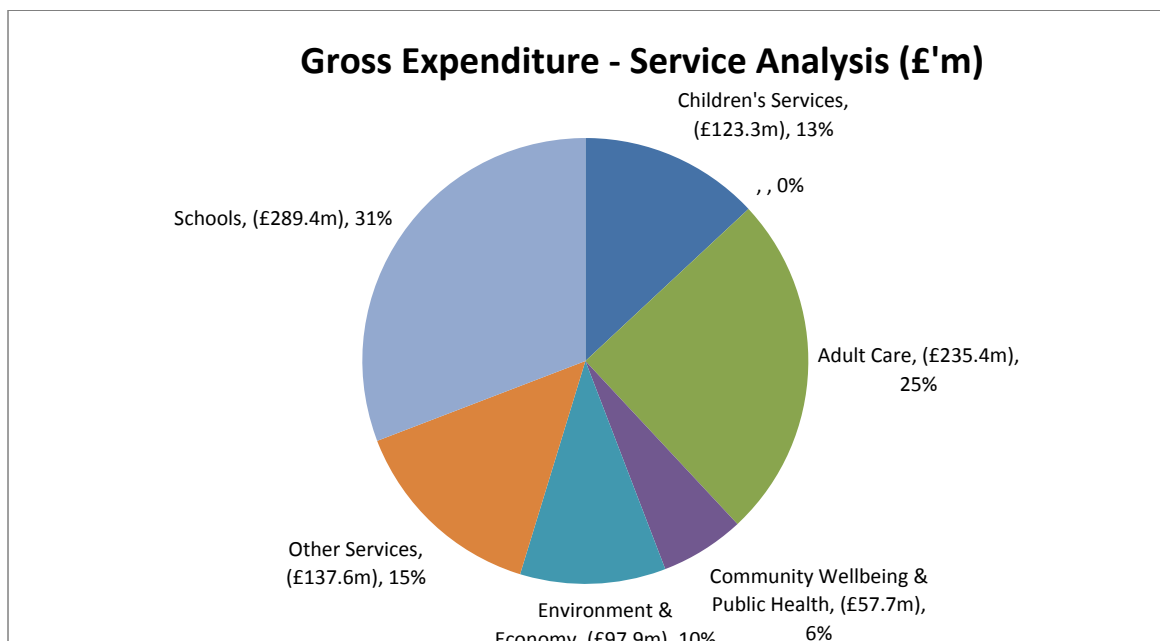
The County Council set its spending plans for 2015-16 against a backdrop continued uncertainty in local government funding brought about by a general election in May 2015 and the promise of a new Comprehensive Spending Review which would affect local government funding to the end of the decade. In developing the financial plan for 2015-16, the Council has undertaken a fundamental review of priorities and related budgets to identify how to close the gap between current spending levels and the amount of funding available to local government going forward. The Council plan was a mixed approach to match spending to current levels of government funding. This included delivering savings identified through the fundamental budget review plus the one off use of reserves and a 1.90% increase in Council Tax.

In particular the Council continues to seek improved value for money by achieving savings through improved efficiency wherever possible. This approach is underpinned by a planned programme of major improvement, efficiency and transformation projects derived directly from key strategies such as the commissioning council model. As part of this process the Council seeks to identify and assess appropriate opportunities to engage in partnership/shared services initiatives with other partners in the public, private and voluntary sectors, where this will result in tangible efficiency savings. This approach has produced savings in areas such as the introduction of a new financial system.

Annual Revenue Spending

The Council spent £941.36m on 2015-16 in providing public services – £1,290.68 for every person in Lincolnshire.

The Council's annual spending on providing public services are set out in the charts below and show how this was used both by type of service provided and by type of expenditure.



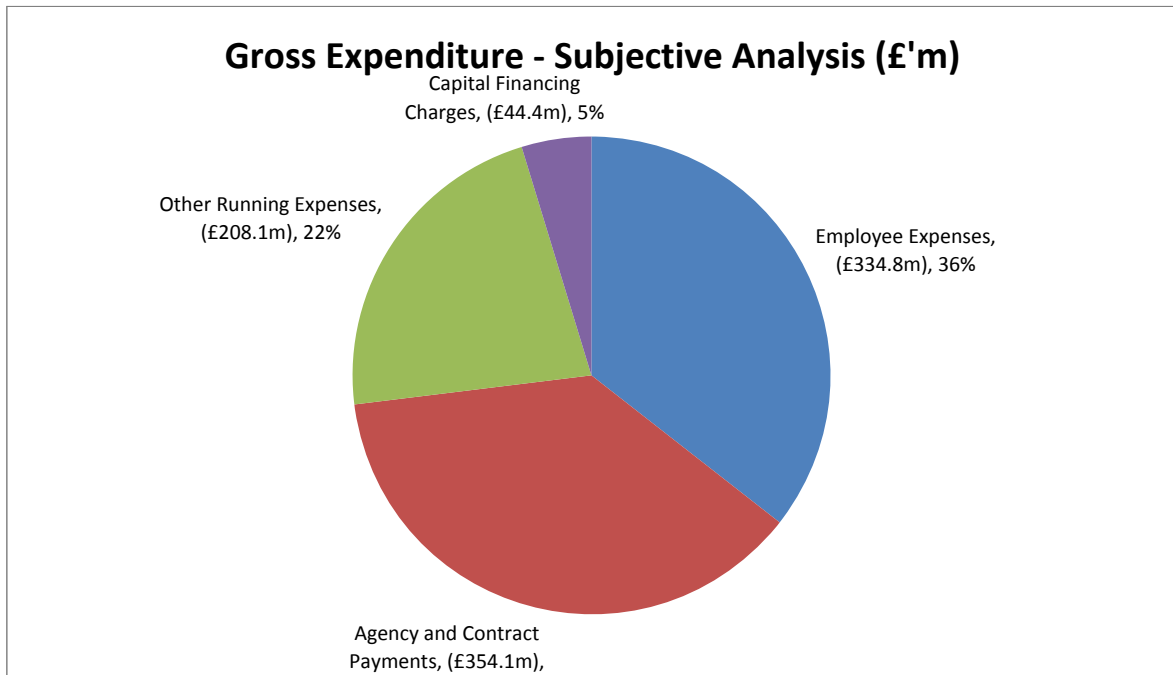
Children's Services Includes: Readiness for School, Learn and Achieve, Children are Safe & Healthy and Readiness for Adult Life.

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

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

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

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

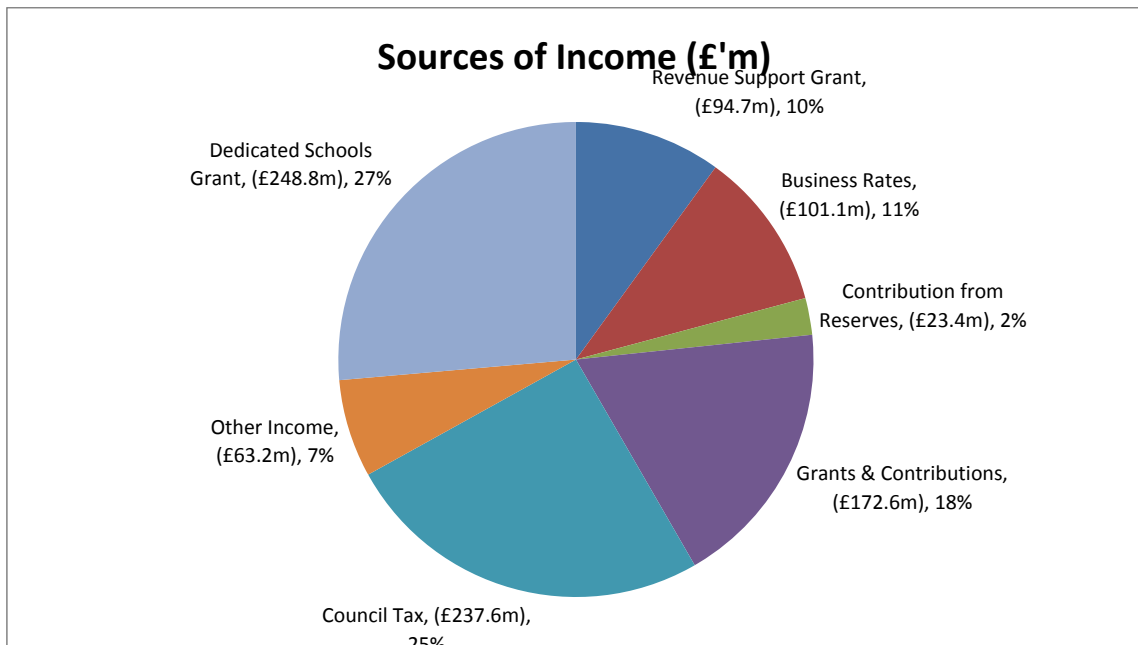


The distribution of expenditure by type differs significantly between different services. For example, salaries and wages comprises 62% of expenditure for schools. For services other than schools, salaries and wages comprises 24% of expenditure and contract payments comprises 38% of total expenditure. These differences reflect how Council services are provided.

Note 29 Amounts Reported for Resource Allocation Decisions provides further details on spending and the services which are provided to the public (page 74).

Annual income

The Council's revenue spending was funded by:



The Council's main sources of general funding come from Revenue Support Grant (RSG) and Business Rates (part of which is retained from business rates collected in Lincolnshire and part from central government as a 'top up' to the element collected locally). Funding from RSG received in 2015/16, on a like for like basis showed a reduction of £32.661m or 25.65% from the grant received in 2014/15. Business Rates showed a small growth of £1.600m or 1.57%.

In addition to RSG the Council also receives specific government grants. The most significant of these was £248.8m of Dedicated Schools Grant which is used for funding education in Lincolnshire

In 2015/16 the Council increased Council Tax by 1.90% and also saw growth of 1.85% on the number of band D equivalent properties in Lincolnshire which generated an additional £6.945m. The Council Tax element of the collection funds in Lincolnshire also generated a further £4.254m for the County Council.

The revenue outturn for 2015-16 is summarised below:

- Total service revenue spending, excluding schools, was under spent by £11.060m or 2.6%.
- Schools were underspent by £16.919m or 6.4% of the gross schools budget.
- There was an underspend of £11.884m on other budgets, mainly reflecting a large underspend on capital financing charges during the year.
- The Council received £2.789m less general funding income than was included in the budget.
- This give the Council an overall underspend of £37.074m.

The table below shows the outturn of expenditure in 2015-16 compared with the budgets approved by the Council.

	Revised Net Revenue Budget £'000	Expenditure £'000	Under or Over Spending £'000	Percentage Under or Over Spent %
COMMISSIONING STRATEGIES				
Readiness for School	8,287	7,730	(557)	-6.72%
Learn & Achieve	35,658	35,764	106	0.30%
Readiness for Adult Life	6,452	5,634	(818)	-12.68%
Children are Safe and Healthy	54,072	54,472	400	0.74%
Adult Safeguarding	3,020	3,009	(11)	-0.36%
Adult Frailty & Long Term Conditions	96,272	95,853	(419)	-0.44%
Carers	1,673	1,538	(135)	-8.07%
Adult Specialities	45,836	44,941	(895)	-1.95%
Community Resilience & Assets	13,598	13,941	343	2.52%
Wellbeing	37,072	35,932	(1,140)	-3.08%
Sustaining & Developing Prosperity Through Infrastructure	60,677	57,040	(3,637)	-5.99%
Protecting & Sustaining the Environment	22,465	23,610	1,145	5.10%
Sustaining & Growing Business & the Economy	1,884	1,206	(678)	-35.99%
Protecting The Public	24,980	24,712	(268)	-1.07%
How We Do Our Business	8,455	8,235	(220)	-2.60%
Enablers & Support To Council's Outcomes	39,415	35,139	(4,276)	-10.85%
Public Health Grant Income	(30,723)	(30,723)	0	0.00%
TOTAL COMMISSIONING STRATEGIES	429,093	418,033	(11,060)	-2.58%
Other Budgets	68,827	56,943	(11,884)	-17.27%
Schools Budgets (Other Funding)	18,155	1,236	(16,919)	-93.19%
TOTAL EXPENDITURE	516,075	476,212	(39,863)	-7.72%
TOTAL INCOME	(455,626)	(452,837)	2,789	-0.61%
TOTAL USE OF RESERVES	(60,450)	(23,375)	(37,074)	61.33%

Significant variances include:

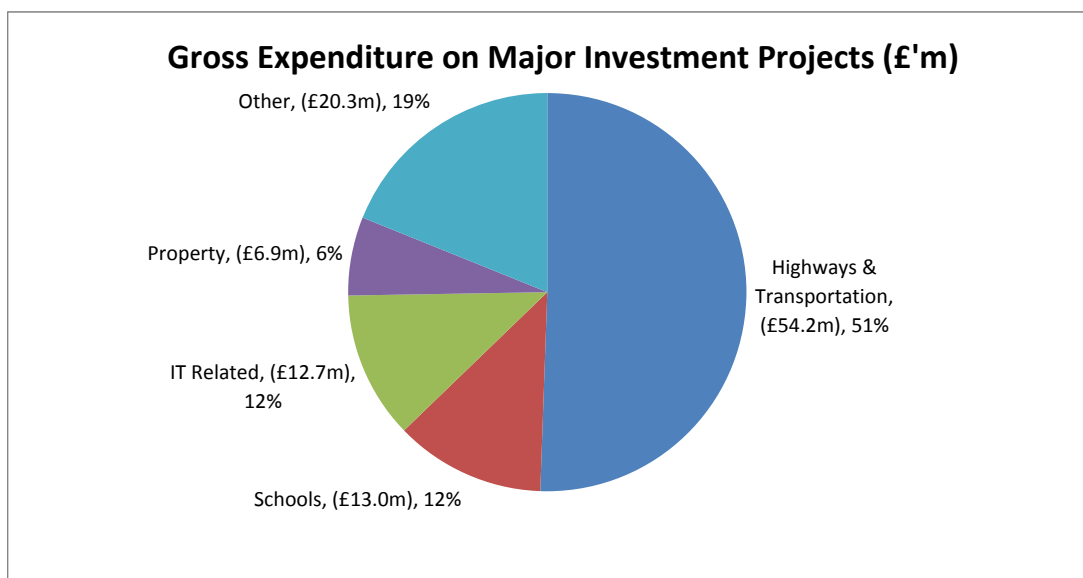
- Wellbeing (£1.140m underspend) The main element of this relates to the redesign and procurement of the Wellbeing and Housing Related Support activities planned savings being brought forward;
- Sustaining and Developing Prosperity Through Infrastructure (£3.637m underspend). This was due to a number of factors, including: a high level of staff vacancies the Environment and Economy Service which have been maintained to assist with meeting future budget reductions; additional income generated by the Heritage Service of £0.809: reduced winter maintenance costs due to the mild winter of £0.751m, and general caution in committing expenditure given anticipated overspends elsewhere coupled with difficulty in accessing reliable financial information;
- Protecting and Sustaining the Environment (£1.145m overspend). This relates to waste management and waste disposal and unavoidable increases in prices and volumes relating to these activities;
- Enablers and Support to Council Outcomes (£4.276m underspend). This was due to a number of factors, including: service credits for underperformance on the Support Service Contract (£1.205m), the Council vacating buildings earlier than anticipated (£0.494m), additional rental income (£0.415m), vacancy savings held by the Property Services contractor which are passed on to the Council, vacancy savings and better use of existing resources by Business Support (£0.604m) and a surplus on income for Legal Services (£0.538m);
- Other Budgets (£11.884m underspend). Capital financing charges were underspent by £8.107m due to the use of internal borrowing and slippage in the capital programme. Additionally, at the end of the year £3.038m of the Council's contingency remained unused.
- Schools Budgets (£16.919m underspend). Schools budgets are ring-fenced and carried into the next financial year for schools.

Further information on revenue budget spending and outturns can be found in the Review of Financial Performance 2015-16, which is available on the Council's website.

Investment in major projects

The Council spent £107.105m on the County's assets, in particular on roads and schools. The net capital spend was £42.701m and there was an underspending of £52.045m or 54.9%. Explanations of the variances can be found in the Council's Review of Financial Performance Report for 2015-16.

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



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

In 2015-16 expenditure was incurred on the following schemes:

- Maintenance of roads, bridges, safety fencing, street lighting, signs and lines, and traffic signals;
- Integrated Transport Schemes across the Council including: minor capital improvements, rights of way, road safety, public transport and town/village enhancements;
- Construction of two new road schemes, one in Lincoln and another in Grantham;
- The Broadband Programme which is installing high speed internet infrastructure in communities and businesses, particularly in rural areas; and
- Programme of modernisation to meet the statutory responsibility for provision of educational places and a programme to improve the condition of school buildings.

The Council has received grants from central government and other bodies (£77.9m) to fund: maintenance work on roads, the Council's programme of modernisation and improvement of condition of school buildings and provision of education places. £21.1m of funding for the capital programme came from temporary internal and external borrowing, £5.3m from revenue funding and use of earmarked reserves and £2.8m from capital receipts.

The Council sets itself a limit on its total borrowing to ensure that it remains prudent and affordable. The Council's target is to ensure that annual minimum revenue provision (MRP) plus interest are no more than 10.0% of the Council's annual income. The figure for 2015-16 was 5.75%. MRP is the amount required to be set aside as a provision for debt repayment, and in accordance with Regulation, this amount should be prudent to ensure debt is repaid over a period reasonably commensurate with the period over which the capital expenditure funded by borrowing provides benefits. The Council's current policy is to apply the average life method to calculate the MRP and use the MRP in full to repay debt annually.

Financial health and performance

The Council's revenue budget remains under pressure from reduced funding and service cost pressures. For 2015-16 and again in 2016-17 the Council has only set a one year budget, rather than the normal three year plans. This was due to the uncertainty associated with local government funding in the medium to long term and the continuation of growing costs pressures.

In developing the financial plan for 2016-17, the Council has considered all areas of current spending, levels of income and council tax plus use of one off funding to set a balanced budget. The Council plans to use a mixed approach, funding unavoidable cost pressures and reducing service spending where savings were identified. The Council has also set a Council Tax increase in 2016-17 of 3.95%, 1.95% plus a further 2.00% for Adult Care responsibilities (including demographic pressure and the impact of the national living wage) and using £20.965m from reserves (£20.165m from the Financial Volatility Reserve and £0.800m which can be released from the general fund).

The Council also maintains a general reserve as a contingency against unexpected events or emergencies. The Council sets itself a target, based on a financial risk assessment, of maintaining these reserves within a range of 2.5% to 3.5% of its total budget. The Council's general reserves at 31 March 2016, as proposed in this report, would be £15.600m or 3.5% of the Council's total budget.

In addition to the general reserve and Financial Volatility Reserve the Council maintains a number of other reserves earmarked for specific purposes (details of these are set out in Note 9)

The mixed approach to meeting the current financial challenges will ensure the Council can withstand the immediate pressures in local government funding, whilst implementing the arrangements for delivering services at the reduced level of government funding.

Cash Flow

The major influences on the authority's cash position are the level of reserves held and the impact of the capital programme. The Council holds net current assets of £148.5m (£137.2m at 31 March 2015). Although the Council holds a negative cash balance of £14.842m at 31 March 2016, this is covered by short term investments and the overall situation is managed as part of the pooling arrangements with the County Pension Fund. The net current assets are primarily generated by the level of reserves held by the council.

The Council has a long history of producing balanced budgets over time as evidenced by the level of usable reserves held. The most significant challenge to this position is the Government's plan for fiscal consolidation which will result in reduced Government Grant funding in future years. In meeting this challenge the Council's budget for 2016-17 plans for £0.800m use of General Reserves which stood at £15.6m at 31 March 2016.

The Council's decisions on capital are taken in the light of the impact on the revenue budget and corresponding borrowing limits. The impact of the capital programme on cash flow is therefore minimised by the use of borrowing, however, the authority does make use of its available net current asset position by avoiding external borrowing where appropriate. Historic use of such "internal borrowing" is primarily reflected in the difference between usable reserve and net current assets. The planned Capital Programme spend of £194.8m in 2016-17 is partly financed by Government Grants and contributions of £108.4m. Any future reductions in the availability of this funding will therefore restrict the Council's ability to undertake new large scale projects

Non Financial Performance Indicators

In 2015 the Council published a Business Plan for the period 2015-16 to make sure services are delivered that meet priorities for the people of Lincolnshire. The Business Plan includes a range of measures and a number of related targets, that will help indicate whether the Council is on track to meet the outcomes in its commissioning strategies. Of the 16 commissioning strategies reported for 2015-16, 11 have performed really well; there is mixed performance in 3; and 2 have not performed as well as expected.

Like all large and complex organisations, the Council has 'risks' that could prevent us from achieving our aims. The Council monitors these strategic risks on an on-going basis as part of our risk management approach which also looks at opportunities that may arise.

Over the period of 2015-16, there were a number of risks identified of which recruitment and retention was deemed the highest risk on the strategic risk register. In addition to this, the replacement of the existing financial system was noted as a new risk and monitored accordingly.

The Council also prepares an Annual Report. The Annual Report brings together our vision, achievements and accounts. It not only highlights some real achievements for the past year in the services we provide to residents but also summaries how we spent our annual budget.

Economic Climate and future revenue and capital budgets and future financing

The finance settlement from government places additional funding pressures on the County Council when compared to 2015-16 - revenue support grant reduces by £32.661m (25.65%) between two years. Current indications are that further significant reductions in revenue support grant will continue until at least the end of decade. The precise details will only emerge in the Autumn following the next comprehensive spending review which is expected to be undertaken during the Summer 2015 following general election. In preparation for further funding reductions; the Council has undertaken review of its service priorities and related budgets.

This has already identified significant savings over the next four years, but more needs to be done in the coming year to ensure the Council can optimise its services within the available funding. In the short term, extensive use of earmarked reserves will be made to smooth the transition to a new service delivery model. Close monitoring of the delivery of savings will be undertaken and, if necessary, corrective action will be initiated to examine alternative options should this be necessary. The delivery of the detailed schedule of planned savings will be monitored and reported regularly to senior management teams and to Executive Councillors as part of the formal, published reports.

Future Significant Developments

Fiscal Consolidation - The Government plans to eliminate the country's annual budget deficit by 2019-20 and run at a surplus thereafter, while protecting areas of spend such as Education the NHS and pensions. This consolidation is likely to result in significant reductions in funding for local government.

Retention of Business Rates - The Government is planning to remove Revenue Support Grant by 2020 and allow authorities to fully retain local business rates. While this will bring opportunities to receive the benefit of any increased tax base, there will also be additional risks which may require the Council to review the level of reserves held.

Local Devolution - In partnership with other local authorities the Council has agreed a deal to devolve additional responsibilities and funding to a Greater Lincolnshire Combined Authority. The Council will be a major partner in the Combined Authority which will improve the Council's ability to plan ahead for some of the strategic services it provides.

Conversion of Schools into Academies - The Government is aspiring to convert all schools under local authority control to academy status over time. As and when local schools convert to academy status this will reduce the value of the assets held on the Council's balance sheet, as well as the gross income and expenditure in relation to the schools involved.

Change in Accounting Policy for Highways Network Assets for 2016-17 - Currently the Council records the value of its highways network assets at historic cost in its Balance Sheet. From 2016-17 the Code of Practice on Local Authority Accounting in the United Kingdom will require the Council to change its accounting policy with regard to these assets and record them on a depreciated replacement cost basis. It is estimated that this change will increase the value of the Council's assets by around £11.855m in 2016-17.

The Council's Pension Fund liability

The Local Government Pension Scheme and the Fire-fighters' Pension Scheme both have a liability balance at year end. That is, the present value of fund obligations exceeds the fair value of employer assets in the fund. The total reported pension liability of the two schemes (which is off set in the Balance Sheet by the Pensions Reserve) has increased over the past year from £895.255m to £745.582m.

Due to the nature of pension funds, the liability cannot occur immediately as it represents benefit payments to pensioners over their lifetime. A significant proportion of the membership is also still actively contributing to the fund. The Lincolnshire Pension Fund contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% of the liabilities over a period of 20 years. The Council's contribution rate is consistent with the Actuary's advice.

Statement of Responsibilities for the Statement of Accounts

The Executive Director of Finance & Public Protection

The Executive Director of Finance & Public Protection is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing these Statement of Accounts, the Executive Director of Finance & Public Protection has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Local Authority Code.

The Executive Director of Finance & Public Protection has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year ended on that date.

Signed: Dated:

Lincolnshire County Council: Movement in Reserves Statement for the period 1 April 2015 to 31 March 2016

	Note	Total Usable Reserves				Unusable Reserves (Note 25)	Total Council Reserves
		General Fund Balance	Earmarked GF Reserves (Note 9)	Capital Grants Unapplied	Total Usable Reserves (Note 24)		
		£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2015		15,900	169,822	52,674	238,396	(4,189)	234,207
<u>Movement in Reserves during 2015-16</u>							
Surplus/(Deficit) on the provision of services		(110,197)	-	-	(110,197)	-	(110,197)
Other Comprehensive Income and Expenditure		-	-	-	-	232,820	232,820
Other Recognisable Gains		(1,395)	-	-	(1,395)	-	(1,395)
Total Comprehensive Income and Expenditure		(111,592)	-	-	(111,592)	232,820	121,228
Adjustments between accounting basis & funding basis under regulations	(8)	89,466	-	10,003	99,469	(99,469)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves		(22,126)	-	10,003	(12,123)	133,351	121,228
Transfers to/from Earmarked Reserves	(9)	21,826	(21,826)	-	-	-	-
Increase/(Decrease) in Year 2015-16		(300)	(21,826)	10,003	(12,123)	133,351	121,228
Balance as at 31 March 2016 Carried Forward		15,600	147,996	62,677	226,273	129,162	355,435

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

Lincolnshire County Council: Movement in Reserves Statement for the period 1 April 2014 to 31 March 2015

	Note	Total Usable Reserves			Unusable Reserves (Note 25)	Total Council Reserves	
		General Fund Balance	Earmarked GF Reserves (Note 9)	Capital Grants Unapplied			Total Usable Reserves (Note 24)
		£'000	£'000	£'000	£'000	£'000	
Balance as at 1 April 2014		16,400	165,275	53,828	235,503	165,423	400,926
<u>Movement in Reserves during 2014-15</u>							
Surplus/(Deficit) on the provision of services		(56,929)	0	-	(56,929)	-	(56,929)
Other Comprehensive Income and Expenditure		-	0	-	0	(105,655)	(105,655)
Other Recognisable Gains		(4,050)	(85)		(4,135)	0	(4,135)
Total Comprehensive Income and Expenditure		(60,979)	(85)	0	(61,064)	(105,655)	(166,719)
Adjustments between accounting basis & funding basis under regulations	8	69,395	-	(5,438)	63,957	(63,957)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves		8,416	(85)	(5,438)	2,893	(169,612)	(166,719)
Transfers to/from Earmarked Reserves	9	(8,916)	4,632	4,284	0	-	0
Increase/(Decrease) in Year 2014-15		(500)	4,547	(1,154)	2,893	(169,612)	(166,719)
Balance as at 31 March 2015 Carried Forward		15,900	169,822	52,674	238,396	(4,189)	234,207

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

**Lincolnshire County Council: Comprehensive Income and Expenditure Statement for the period 1 April 2015 to
31 March 2016**

Restated (*1) 2014-15				Note	2015-16		
Gross Expenditure	Income	Net Expenditure			Gross Expenditure	Income	Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
Cost of Services							
385,309	(307,789)	77,520	Education Services	(5)	387,483	(300,883)	86,600
98,759	(16,513)	82,246	Children's Social Care		102,741	(19,052)	83,689
234,576	(78,820)	155,756	Adult Care		261,742	(97,016)	164,726
100,482	(9,134)	91,348	Highways and Transport Services		114,839	(25,353)	89,486
21,421	(2,369)	19,052	Cultural and Related Services		20,785	(4,989)	15,796
42,198	(4,413)	37,785	Environmental and Regulatory Services		36,220	(1,586)	34,634
24,131	(15,117)	9,014	Planning Services		22,207	(4,243)	17,964
32,787	(2,870)	29,917	Fire and Rescue Services		34,853	(3,051)	31,802
26,725	(30,033)	(3,308)	Public Health		35,882	(35,617)	265
15,112	(956)	14,156	Housing Services - Travellers Sites		13,190	(1,464)	11,726
5,951	(3,142)	2,809	Central Services to the Public		5,991	(1,589)	4,402
4,191	(174)	4,017	Corporate and Democratic Core		2,736	(7)	2,729
3,611	0	3,611	Non Distributed Costs		3,838	0	3,838
995,253	(471,330)	523,923	Cost of Services (excluding Acquired and Discontinued Operations)		1,042,507	(494,850)	547,657
		39,159	Other Operating Expenditure	(10)			56,634
		36,344	Financing and Investment Income and Expenditure	(11)			41,070
		(542,497)	Taxation and Non-Specific Grant Income	(12, 39(a))			(535,164)
		56,929	(Surplus)/Deficit on Provision of Services				110,197
		(42,934)	(Surplus)/Deficit on Revaluation of Non-Current Assets	(25)			(47,269)
			Impairment losses on Non-Current Assets charged to Revaluation				
		0	Reserve				0
		(160)	(Surplus)/Deficit on Revaluation of Available for Sale Financial Assets				(204)
		148,749	Actuarial (Gains)/Losses on Pension Assets / Liabilities	(25, 45)			(185,347)
		4,135	Other Recognisable (Gains)/ Losses				1,395
		109,790	Other Comprehensive Income and Expenditure				(231,425)
		166,719	Total Comprehensive Income and Expenditure				(121,228)

Lincolnshire County Council: Balance Sheet as at 31 March 2016

31 March 2015			31 March 2016
£'000		Note	£'000
1,296,487	Property, Plant and Equipment	(13)	1,270,287
52,625	Heritage Assets	(14)	60,192
92,525	Investment Property	(15)	96,507
9,197	Intangible Assets	(16)	7,605
214	Long Term Investments	(17)	214 *1
7,336	Long Term Debtors	(19)	7,721
1,458,384	Long Term Assets		1,442,526
159,469	Short Term Investments	(17)	225,106
2,545	Assets Held for Sale	(20)	319
610	Inventories	(18)	2,384
61,175	Short Term Debtors	(19)	57,616
223,799	Current Assets		285,425
(3,845)	Cash and Cash Equivalents		(14,842)
(25,715)	Short Term Borrowing	(17)	(19,604)
(52,651)	Short Term Creditors	(21)	(94,796)
(4,406)	Short Term Provisions	(22)	(7,684)
(86,617)	Current Liabilities		(136,926)
(8,082)	Long Term Creditors	(21)	(7,525)
(3,433)	Long Term Provisions	(22)	(3,994)
(441,673)	Long Term Borrowing	(17)	(466,130)
(908,171)	Other Long Term Liabilities	(23)	(757,814)
(1,361,359)	Long Term Liabilities		(1,235,463)
234,207	Net Assets		355,562
238,396	Usable Reserves	(24)	226,421
(4,189)	Unusable Reserves	(25)	129,141
234,207	Total Reserves		355,562

*1 Includes Net Pension Assets

Lincolnshire County Council: Cashflow Statement as at 31 March 2016

31 March 2015		31 March 2016
£'000		£'000
56,952	Net (surplus) or deficit on the provision of services	110,197
(111,033)	Adjustments to net surplus or deficit on the provision of services for non - cash movements	(232,263)
74,062	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	86,220
19,981	Net cash flow from Operating Activities (Note 26)	(35,846)
(13,945)	Investing Activities (Note 27)	64,559
(7,566)	Financing Activities (Note 28)	(17,716)
(1,530)	Net (increase) or decrease in cash and cash equivalents	10,997
5,375	Cash and cash equivalents as at 1 April	3,845
3,845	Cash and cash equivalents as at 31 March	14,842

Note 1. Statement of Accounting Policies.

1. General Principles and Concepts

The Statement of Accounts summarises the Council's transactions for the financial year 2015-16 and the position at the year-end 31 March 2016. 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 2015-16 and Service Reporting Code of Practice 2015-16, supported by International Financial Reporting Standards and statutory guidance.

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

2. Changes in Accounting Policies

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

3. Prior period adjustments – estimates and errors

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

The following disclosures will be made:

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

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

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

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

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

Classification

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

Operational Assets:

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

Non-Operational Assets:

- Surplus Assets; and
- Assets Under Construction.

a) Initial Recognition

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

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

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

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

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

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

b) Measurement after Recognition – Valuation Approach

The Council value Property, Plant and Equipment using the basis recommended by CIPFA in the Code of Practice and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS).

The code requires the following valuation approaches to be adopted:

Operational Assets

- Land and property assets shall be measured at current value, which is determined as the amount that would be paid for the asset in its existing use (EUV). For assets where there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold, a Depreciated Replacement Cost (DRC) approach will be used (such specialised assets include schools);
- Non-property assets (including: vehicles, plant and equipment) shall be measured at current value. These are determined to have short asset lives and historic cost is used as a proxy for current value;
- Land, Property and Equipment associated with the Energy from Waste Plant shall be measured at current value on a Depreciated Replacement Cost (DRC) approach as it is a specialised asset; and
- Infrastructure assets (such as roads and bridges) and community assets are measured at historic cost. NB: where historic cost information is not known for community assets these have been included within the Balance Sheet at a nominal value.

Non-Operational Assets

- Surplus assets (i.e. assets which the Council no longer operates/are no longer used for service delivery, but are not Investment Properties or meet the definition held for sale) are have their current value measured at fair value which is estimated at the highest and best use from a market participant's perspective. Surplus assets are depreciated in line with the operational asset class; and
- Assets under Construction are held at cost. When these assets are operationally complete, they are reclassified into the appropriate asset class and valued under the adopted approach.

Valuation Programme

Assets are included within the Balance Sheet at current value. The Council's land and property portfolio is revalued on a five year rolling programme. On an annual basis at year-end, all asset values are reviewed to ensure they are not carried at amounts materially different to current value.

c) Revaluation Gains and Losses

Movements in asset value arising from revaluation are reflected in the value of these assets held on the Balance Sheet.

If a revaluation increases an asset's carrying amount then this increase will be credited directly to the revaluation reserve to recognise the unrealised gain. In exceptional circumstances, gains might reverse a previous impairment or revaluation decrease charged to the Surplus or Deficit on provision of service.

If a revaluation decreases an asset's carrying amount, the decrease shall be charged initially against any surplus balance in the revaluation reserve in respect of the individual asset. Any additional decrease is recognised in the relevant service revenue account in the Comprehensive Income and Expenditure Statement.

The revaluation reserve only contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Any movements on revaluation arising before this date have been consolidated into the Capital Adjustment Account (CAA).

d) Depreciation

Depreciation is charged on all Property, Plant and Equipment assets with a finite life and is the systematic allocation of its worth over its useful life. This charge is made in line with the following policy:

- Operational buildings are depreciated over their useful life. For buildings which are held at existing use value a useful life of 40 years has been assumed. Asset lives for buildings held on a depreciated replacement cost basis are reviewed as part of the rolling programme of revaluations and the Valuer estimates the useful life. Depreciation is charged on a straight line basis;
- Infrastructure assets, primarily roads, are depreciated over their estimated useful lives, varying from 1-3 years (for capital pothole filling) to 120 years (for bridge structures), on a straight line basis;
- Furniture and non-specialist equipment is depreciated over a period of 5 years, on a straight line basis;
- Vehicles, plant and specialist equipment (including computing equipment) are depreciated over their estimated useful lives, varying between 3 and 15 years. For vehicles purchased after 1 April 2004, the reducing balance method of depreciation is used;
- Land, Property and Equipment associated with the Energy from Waste Plant are depreciated over their useful life. These range from 70 years for Civils (including Building Structures) to 10 years for Instrumentation, Control and Automation assets (ICA); and
- Surplus assets are depreciated in line with the operational asset class.

No depreciation is charged on: Heritage Assets, Investment Properties; land; assets under construction; and assets held for sale.

Depreciation of an asset begins when the asset becomes available for use and ceases when the asset has been derecognised.

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

Component Accounting for Property, Plant and Equipment

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

- DRC assets (including fire stations, schools, libraries and museums where the building is of a specialised nature): land, structures, services, roof and externals;
- Office Accommodation / Admin Buildings: land; structures, services, roof and externals;
- Other market value and existing use value assets (including economic regeneration units): land and buildings; and
- Energy from Waste Plant: Civils, Mechanicals and Instrumentation, Control and Automation (for each significant part of the plant).

e) Disposal of Property, Plant and Equipment

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

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

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

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

f) Impairment of non-Current Assets

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

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

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

Impairment losses are initially recognised against any revaluation reserve for that asset up to the balance available. Any remaining loss is charged in the Surplus or Deficit on provision of services. This is then reversed through the Movement in Reserves Statement and charged to the Capital Adjustment Account.

5. Intangible Assets

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

a) Recognition and Measurement of assets that qualify as intangible assets, shall be measured and carried at cost, in the absence of an active market to determine fair value, as these are short life assets.

The Council has a set a de minimis level of £10k for recognising intangible assets. This means that any item or scheme costing more than £10k would be treated as capital if the above criteria are met.

b) Subsequent Expenditure. Costs associated with maintaining intangible assets are recognised as an expense when incurred in the Comprehensive Income and Expenditure Statement.

c) Amortisation. The carrying value of intangible assets with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. Amortisation is charged to the relevant service area in the Comprehensive Income and Expenditure Statement. The useful lives for intangible assets are between 1 and 10 years. Useful asset lives are determined by the ICT budget holder and reviewed and updated annually.

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

6. Investment Properties

An Investment Property is defined as a property that is solely held to earn rental income or for capital appreciation or both. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods, or is held for sale.

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

b) Measurement after Recognition. Investment Properties will be measured at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, Investment Properties are measured at highest and best use, (e.g. market value). The fair value of Investment Property held under a lease, is the lease interest in the asset. Investment Properties are subject to annual revaluations.

c) Revaluation Gains and Losses. A gain or loss arising from a change in the fair value of Investment Property shall be recognised in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. These are not permitted by statute to impact on the General Fund Balance. Therefore these gains or losses are reversed out of the General Fund Balance in the Movement on Reserves and posted to the Capital Adjustment Account.

d) Depreciation is not charged on Investment Properties.

e) Disposal of Investment Properties. Gains or losses arising from the disposal of an Investment Property shall be recognised in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. As with revaluation gains or losses, these do not form part of the General Fund Balance and are transferred to fund the capital programme via the Movement in Reserves Statement.

f) Rental Income. Rentals received in relation to Investment Properties are credited to the Financing and Investment Income line and results in a gain for the General Fund Balance.

7. Heritage Assets

Heritage Assets are defined as assets that are held by the Council principally for their contribution to knowledge or culture. Heritage assets held by the Council include:

- Historic Buildings including: Lincoln Castle, Temple Bruer and four historic windmills in Lincolnshire; and
- Collections including: Fine Art Collection; the Tennyson Collection; Local Studies and Archive Collections; Lincolnshire Regiment, Militaria and Arms and Armour Collections; and Agriculture Collections.

Heritage assets are recognised and measured (including the treatment of revaluations gains and losses) in accordance with the Council's accounting policy on non-current assets - Property, Plant and Equipment (accounting policy 4, above). However, some of the measurement rules are relaxed in relation to Heritage Assets. Details of this are set out below:

a) Initial Recognition

- Collections: The collections are relatively static, acquisitions and donations rare. Where they do occur acquisitions will be measured at cost and donations will be recognised at a valuation determined in-house.

b) Measurement after recognition:

- Historic Buildings – Windmills: will be valued at existing use value by the Council's Valuer. These valuations will be included on the Council's rolling programme and will be valued every 5 years.
- Historic Buildings – Lincoln Castle and Temple Bruer: will continue to be carried at historic cost as the Council does not consider that a reliable valuation can be obtained for these assets. This is because of the nature of the assets held and the lack of comparable market values.
- Collections: will be valued based on the insurance valuations held by the Council. Insurance valuations will be reviewed and updated on an annual basis.

c) Impairment and Disposals are accounted for in line with the Council's policy on non-current assets – Property, Plant and Equipment (accounting policy 4: e) Disposal of Property, Plant and Equipment and f.) Impairment of non-current assets).

d) Depreciation is not charged on Heritage Assets.

8. Non-Current Assets Held for Sale

These are assets held by the Council which are planned to be disposed of. They meet the following criteria:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- The sale must be highly probable (with management commitment to sell and active marketing of the asset initiated);
- It must be actively marketed for a sale at a price that is reasonable in relation to its current fair value; and
- The sale should be expected to qualify for recognition as a completed sale within one year.

a) Measurement. Non-Current Assets Held for Sale are revalued immediately before reclassification to Held for Sale and then measured at the lower of carrying value and fair value less costs to sell (fair value here is the amount that would be paid for the asset in its highest and best use, e.g. market value).

b) Depreciation. Is not charged on non-current assets held for sale.

c) Disposal. Receipts from disposals are recognised in the Surplus or Deficit on provision of services.

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed. It is Council policy to fully utilise these receipts to fund the capital programme in the year they are received.

9. Donated Assets

Donated assets are non-current assets which are given to the Council at no cost or at below market value. These assets are initially recognised in the Balance Sheet at fair value. The difference between the fair value and any consideration paid is credited to the Taxation and Non-Specific grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally.

a) Where there are conditions associated with the asset which remain outstanding. The asset will be recognised in the Balance Sheet with a corresponding liability in the Donated Assets Accounts.

b) Where there are no conditions or the conditions have been met. The donated asset will be recognised in the Comprehensive Income and Expenditure Statement, then transferred to the Capital Adjustment Account through the Movement in Reserves Statement.

After initial recognition, donated assets are treated like all other non-current assets held by the Council and are subject to revaluation as part of the Council's rolling programme.

10. Charges to Revenue for the use of Non-Current Assets

Service accounts and central support services are charged with a capital charge for all non-current assets used in the provision of services to record the real cost of holding non-current assets during the year. The total charge covers:

- the annual provision for depreciation, attributed to the assets used by services;
- revaluation and impairment losses on assets used by services where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible assets attributable to services.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisation. However, it is required to make a prudent annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the Movement on Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

11. Minimum Revenue Provision

The Council makes provision for the repayment of debt in accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. This requires the Council to set a Minimum Revenue Provision (MRP) which it considers to be prudent. The approach adopted by the Council is to use the average life method (the average life of all the Council's assets) in calculating the MRP to be charged to revenue each year. MRP will be made in equal instalments over the estimated life of the assets acquired through borrowing.

12. Revenue Expenditure Financed through Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation of a non-current asset in the Balance Sheet; has been charged as expenditure to the relevant service revenue account in the year.

Statutory provision reverses these charges from the Surplus or Deficit on provision of services by debiting the Capital Adjustment Account and crediting the General Fund Balance via the Movement in Reserves Statement.

13. Service Concession Agreements (including Private Finance Initiative (PFI) and similar contracts)

Service Concession Agreements are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under such schemes and as ownership of the assets will pass to the Council at the end of the contract for no additional charge, the Council carries these assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. Assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the contractors each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge of 7.20% on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the contractor; and
- lifecycle replacement costs – recognised as additions to Property, Plant and Equipment on the Balance Sheet.

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

14. Borrowing Costs

The Council has adopted the accounting policy of expensing borrowing costs of qualifying assets to the Comprehensive Income and Expenditure Statement (disclosed within Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement) in the year in which they are incurred.

This is current practice based on the fact that borrowing undertaken is not attributed to individual schemes making capitalisation of costs complex with marginal benefit.

15. Classification of Leases

Leases are classified as a finance lease or an operating lease depending on the extent to which risks and rewards of ownership of a leased Property, Plant and Equipment lie with the lessor (landlord) or the lessee (tenant).

IAS 17 'Leases' includes indicators for the classification of leases as a finance lease. Within these indicators the Council has set the following criteria: the 'major part' of the asset life is determined to be 75%; and 'substantially all' of the value is determined to be 75%.

- Finance Lease: A lease is classified as a finance lease when the lease arrangement transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.
- Operating Lease: All other leases are determined to be operating leases.

Where a lease covers both land and buildings, these elements are considered separately.

This policy on accounting for leased assets also includes contractual arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment.

a) Finance Leases

i) Lessee – Vehicles, Plant & Equipment will be recognised on the Balance Sheet at cost and depreciated on a straight line basis over the term of the lease (in line with the Council's capitalisation and depreciation policy for vehicles, plant and equipment).

ii) Lessee – Property will be recognised on the Balance Sheet at an amount equal to the fair value of the property, or if lower, the present value of the minimum lease payments, determined at the inception of the lease.

The asset recognised is matched by a liability representing the obligation to pay the lessor. This is reduced as lease payments are made. Minimum lease payments are to be apportioned between the finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement) and the reduction of the deferred liability in the Balance Sheet.

Statutory provision reverses the finance charge, depreciation and any impairment or revaluation from the Comprehensive Income and Expenditure Statement to the Capital Adjustment Account through the Movement in Reserves statement. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements.

iii) Lessor – Property. When a finance lease is granted on a property, the relevant assets are written out of the Balance Sheet to gain or loss on disposal of assets in the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement. A gain is also recognised on the same line in the Comprehensive Income and Expenditure Statement to represent the Council's net investment in the lease. This is matched by a lease asset set up in long term debtors in the Balance Sheet. The lease payments are apportioned between repayment of principal written down against the lease debtor and finance income (credited to the Finance and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Initial direct costs are included in the initial measurement of the debtor and recognised as an expense over the lease term on the same basis as the income.

Rental income from finance leases entered into after 1 April 2010, will be treated as a capital receipt and removed from the General Fund Balance to capital receipts via the Movement in Reserves Statement.

The write off value of disposals is not a charge against council tax as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance via the Movement in Reserves Statement.

b) Operating Leases

i) Lessee – Property, Vehicles, Plant & Equipment will be treated as revenue expenditure in the service revenue accounts in the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease.

ii) Lessor – Property, Vehicles, Plant & Equipment shall be retained as an asset on the Balance Sheet. Rental income is recognised on a straight line, basis over the lease term, credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

c) Investment Property Leases (Lessee). In line with IAS 49 'Investment Properties', any lease which is assessed to be an Investment Property will be treated as if it was a finance lease. The fair value of the lease interest is used for the asset recognised. Separate measurement of land and buildings elements is not required when the leases are classified as an Investment Property.

16. Government Grants and Contributions

Government grants and contributions may be received on account, by instalments or in arrears. However, they should be recognised in the Comprehensive Income and Expenditure Statement, as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments. Conditions are stipulations that specify how the future economic benefits or service potential embodied in the grant or contribution must be consumed, otherwise the grant or contribution will have to be returned to the awarding body; and
- The grant or contribution will be received.

Grants and contributions received where the conditions have not yet been satisfied, are carried in the Balance Sheet as creditors and not credited to the Comprehensive Income and Expenditure Statement until the conditions are met.

Capital Grants and Contributions (non-current assets)

Capital grants and contributions are used for the acquisition of non-current assets. The treatment of these grants is as follows:

a) Capital grants where there are no conditions attached to the grant and the expenditure has been incurred. The income will be recognised immediately in Comprehensive Income and Expenditure Statement, in the taxation and non-specific grant income line.

Capital grant income is not a proper charge to the General Fund. It is accounted for through the Capital Financing Requirement (set out in 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.

b) Capital grants where the conditions have not been met at the Balance Sheet date. At the Balance Sheet date the grant will be recognised as a Capital Grant Receipt in Advance in the liabilities section of the Balance Sheet. When the conditions have been met, the grant will be recognised as income in the Comprehensive Income and Expenditure Statement and the appropriate statutory accounting requirements for capital grants applied.

c) Capital grants where no conditions remain outstanding at the Balance Sheet date, but expenditure has not been incurred. The income will be recognised immediately in the Taxation and Non Specific Grant Income line of the Comprehensive Income and Expenditure Statement. As the expenditure being financed from the grant has not been incurred at the Balance Sheet date, the grant will be transferred to the Capital Grants Unapplied Account (within usable reserves section of the Balance Sheet), through the Movement in Reserves Statement. When the expenditure is incurred, the grant shall be transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account to reflect the application of capital resources to finance expenditure.

Revenue Government Grants and Contributions

Government grants and other contributions are accounted for on an accruals basis and recognised in the Comprehensive Income and Expenditure Statement when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. Where the conditions have not been met these grants will be held as creditors on the Balance Sheet.

Specific revenue grants are included in the specific service expenditure accounts together with the service expenditure to which they relate. Grants which cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Comprehensive Income and Expenditure Statement after Net Cost of Services.

17. Debtors

Debtors are recognised in the accounts when the ordered goods or services have been delivered or rendered by the Council in the financial year but the income has not yet been received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council; and
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

Debtors are recognised and measured at fair value in the accounts. When considering the fair value of long term debtors, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term debtor will be used as a proxy for fair value.

For estimated manual debtors, a de-minimis level of £10k for individual revenue items and £25k for capital items is set.

18. Creditors

Creditors are recorded where goods or services have been supplied to the Council by 31 March but payment is not made until the following financial year.

Creditors are recognised and measured at fair value in the accounts. When considering the fair value of long term creditors, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term creditors will be used as a proxy for fair value.

For estimated manual creditors, a de-minimis level of £10k for individual revenue items and £25k for capital items is set.

19. Provision for Bad and Doubtful Debt

Where there is evidence that the Council may not be able to collect all amounts due to it, a provision for impairment is established. The provision made is the difference between the current carrying value of the debt and the amount likely to be collected. At the end of the financial year, bad debt provisions will be made for debts that have been outstanding for more than twelve months. The Council's policy is:

- Adult Social Care debtors are grouped by type and provided for on this basis plus the age of the debt; and
- Other aged debtors over 12 months old. Significant debtors are reviewed on a case by case basis, all remaining debtors are 100% provided for.

The provision for impairment is recognised as a charge to the relevant revenue service account in the Comprehensive Income and Expenditure Statement for the income that might not be collected.

20. Inventories

Inventory assets include and will be carried at the following values:

- Materials or supplies to be consumed or distributed in the rendering of services (e.g. highways salt). These are carried at the lower of cost (calculated as an average price) or current replacement cost (at the Balance Sheet date for an equivalent quantity); and
- Held for sale or distribution in the ordinary course of operations, are carried at the lower of cost or net realisable value.

The Council has set a de-minimis level for recognising inventories of £100k. Inventory balances below this level are not recorded on the Balance Sheet.

21. Cash and Cash Equivalents

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

b) Cash Equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. The Council will classify these as follows:

- Instant Access Deposit Accounts or Overnight Bank Facilities set up for the purpose of meeting short term liquidity requirements and whose return (if any) does not make up the Average Yield Return on Investments, are to be classed as Cash Equivalents.
- Overnight Fixed Deposits, Deposit Based Bank Accounts and Net Asset Value Money Market Funds held for investment purposes for the returns offered, which make up the Councils Average Yield Return on its Investments, are to be classed as Short Term Investments.

c) Bank Overdrafts are to be shown separately from Cash and Cash Equivalents where they are not an integral part of an Authority's cash management. They are to be shown net of Cash and Cash Equivalents where they are an integral part of an Authority's cash management.

22. Provisions

The Council sets aside provisions for future expenses where: a past event has created a current obligation (legal or constructive) to transfer economic benefit; it is probable that an outflow of economic benefits or service potential will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are charged to relevant revenue service account in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation. When the obligation is settled, the costs are charged to the provision set up in the Balance Sheet. When payments are eventually made, they are charged against the provision carried in the Balance Sheet.

The Council has set a de-minimis level for recognising provisions of £100k.

Provisions contained within the Balance Sheet are split between current liabilities (those which are estimated to be settled within the next 12 months) and non-current liabilities (those which are estimated to be settled in a period greater than 12 months).

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

23. Contingent Liabilities

A contingent liability is where there is a possible obligation to transfer economic benefit resulting from a past event, but the possible obligation will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the Council. The Council discloses these obligations in the narrative notes to the accounts.

These amounts are not recorded in the Council's accounts because:

- it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability at the year end.

The Council has set a de-minimis level for recognising Contingent Liabilities of £500k.

24. Contingent Assets

A contingent asset is where there is a possible transfer economic benefit to the Council from a past event, but the possible transfer will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the Council. The Council discloses these rights in the narrative notes to the accounts.

The Council has set a de-minimis level for recognising Contingent Assets of £500k.

25. Events after the Reporting Date

These are events that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. The Council will report these in the following way if it is determined that the event has had a material effect on the Council's financial position.

- Events which provide evidence of conditions that existed at the end of the reporting period will be adjusted and included within the figures in the accounts; and
- Events that are indicative of conditions that arose after the reporting will be reported in the narrative notes to the accounts.

Events which take place after the authorised for issue date are not reflected in the Statement of Accounts.

26. Recognition of Revenue (Income)

Revenue shall be measured at the fair value of the consideration received or receivable.

Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, with the exception of non-exchange transactions (such as Council Tax and general rate) where it is assumed there is no difference between the delivery and payment date.

27. Exceptional Items

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

28. Costs of Support Services

The costs of overheads and support services are charged to those who benefit from the supply of services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015-16 (SeRCOP). The costs are recharged to services on the following basis:

Costs	Basis of Apportionment
Accommodation	unique property reference numbers
Accountancy services	gross expenditure and sales
Business support	gross expenditure and sales
Communications	gross expenditure and sales
Customer service centre	number and length of calls
IT services	number of employees
Payroll services	number of employees
People Management	number of employees
Programme and Programmes Service	gross expenditure and sales
Property services	unique property reference numbers

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

29. Acquired and Discontinued Operations

Where the Council takes on new activities or ceases providing services, the costs relating to these activities will be identified in the Comprehensive Income and Expenditure Statement, on the surplus or deficit on discontinued operations line. These items will not form part of the net cost of services in the Comprehensive Income and Expenditure Statement in the year they occur.

30. Value Added Tax (VAT)

The Council's Comprehensive Income and Expenditure Statement excludes VAT. All VAT must be passed on (where output tax exceeds input tax) or repaid (where input tax exceeds output tax) to HM Revenue and Customs.

The net amount due to or from HM Revenue and Customs for VAT at the year-end shall be included as part of creditors or debtors balance.

31. Council Tax and Business Rates Income

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

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

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

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

32. Reserves

a) Useable Reserves

The Council's general revenue balances are held in the General Fund. The Council also maintains a number of specific 'earmarked' reserves for future expenditure on either policy purposes or to cover contingencies. When expenditure is financed from an earmarked reserve, it is charged to the relevant revenue service account in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back to the General Fund Balance via the Movement in Reserves Statement, so that there is no net charge against council tax.

b) Unusable Reserves

Certain reserves are kept to maintain the accounting processes for non-current assets, financial instruments and employee benefits. These accounts do not represent usable resources for the Council. These include:

- Capital Adjustment Account;
- Revaluation Reserve;
- Financial Instruments Adjustment Account;
- Pension Reserve;
- Collection Fund Adjustment Account; and
- Accumulated Absences Reserve.

33. Employee Benefits – Benefits Payable during Employment

a) Benefits Payable During Employment – Short Term Benefits

These are amounts expected to be paid within 12 months of the Balance Sheet date. These include:

- Salaries, wages and expenses accrued up to the Balance Sheet date. These items are charged as an expense to the relevant service revenue account in the year the employees' services are rendered; and
- Annual leave and flexi hours earned, but not yet taken at the Balance Sheet date. An accrual is made for items at the wage and salary rate payable. The accrual is charged to the relevant service revenue account, but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account, so this does not have an impact on council tax.

Teacher Leave Accrual

The accrual for short term benefits for teachers is calculated using a standard methodology, reflecting the fact that teachers across the Council are subject to standard terms and conditions of employment. This methodology is based on the number of days of the Spring Term (both term-time and holiday) that fall within the financial year and the leave entitlement of the teacher (which varies according to whether an individual has left the teaching profession at the end of the Spring term).

b) Long Term Benefits

These are amounts which are payable beyond 12 months. The Council does not have any material long term benefits to be declared within the Financial Statements.

34. Employee Benefits – Termination Benefits

Employee termination benefits arise from the Council's obligation to pay redundancy costs to employees. These costs will be recognised in the Council's Financial Statements at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the costs for a restructuring. For example; when there is a formal plan for redundancies (including the location, function and approximate number of employees affected; the termination benefits offered, and the time of implementation).

These items will be accrued in the Balance Sheet at the year end and charged to the relevant service revenue account. If payments are likely to be payable in more than 12 months from the year end, then these costs will be discounted at the rate determined by reference to market yields.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

35. Employee Benefits – Post Employment Benefits (Pensions)

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

- **Teachers' Pension Scheme:** This is a notionally funded scheme administered nationally by Capita Teachers' Pensions on behalf of the Department for Education (DFE). The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to teachers' pensions in the year are treated as expenditure on the education service line in the Comprehensive Income and Expenditure Statement.
- **National Health Service Pension Scheme (NHSPS):** This is a notional funded scheme administered national by NHS Pensions on behalf of the Department of Health (DoH) The pension contributions to be paid by the Council are determined by the Government Actuary and reviewed periodically. The scheme is accounted for as if it were a defined contribution scheme. There is no liability for future payments of benefits recognised in the Balance Sheet. All employer's contributions payable to the National Health Service Pension Scheme in the year are treated as expenditure in the Public Health service line in the Comprehensive Income and Expenditure Statement.
- **Uniformed Fire-fighters Pension Scheme (FPS):** From 1 April 2015, a new pension fund for Fire-fighters was set up. This scheme replaced the 1992 Fire-fighters scheme for new Fire-fighters. The 2015, 2006 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 each fund, against which pension payments are made. Each fund is topped up by additional government funding if contributions are insufficient to meet the cost of the pension payments. Any surplus in each fund at the end of each year will be repaid back to the Department for Communities and Local Government (DCLG). Contributions in respect of ill health retirements are still the responsibility of the Council.
- **Local Government Pension Scheme (LGPS):** Other employees are eligible to join the LGPS. The Council pays contributions to a funded pension scheme from which employee pension benefits are paid out.

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

The Local Government Pension Scheme (LGPS)

The LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.5% (based on long term UK Government bonds greater than 15 years).
- The assets of Lincolnshire Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - quoted securities – current bid or last traded price;
 - unquoted securities – professional estimates;
 - unitised securities – current bid price.

The change in net pensions liability is analysed into the following components:

- Service cost comprising:
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure; actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debit to the Pensions Reserve as Other Comprehensive Income and Expenditure; and
- contributions paid to the Lincolnshire Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Council also pays any costs arising in relation to unfunded elements of pensions, paid to certain employees that have retired early and have been awarded discretionary compensation under the provisions of the Council’s early retirement policy. These costs are charged to Non-Distributed Costs in the Comprehensive Income and Expenditure Statement.

36. Accounting for Schools Income, Expenditure, Assets, Liabilities and Reserves

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

Income and Expenditure

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

Non-Current Assets

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

If assets are owned by the Council or the governing body of the school, or the future economic benefits are identified to sit with the Council, then the non-current assets will be recorded in the Balance Sheet.

The exception to this is for any finance leases for IT equipment taken out by the Council on behalf of a school; these remain within the Council's Balance Sheet as the Council retains the liability.

Assets and Liabilities

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

Reserves

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

37. Group Relationships

The Council assesses on an annual basis relationships with other bodies to identify the existence of any group relationships. A de-minimis level of £1.000m has been set for considering bodies to be included within group accounts.

The Council has not identified, and does not in aggregate have any material interests in subsidiaries, associated companies or joint ventures and therefore is not required to prepare group accounts.

38. Financial Instruments

a) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. All the Council's borrowings are carried at amortised cost and the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

No repurchase has taken place as part of a restructuring of the loan portfolio that included the modification or exchange of existing instruments. Therefore gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement and spread over future years under statutory regulation.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over ten years or the term that was remaining on the loan if less than ten years. The reconciliation of premiums / discounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

b) Financial Assets

Financial Assets are classified into two types:

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

i) Loans and Receivables

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

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

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

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

Any gains and losses that arise on the derecognition of the assets are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

ii) Available-for-sale Assets

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

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

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

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

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

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

Changes in fair value are balanced by an entry in the Available-For-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on revaluation of Available-for-Sale Assets. The exception is where impairment losses have been incurred and these are debited to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-For-Sale Reserve.

Where assets are identified as impaired, because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-For-Sale Reserve.

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

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

In the 2015-16 accounts, the County Council is required to disclose the following changes to Accounting Standards which will have an impact on the County Council's accounts in 2016-17. The following standards are being introduced by the 2016-17 Code:

- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)

This standard provides guidance on the form of the financial statements. CIPFA's review of the presentation of Financial Statements ("Telling the Story"), which was produced in response to this standard, will result in changes to the format of the statements in 2016-17. The format of the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement will introduce new expenditure and funding analyses.

The following additional changes to Accounting Standards and the Code of Practice have been considered and are not expected to have a material impact on the County Council's accounts in 2016-17:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRS's 2010-12 Cycle; and
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle

Note 3. Critical judgements in applying accounting policies.

In applying the accounting policies set out in Note 1, the County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts include:

Government Funding

There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

PFI Contract- Focus Education Lincolnshire

The County Council entered into a PFI contract with Focus Education (Lincolnshire), for the construction and provision of seven fully serviced school premises. The Council is deemed to control the service provided in these schools and also control the residual value in the school buildings at the end of the agreement. The accounting policy for Service Concessions and Similar Arrangements (including PFI agreements) has been applied to account for this contract and the property, plant and equipment assets associated with these schools, plus the outstanding liability for the PFI finance lease have been included within the Council's balance sheet. Details of the Council's PFI contract accounting are set out in Note 43 Private Finance Initiatives (PFI) and Similar Contracts.

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

On the 1st March 2013, one of the seven PFI schools - the Phoenix School at Grantham, converted to Academy status. A lease has been agreed between the County Council and the Academy to reflect the effects of the conversion. This lease is accounted for in accordance with the County Council's Accounting Policies on Leases.

Energy from Waste Plant

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

School Assets

Clarification has been issued on how assets used by schools should be accounted for, and when they should be recognised on the Council's balance sheet. The accounting standard for property, plant and equipment (IAS 16) defines a non-current asset as "a resource controlled by the Council as a result of a past event from which future economic benefits or service potential are expected to flow". The clarification on how this should be interpreted requires the assets of a school to be controlled by the Council or the Schools governing body for this criteria to be met, and therefore the assets included within the Council's balance sheet.

All school assets have been reviewed to identify if they are controlled by the Council and should be included on the Council's balance sheet. In general terms all Community Schools and Foundation Schools (which are not controlled by a separate trust) should be included on the Council's balance sheet. Voluntary Controlled and Voluntary Aided Schools where the assets are generally controlled by a Trust (often the Diocese) should not be on the Council's balance sheet.

Investment Properties

The County Council has assessed its portfolio of property assets and has identified a small number of assets held for investment purposes (including the Council's County Farms Estate). These assets are held purely for the purposes of capital appreciation or income generation, or both, and have been accounted for under the County Council's policy on investment properties. Further details are contained in Note 15.

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

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

The County Council's balance sheet as at 31 March 2016 contains the following entries for which there is a significant risk of material adjustments in the forthcoming financial year:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment - PP&E (Valuations and Asset Lives)	- Land and building assets carrying value and remaining useful life are assessed by the County Council's Valuers. These valuations include an assessment of the condition and use of assets. Changes in local government funding and future restructuring of services by the Council may affect the use of existing assets and levels of spending to maintain these assets. This may lead to changes in asset values and asset lives in the future.	Changes to asset value and lives, will have an effect on the annual depreciation charge for use of assets charged to services in the CI&ES. The annual depreciation charge for PP&E in 2015-16 was £80.352m (2014-15 was £76.238m) and the gross book value of these assets was £1,749.063m (2014-15 £1,722.323m). Note 1 on accounting policies and Note 13 Property, Plant and Equipment, details the current policy on valuation methods, asset lives and depreciation applied by the County Council.
Pensions	- The County Council's accounts contain an estimate of the future liability to pay pensions on the retirement of employees. This liability is estimated by the Council's actuary who applies a number of assumptions relating to: salary projections, retirement ages, changes in mortality rates and expected rates of return on pension assets and the discount rates used.	Changes to the actuaries assumptions may materially affect the value of the pension fund liability, however, these changes are difficult to predict as the assumptions interact in complex ways. During 2015-16 the Council's actuaries advised that the net pension liability had decreased by £149.673m (£179.929m increase in 2014-15). Details of the pension fund liabilities are set out in Note 45 Defined Benefit Pension Schemes.
Accruals	- Debtor and creditor accruals are measured at the best estimate of the income / expenditure expected at the balance sheet date. Details of debtor and creditor balances are set out in Note 19 (Debtors) and Note 21 (Creditors).	The most significant accrual as at 31 March 2016 relates to the employee leave earned but not taken £5.103m (£5.211m in 2014-15).

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

Note 5. Exceptional Items.

The County Council is required to disclose separately within the financial statements any exceptional items which are material and are not expected to recur frequently in the Council's normal operations.

There have been no exceptional items to report in 2015-16.

Note 6. Material items of income and expenditure.

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

Note 7. Events after the balance sheet date.

a) Authorisation of Accounts for Issue

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

Signed: Dated:

b) Post Balance Sheet Events

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

- Events taking place after the date the Accounts were authorised for issue (30th June 2016) are not reflected in the Financial Statements or the notes.
- Events that provide evidence of conditions that existed at the end of the reporting period 2034-35 are reflected in the figures in the Financial Statements and the notes, where the information has a material impact.
- Events that arose after the reporting period have not been reflected in the figures in the Accounts. A note of material events which took place after 2034-35 is set out here to provide information that is relevant to an understanding of the Council's financial position, but do relate to conditions at this date.

There have been no Events After the Balance Sheet Date to report in the Financial Statements.

Note 8. Adjustments between accounting basis and funding basis under regulations.

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

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

2014-15				2015-16		
Usable Reserves		Movements in Unusable Reserves £'000		Usable Reserves		Movements in Unusable Reserves £'000
General Fund Balance £'000	Capital Grants Unapplied £'000			General Fund Balance £'000	Capital Grants Unapplied £'000	
<u>Adjustments primarily involving the Capital Adjustment Account:</u>						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
(76,238)	0	76,238	Charges for depreciation and impairment of non-current assets	(80,353)		80,353
(15,859)	0	15,859	Revaluation losses on Property Plant and Equipment	(13,136)		13,136
(120)	0	120	Revaluation losses on Held for Sale Assets	(18)		18
11,220	0	(11,220)	Movements in the market value of Investment Properties	4,536		(4,536)
(2,116)	0	2,116	Amortisation of intangible assets	(2,347)		2,347
49,191	0	(49,191)	Capital grants and contributions applied	58,337		(58,337)
2,510	0	(2,510)	Capital Receipts applied	2,597		(2,597)
(16,584)	0	16,584	Revenue expenditure funded from capital under statute (net of Grants and Contributions)	(18,066)		18,066
(44,505)	0	44,505	Amounts of Non Current Assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	(58,641)		58,641
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
23,813	0	(23,813)	Statutory provision for the financing of capital investment	22,196		(22,196)
6,790	0	(6,790)	Capital expenditure charged against the General Fund	6,944		(6,944)

2014-15				2015-16		
Usable Reserves		Movements in Unusable Reserves £'000		Usable Reserves		Movements in Unusable Reserves £'000
General Fund Balance £'000	Capital Grants Unapplied £'000			General Fund Balance £'000	Capital Grants Unapplied £'000	
<u>Adjustments primarily involving the Capital Grants Unapplied Account:</u>						
20,915	(20,915)	0	Capital grants and contributions unapplied credited to the CI&ES	23,660	(23,660)	0
0	26,353	(26,353)	Application of grants to capital financing transferred to the Capital Adjustment Account		13,657	(13,657)
<u>Adjustment primarily involving the Financial Instruments Adjustment Account:</u>						
(14)	0	14	Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	58		(58)
<u>Adjustments primarily involving the Pensions Reserve:</u>						
(70,093)	0	70,093	Reversal of items relating to retirement benefits debited or credited to the CI&ES (Note 45)	(77,061)		77,061
38,912	0	(38,912)	Employer's pensions contributions and direct payments to pensioners payable in the year	41,387		(41,387)
<u>Adjustments primarily involving the Collection Fund Adjustment Account:</u>						
2,566	0	(2,566)	Amount by which council tax & business rate income credited to the CI&ES is different from council tax & business rates income calculated for the year in accordance with statutory requirements	331		(331)
<u>Adjustment primarily involving the Accumulated Absences Account:</u>						
215	0	(215)	Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory	109		(109)
(69,397)	5,438	63,959	Total Adjustments	(89,466)	(10,003)	99,469

Note 9. Transfer to/from earmarked reserves.

The note below sets out the amounts set aside from the General Fund into Earmarked Reserves to provide financing for future expenditure plans and the amounts posted back from Earmarked Reserves to meet General Fund expenditure in 2015-16.

Balance at 1 April 2014	Additions in Year	Used in Year	Balance at 31 March 2015		Balance at 1 April 2015	Additions in Year	Used in Year	Balance at 31 March 2016
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
33,896	17,710	(20,038)	31,568	Balances from dedicated schools budget including those held by schools under a scheme of delegation	31,568	136	(19,367)	12,337
				Other Earmarked Reserves:				
3,999	2,167	(3,999)	2,167	Other Services	2,167	0	(2,167)	0
1,000	0	0	1,000	Adverse Weather	1,000	0	0	1,000
5,086	1,134	0	6,220	Insurance	6,220	0	0	6,220
2,932	17	(772)	2,177	Health and Well Being	2,177	0	(1,036)	1,141
2,350	1,249	(806)	2,793	Shared Services Reserves (Legal and Procurement)	2,793	0	(1,135)	1,658
6,780	21,871	(6,780)	21,871	Financial Volatility - Budget Shortfall	21,871	20,165	(21,871)	20,165
43,006	12,417	(23,789)	31,634	Financial volatility	31,634	0	(20,165)	11,469
5,843	0	(3,640)	2,203	Roads Maintenance	2,203	0	(2,115)	88
4,000	0	(1,368)	2,632	Support Services contract	2,632	0	(922)	1,710
10,821	1,660	(2,240)	10,241	Other Service Earmarked Reserves	10,241	40,813	(867)	50,187
				Revenue Grants and Contributions Unapplied Reserves:				
3,843	0	(981)	2,862	Growth Points - Lincoln	2,862	0	(165)	2,697
1,872	0	(72)	1,800	Growth Points - Grantham	1,800	0	0	1,800
7,050	3,182	0	10,232	Growing Places	10,232	0	(10,232)	0
0	3,309	0	3,309	Public Health	3,309	1,459	(2,022)	2,746
3,459	1,145	(177)	4,427	Children Services	4,427	3,464	(1,591)	6,300
4,705	106	(4,001)	810	Highways and Transport	810	39	(60)	789
16,771	9,234	(3,870)	22,135	Adult Care	22,135	15,176	(14,556)	22,755
2,467	4,791	(2,467)	4,791	Schools	4,791	0	(4,433)	358
5,395	631	(1,076)	4,950	Other Grants and Contributions	4,950	994	(1,368)	4,576
165,275	80,623	(76,076)	169,822	Total	169,822	82,246	(104,072)	147,996

The balance held by schools under the scheme of delegation, represents the net underspending of school budget shares in 2015-16. It is earmarked for use by those schools as required by the Lincolnshire County Council Scheme for financing Schools approved by the Secretary of State for Education.

The **Other Services Reserve** represents net under and overspendings in 2015-16 on services other than schools (i.e. Children's Services, Adult Care, Public Health, Communities, Corporate Services) which will be carried forward for use in 2015-16.

The **Adverse Weather** reserve is used to fund any overspend of the council's Winter Maintenance budget caused by the weather being particularly severe.

The reserve for **Insurance** is earmarked for potential future claims under the excess clauses of the Council's external insurance policies. Separate provision is made within Provisions for all claims currently outstanding.

The **Health and Wellbeing** reserve has been set up with contributions from both Lincolnshire County Council and Lincolnshire Primary Care Trust. It will be used to fund future initiatives which will help to achieve the objectives and aspirations of both parties.

The **Reserve for Shared Services**. The **Legal Services Reserve** represents what the Practice carried forward from 2015-16. The Legal Services Management Board will agree on what proportion of the surplus should be distributed to the shared service partners in 2016-17. The **Procurement Reserve** represents Procurement Lincolnshire's underspend at the end of 2015-16. The underspend relates to both Council money and partners money. This amount will be carried into 2016-17 for schemes for mutual benefit to all the partners.

The **Financial Volatility** and the **Financial Volatility - Budget Shortfall** reserves have been established to help the Council deal with the future uncertainties around Local Government funding.

The **Roads Maintenance reserve** has been established to provide for additional funding for Highways related matters.

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

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

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

Note 10. Other operating expenditure.

2014-15		2015-16
£'000		£'000
1,095	Precepts paid to non-principal authorities and levies	1,092
37,944	Gain or Loss on the disposal of non-current assets	55,542
120	Revaluation losses on assets held for sale	0
39,159	TOTAL	56,634

Note 11. Financing and Investment Income and Expenditure.

2014-15		2015-16
£'000		£'000
19,726	Interest payable and similar charges	20,373
30,745	Net Interest on the net defined benefit liability (asset)	28,731
(1,460)	Interest receivable and similar income	(1,881)
(12,667)	Income, expenditure and changes in the fair values of investment properties	(6,153)
36,344	TOTAL	41,070

Note 12. Taxation and Non Specific Grant Income.

2014-15		2015-16
£'000		£'000
(228,745)	Council tax income	(239,223)
(102,326)	Business Rates - Districts	(99,759)
	Non-ring-fenced government grants:	
(124,575)	Revenue Support Grant	(94,670)
(7,123)	Education Services Grant	(5,600)
0	Care Act Implementation Grant	(4,433)
(3,144)	New Homes Bonus Grant & Returned Top slice	(3,853)
0	Section 31 Grant - Business Rates	(2,621)
0	Independent Living Fund Grant	(1,386)
(1,243)	Local Services Support Grant	(1,060)
(2,585)	Council Tax freeze Grant	0
(644)	Adoption Reform Grant	0
(2,006)	Other Non Specific Grant	(563)
(70,107)	Capital grants and contributions (Note 39)	(81,996)
(542,497)	TOTAL	(535,164)

Note 13. Property, Plant and Equipment.

a) Movement on Non-Current Assets

Movement in Property, Plant & Equipment As at 31 March 2016	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure	Community Assets	Surplus Assets	Assets Under Construction	Total	PFI Assets Included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2015	736,375	126,567	752,394	27	21,789	28,230	1,665,382	20,280
Additions	8,502	1,991	24,522	0	3,659	45,007	83,681	189
Donations	0	0	0	0	0	0	0	0
Revaluation Increase to RR	24,060	0	0	0	526	0	24,586	1,218
Revaluation Decrease to RR	(12,554)	(556)	0	0	(4,007)	0	(17,117)	0
Revaluation Increase/(Decrease) to SDPS	(14,559)	(1,881)	0	0	(3,090)	0	(19,530)	0
Derecognition - Disposals	(52,455)	(799)	0	0	(4,852)	0	(58,106)	0
Derecognition to RR	0	0	0	0	0	0	0	0
Derecognition to SDPS	(502)	0	0	0	0	0	(502)	88
Reclassified to/from Heritage Property	0	0	0	0	0	0	0	0
Reclassified to/from Held for Sale	0	0	0	0	0	0	0	0
Reclassified to/from Investment Property	0	0	0	0	0	0	0	0
Reclassifications - Other	6,260	364	30,601	0	1,526	(37,806)	945	0
At 31 March 2016	695,127	125,686	807,517	27	15,551	35,431	1,679,339	21,775
Depreciation and Impairment								
At 1 April 2015	(42,335)	(34,477)	(291,725)	0	(331)	0	(368,868)	(1,007)
Depreciation Charge for 2015-16	(28,731)	(10,480)	(41,029)	0	(112)	0	(80,352)	(492)
Depreciation written out on upward revaluation	27,552	0	0	0	22	0	27,574	0
Depreciation written out on downward revaluation	2,605	1,897	0	0	0	0	4,502	0
Depreciation written out to the SDPS	3,352	2,321	0	0	453	0	6,126	0
Impairment losses/(reversals) recognised in the RR	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the SDPS	0	0	0	0	0	0	0	0
Derecognition - Disposals	237	734	0	0	25	0	996	0
Derecognition to RR	0	0	0	0	0	0	0	0
Derecognition - SDPS	9	0	0	0	0	0	9	0
Reclassified to/from Heritage Property	0	0	0	0	0	0	0	0
Reclassifications to Asset Held for Sale	0	0	0	0	0	0	0	0
Reclassifications to/from Investment Property	0	0	0	0	0	0	0	0
Reclassifications - Other	(2)	0	0	0	2	0	0	0
At 31 March 2016	(37,313)	(40,005)	(332,754)	0	59	0	(410,013)	(1,499)
Net Book Value								
At 31 March 2016	657,814	85,681	474,763	27	15,610	35,431	1,269,326	20,276
At 1 April 2015	694,040	92,090	460,669	27	21,458	28,230	1,296,514	19,273

RR - Revaluation Reserve

SDPS - Surplus or Deficit on the Provision of Services

Movement in Property, Plant & Equipment As at 31 March 2015	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infra-structure	Community Assets	Surplus Assets	Assets Under Construction	Total	PFI Assets Included in Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2014	764,084	127,673	713,555	0	23,310	27,404	1,656,026	20,862
Additions	12,856	2,675	40,996	1	853	17,914	75,295	100
Revaluation Increase to RR	35,716	0	0	0	644	0	36,360	429
Revaluation Decrease to RR	(13,306)	(4,820)	0	0	(445)	0	(18,571)	(717)
Revaluation Increase/(Decrease) to SDPS	(12,269)	(846)	0	(1)	(2,744)	0	(15,860)	0
Derecognition - Disposals	(45,030)	(475)	(4,909)	0	(2,402)	0	(52,816)	0
Derecognition to RR	(796)	0	0	0	0	0	(796)	0
Derecognition to SDPS	(2,521)	0	0	0	0	0	(2,521)	0
Reclassified to/from Heritage Property	0	0	0	0	0	(8,179)	(8,179)	0
Reclassified to/from Held for Sale	(1,495)	0	0	0	(949)	0	(2,444)	0
Reclassified to/from Investment Property	0	0	0	0	0	0	0	0
Reclassifications - Other	(864)	2,360	2,752	0	3,522	(8,909)	(1,139)	23
As at 31 March 2015	736,375	126,567	752,394	0	21,789	28,230	1,665,355	20,697
Depreciation and Impairment								
At 1 April 2014	(40,608)	(29,834)	(259,200)	0	(2,690)	0	(332,332)	(1,656)
Depreciation Charge for	(27,620)	(11,067)	(37,434)	0	(117)	0	(76,238)	(473)
Depreciation written out on upward revaluation	16,307	0	0	0	0	0	16,307	1,122
Depreciation written out on downward revaluation	3,429	6,138	0	0	227	0	9,794	0
Depreciation written out to the SDPS	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the RR	0	0	0	0	0	0	0	0
Impairment losses/(reversals) recognised in the SDPS	0	0	0	0	0	0	0	0
Derecognition - Disposals	6,038	286	4,909	0	2,291	0	13,524	0
Derecognition to RR	13	0	0	0	0	0	13	0
Derecognition - SDPS	64	0	0	0	0	0	64	0
Reclassified to/from Heritage Property	0	0	0	0	0	0	0	0
Reclassifications to Asset Held for Sale	0	0	0	0	0	0	0	0
Reclassifications to/from Investment Property	0	0	0	0	0	0	0	0
Reclassifications - Other	42	0	0	0	(42)	0	0	0
As at 31 March 2015	(42,335)	(34,477)	(291,725)	0	(331)	0	(368,868)	(1,007)
Net Book Value								
As at 31 March 2015	694,040	92,090	460,669	0	21,458	28,230	1,296,487	19,690
At 1 April 2014	723,476	97,839	454,355	0	20,620	27,404	1,323,694	19,206

RR - Revaluation Reserve

SDPS - Surplus or Deficit on the Provision of Services

b) Depreciation and Asset Lives

The following useful lives and depreciation rates have been used in the calculation of depreciation:

	Useful Economic Life (Years)
Land	999
Buildings	
<u>Specialist Buildings</u> , including Schools, Youth Centres, Residential Homes, Day Centres, Family Centres, Libraries, Museums, Highways Maintenance Depots	15 to 70
<u>Energy From Waste Buildings</u>	
Civil	60
Mechanical	25
Instrumentation, Control and Automation	10
<u>Non-Specialist Buildings</u>	40
<u>Site works</u> , including playground, hard standing, car parks etc.	
- associated with specialist buildings	5 to 55
- associated with non-specialist buildings	20
Infrastructure	
Structures (Bridges)	120
Major Road Construction	60
Street Lighting, Kerbing	40
Drainage	40
Signs and Lines	30
Safety Fencing	25
Traffic Signals, Other Street Furniture (Ornamental structures), Junction Improvements, Bus Stop Infrastructure, Carriageway Works, Footways, Materials Testing, Verges, Rights of Way	20
Reactive Signs	20
Carriageway Surfacing - Non-Principal Roads	12
Patching, Footway Slurry Sealing	10
Carriageway Surfacing - Principal Roads	8
Carriageway Slurry Sealing	6
Potholes - Non-Principal Roads	3
Potholes - Principal Roads	1
Vehicles, Furniture & Equipment	
Energy from Waste - Mechanical	25
Energy from Waste - Instrumentation, Control and Automation (ICA)	10
Energy from Waste - Admin Equipment	10
IT Equipment	4
Furniture and Equipment	5
Vehicles	3 to 18

c) Capital Commitments

At 31 March 2016, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016-17 and future years budgeted to cost £15.552m.

Detail	Gross £'000
Eastgate Centre Sleaford - New Build	4,500
North Hykeham Manor Farm - New Primary School 2016	1,929
Lincoln The Sir Francis Hill Primary - Expansion 2015-16	1,780
Lincoln Carlton Primary Academy - Expand to 2FE for 2016-17	955
Lincoln East/West Link - a major scheme to improve the flow of traffic around the City Centre	5,581
Grantham Southern Relief Road	775
	15,520

d) Valuations

The County Council undertakes a five year rolling programme of revaluations to ensure that land and buildings are measured at fair value. All valuations are carried out by the Council's appointed Valuers - Mouchel Vinchi Ltd. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations are carried out as at 1 April.

The significant assumptions applied in estimating the fair values are:

Non-Current Assets carried at historic cost	2014-15 £'000	2015-16 £'000
Vehicles, Plant, Furniture and Equipment	92,089	85,681
Infrastructure	460,669	474,763
Community Assets	0	27
Assets Under Construction	28,228	35,431
Total Cost of Valuation	580,986	595,902

Note 14. Heritage Assets.

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The assets held by the Council, which have been classed as Heritage Assets fall into three categories:

1) Windmills

The Council is responsible for four windmills: Alford five sail windmill, Burgh le Marsh windmill, Ellis Mill in Lincoln and Heckington Windmill.

All four windmills are operational, open to the public on a managed basis and usually staffed by volunteers. Each windmill provides value to the cultural heritage of the County, preserving unusual or even unique features such as Heckington Mill which is the only surviving eight sailed mill in the country.

2) Historic Buildings

The Council owns various historic buildings, the most famous of which is Lincoln Castle. The Castle was constructed by William the Conqueror on the site of a pre-existing Roman fortress. The Castle is open to the public and guided tours are available to give an insight into the history of Lincoln and Lincolnshire. Various cultural and entertainment events are also held at the Castle each year.

Also, the 12th century Temple Bruer Preceptory Tower, which was built to house the military order formed to guard the shrines of the Holy Land and protect pilgrims on the road. This site is managed by Heritage Lincolnshire on behalf of the Council.

3) Collections

The Council owns and is responsible for more than three million items in its collections (held across libraries, museums and archives). These include physical and digital collections from all periods of Lincolnshire's history.

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

The County's collections bring a wealth of enjoyment and education to those living in Lincolnshire and beyond. The County is legally obliged to protect significant elements of these collections but, importantly, their management and development ensures that the cultural heritage and life of the County are preserved for future generations and are available to the current generation.

The management and development of the collections is governed by the Council's Policy on Collection Management, which can be found on the Council's website in the resident's area, under Leisure, Culture and Heritage. (<http://www.lincolnshire.gov.uk/residents-culture-and-heritage/heritage/>).

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

	Windmills	Other Historic Buildings	Collections	Total
	£'000	£'000	£'000	£'000
Cost or Valuation				
Balance at 1 April 2015	4,934	19,964	27,727	52,625
Additions - In House construction/Improvement				0
Additions - Purchase/Acquisition	3	24	0	27
Additions - Donations	0	0	0	0
Revaluations recognised in the Revaluation Reserve	64	0	7,476	7,540
Revaluations recognised in the CI&ES	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation	0	0	0	0
Impairment Losses/(reversals) recognised in the CI&ES	0	0	0	0
Disposals	0	0	0	0
Reclassifications				0
At 31 March 2016	5,001	19,988	35,203	60,192

	Windmills	Other Historic Buildings	Collections	Total
	£'000	£'000	£'000	£'000
Cost or Valuation				
Balance at 1 April 2014	4,690	4,026	27,727	36,443
Additions - In House construction/Improvement	124	7,879	0	8,003
Additions - Purchase/Acquisition	0	0	0	0
Additions - Donations	0	0	0	0
Revaluations recognised in the Revaluation Reserve	0	0	0	0
Revaluations recognised in the CI&ES	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation	0	0	0	0
Impairment Losses/(reversals) recognised in the CI&ES	0	0	0	0
Disposals	0	0	0	0
Reclassifications	120	8,059	0	8,179
At 31 March 2015	4,934	19,964	27,727	52,625

d) Additions to Heritage Assets

There has been addition of £xxxx to other historic buildings. This relates to the castle revealed project at Lincoln Castle.

e) Total Heritage Assets Five Year Summary of Transactions

	2011-12	2012-13	2013-14	2014-15	2015-16
	£000	£000	£000	£000	£000
Balance at Start of the Year	31,157	35,022	36,356	36,443	52,625
Cost of Acquisitions	109	14	7	8,003	0
Revaluations	3,718	(4)	(38)	0	7,540
Carrying Amount of Disposals/Proceeds	(114)	0	0	0	0
Reclassifications	152	1,324	118	8,179	0
Total at Year End	35,022	36,356	36,443	52,625	60,165

Note 15. Investment Properties.

Investment Properties are assets held for either capital appreciation or income generation, or both. For these purposes the Council holds the County Farms estates and a small number of other general fund properties. The County Farms estate includes both freehold (owned by the Council) and leasehold (rented by the Council) properties.

a) Investment Properties Income and Expenditure

County Farm Estates	2014-15	2015-16
	£'000	£'000
Rental Income from Investment Property	(2,213)	(2,326)
Direct Operating Expenses arising from Investment Property	769	720
Net (Income)/Expenditure	(1,444)	(1,606)

Other General Fund Properties	2014-15	2015-16
	£'000	£'000
Rental Income from Investment Property	(43)	(22)
Direct Operating Expenses arising from Investment Property	41	9
Net (Income)/Expenditure	(2)	(13)

There are no restrictions on the Council's ability to realise the value inherent in its Investment Properties, or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

b) Movement on Investment Properties

	County Farm Estates	Other General Fund Properties
	£'000	£'000
Balance at 1 April 2015	91,879	646
Additions - Acquisitions (Purchase and Construction)	166	2
Additions - Subsequent expenditure	0	0
Disposals	(722)	0
Net Gains/(Losses) from fair value adjustments	4,504	32
Transfers to/from Property, Plant and Equipment	0	0
Balance at 31 March 2016	95,827	680
Nature of asset holding		
Owned	95,637	679
Leased	190	0
Balance at 31 March 2016	95,827	679

	County Farm Estates	Other General Fund Properties
	£'000	£'000
Balance at 1 April 2014	81,781	701
Additions - Acquisitions (Purchase and Construction)	430	0
Additions - Subsequent expenditure	0	0
Disposals	(1,608)	0
Net Gains/(Losses) from fair value adjustments	11,276	(55)
Transfers to/from Property, Plant and Equipment	0	0
Balance at 31 March 2015	91,879	646
Nature of asset holding		
Owned	91,840	646
Leased	39	0
Balance at 31 March 2015	91,879	646

c) Revaluations

The Council revalues investment properties annually to ensure that they are carried at fair value. All valuations are carried out by the Council's appointed Valuers - Savills (L&P Ltd) for the County Farms Estate and Mouchel Ltd for other general fund Investment Properties. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations are carried out as at 31 March each year to ensure all Investment Properties are carried at fair value at the Balance Sheet date.

Note 16. Intangible Assets.

a. Movement on intangible assets:

	Software	Software Licenses	Total
	£'000	£'000	£'000
Balance at 1 April 2015			
- Gross carrying amount	15,714	2,681	18,395
- Accumulated amortisation	(8,801)	(397)	(9,198)
Net carrying amount at 1 April 2015	6,913	2,284	9,197
Additions:			
- Purchases	756	0	756
<u>Asset classified as held for sale</u>			
- Other disposals	0	0	0
- Amortisation for the period	(2,043)	(304)	(2,347)
- Other changes - reclassifications	0	0	0
Net carrying amount at 31 March 2016	5,626	1,980	7,606
Comprising:			
- Gross carrying amounts	16,470	2,681	19,151
- Accumulated amortisation	(10,844)	(701)	(11,545)
Balance Sheet amount at 31 March 2016	5,626	1,980	7,606

b. Depreciation and Asset Lives

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

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

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £2.347m (£2.116m in 2014-15) charged to revenue in 2015-16 was charged to the IT cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

c. Significant Capitalised Software

At 31 March 2016, the County Council has capitalised material items of software (with a value over £2m):

Detail	Gross £'000
IMP Upgrade	1,177
Agresso Software	2,584
Agresso Licences	2,371

d. Capital Commitments

At 1 April 2016, the Council has entered into contracts for the purchase of intangible assets for 1 April 2015 to 31 March 2016, and for future years budgeted to cost £14.455m. The major commitments are:

Detail	Gross £'000
Superfast Broadband - A programme to install high speed internet infrastructure in communities and businesses, particularly in rural areas.	9,696
Mosaic	1,757
Infrastructure & Refresh	3,002
TOTAL	14,455

e. Revaluation

The County Council does not revalue its intangible assets, all assets are carried at cost. Annually an impairment review is undertaken to ensure that all intangible assets have an appropriate asset life and carrying value as at 31 March each year.

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

a. Financial Instruments Balance

The following categories of financial instruments are disclosed in the Balance Sheet:

	Long-Term		Current	
	31 March 2015	31 March 2016	31 March 2015	31 March 2016
	£'000	£'000	£'000	£'000
Borrowings				
Financial Liabilities At Amortised Cost	441,673	466,130	25,715	19,604
Financial Liabilities at Fair Value Through Profit and Loss	0	0	0	0
Total Borrowings	441,673	466,130	25,715	19,604
PFI & Finance Lease Liabilities				
PFI and Finance Lease Liabilities	12,916	12,232	0	0
Total PFI & Finance Lease Liabilities	12,916	12,232	0	0
Creditors & Other Long Term Liabilities				
Financial Liabilities Carried at Contract Amount	8,082	7,525	44,296	85,175
Total Creditors	8,082	7,525	44,296	85,175
Investments				
Loans and Receivables	200	214	74,916	131,625
Available for Sale Financial Assets	0	0	84,553	93,481
Unquoted Equity Investments At Cost	14	0	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0	0	0
Total Investments	214	214	159,469	225,106
Debtors				
Loans and Receivables	7,336	7,721	0	0
Financial Assets Carried at Contract Amount	0	0	43,286	49,973
Total Debtors	7,336	7,721	43,286	49,973

b. Financial Instruments Income, Expense, Gains or Losses

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

The Council's Financial Assets are predominantly loans and receivables valued at amortised cost; although it's investments held in Stable Net Asset Value Money Market Funds are classed as Available for Sale Financial Assets which are valued at fair value that equates to the carrying value, as 1 unit held in these funds = £1 fair value. Investments held in Certificate of Deposits or Bonds are also classed as Available for Sale which are also valued at fair value based on the prevailing price at 31st March 2016. The Council has a small share holding of £14,100, acquired for Economic Regeneration and Fire & Rescue Service reasons. Shares are held to the nominal value of £14,100 and are classed as Unquoted Equity Investments and are valued at cost. No income is received from these investments.

There have been no gains or losses on derecognition or impairment losses during the year on the financial assets held by the Council. No revaluation of assets has taken place and hence no gains or losses on revaluation have occurred.

Interest received or incurred, fee expenses or income received or incurred, or any unrealised gains or losses in fair value of Available for Sale investments, in relation to the financial instruments held by the Council is shown in the following table:

	2014-15	2015-16
	£'000	£'000
Unrealised Reduction in Fair Value - Available for Sale Financial Assets held at 31st March	3	
Financial Liabilities At Amortised Cost	19,753	19,991
Financial Liabilities at Fair Value Through Profit and Loss	0	0
Total Interest Expense	19,753	19,991
Total Fee Expense	60	60
Total Expense in Surplus or Deficit on the Provision of Services	19,813	20,051
Unrealised Increase in Fair Value -Available for Sale Financial Assets held at 31st March	(246)	(447)
Loans and Receivables at Amortised Cost	(611)	(398)
Available for Sale Financial Assets	(788)	(1,135)
Unquoted Equity Investments At Cost	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0
Total Interest Income	(1,399)	(1,533)
Total Fee Income	0	0
Interest Received	(1,399)	(1,533)

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

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the investments using the following assumptions:

- For loans from the PWLB, equivalent borrowing rates available from the PWLB at 31 March 2016 have been applied to provide the fair value under the PWLB debt redemption procedures.
- For non PWLB loans and loans receivable prevailing benchmark market rates have been used to provide the fair value.
- No early repayment or impairment is recognised.
- Where an instrument has a maturity of less than 12 months (other than PWLB debt), or is a trade or other payable or receivable, the fair value is taken to be the principal outstanding or the billed amount.
- The fair value of trade and other payables and receivables, taken to be the invoiced or billed amount, are not shown in the table below.

The fair values calculated are as follows:

	31 March 2015		31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB Debt (Long Term > 12 Months)	411,672	499,133	436,130	530,315
Non PWLB Debt (Long Term > 12 Months)	30,000	34,294	30,000	35,501
PWLB Debt (Short Term < 12 Months)	21,550	26,119	15,543	18,890
Non PWLB Debt (Short Term < 12 Months)	187	187	74	74
Long-Term Creditors & Other Long Term Liabilities	8,082	8,082	8,300	8,300
Total Financial Liabilities at Amortised Cost	471,491	567,815	490,047	593,080

Where the fair value is less than the carrying amount, this is due to the Council's portfolio of loans including a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future gain based on economic conditions at the Balance Sheet date arising from a commitment to pay interest to lenders below current market rates.

Where the fair value is more than the carrying amount, the opposite is true, i.e. a number of fixed rate loans held in the Council's portfolio have interest rates payable above current market rates for similar loans. The change in fair value from 31 March 2015 to 31 March 2016, highlights the reduction or increase in market rates over this period.

The fair value of the PWLB Debt shown above is calculated using the PWLB New Borrowing Concessionary rates available at the 31 March 2016. However if the Council were to repay any of this PWLB Debt early at this time, then the PWLB would calculate the Fair Value of this debt using a set of Early Redemption rates. The fair value calculated on this basis would be £636,206k, some £87,000k higher than the market fair value stated above. This represents the penalty charge by the PWLB of redeeming the loans early to cover the additional interest that would no longer be paid if that were the case.

Loans and Receivables	31 March 2015		31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables (Long Term > 12 Months)	200	200	200	200
Loans and Receivables (Short Term < 12 Months)	74,510	74,510	131,625	131,625
Long-Term Debtors	7,336	7,551	7,721	7,934
Financial Assets at Amortised Cost	82,046	82,261	139,546	139,759

The fair value is greater than the carrying amount when the Council's portfolio of long term investments includes a number of fixed rate loans, where the interest rate receivable is higher than the estimated rates available for similar loans at the Balance Sheet date. This guarantee to receive interest above the current market rate increases the amount that the Council would receive if it agreed to early repayment of the loans and hence shows a notional future gain.

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

Level 1 - quoted prices (unadjusted) in active markets for identical assets at the Balance Sheet Date.

Level 2 - comparators other than quoted prices included in Level1 that are observable for that asset, either directly or indirectly.

Level 3 - unobservable comparators for the asset.

Details of these investments are shown in the table below:

Available for Sale Investments	Fair Value Hierarchy Measurement	31 March 2015		31 March 2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		£000	£000	£000	£000
Certificates of Deposit	Level 1	47,825	48,068	60,675	61,081
Bonds	Level 1	0	0	6,050	6,091
Money Market Funds	Level 1	36,485	36,485	26,309	26,309
Available For Sale Financial Assets		84,310	84,553	93,034	93,481

As with Loans and Receivables, the Fair Value of the Certificate of Deposits and Bonds is higher than the original purchase amount due to them having a higher coupon than those available for similar Certificate of Deposits/Bonds in the market at the balance sheet date. The Fair Value of Money Market Funds equate to the Carrying Value as 1 unit held in these funds equals £1 fair value.

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

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

(i) Key Risks

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;

- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;

- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;

- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

(ii) Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the Code of Practice;

- by approving annually in advance prudential indicators for the following three years limiting:

- o maximum and minimum exposures to fixed and variable rates;
- o maximum and minimum exposures to the maturity structure of its debt;
- o maximum annual exposures to investments maturing beyond one year.

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

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

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

(iii) Credit Risk

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

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

The following analysis summarises the Council's investments at the reporting date by the long-term credit rating, (using Fitch IBCA's scoring criteria), of the counterparties with whom its investments are made and hence shows its potential exposure to credit risk at the reporting date.

Institutions	Amount at 31 March 2015		Amount at 31 March 2016	
	£'000	%	£'000	%
AAA Rated Counterparties	36,485	22.94%	26,309	11.70%
AA Rated Counterparties	42,510	26.73%	140,350	62.41%
A Rated Counterparties	72,825	45.79%	15,825	7.04%
BBB+ Rated Counterparties (*1)	0	0.00%	37,175	16.53%
Other Counterparties (*2)	7,214	4.54%	5,214	2.32%
Total Investments	159,034	100.00%	224,873	100.00%

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

(*2) Other Counterparties are predominantly investments with other Local Authorities (UK Government), who are not credit rated in their own right, however represent low credit risk to the Council.

At the time of making the investment, the financial institutions fully met the Council's minimum investment criteria.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council has not received nor expects any losses/defaults from the non-performance by any of its counterparties in relation to its investments.

Collateral – During the reporting period the Council held no collateral as security for its investments.

The Council does not generally allow credit for its customers. However, there is one exception to this where there is an agreed policy in relation to care home fees to allow credit with an attachment over property.

The overdue, but not impaired, amounts of the Council's customers at 31 March 2016 can be analysed by age as follows:

Analysis of Debts by Age	Amount at 31 March 2015		Amount at 31 March 2016	
	£'000	%	£'000	%
Less than 3 months	2,538	36.26%	1,429	24.89%
3 to 6 months	739	10.56%	584	10.17%
6 months to 1 year	1,489	21.27%	617	10.75%
More than 1 year	2,234	31.91%	3,111	54.19%
Total Outstanding Debt	7,000	100.00%	5,741	100.00%

(iv) Liquidity Risk

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

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

(v) Refinancing and Maturity Risk

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

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

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

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

Debt Outstanding- Financial Liabilities	31 March 2015	31 March 2016
	£'000	£'000
Less than one year	25,715	19,604
Between one and two years	15,543	15,531
Between two and five years	65,728	74,656
Between five and ten years	52,877	44,795
Between ten and fifteen years	53,854	49,599
Between fifteen and twenty-five years	36,122	34,000
Between twenty-five and thirty-five years	36,823	36,822
Between thirty-five and forty-five years	175,726	190,726
Maturing in more than forty-five years	5,000	20,000
Total	467,388	485,733

Investments Outstanding - Financial Assets	31 March 2015	31 March 2016
	£'000	£'000
Less than one year	159,470	225,780
Between one and two years	0	0
Between two and three years	0	200
Maturing in more than three years	214	14
Total	159,684	225,994

All trade and other payables are due to be paid in less than one year. Trade debtors and creditors are not shown in the table above.

(vi) Market Risk

Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on Provision of Services Account will rise;
 - borrowings at fixed rates – the fair value of the borrowing liability will fall (no impact on revenue balances);
 - investments at variable rates – the interest income credited to the Surplus or Deficit on Provision of Services Account will rise;
- and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings or Loan and Receivables are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowings or fixed rate loans and receivables would not impact on the Surplus or Deficit on Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on Provision of Services and affect the General Fund Balance.

Unrealised nominal gains and losses on the fair value of Available for Sale Investments would be reflected in the Balance Sheet and balanced by an entry in the Available For Sale Reserve in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team monitor markets and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Based on the financial liabilities and assets as at the balance sheet date, a one percent point movement in average interest rates would be equivalent to a £1.112m change in the Council's net interest charge in the Comprehensive Income and Expenditure Account. This calculation is based on a full year interest effect at a constant level of borrowing and investments as at the reporting date, a further breakdown is shown in the table below:

Financial Impact of the Interest Rate Risk	Amount at 31 March 2016 £'000
Increase in interest payable on variable rate borrowings	(1)
Increase in interest receivable on variable rate investments	1,510
Impact on Income and Expenditure Account	1,509

The impact on the fair value of the Council's long term fixed borrowings and long term fixed investments from a one percentage point movement in average rates is shown below:

	Fair Value 31 March 2016	Fair Value at 1% Higher	Fair Value at 1% Lower
	£'000	£'000	£'000
County Council	582,905	504,174	686,905
Schools	1,801	1,713	1,897
Long Term Fixed Borrowing:	584,706	505,887	688,802
Long Term Fixed Investments:	0	0	0

There is no impact on the Surplus or Deficit on Provision of Services or the Other Comprehensive Income and Expenditure account from the movement in fair value on borrowing and loans & receivables shown above. Fair values have been calculated using the same methodology/assumptions as outlined on page 57. Fair Value of Assets and Liabilities Carried at Amortised Cost.

The impact on fair value of the Council's Available for Sale Investments, already carried on the Balance Sheet at fair value on 31 March 2016, from a 1% movement in average rates is shown in the table below. This impact would be reflected on the Surplus/Deficit on Revenue of Available for Sale Financial Assets as shown in the Comprehensive Income & Expenditure Statement.

	Fair Value 31 March 2016	Fair Value at 1% Higher	Fair Value at 1% Lower
	£'000	£'000	£'000
Available For Sale Investments	93,481	93,334	93,605

Price Risk

The Council, excluding the pension fund, does not generally invest in equity shares and is therefore not exposed to losses arising from movements in the price of shares.

The Council has a small equity holding of 14,100 shares (£1 par value) held for Economic Regeneration and Fire & Rescue purposes.

These shares are classed as 'Unquoted Equity Investments' valued at cost and do not represent a price risk for the Council.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Note 18. Inventories.

	Balance outstanding at 1 April 2015	Purchases	Recognised as an expense in the year	Written off balances	Reversals of write-off in previous years	Balance outstanding at 31 March 2016
	£'000	£'000	£'000	£'000	£'000	£'000
Salt Stores	610	2,565	(792)	0	0	2,383
Total Inventories	610	2,565	(792)	0	0	2,383

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

Note 19. Debtors.

The County Council held the following debtors as at 31 March 2016:

31 March 2015	Amounts falling due in one year:	31 March 2016
£'000		£'000
17,894	Central government bodies	16,619
1,114	Other local authorities	1,649
4,790	NHS bodies	4,305
0	Public corporations and trading funds	0
6,776	Bodies external to general government	14,055
12,381	Council tax agency and business rates agency arrangements	15,538
18,220	Payments in advance	5,450
61,175	Total Short Term Debtors	57,616

31 March 2015	Amounts falling due after one year:	31 March 2016
£'000		£'000
1,791	Central government bodies	2,425
969	Other local authorities	479
91	NHS bodies	115
4,485	Bodies external to general government	4,701
7,336	Total Long Term Debtors	7,720

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

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

Note 20. Assets Held for Sale.

	Current	
	2014-15	2015-16
	£'000	£'000
Balance outstanding at 1 April	1,544	2,545
<u>Assets newly classified as held for sale:</u>		
- Property, Plant and Equipment	2,838	53
Revaluation Increase to RR	0	
Revaluation Decrease to RR	(293)	(18)
Revaluation Increase/(Decrease) to SDPS	0	(18)
<u>Assets declassified as held for sale:</u>		
- Property, Plant and Equipment	(395)	(945)
Assets Sold	(1,149)	(316)
Transfers from non-current to current	0	0
Balance Outstanding at 31 March	2,545	1,301

RR - Revaluation Reserve

SDPS - Surplus or Deficit on the Provision of Services

Note 21. Creditors.

The County Council had the following creditors at 31 March 2016:

2014-15	Amounts falling due in one year:	2015-16
£'000		£'000
(644)	Central government bodies	(1,385)
(2,155)	Other local authorities	(1,675)
(1,513)	NHS bodies	(5,762)
0	Public corporations and trading funds	0
(40,051)	Other entities and individuals	(76,320)
(8,288)	Council tax agency and business rates agency arrangements	(9,655)
(52,651)	Total Short Term Creditors	(94,797)

2014-15	Amounts falling due after one year:	2015-16
£'000		£'000
(1,617)	Central government bodies	(1,270)
(510)	Other local authorities	0
(5,955)	Other entities and individuals	(6,255)
(8,082)	Total Long Term Creditors	(7,525)

Note 22. Provisions.

Summary of Provisions	Balance at	Additional	Amounts	Unused	Unwinding of	Balance at
	1 April 2015	Provisions made in 2015-16	Used in 2015-16	amounts reversed in 2015-16	discounting in 2015-16	31 March 2016
	£'000	£'000	£'000	£'000	£'000	£'000
Social Services - Section 117 Deposits	(307)	0	0	0	0	(307)
Insurance Claims	(5,236)	(790)	258	0	225	(5,543)
Business Rates Appeals	(619)	(1,460)	0	0	0	(2,079)
Waking Nights Provision	(876)	0	0	413	0	(463)
Onerous Contracts Property Leases	(22)	0	22	0	0	0
Lincoln City Hall Dilapidation Provision	(262)	0	262	0	0	0
Fire Fighters ill Health Pensions Provision	(517)	0	128	0	0	(389)
CSC Volume Fees Provision	0	(2,623)	0	0	0	(2,623)
Wellbeing Monitoring Service	0	(275)	0	0	0	(275)
TOTAL	(7,839)	(5,148)	670	413	225	(11,679)

-1

Short Term Provisions	Balance at	Additional	Amounts	Unused	Unwinding of	Balance at
	1 April 2015	Provisions made in 2015-16	Used in 2015-16	amounts reversed in 2015-16	discounting in 2015-16	31 March 2016
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance Claims	(2,110)	(4)	258	0	0	(1,856)
Business Rates Appeals	(619)	(1,460)	0	0	0	(2,079)
Waking Nights Provision	(876)	0	0	413	0	(463)
Fire Fighters ill Health Pensions	(517)	0	128	0	0	(389)
Onerous Contracts Property Leases	(22)	0	22	0	0	0
Lincoln City Hall Dilapidation Provision	(262)	0	262	0	0	0
CSC Volume Fees Provision	0	(2,623)	0	0	0	(2,623)
Wellbeing Monitoring Service Provision	0	(275)	0	0	0	(275)
TOTAL	(4,406)	(4,362)	670	413	0	(7,685)

Long Term Provisions	Balance at	Additional	Amounts	Unused	Unwinding of	Balance at
	1 April 2015	Provisions made in 2015-16	Used in 2015-16	amounts reversed in 2015-16	discounting in 2015-16	31 March 2016
	£'000	£'000	£'000	£'000	£'000	£'000
Social Services - Section 117	(307)	0	0	0	0	(307)
Insurance Claims	(3,126)	(786)	0	0	225	(3,687)
TOTAL	(3,433)	(786)	0	0	225	(3,994)

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

S117 of the Mental Health Act 1983 prescribes that Service Users who have been placed in care under Section 3 of the same act do not have to pay for aftercare services. Where they have been charged for such services they are entitled to reimbursement of the charges, plus interest. This provision was made to pay Service Users who are assessed as falling into this category. In March 2013, a review of the provision was carried out and a decision was to maintain the provision at its current level.

The **Insurance** provision represents all estimated outstanding claims under the excess clauses of the Council's external insurance policies. Material risks which are met by the Council under current insurance policies are shown below:

Type of Insurance	Met by the County Council	
	Each Claim	Maximum for all such
	£'000	£'000
Public & employer's liability	150	3,000
School property	150	500
Other property	10	100

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

The Waking Nights provision has been created following an investigation that found that Children's Services has not paid an extra overnight allowance to night carers as part of a past Job evaluation. This is back pay from 2007.

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

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

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

Note 23. Other Long Term Liabilities

31 March 2015		31 March 2016
£'000		£'000
	(12,916) Outstanding Liabilities on PFI and Finance Leases	(12,232)
	(895,255) Pension Reserve	(745,582)
	(908,171)	(757,814)

Note 24. Usable Reserves.

	Balance at 31 March 2015	Balance at 31 March 2016
	£'000	£'000
Capital Grants Unapplied	(52,673)	(62,676)
Earmarked Reserves	(169,823)	(147,996)
General Fund	(15,900)	(15,600)
Total	(238,396)	(226,272)

Note 25. Unusable Reserves.

Balance at 31 March 2015		Note	Balance at 31 March 2016
£'000			£'000
(289,143) Revaluation Reserve		(25a)	(307,920)
(603,570) Capital Adjustment Account		(25b)	(567,751)
154 Financial Instruments Adjustment Account		(25c)	96
895,255 Pension Reserve		(25d)	745,582
(3,474) Collection Fund Adjustment Account		(25e)	(3,805)
5,212 Accumulated Absences Account		(25f)	5,103
(243) Available for Sale Financial Instrument Reserve		(25g)	(447)
4,191 Total			(129,142)

a. Revaluation Reserve.

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2014-15		2015-16	
		£'000	£'000
(279,312)	Balance at 1 April		(289,143)
(52,668)	Upward revaluation of assets	(52,362)	
9,734	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	5,093	
(42,934)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(47,269)	
9,256	Difference between fair value depreciation and historical cost depreciation	10,557	
23,847	Accumulated gains on assets sold or scrapped	17,935	
33,103	Amount written off to the Capital Adjustment Account	28,492	
(289,143)	Balance at 31 March		(307,920)

(*1) The opening balance as at 1 April 2014 and movements in 2014-15 have been restated for the change in accounting policy on Schools Assets. Further information on the prior period adjustment can be found in Note 48.

b. Capital Adjustment Account

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2014-15		2015-16
£'000		£'000
(606,012)	Balance at 1 April	(603,570)
	<u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u>	
76,238	Charges for depreciation and impairment of non-current assets	80,353
15,859	Revaluation losses on Property, Plant and Equipment	13,154
120	Revaluation Losses on Held for Sale Assets	18
2,116	Amortisation of intangible assets	2,347
16,584	Revenue expenditure funded from capital under statute (net of Grants and Contributions)	18,066
44,505	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	58,641
(33,103)	Adjusting amounts written out of the Revaluation Reserve	(28,492)
122,319	Net written out amount of the cost of non-current assets consumed in the year	144,087
	<u>Capital financing applied in the year:</u>	
(2,510)	Use of Capital Receipts to finance new capital expenditure	(2,597)
(49,191)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(58,337)
(26,353)	Application of grants to capital financing from the Capital Grants Unapplied Account	(13,657)
(23,813)	Statutory provision for the financing of capital investment charged against the General Fund	(22,196)
(6,790)	Capital expenditure charged against the General Fund	(6,944)
(108,657)		(103,731)
(11,220)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(4,536)
0	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	0
(11,220)		(4,536)
(603,570)	Balance at 31 March	(567,751)

(*1) The opening balance as at 1 April 2014 and movements in 2014-15 have been restated for the change in accounting policy on Schools Assets. Further information on the prior period adjustment can be found in Note 48.

c. Financial Instruments & Financial Assets Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.

2014-15	2015-16
£'000	£'000
140 Balance at 1 April	154
0 Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0
15 Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	15
(1) Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(73)
154 Balance at 31 March	96

d. Pensions Reserve

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

2014-15	2015-16
£'000	£'000
715,325 Balance at 1 April	895,255
148,749 Actuarial gains or losses on pensions assets and liabilities	(185,347)
70,093 Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CI&ES	77,061
(38,912) Employer's pensions contributions and direct payments to pensioners payable in the year	(41,387)
895,255 Balance at 31 March	745,582

e. Collection Fund Adjustment Account

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

2014-15		2015-16
£'000		£'000
	(908) Balance at 1 April	(3,474)
(2,566)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax & business rates income calculated for the year in accordance with statutory requirements	(331)
	(3,474) Balance at 31 March	(3,805)

f. Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2014-15		2015-16	2015-16
£'000		£'000	£'000
	5,427 Balance at 1 April		5,212
(5,426)	Settlement or cancellation of accrual made at the end of the preceding year	(5,212)	
5,211	Amounts accrued at the end of the current year	5,103	
(215)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(109)
	5,212 Balance at 31 March		5,103

g. Available for Sale Financial Instrument Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the County Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost; and
- disposed of and the gains are realised.

2014-15		2015-16
£'000		£'000
	(83) Balance at 1 April	(243)
(160)	Change in the value of investments not charged to the Surplus/Deficit on the Provision of Services	(204)
	(243) Balance at 31 March	(447)

Note 26. Operating Activities.

The cash flow operating activities include the following items:

2014-15	2015-16
£'000	£'000
(1,348) Interest received	(1,679)
19,625 Interest paid	20,383
0 Dividends received	(2)

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

2014-15	2015-16
£'000	£'000
(76,238) Depreciation	(80,352)
(15,980) Impairment and downward valuations	(19,548)
(2,116) Amortisation	(2,347)
(535) Increase/(decrease) in impairment for bad debts	(1,415)
30,712 Increase/decrease in creditors	(44,989)
12,779 Increase/decrease in debtors	815
(602) Increase/decrease in inventories	1,774
(31,181) Movement in pension liability	(35,674)
(40,477) Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(49,453)
12,605 Other non-cash items charged to the net surplus or deficit on the provision of services	(1,074)
(111,033) Net surplus/(deficit) on provision of services for non cash movements	(232,263)

(*1) The comparator year has been restated for the change in accounting policy on Schools Assets. Further information on the prior period adjustment can be found in Note 48.

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

2014-15	2015-16
£'000	£'000
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investment in associates, joint ventures and 0 subsidiaries)	0
70,106 Capital Grants credited to Surplus or deficit on the provision of services	81,996
2,510 Proceeds from sale of property, plant and equipment, investment property and intangible assets	2,605
1,446 Any other items for which the cash effects are investing or financing cash flows	1,619
74,062 Net surplus/(deficit) on provision of services for Investing & Financing activities	86,220

(*1) The comparator year has been restated for the change in accounting policy on Schools Assets. Further information on the prior period adjustment can be found in Note 48.

Note 27. Investing Activities.

The cash flow investing activities include the following items:

2014-15		2015-16
£'000		£'000
85,886	Purchase of property, plant and equipment, investment property and intangible assets	87,921
956,095	Purchase of short-term and long- term investments	851,519
810	Other payments for investing activities	729
(2,510)	Proceeds from sale of property, plant equipment, investment property and intangible assets	(2,605)
(983,536)	Proceeds from short-term and long-term investments	(786,086)
(68,434)	Capital Grants Received (Government)	(84,571)
(2,256)	Other receipts from investing activities	(2,348)
(13,945)	Net cash flow from investing activities	64,559

Note 28. Financing Activities.

The cash flow financing activities include the following items:

2014-15		2015-16
£'000		£'000
(20,300)	Cash receipts of short and long-term borrowing	(30,456)
0	Other receipts from financing activities	0
947	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance-Sheet PFI Contracts	630
11,785	Repayments of short and long-term borrowing	12,111
0	Other payments for financing activities	0
(7,568)	Net cash flow from Financing activities	(17,715)

Note 29. Amounts reported for Resource Allocation Decisions (Segmental Reporting)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Executive on the basis of budget reports analysed across Commissioning Strategies and service areas.

These reports are prepared on a different basis from the accounting policies used in the Financial Statements. In particular:

- no charges are made in relation to capital expenditure (where as depreciation and amortisation; and revaluation/impairment losses in excess of the balance on the Revaluation Reserve are charged to services in the Comprehensive Income and Expenditure Statement);

- the cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year; and

- expenditure on support services forms part of the Finance and Resources and Performance and Governance budgets and expenditure. However, within the Comprehensive Income and Expenditure Statement these are allocated to front line services based on their usage. Methods of allocation for these services are set out in the Council's accounting policies in Note 1.

a. Income and Expenditure analysed over the Council's Commissioning Strategies and reported in the Council's Outturn Report.

This analysis may include items that do not form part of the Comprehensive Income and Expenditure Statement, hence the need for the Reconciliation from the Segmental Reporting Analysis to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

Service Analysis 2015-16	Employee Expenses	Agency and Contract Payments	Other Running Expenses	Gross Expenditure	Specific Grants and Contributions	Other Income (inc. Fees and Charges)	Total Income	Cost of Services
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
COMMISSIONING STRATEGIES								
Readiness for School	3,397	2,086	2,309	7,792	(10)	(52)	(62)	7,730
Learn and Achieve	7,913	4,641	27,437	39,991	(1,218)	(3,008)	(4,226)	35,765
Readiness for Adult Life	4,667	2,825	2,035	9,527	(3,666)	(228)	(3,894)	5,633
Children are Safe and Healthy	29,360	19,539	17,108	66,007	(11,352)	(183)	(11,535)	54,472
Adult Safeguarding	1,486	262	1,342	3,090	(80)	(1)	(81)	3,009
Adult Frailty and Long Term Conditions	15,147	119,745	23,539	158,431	(27,627)	(34,951)	(62,578)	95,853
Carers	83	561	994	1,638	(100)	0	(100)	1,538
Adult Specialities	4,703	65,980	1,613	72,296	(22,429)	(4,926)	(27,355)	44,941
Community Resilience and Assets	4,542	4,259	6,061	14,862	(571)	(348)	(919)	13,943
Wellbeing	5,078	28,860	8,830	42,768	(5,621)	(1,216)	(6,837)	35,931
Sustaining and Developing Prosperity								
Through Infrastructure	15,548	32,725	19,326	67,599	(5,004)	(5,555)	(10,559)	57,040
Protecting and Sustaining the Environment	3,014	17,542	4,317	24,873	(963)	(300)	(1,263)	23,610
Sustaining and Growing Business and the Economy	1,373	193	3,847	5,413	(2,824)	(1,383)	(4,207)	1,206
Protecting The Public	21,321	1,072	7,670	30,063	(4,972)	(378)	(5,350)	24,713
How We Do Our Business	5,905	1,172	1,895	8,972	(533)	(205)	(738)	8,234
Enablers and Support To Council's Outcomes	21,493	9,792	9,988	41,273	(1,655)	(4,479)	(6,134)	35,139
Public Health Grant	0	0	0	0	(30,723)	0	(30,723)	(30,723)
TOTAL SERVICE BUDGETS	145,030	311,254	138,311	594,595	(119,348)	(57,213)	(176,561)	418,034
OTHER BUDGETS								
Capital Financing Charges	0	0	44,441	44,441	0	0	0	44,441
Other Budgets	11,908	231	732	12,871	(369)	0	(369)	12,502
TOTAL OTHER BUDGETS	11,908	231	45,173	57,312	(369)	0	(369)	56,943
SCHOOLS BUDGETS								
Delegated School Budgets	170,529	27,617	56,872	255,018	(4,848)	(5,443)	(10,291)	244,727
Central Services within the DSB	5,262	14,809	3,633	23,704	(2,538)	(433)	(2,971)	20,733
Dedicated Schools Grant	0	0	0	0	(248,801)	0	(248,801)	(248,801)
Schools Budgets (Other Funding)	2,076	220	8,403	10,699	(26,004)	(117)	(26,121)	(15,422)
TOTAL SCHOOLS BUDGETS	177,867	42,646	68,908	289,421	(282,191)	(5,993)	(288,184)	1,237
TOTAL EXPENDITURE	334,805	354,131	252,392	941,328	(401,908)	(63,206)	(465,114)	476,214
INCOME								
Revenue Support Grant	0	0	0	0	(94,670)	0	(94,670)	(94,670)
Business Rates	0	0	0	0	(81,274)	(19,817)	(101,091)	(101,091)
Council Tax	0	0	0	0	0	(237,561)	(237,561)	(237,561)
Other Non Specific Grants	0	0	0	0	(19,516)	0	(19,516)	(19,516)
TOTAL INCOME	0	0	0	0	(195,460)	(257,378)	(452,838)	(452,838)
Use/(Contribution) to Reserves								23,376

Service Analysis 2014-15 Restated (*1)	Employee Expenses	Agency and Contract Payments	Other Running Expenses	Gross Expenditure	Specific Grants and Contributions	Other Income (inc. Fees and Charges)	Total Income	Cost of Services
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Readiness for School	4,062	3,623	3,661	11,346	(272)	(140)	(412)	10,934
Learn and Achieve	8,116	4,637	26,714	39,467	(2,888)	(3,475)	(6,363)	33,104
Readiness for Adult Life	4,711	3,525	2,316	10,552	(3,295)	(225)	(3,520)	7,032
Children are Safe and Healthy	31,780	20,251	10,611	62,642	(9,364)	(507)	(9,871)	52,771
Adult Safeguarding	1,158	0	579	1,737	(166)	(7)	(173)	1,564
Adult Frailty and Long Term Conditions	14,968	94,250	21,653	130,871	(4,821)	(33,442)	(38,263)	92,608
Carers	137	381	1,698	2,216	(63)	0	(63)	2,153
Adult Specialties	5,577	55,562	11,526	72,665	(30,746)	(3,243)	(33,989)	38,676
Community Resilience and Assets	8,198	53	7,895	16,146	(2,935)	(352)	(3,287)	12,859
Wellbeing	5,372	34,760	6,466	46,598	(5,842)	(1,587)	(7,429)	39,169
Sustaining and Developing Prosperity Through Infrastructure	10,817	34,614	14,179	59,610	(5,009)	(4,027)	(9,036)	50,574
Protecting and Sustaining the Environment	3,360	21,919	3,408	28,687	(3,746)	(728)	(4,474)	24,213
Sustaining and Growing Business and the Economy	2,190	11	4,879	7,080	(3,975)	(1,280)	(5,255)	1,825
Protecting The Public	22,617	165	10,529	33,311	(5,231)	(1,064)	(6,295)	27,016
How We Do Our Business	5,428	2,521	2,396	10,345	(862)	(1,004)	(1,866)	8,479
Enablers and Support To Council's Outcomes	18,260	9,246	15,949	43,455	(1,893)	(2,962)	(4,855)	38,600
Public Health Grant	0	0	0	0	(29,777)	0	(29,777)	(29,777)
TOTAL SERVICE BUDGETS	146,751	285,518	144,459	576,728	(110,885)	(54,043)	(164,928)	411,800
OTHER BUDGETS								
Capital Financing Charges	0	0	46,213	46,213	0	(1,396)	(1,396)	44,817
Contingency	0	0	0	0	0	0	0	0
Other Budgets	11,482	0	(1,739)	9,743	(62)	0	(62)	9,681
TOTAL OTHER BUDGETS	11,482	0	44,474	55,956	(62)	(1,396)	(1,458)	54,498
SCHOOLS BUDGETS								
Delegated School Budgets	169,855	22,536	59,648	252,039	(6,046)	(4,097)	(10,143)	241,896
Central Services within the DSB	6,349	10,003	6,534	22,886	(2,231)	(244)	(2,475)	20,411
Dedicated Schools Grant	0	0	0	0	(259,761)	0	(259,761)	(259,761)
Schools Budgets (Other Funding)	9,027	12	7,592	16,631	(24,035)	(31)	(24,066)	(7,435)
TOTAL SCHOOLS BUDGETS	185,231	32,551	73,774	291,556	(292,073)	(4,372)	(296,445)	(4,889)
TOTAL EXPENDITURE	343,464	318,069	262,707	924,240	(403,020)	(59,811)	(462,831)	461,409
INCOME								
Revenue Support Grant	0	0	0	0	(124,575)	0	(124,575)	(124,575)
Business Rates	0	0	0	0	(83,303)	(18,841)	(102,144)	(102,144)
Council Tax	0	0	0	0	0	(226,361)	(226,361)	(226,361)
Other Non Specific Grants	0	0	0	0	(16,745)	0	(16,745)	(16,745)
TOTAL INCOME	0	0	0	0	(224,623)	(245,202)	(469,825)	(469,825)
Use/(Contribution) to Reserves								(8,416)

(*1) The Council has changed the structure of internal reporting from 2015/16. The 2014-15 segmental reporting information has been restated onto the new Commissioning Structure to be comparable to the 2015-16 information.

A description of the services provided and the sources of funding for these areas is set out below:

COMMISSIONING STRATEGY	COMMISSIONING ACTIVITIES	DEFINITION OF COMMISSIONING STRATEGY
Readiness for School	Children Centres - and commissioned services	This commissioning strategy aims to ensure all children will be ready to learn when they start school enabling them to achieve their full potential.
	Early Years sufficiency and support to the PVI sector	
	Birth to 5 Service	
Learn & Achieve	School Support Services	This commissioning strategy aims to ensure all children and young people will learn and achieve, enabling them to reach their potential.
	School Improvement	
	Statementing process and interventions (to be replaced with new health, education and social care plan)	
	Home to school/college transport	
Readiness for Adult Life	14-19 education/training and apprenticeship	This commissioning strategy aims to ensure all young people will be prepared and ready for adult life.
	Careers Service	
	Positive activities for young people	
	Teenage Pregnancy	
	Supported accommodation/lodgings	
	Supported employment	
	Lincs Secure Unit	
	Leaving Care Service	
Children are Safe and Healthy	School Nursing	This commissioning strategy aims to ensure all children and young people will be safe and healthy.
	Healthy schools & healthy child	
	Child protection (contact, referral and assessment)	
	Targeted Support - young people	
	Looked after Children	
	Fostering and adoption	
	Residential homes	
	CAMHS	
	Family support	
	Commissioning Support for all Children's Strategies	
Adult Frailty, Long Term Conditions and Physical Disability	Supporting Adult frailty (older people)	This commissioning strategy aims to ensure that individuals receive appropriate care and support that enables them to feel safe and live independently.
	Physical disability	
	Dementia	
Carers	Adult & Young carers	This commissioning strategy aims to ensure that carers feel respected and are able to balance their caring roles and maintain their quality of life.
Adult Specialities	Supporting Adults with learning disability	This commissioning strategy aims to improve outcomes for adults with mental health, learning disabilities and/or autism.
	Mental health	
	Autism	
Adult Safeguarding	Adult Safeguarding (including Mental Capacity Act)	This commissioning strategy aims to ensure all vulnerable adults rights are protected to live in safety and free from abuse and neglect.
Community Resilience and Assets	Advice, information and support services from community and voluntary sector infrastructure organisations	This commissioning strategy aims to assist communities in the county to support themselves. It will also include the community response to emergencies.
	Community Grants	
	Big Society Fund	
	Chance to share contributions	
	Financial Inclusion	
	Library and information services	
	Lincolnshire Community Assistance Scheme - local welfare support	
	Customer Service Centre	
Wellbeing	Health Improvement, prevention and self management	This commissioning strategy aims to assist improvements in the health and wellbeing of the population as a whole, it covers advice, information and preventative services.
	Public Health statutory service	
	Mental health	
	Registration, Celebratory and Coroners service	
	Wellbeing Service (including specialist equipment, assistive technology and Disabled Facility Grants)	
	Physical Activities	
	Water fluoridation	
	Sexual Health	
	Housing related support	
	Prevention and treatment of substance misuse	

Protecting the Public	Preventing and reducing crime	This commissioning strategy will cover all of the work required in order to protect the communities in Lincolnshire.
	Tackling domestic abuse	
	Preventing and tackling fires & emergency response	
	Protecting the public through trading standards	
	Protecting the public by planning for and responding to emergencies	
	Improving road safety	
	Reducing youth offending	
	Reducing anti-social behaviour	
Sustaining & Developing Prosperity Through Infrastructure	Transportation including concessionary fares and other government grants etc	This commissioning strategy facilitates growth and prosperity through encouraging investment and enhancing the economic potential of the county.
	Highway asset maintenance	
	Highway network management	
	New transport investments including highways improvements and bypasses, growth corridors and programmes	
	Heritage & tourism operation and development	
	Monitoring Officer requirements	
Protecting & Sustaining the Environment	Reducing carbon emissions	This commissioning strategy covers how the Council will protect, enhance and balance our environmental needs.
	Flood risk management	
	Protecting and enhancing the natural & built environment	
	Waste management	
	Waste recovery & recycling	
	Sustainable Planning	
Sustaining & Growing Business & the Economy	Improving skills and employability	This commissioning strategy covers how the council will help businesses to be the drivers of economic growth through supporting a climate in which they are able to invest, enhance their business performance, and offer attractive jobs to a skilled workforce.
	Encourage enterprise through support to business and our growth sectors	
	Attracting and expanding business investment	
	Lobbying and attracting funding for Lincolnshire	
How We Do Our Business	Budget & Policy Framework - Finance & Audit	This commissioning strategy will include the overarching governance and standards for the Council, including decision making through the democratic process.
	Chief Executive's Office	
	Decision making, including the democratic processes and elections	
	Eastern Inshore Fisheries & Conservation Authority - Levy	
Enablers & Support to Council's Outcomes	Information Management & Technology Strategy & support	This commissioning strategy will include the enablers required to support the delivery of the Council's agreed outcomes.
	Property Strategy & support (including County Farms)	
	People Management Strategy & support	
	Legal Advice	
	Commissioning Strategy & Support	
	Business support	
Enablers & Support to Key Relationships	Partnership engagement & support	This commissioning strategy encompasses the Council's corporate strategies and the support to our relationships with the public, service users, partners and outside bodies.

b. Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement.

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2014-15		2015-16
£'000		£'000
(8,416)	Net Expenditure in the Directorate analysis (Use of Reserves)	23,376
0	Add: Net expenditure on services and support services not included in main analysis	0
148,835	Add: Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis (Note 29c)	158,901
383,504	Less: amounts reported to management in the analysis not included in the Comprehensive Income and Expenditure Account (Note 29c)	365,380
523,923	Net Cost of Services in the Comprehensive Income and Expenditure Statement	547,657

(*1) The comparator year has been restated for the change in accounting policy on Schools Assets. Further information on the prior period adjustment can be found in Note 48.

c. Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2015-16	Service Analysis	Amounts not	Amounts not	Net Cost of	Corporate	(Surplus)/Deficit
	Cost of Service	reported to	included in	Services	Amounts	on Provision of
	£'000	Management	CI&ES	£'000	£'000	Services
		£'000	£'000			£'000
Other income (including fees and charges)	(63,206)	(6,068)	4,229	(65,045)	0	(65,045)
Income from Council Tax and NNDR	(338,652)	0	338,652	0	(338,982)	(338,982)
Specific Grants and Contributions	(516,094)	0	114,186	(401,908)	(196,182)	(598,090)
Interest and Investment Income Receivable	0	0	0	0	(8,036)	(8,036)
TOTAL Income	(917,952)	(6,068)	457,067	(466,953)	(543,200)	(1,010,153)
Employee Expenses	334,805	48,221	(41,387)	341,639	0	341,639
Agency and Contract Expenditure	354,131	0	0	354,131	0	354,131
Other Running Expenses	252,392	20,912	(50,300)	223,004	0	223,004
Support Service Recharges	0	0	0	0	0	0
Depreciation, Amortisation and Impairment	0	95,836	0	95,836	0	95,836
Interest Payable and Similar Charges	0	0	0	0	20,373	20,373
Precepts and Levies	0	0	0	0	1,092	1,092
Gain or Loss on Disposal of Non-Current Assets	0	0	0	0	55,544	55,544
Pension Interest Cost	0	0	0	0	28,731	28,731
TOTAL Expenditure	941,328	164,969	(91,687)	1,014,610	105,740	1,120,350
Surplus/ Deficit on the Provision of Services	23,376	158,901	365,380	547,657	(437,460)	110,197

Reconciliation to Subjective Analysis 2014-15	Service Analysis	Amounts not	Amounts not	Net Cost of	Corporate	(Surplus)/Deficit
	Cost of Service	reported to	included in	Services	Amounts	on Provision of
	£'000	Management	CI&ES	£'000	£'000	Services
		£'000	£'000			£'000
Other income (including fees and charges)	(59,811)	(12,215)	3,716	(68,310)	0	(68,310)
Income from Council Tax and NNDR	(328,505)	0	328,505	0	(331,071)	(331,071)
Specific Grants and Contributions	(544,340)	0	141,319	(403,021)	(211,425)	(614,446)
Interest and Investment Income Receivable	0	0	0	0	(14,126)	(14,126)
TOTAL Income	(932,656)	(12,215)	473,540	(471,331)	(556,622)	(1,027,953)
Employee Expenses	343,464	39,133	(38,912)	343,685	0	343,685
Agency and Contract Expenditure	318,069	0	0	318,069	0	318,069
Other Running Expenses	262,707	27,704	(51,124)	239,287	0	239,287
Support Service Recharges	0	0	0	0	0	0
Depreciation, Amortisation and Impairment	0	94,213	0	94,213	0	94,213
Interest Payable and Similar Charges	0	0	0	0	19,723	19,723
Precepts and Levies	0	0	0	0	1,095	1,095
Gain or Loss on Disposal of Non-Current Assets	0	0	0	0	38,065	38,065
Pension Interest Cost	0	0	0	0	30,745	30,745
TOTAL Expenditure	924,240	161,050	(90,036)	995,254	89,628	1,084,882
Surplus/ Deficit on the Provision of Services	(8,416)	148,835	383,504	523,923	(466,994)	56,929

(*1) The Reconciliation to Subjective Analysis for 2014-15 has changed from the 2014-15 Statement of Accounts. This is due to a prior period adjustment arising from the change in accounting policy on School Assets. Further details can be found in Note 48.

Note 30. Acquired and Discontinued Operations.

The responsibility for commissioning 0-5 children's public health services transferred from NHS England to Local Government on 1 October 2015. This joins up the commissioning for children under 5 with the commissioning for 5-19 year olds and wider public health functions, which successfully transferred to local government in April 2013 under the Health and Social Care Act 2012.

The 0-5 children's public health services comprise commissioning the Healthy Child Programme, including the health visiting service and Family Nurse Partnership – targeted services for teenage mothers. Funding of £4.166m was received as part of the ring-fenced public health grant to commission the 0-5 services, which is reflected in these accounts.

In 2016-17 the County Council will receive full year funding for this service. This will be £8.682m before any adjustments for savings that have been applied to Lincolnshire's overall Public health grant allocation.

Note 31. Agency Services.

a. Nursing Care

Lincolnshire County Council makes payments to independent sector nursing homes for both the nursing care element and the personal care element of the accommodation charges. The nursing care element is the financial responsibility of the Clinical Commissioning Groups.

The Council paid £5.508m (£5.840m in 2014-15) acting as an agent of the Clinical Commissioning Groups in order to simplify the payment arrangements to the homes. The total amount paid is recovered from the Clinical Commissioning Groups.

Note 32. Pooled Budgets.

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

From 1st April 2015 the BCF S75 of £134m whereby the Council is the host Authority for the pooled budgets relates to Proactive Care, Specialties including Learning Disabilities, Corporate, Integrated Community Equipment Service, and Child & Adolescent Mental Health Services, and is responsible for their financial administration. Outside this BCF S75 is a stand alone S75 for Sexual Health which was signed in 2015-16 but will not commence until 2016-17.

a. Proactive Care

The ProActive S75's primary purpose is to support delivery of prevention and early intervention strategies and to secure the necessary shift from acute to community provision. Performance against the key national targets around Non-Elective Admissions (NEA) and Delayed Transfers of Care (DTC) are crucial areas that the Board is responsible for reviewing.

2014-15		2015-16
£'000		£'000
0	Gross Partnership Expenditure	48,978
0	Gross Partnership Income	(48,978)
0	Surplus(-)/Deficit(+)	0
0	Contribution from Lincolnshire County Council	26,700

This was split across both Health and Social care expenditure in 2015-16. The funding was supporting post 30 day discharge, intermediate Care, 7 day hospital working and other early prevention and intervention strategies in order to assist the shift from acute to community provisions in 2015-16.

b. Learning Disability

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

2014-15		2015-16
£'000		£'000
59,537	Gross Partnership Expenditure	62,761
(59,619)	Gross Partnership Income	(64,167)
(82)	Surplus(-)/Deficit(+)	(1,406)
45,882	Contribution from Lincolnshire County Council	45,970

This commissioning strategy aims to ensure that eligible Adults with Learning Disability, Autism and/or Mental Health needs receive appropriate care and support that enables them to feel safe and live independently. Services for Learning Disabilities are administered via a Section 75 agreement between the Council and NHS commissioners in Lincolnshire in addition to a small in-house element that sits outside the Section 75. The Mental Health service is run on behalf of the Council by the Lincolnshire Partnership Foundation Trust, also by way of a Section 75 agreement. Specialist Adult Services finished 2015-16 with an under-spend of £1.406m for the year, which has been agreed with Health to be carried forward as a reserve for a joint risk contingency for 2016-17. The service has seen growth in Supported Living and Direct Payments costs this been a combination of high cost discharges from in-patient provision and school/college leavers requiring packages of care. This has been mitigated somewhat by in year residential placements being lower than expected this year. Service user income has increased due to direct payment audit income and the successful conclusion a number of long standing legal dispute in resp

c) Corporate

The Corporate S75 provides the 'enablers' to the delivery of health and wellbeing of Lincolnshire, essentially focused around BCF-funded activity. So the S75 funds (a) the risk framework, the contingency reserve, and provides the mechanism for pooling underspends from other S75 agreements; and (b) provides the funds to support LHAC review and development.

2014-15	2015-16
£'000	£'000
0 Gross Partnership Expenditure	5,842
0 Gross Partnership Income	(8,990)
0 Surplus(-)/Deficit(+)	(3,148)
0 Contribution from Lincolnshire County Council	5,350

The underspend for 2015-16 was partly due to the Lincolnshire Health and Care joint venture deferring some activity until 2016-17. It has been agreed between the LCC and Health that £1.17m funding for LHAC will be available to carry forward into the new year to continue the integration of Health and Social care activities. The remainder is to be carried forward as a joint risk reserve for 2016-17.

d. Integrated Community Equipment Service (ICES)

From 1st April 2015 LCC entered into a S75 agreement with the 4 Lincs CCG for the provision of an integrated Community Equip service (ICES)

2014-15	2015-16
£'000	£'000
7,431 Gross Partnership Expenditure	5,390
(7,431) Gross Partnership Income	(5,390)
0 Surplus(-)/Deficit(+)	0
3,579 Contribution from Lincolnshire County Council	2,400

This is a 45:55 shared responsibility budget between the Council and the Clinical Commissioning Groups and there is a risk share agreement regarding any under or over spends in year.

This year there was a £0.600m BCF contingency reserve which wasn't required in 2015-16, hence this has remained within the reserves and will be fully utilised in 2016-17.

e. Child & Adolescent Mental Health Services

In 2012-13 Lincolnshire County Council and Lincolnshire Clinical Commissioning Group's established a pooled budget Partnership Arrangement for the provision of Child & Adolescent Mental Health Service. The size of this pooled budget increased in 2015-16 following variations made which incorporated additional functions in to the Section 75 Agreement.

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

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

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

2014-15	2015-16
£'000	£'000
6,028 Gross Partnership Expenditure	7,163
(6,049) Gross Partnership Income	(7,163)
-21 Surplus(-)/Deficit(+)	0
725 Contribution from Lincolnshire County Council	725

The figures within the CAMHS are made up mostly from the Child and Adolescent Mental Health services but now also includes promoting Independence for Children and other services that work towards the delivery of Mental Health issues amongst children and the young. The funding was all fully utilised in 2015-16.

f. Sexual Health

During 2015/16 the County Council jointly procured a new contract with NHS England to provide sexual health treatment and prevention services around the county. The new contract will commence on 1st April 2016 and includes provision for HIV services which are the responsibility of NHS England as well as other treatment and preventative services which remain the responsibility of the County Council. The County Council will be responsible for the contract but will receive a contribution from NHS England in respect of the HIV services. As such a S.75 agreement has been agreed between the County Council and NHS England and this will come into force in April 2016.

Note 33. Members Allowances.

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

2014-15		2015-16
£'000		£'000
772	Basic Allowances	793
437	Special Responsibility Allowances	450
1,209		1,243
92	Expenses	104
1,301	TOTAL	1,347

Note 34. Officers' Remuneration.

a. Officers' remuneration bandings

The table below shows the total number of staff employed by the Council whose actual remuneration exceeded £50,000 per annum, shown in £5,000 bands. Remuneration includes gross salary, expenses, the money value of benefits in kind and termination payments for staff leaving during the year. In addition, the table also identifies the number of staff that left the Council receiving termination payments in the respective year:

2014-15		Pay Band	2015-16	
Number of Staff			Number of Staff	
Remuneration received (excl those receiving termination payments)	Staff who received termination payments		Remuneration received (excl those receiving termination payments)	Staff who received termination payments
0	1	£155,000- £159,999	0	0
0	0	£150,000- £154,999	0	0
0	0	£145,000- £149,999	0	0
0	1	£140,000- £144,999	0	0
0	0	£135,000- £139,999	0	0
0	0	£130,000- £134,999	0	0
0	1	£125,000- £129,999	0	0
0	1	£120,000- £124,999	1	0
0	0	£115,000- £119,999	0	0
0	1	£110,000- £114,999	0	0
0	0	£105,000- £109,999	0	0
4	1	£100,000- £104,999	3	1
0	0	£95,000- £99,999	1	1
3	2	£90,000- £94,999	4	1
5	2	£85,000- £89,999	6	1
6	0	£80,000- £84,999	5	6
8	1	£75,000- £79,999	9	1
13	4	£70,000- £74,999	15	5
30	1	£65,000- £69,999	38	5
49	8	£60,000- £64,999	49	5
81	2	£55,000- £59,999	78	6
113	2	£50,000- £54,999	133	8
312	28	Total	342	40

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

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

b. Senior Officers' Remuneration

The Accounts and Audit (England) Regulations 2011 requires Local Authorities to disclose individual remuneration details for senior employees (determined as those who have responsibility for the management of the organisation and who direct or control the major activities of the Council).

Job Title	Year	Salary	Employer's Pension Contribution	Any Other Emoluments	Total
		£	£	£	£
<u>Senior Officers with a salary over £150,000</u>					
Tony McArdle - Chief Executive	2015-16	173,392	34,125	0	207,517
	2014-15	173,365	34,126	0	207,491
<u>Senior Officers with a salary over £50,000 and less than £165,000</u>					
Director of Adult Social Services	2015-16	126,872	24,132	0	151,004
	2014-15	122,966	24,224	0	147,190
Executive Director of Children's Services	2015-16	128,149	24,819	0	152,968
	2014-15	133,122	26,198	0	159,320
Executive Director - Finance & Public Protection	2015-16	125,983	24,936	2,586	153,505
	2014-15	125,983	24,970	1,780	152,733
Executive Director - Communities	2015-16	127,027	24,819	0	151,846
	2014-15	126,122	24,819	0	150,941
Executive Director Performance & Governance	2015-16	0	0	0	0
	2014-15	10,748	689	157,047	168,484
Chief Information and Commissioning Officer	2015-16	115,262	22,655	0	137,917
	2014-15	115,000	20,931	0	135,931
Chief Fire Officer	2015-16	73,869	16,029	82	89,980
	2014-15	112,350	23,930	123	136,403
Acting Chief Fire Officer	2015-16	98,676	11,841	0	110,517
	2014-15	0	0	0	0
Director of Public Health	2015-16	163,860	21,036	0	184,896
	2014-15	160,835	20,595	445	181,875

The Director of Performance & Governance position was disestablished in April 2014. (The figure in the "Any Other Emoluments" column is the redundancy payment for this.)

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

Note 35. Exit Packages.

The numbers of exit packages with total cost (redundancy and pension strain) per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15 £	2015-16 £
£0 - £20,000	105	109	18	22	123	131	£995,776	£953,857
£20,001 - £40,000	39	33	11	16	50	49	£1,425,059	£1,477,883
£40,001 - £60,000	13	15	9	9	22	24	£1,060,467	£1,187,797
£60,001 - £80,000	8	1	2	2	10	3	£677,680	£203,366
£80,001 - £100,000	3	3	1	0	4	3	£336,996	£278,731
£100,001 - £150,000	6	1	1	1	7	2	£863,086	£253,910
£150,001 - £200,000	1	0	0	0	1	0	£164,677	£0
Total	175	162	42	50	217	212	£5,523,741	£4,355,544

Redundancy and pension strain payments are presented in this note in the year that payment is made or accrued (at the point in time when an individual employee is committed to leave the Council). Provisions for redundancy and pension strain costs are not included within this note as they represent costs which are committed, but where specific individuals have not yet been identified.

Details of the actual costs included within the Council's Income and Expenditure for redundancy and pension strain are set out below in Note 36 Termination Benefits. The difference between the values reported in this note and Note 36 Termination Benefits arise due to provisions and any variances between year end accruals and the actual payments made in the next financial year.

Note 36. Termination Benefits.

As a result of further reductions to local government funding the County Council is undertaking a review and reshaping of services. In 2015-16 the County Council has incurred liabilities of £5.483m (£6.502m in 2014-15) in relation to termination benefits.

- £4.541m for redundancy payments (£5.381m in 2014-15); and
- £0.942m for pension strain (£1.121m in 2014-15).

Further information on termination benefits can be found in Note 35 on Exit Packages, which details the number of exit packages and total cost over bands, and Note 45 on Retirement Benefits which details the effect termination benefits have had on pensions in 2015-16.

Note 37. External Audit Costs.

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

	2014-15	2015-16
	£'000	
Fees payable with regards to external audit services carried out by the appointed auditor	143	107
Fees payable to the Appointed Auditor in respect of statutory inspection	0	0
Audit and Inspection Fee	143	107
Fees payable to the Appointed Auditor for the certification of grant claims and returns	0	3
Fees payable in respect of other services provided by the Appointed Auditor	17	18
Total	160	128

Note 38. Dedicated Schools Grant.

The Council's expenditure on schools is funded primarily by grant monies provided by the Department of Education, the Dedicated schools Grant (DSG). The DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the Schools Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2015-16 are as follows:

Schools Budget Funded by Dedicated Schools Grant	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2015-16 before Academy recoupment	0	0	484,028
Academy Figure Recouped for 2015-16	0	0	(224,754)
Total DSG after Academy Recoupment for 2015-16	0	0	259,274
Brought Forward from 2014-15	0	0	19,562
Agreed Initial Budgeted Distribution in 2015-16	28,276	250,560	278,836
In Year Adjustments	(2,539)	3,162	623
Final Budget Distribution for 2015-16	25,737	253,722	279,459
less Actual central expenditure	(25,457)	0	(25,457)
less Actual ISB deployed to schools	0	(235,452)	(235,452)
Total actual expenditure in 2015-16	(25,457)	(235,452)	(260,909)
Local Authority Contribution 2015-16	0	0	0
Carry forward to 2016-17	280	18,270	18,550

The Individual Schools Budget includes schools contingency. For the purposes of the deployment of the grant, Individual School Budgets are deemed to be spent once allocated. School balances can be seen elsewhere in the Financial Statements in Note 9 Earmarked Reserves.

Note 39. Grant Income.

The Council credited the following grants and contributions and donations to the Comprehensive Income and Expenditure Statement in 2015-16; for grants and contributions where the conditions have been met, or no conditions existed:

2014-15	a) Credited to Taxation and Non-Specific Grant Income in the	2015-16
£'000	Comprehensive Income and Expenditure Statement	£'000
228,745	Council tax income	239,223
102,326	Business Rates - Districts	99,759
	Non-ring-fenced government grants:	
124,575	Revenue Support Grant	94,670
7,123	Education Services Grant	5,600
0	Care Act Implementation Grant	4,433
3,144	New Homes Bonus Grant	3,853
0	Section 31 Grant - Business Rates	2,621
0	Independent Living Fund Grant	1,386
1,243	Local Services Support Grant	1,060
2,585	Council Tax freeze Grant	0
644	Adoption Reform Grant	0
2,006	Other Non Specific Grant	563
	Capital Grants and Contributions:	
21,929	DfT Asset Protection Grant	31,013
8,377	DfE Basic Need Grant	11,434
0	Growth Deal Grant (LEP)	8,499
0	Single L Growth Fund (LEP)	8,216
0	Department of Culture, Media and Sport Broadband Grant	5,871
0	DfE Schools Condition Capital Grant	5,421
6,752	DfE Capital Maintenance Grant	0
5,816	DfT Integrated Transport Grant	3,312
0	Disabled Facilities grant	2,971
0	Community Capacity Grant	1,848
5,430	DfT Pothole Fund	0
4,753	Heritage Lottery Fund	1,105
2,246	DfT Additional Maintenance Grant	0
2,164	DfE Targeted Basic Need Grant	0
1,848	Adult Care Capital Grant	0
1,593	DfE School Kitchen Capital Grant	0
1,423	Devolved Formula Grant	1,338
1,421	ERDF Grant	0
1,363	DfT Pinchpoint Funding	0
1,345	Section 106 Income	1,652
1,085	DfE Universal Infant Free School Meals Capital Grant	1,100
2,562	Other Capital Grants and Contributions	(1,784)
542,498	Total	535,164

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

2014-15	b) Credited to Revenue Service Accounts in the Comprehensive Income and Expenditure Statement	2015-16
£'000		£'000
259,761	Dedicated Schools Grant	248,872
29,777	Public Health	30,723
13,541	Pupil Premium	13,312
6,202	YPLA 16-19 Funding	4,473
3,574	Universal Infant Free School Meals	4,765
0	Adult Safeguarding Learning	1,479
1,914	EFA and Sport Grant	1,892
0	Troubled Families Grant	1,787
1,330	Fire New Burdens	1,187
0	The Private Finance	1,158
8,072	Dept for Media, Culture & Sport - Contribution to Broadband project	0
1,966	Skills Funding Agency	0
1,775	Local Welfare Provision	0
1,300	Local Sustainable Transport Fund (LSTF) - DfT	0
14,233	Other Revenue Grants	11,363
329,212		321,010

Details of Revenue Grants unutilised during the financial year and transferred to Earmarked Reserves are set out in Note 9.

Note 40. Related Parties.

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

a. Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework; within which the Council operates; provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills).

Further details of the grants received by the Council in 2015-16 are set out in Note 12 Taxation and Non Specific Grant Income and Note 39 Grant Income.

b. Councillors and Senior Officers

Members of the Council have direct control over the Council's financial and operating policies. The total members' allowances paid in 2015-16 is shown in Note 33.

The Chief Executive and those reporting directly to him may also be able to influence Council policy. Therefore accounting standards require the Council to disclose certain 'related party transactions' between County Councillors, Chief Officers and the Council. This information comes from the statutory registers of interest (maintained for members) and declarations of pecuniary interests (for Officers). Details of all transactions are recorded in the Register of Members' Interest, which are available for public inspection at County Offices on Newland, Lincoln, during normal office hours; or also on-line from the Council's website. All Council members and Chief Officers have been written to, advising them of their obligations and asking for any declarations of related party transactions to be disclosed within the Statement of Accounts.

Seven Councillors have not submitted the declaration of interest form this year. Relevant information relating to these Councillors has been used from other sources to compile the information below.

During 2015-16 the following have been declared:

Councillors

- Six Councillors or their immediate families have provided services to the Council to the value of £0.138m with outstanding balances of £1,095k at the year end;
- Thirty Four Councillors are members of Public Bodies which have provided services to the Council to the value of £11.173m with outstanding balances of £0.172m at the year end;
- Thirteen Councillors are members of voluntary organisations which have provided services to the Council to the value of £0.803m with outstanding balances of £0.016m at the year end;

Senior Officers

Senior Officers have not declared any interests in other bodies that could potentially be used to control or influence a related party.

c. Other Public Bodies

The Council has entered into Pooled Budget arrangements with Lincolnshire Clinical Commissioning Groups for Learning Disabilities, Integrated Community Equipment, Proactive Care, Corporate, and Child & Adolescent Mental Health Service; which are all included within a framework schedule to summarise and share the risk. Outside of this schedule there is also a pooled budget for Substance Misuse.

The Council is the administrator of the Lincolnshire Pension Fund and has control of the fund within the overall statutory framework. During the financial year £0.201m was recharged from the Council to the pension fund for scheme administration and management. The pension fund earned a total interest of £0.052m on deposits managed within the Council's own cash, which the Council paid over to the pension fund.

d. Entities Controlled or Significantly Influenced by the Council

The Council does not aggregate any subsidiaries, associated companies or joint ventures and therefore is not required to prepare group accounts.

Note 41. Capital Expenditure and Capital Financing.

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

Further information on the 2015-16 expenditure is provided in the Explanatory Foreword, with details of the asset acquired.

Restated (*1) 2014-15 £'000		2015-16 £'000
567,826	Opening Capital Financing Requirement	561,065
	<u>Capital Investment:</u>	
83,298	Property, Plant and Equipment	83,681
430	Investment Property	168
4,902	Intangible Assets	756
0	Loans and Advances Treated as Capital Expenditure	0
28,353	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	24,134
	<u>Sources of Finance:</u>	
(5,426)	Capital Receipts	(2,605)
(75,500)	Government Grants and Contributions	(71,994)
(12,215)	Government Grants and Contributions funding REFCUS	(6,068)
	<u>Sums set aside from Revenue:</u>	
(6,790)	Direct Revenue Contributions	(6,944)
(23,813)	Minimum Revenue Provision/Loans fund principal	(22,196)
561,065	Closing Capital Financing Requirement	559,996
(6,761)	Movement in Year:	(1,069)
	Explanation of movement in year:	
0	Increase in underlying need to borrow (supported by government financial assistance)	0
(6,825)	Increase in underlying need to borrow (unsupported by government financial assistance)	(1,289)
64	Assets acquired under finance leases	31
0	Assets acquired under PFI/PPP contracts	189
(6,761)	Increase/(Decrease) in Capital Financing Requirement	(1,069)

Note 42. Leases.

a. Lincolnshire County Council as Lessee

i) Finance Leases

The Council has acquired the following assets under finance leases:

Land and Buildings:

County Farms - the Council hold a small number of holdings under lease which are then sub-let as part of the County Farms estate.

Other Land and Buildings – the Council has a small number of leases which it has classified as finance leases.

Vehicles, Plant, Furniture and Equipment - finance lease payments of £0.166m (£0.229m in 2014-15) were made during the year. £0.033m was charged to the Comprehensive Income and Expenditure Statement as interest payable and £0.133m written down to deferred liabilities.

The following amounts are included within tangible fixed assets Note 13 for the Property, Plant and Equipment held under finance leases:

	Land and Buildings £'000	Vehicles, Plant & Equipment £'000
Balance at 1 April 2015	15,556	250
Additions	23	31
Revaluations	(157)	0
Depreciation	(415)	(106)
Disposals	(521)	0
Derecognition	0	0
Reclassifications	0	0
Net Book Value at 31 March 2016	14,486	175

	Land and Buildings £'000	Vehicles, Plant & Equipment £'000
Balance at 1 April 2014	15,821	412
Additions	49	64
Revaluations	179	0
Depreciation	(416)	(226)
Disposals	(20)	0
Derecognition	0	0
Reclassifications	(57)	0
Net Book value as at 31 March 2015	15,556	250

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years.

Land and Buildings:	2014-15		2015-16	
	Minimum Lease Payments	Finance Lease Liabilities	Minimum Lease Payments	Finance Lease Liabilities
	£'000	£'000	£'000	£'000
Not later than one year	6	13	7	13
Between one year and not later than five years	27	50	27	50
Later than five years	199	328	192	316
Total Committed Liabilities as at 31 March	232	391	226	379

Vehicles, Plant & Equipment:	2014-15		2015-16	
	Minimum Lease Payments	Finance Lease Liabilities	Minimum Lease Payments	Finance Lease Liabilities
	£'000	£'000	£'000	£'000
Not later than one year	104	33	91	28
Between one year and not later than five years	94	39	58	15
Later than five years	0	0	0	0
Total Committed Liabilities as at 31 March	198	72	149	43

The Council sub-lets County Farm holdings held under finance leases. At 31 March 2016 the minimum payments expected to be received under non-cancellable sub-leases was £0.350m.

ii) Operating Leases

The Council has acquired the following assets under operating leases:

Land and Buildings - the Council leases various properties for use in delivering services. The rentals paid during 2015-16 amounted to £1.378m (£1.799m in 2014-15).

Vehicles, Plant, Furniture and Equipment - the Council makes operating lease payments for equipment, contract car hire vehicles and fleet hire. The amount paid under these arrangements was £3.956m in 2015-16 (£3.258m in 2014-15).

As at 31 March 2016, the Council is committed to making payments of £18.410m under operating leases, comprising the following elements:

	2014-15	2015-16
	£'000	£'000
Not later than one year	3,718	3,305
Between one year and not later than five years	7,814	7,486
Later than five years	8,001	7,619
Total Committed Liabilities as at 31 March	19,533	18,410

b. Lincolnshire County Council as Lessor

i) Finance Leases

The Council has granted a small number of long-term leases for Adult Care properties and a Heritage site, which are accounted for as finance leases. Buildings leased at academy sites are also treated as finance leases. There are no significant lease payments and no debtors.

The Council does not acquire assets specifically for the purpose of letting under finance leases.

ii) Operating Leases

The Council acts as lessor (landlord), mainly for the County Farms estate and received income from tenants of £2.326m in 2015-16 (£2.213m in 2014-15). The Council also received rental income from other properties; where the value of the lease is material, the income amounted to £1.125m in 2015-16 (£0.979m in 2014-15).

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

	2014-15	2015-16
	£'000	£'000
Not later than one year	822	2,297
Between one year and not later than five years	1,428	5,980
Later than five years	1,357	16,438
Total future minimum lease payments receivable as at 31 March	3,607	24,715

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

Lincolnshire - Schools PFI Arrangement

a. Background

On 27 September 2001 Lincolnshire County Council entered into a 31 year PFI contract with Focus Education (Lincolnshire), for the construction and provision of seven fully serviced school premises across the county. The school sites were completed, and became operational, on a phased basis, as shown in the following table:

Buildings: Description	Occupied from
Sleaford St Botolph's County Primary	Sep 2002
Sleaford Church Lane Primary	Jan 2003
Claypole CE County Primary	Mar 2003
The Fortuna Primary, Lincoln	Sep 2003
The Sincil School, Lincoln	Mar 2006
The Phoenix School, Grantham	Sep 2003
The Lady Jane Franklin School, Spilsby	Sep 2003

The contractor is required to provide the school facilities to the specified standard (including school buildings and educational equipment). The school must operate within the policies of the Local Education Authority. The school facilities must be available and ready for use as a school during term time and the school day is specified as 8am to 7pm.

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards.

The Council is required to pay compensation to the contractor if the contract is terminated early to cover: the senior debt, any redundancy costs incurred by the provider, and any future profit elements set out in the contractor's financial model.

The contract ends in 2032, at which time the school premises will transfer to the ownership of the Council at no further cost. The contract specifies the physical condition in which the premises must be transferred.

b. Property, Plant and Equipment Held Under the PFI Contract

The table below shows the fixed assets held by the Council, and the movement in their values during 2015-16. These assets are included in the fixed assets shown in Note 13 Property, Plant and Equipment.

	Land & Buildings	Furniture & Equipment
	£'000	£'000
Balance at 1 April 2015	20,250	30
Additions	179	10
Revaluations	1218	0
Depreciation	(479)	(13)
Disposals	0	0
Reclassifications	0	0
De-recognition	88	0
Net Book Value at 31 March 2016	21,256	27

	Land & Buildings	Furniture & Equipment
	£'000	£'000
Balance at 1 April 2014	19,136	71
Additions	100	0
Revaluations	1,423	0
Depreciation	(432)	(41)
Disposals	0	0
Reclassifications	0	0
De-recognition	23	0
Net Book Value at 31 March 2015	20,250	30

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 2015-16:

	PFI Lease Liability	PFI Lease Liability
	2014-15	2015-16
	£'000	£'000
Liability as at 01 April	13,244	12,485
Principal Repayments	(759)	(635)
Liability as at 31 March	12,485	11,850

d. PFI Contract Liabilities

The following table shows a breakdown of the estimated contract costs over the remaining life of the PFI contract, split into the different elements of the total cost.

	Principal Lease Repayments	Financing Costs (Interest)	Service Charges	Total Estimated Payments
	£'000	£'000	£'000	£'000
Payable in 2016-17	470	838	2,017	3,325
Payable between 2017-18 and 2019-20	2,120	2,249	5,741	10,110
Payable between 2020-21 and 2024-25	3,838	2,622	11,171	17,631
Payable between 2025-26 and 2029-30	4,602	1,154	11,175	16,931
Payable between 2030-31 and 2032-33	821	70	4,043	4,934
Total Committed Liabilities as at 31 March 2016	11,851	6,933	34,147	52,931

e. School Assets

On 1 March 2013, the Phoenix School in Grantham converted to Academy status. A lease has been agreed between the Council and the Academy to reflect the effects of conversion. This lease is accounted for in accordance with the Authority's Accounting Policies on Leases and Accounting for Schools.

The figures shown in Section d above, include £1.798m of principal lease liability and £1.052m of interest liability that relate to the Phoenix School.

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

The figures shown in Section d above, include £1.958m of principal lease liability and £1.146m of interest liability that relate to St Botolph's County Primary School.

Note 44. Pension Schemes Accounted for as Defined Contribution Schemes.

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme (TPS), administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement and the Council makes contributions towards the costs based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purpose of these Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2015-16 the Council paid £12.425m to the administrators of the TPS in respect of employer's pension contributions. The Council contribution rate to the teacher's pension fund was 14.1% from April to August 2015, this was increased to 16.48% on the 1st September 2015. The Council is responsible for all pension payments relating to compensatory added years under the Council's early retirement policy.

This includes payments for associated pension increases and mandatory compensation payments to fund the early release of benefits from the scheme. These unfunded benefits amounted to £4.16m in 2015-16 and have an ongoing liability to the Council.

National Health Service Pension Scheme (NHSPS)

Staff who transferred to the County Council from the Health Authority as part of Public Health have remained in the National Health Service Pension Scheme (NHSPS).

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Health uses a notional fund as the basis for calculating the employers' contribution rate paid by Local Authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2015/16 the Council paid £0.201m to the administrators of the NHS Pension Scheme in respect of employer contributions. The employer's contribution rate to the scheme is 14.3% in 2015-16.

Note 45. Defined Benefit Pensions Schemes.

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:

i. Local Government Pension Scheme (LGPS)

The Local Government Pension Scheme is a funded defined benefits final salary scheme. This means that the Council and employees pay contributions into the fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Council paid employer's contributions of £28.963m into the Lincolnshire Pension Fund in 2015-16, based on 19.7% of scheme employees' pensionable pay and a lump sum payment of £1.118k.

Under the Council's early retirement policy, additional contributions of £0.231m were made to the Pension Fund for the pre-funding of early retirements and unfunded benefits in respect of compensatory added years and associated pension increases amounted to £6.174m. Further information can be found on pages 107 to 134 and in the Council's Pension Fund Annual Report which is available on request.

The Lincolnshire County Council's pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of its Pension Committee. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the fund are appointed by the committee - See the list in the Pension Fund statements on page 131.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund the amounts required by statute as described in the accounting policies note.

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

In 2015-16 the Council paid employer's contributions of £5.744m to the Lincolnshire Fire and Rescue Pension Fund. There are currently three schemes: the 1992 and 2015 schemes, where the employer contribution rate is 21.7% and the 2006 scheme, where the contribution rate is 12%. A further £1.811m was paid in respect of ill health retirements and £0.289m in respect of injury benefits. Further information on the Lincolnshire Fire and Rescue Pension fund can be found on pages 135 to 137.

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

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

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

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

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

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

This liability comprises of approximately £26.4m in respect of LPGS unfunded pensions and £68.311m in respect of Teachers unfunded pensions

Analysis of the present value of the defined obligation - Local Government Pension Scheme

	Liability Split		Duration
	£000	%	
Members	627,313	44.6%	25.4
Deferred Members	282,715	20.1%	23.5
Pensioners	495,127	35.2%	11.6
	1,405,155	100.0%	18.5

b. Pension Assets and Liabilities Recognised in the Balance Sheet, Service Costs & Other Comprehensive Income for the Local Government Pension Fund as at 31 March 2015

	Assets	Obligations	Net liability/asset
	£'000	£'000	£'000
Fair value of employer assets	839,180	0	839,180
Present value of funded liabilities	0	(1,265,591)	(1,265,591)
Present value of unfunded liabilities	0	(100,915)	(100,915)
Opening position as at 31 March 2014	839,180	(1,366,506)	(527,326)
<u>Service cost:</u>			
Current service cost	0	(33,055)	(33,055)
Past service costs (including curtailments)	0	(793)	(793)
Effect of settlements	0	0	0
Total Service Costs	0	(33,848)	(33,848)
<u>Net Interest:</u>			
Interest income on planned assets	35,982	0	35,982
interest cost on defined benefit obligation	0	(58,627)	(58,627)
Impact on asset ceiling	0	0	0
Total net Interest	35,982	(58,627)	(22,645)
Total defined benefit cost recognised in Profit or (Loss)	35,982	(92,475)	(56,493)
<u>Cash flows:</u>			
Plan participants' contributions	8,848	(8,848)	0
Employer contributions	28,382	0	28,382
Contributions re unfunded benefits	6,130	0	6,130
Benefits paid	(40,882)	40,882	0
Unfunded benefits paid	(6,130)	6,130	0
Expected closing position	871,510	(1,420,817)	(549,307)
<u>Remeasurements:</u>			
Changes in demographic assumptions	0	0	0
Changes in financial assumptions	0	(202,442)	(202,442)
Other experience	0	11,349	11,349
Return on assets excluding amounts included in net interest	70,944	0	70,944
Changes in asset ceiling	0	0	0
Total remeasurements recognised in Other Comprehensive Income (OCI)	70,944	(191,093)	(120,149)
Exchange differences	0	0	0
Effect of business combinations or disposals	0	0	0
Total Exchange and business combinations & disposals	0	0	0
Fair value of employer assets	942,454	0	942,454
Present value of funded liabilities	0	(1,507,965)	(1,507,965)
Present value of unfunded liabilities	0	(103,944)	(103,944)
Closing position as at 31 March 2015	942,454	(1,611,909)	(669,455)

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

	Assets	Obligations	Net liability/asset
	£'000	£'000	£'000
Fair value of employer assets	0	0	0
Present value of funded liabilities	0	(208,200)	(208,200)
Present value of unfunded liabilities	0	(17,600)	(17,600)
Opening position as at 31 March 2015	0	(225,800)	(225,800)
Service cost:			
Current service cost	0	(5,900)	(5,900)
Past service costs (including curtailments)	0	0	0
Effect of settlements	0	0	0
Total Service Costs	0	(5,900)	(5,900)
Net Interest:			
Interest income on planned assets	0	0	0
Interest cost on defined benefit obligation	0	(7,200)	(7,200)
Impact on asset ceiling	0	0	0
Total net interest	0	(7,200)	(7,200)
Total defined benefit cost recognised in Profit or (Loss)	0	(13,100)	(13,100)
Cash flows:			
Plan participants' contributions	1,200	(1,200)	0
Employer contributions	5,500	0	5,500
Transfers to/from other authorities	100	(100)	0
Contributions in respect of injury benefits	300	0	300
Benefits paid	(6,000)	6,000	0
Backdated commutation payments	(800)	800	0
Injury award expenditure	(300)	300	0
Expected closing position	0	(233,100)	(233,100)
Remeasurements:			
Changes in demographic assumptions	0	600	600
Changes in financial assumptions	0	22,900	22,900
Other experience	0	13,800	13,800
Return on assets excluding amounts included in net interest	0	0	0
Changes in asset ceiling	0	0	0
Total remeasurements recognised in Other Comprehensive Income (OCI)	0	37,300	37,300
Exchange differences	0	0	0
Effect of business combinations or disposals	0	0	0
Total Exchange and business combinations & disposals	0	0	0
Fair value of employer assets	0	0	0
Present value of funded liabilities	0	(181,900)	(181,900)
Present value of unfunded liabilities	0	(13,900)	(13,900)
Closing position as at 31 March 2016	0	(195,800)	(195,800)

The current service cost shown in the table above includes the cost for both the non-injury benefits and injury benefits. This is split £5.3m for the non-injury benefits and £0.6m for the injury benefits.

The interest cost shown in the table above includes the cost for both the non-injury benefits and injury benefits. This is split £6.6m for the non-injury benefits and £0.6m for the injury benefits.

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

	Liability Split		Duration
	£000	%	
Members	75,500	41.51%	25.5
Deferred Members	4,100	2.25%	29.8
Pensioners	102,300	56.24%	11.5
	181,900	100.0%	17.7

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

	Liability Split		Duration
	£000	%	
Contingent injuries	7,600	54.68%	25.5
Injury pension liabilities	6,300	45.32%	10.2
	13,900	100.0%	22.1

d. Pension Assets and Liabilities Recognised in the Balance Sheet, P & L & OCI for the Fire Fighters Pension Fund as at 31 March 2015

	Assets	Obligations	Net liability/asset
	£'000	£'000	£'000
Fair value of employer assets	0	0	0
Present value of funded liabilities	0	(173,700)	(173,700)
Present value of unfunded liabilities	0	(14,300)	(14,300)
Opening position as at 31 March 2014	0	(188,000)	(188,000)
Service cost:			
Current service cost	0	(5,500)	(5,500)
Past service costs (including curtailments)	0	0	0
Effect of settlements	0	0	0
Total Service Costs	0	(5,500)	(5,500)
Net Interest:			
Interest income on planned assets	0	0	0
interest cost on defined benefit obligation	0	(8,100)	(8,100)
Impact on asset ceiling	0	0	0
Total net Interest	0	(8,100)	(8,100)
Total defined benefit cost recognised in Profit or (Loss)	0	(13,600)	(13,600)
Cash flows:			
Plan participants' contributions	1,300	(1,300)	0
Employer contributions	4,100	0	4,100
Transfers to/from other authorities	0	0	0
Contributions in respect of injury benefits	300	0	300
Benefits paid	(5,400)	5,400	0
Injury award expenditure	(300)	300	0
Expected closing position	0	(197,200)	(197,200)
Remeasurements:			
Changes in demographic assumptions	0	0	0
Changes in financial assumptions	0	(28,700)	(28,700)
Other experience	0	100	100
Return on assets excluding amounts included in net interest	0	0	0
Changes in asset ceiling	0	0	0
Total remeasurements recognised in Other Comprehensive Income (OCI)	0	(28,600)	(28,600)
Exchange differences	0	0	0
Effect of business combinations or disposals	0	0	0
Total Exchange and business combinations & disposals	0	0	0
Fair value of employer assets	0	0	0
Present value of funded liabilities	0	(208,200)	(208,200)
Present value of unfunded liabilities	0	(17,600)	(17,600)
Closing position as at 31 March 2015	0	(225,800)	(225,800)

	Liability Split		Duration
	£000	%	
Members	119,600	57.4%	26.5
Deferred Members	3,700	1.8%	27
Pensioners	84,900	40.8%	12.2
	208,200	100.0%	19.8

The durations are effective as at the previous valuation as at 31 March 2012

	Liability Split		Duration
	£000	%	
Contingent injuries	12,000	68.2%	26.5
Injury pension liabilities	5,600	31.8%	12.7
	17,600	100.0%	21.3

e. Pension Fund Assets Comprise

The Local Government Pension schemes comprise the following assets

Asset Class	2014-15	2014-15	2015-16	2015-16
	£'000	%	£'000	%
	Fair value of scheme assets		Fair value of scheme assets	
Equities (b)				
-Consumer	179,986	19.1%	196,831	20.7%
-Manufacturing	26,326	2.8%	21,097	2.2%
-Energy & Utilities	58,178	6.2%	51,477	5.4%
-Financial	111,679	11.8%	102,493	10.8%
-Health & Care	0	0.0%	0	0.0%
-Information Technology	35,685	3.8%	35,241	3.7%
-Other	111,384	11.8%	105,412	11.1%
Total Equities	523,238	55.5%	512,551	53.8%
Bonds				
-Corporate (Investment)	31,388	3.3%	35,549	3.7%
-Corporate (Non-Investment Grade)	61,422	6.5%	60,111	6.3%
-Government (Fixed)	17,888	1.9%	19,652	2.1%
-Other	12,299	1.3%	13,292	1.4%
Total Bonds	122,997	13.0%	128,604	13.4%
Total Private Equity	40,251	4.3%	34,710	3.6%
Property				
-UK	92,501	9.9%	101,105	10.7%
-Global	10,800	1.1%	10,314	1.1%
Total Property	103,301	11.0%	111,419	11.7%
Investment Funds & Unit Trusts				
- Equities	48,738	5.2%	53,604	5.6%
- Bonds	0	0.0%	0	0.0%
-Other	90,448	9.6%	101,937	10.7%
Total Investment Funds	139,186	14.8%	155,541	16.3%
Cash and Cash Equivalents	13,481	1.4%	10,259	1.1%
Total Derivatives	0	0.0%	0	0.0%
Total Assets	942,454	100.0%	953,084	100.0%

All scheme assets have quoted prices in active markets

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

The estimated return on scheme assets in the year was 1.1% (2015-16).

f. Basis for estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

	2014-15	2014-15	2015-16	2015-16
	Local Government Pension Scheme	Fire-fighters' Pension Scheme	Local Government Pension Scheme	Fire-fighters' Pension Scheme
	%	%	%	%
Price Increases	3.3	3.3	3.2	3.2
Salary Increases	3.8	3.4	3.7	3.2
Pension Increases (CPI)	2.4	2.4	2.2	2.2
Discount Rate	3.2	3.2	3.5	3.5
Equity investments	3.2	N/A	1.1	N/A
Take up of option to convert annual pension to lump sum prior to 1 April 2008	25	N/A	25	N/A
Take up of option to convert annual pension to lump sum post 1 April 2008	63	N/A	63	N/A

The table below shows the life expectancy of future and current pensioners and is based on the CMI 2010 model assuming the current rate of improvement has peaked and will converge to a long term rate of 1.25% p.a. Life expectancy is based on pensioners of 65 in the LGPS and 60 in the Fire-fighters' scheme.

	Local Government Pension Scheme	Local Government Pension Scheme	Fire-fighters' Pension Scheme	Fire-fighters' Pension Scheme
	Male	Female	Male	Female
Current Pensioners	22.2	24.4	29.7	31.6
Future Pensioners*	24.5	26.8	31.2	33.2

* Figures assume members aged 45 as at the last formal valuation

g. Sensitivity Analysis

The sensitivity analyses below have been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimation in the sensitivity analysis have followed the accounting policies of the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in a previous period.

Change in assumptions in year ended 31 March 2013	Local Government Pension Scheme		Fire Fighters' Pension Scheme	
	Approximate % Change to Employer Liability	Approximate monetary Amount £000	Approximate % Change to Employer Liability	Approximate monetary Amount £000
0.5% decrease in Real Discount rate	10.0%	151,343	9.0%	17,800
1 year increase in member life expectancy	3.0%	44,996	3.0%	5,800
0.5% increase in the Salary Increase Rate	3.0%	39,929	1.0%	2,700
0.5% increase in the Pension Increase Rate	7.0%	109,604	8.0%	15,000

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

Asset and Liability Matching (ALM) Strategy

The County Council's pension committee has agreed to an asset and liability matching strategy (ALM) that matches, to the extent possible; the types of assets invested to the liabilities in the defined benefit obligation. The fund has matched assets to the pensions' obligations by investing long-term fixed interest securities and indexed linked gilt edged investment with maturities that match the benefits payments as they fall due. This is balanced with a need to maintain the liquidity of the fund to ensure that it is able to make current payments. As is required by the pensions and investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce risk of being invested in too narrow a range. A large proportion of the assets relate to equities (53.8% of scheme assets) and Investment Funds (16.3%). These percentages are materially the same as last year. The scheme also invests in properties as a part of the diversification of the scheme's investments.

The ALM strategy is monitored annually or more frequently if necessary.

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be implemented on 31 March 2017. The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings scheme to pay pensions and other benefits.

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

Local Government Pension Scheme

	Assets	Obligations	Net	% of pay
	£000	£000	(liability)/asset £000	
Projected Current Service Cost	0	(35,337)	(35,337)	-25.5%
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	0	(35,337)	(35,337)	-25.5%
Interest income on plan assets	33,135	0	33,135	24.0%
Interest cost on defined benefit obligation	0	(52,390)	(52,390)	-37.9%
Total Net Interest Cost	33,135	(52,390)	(19,255)	-13.9%
Total included in Income and Expenditure	33,135	(87,727)	(54,592)	-39.4%

The weighted average duration of the defined benefit obligation for scheme members is 18.5 years in 2015-16.

Fire Fighters Pension Scheme

	Assets	Obligations	Net	% of pay
	£000	£000	(liability)/asset £000	
Projected Current Service Cost	0	(4,800)	(4,800)	-49.6%
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	0	(4,800)	(4,800)	-49.6%
Interest income on plan assets	0	0	0	0.0%
Interest cost on defined benefit obligation	0	(6,800)	(6,800)	-70.2%
Total Net Interest Cost	0	(6,800)	(6,800)	-70.2%
Total included in Income and Expenditure	0	(11,600)	(11,600)	-119.8%

The weighted average duration of the defined benefit obligation for scheme members is 17.7 years in 2015-16.

The authority expects to pay £28.403m in contributions to the LGPS and £5.213m to the Fire Fighters' scheme in 2015-16.

Note 46. Contingent Liabilities.

At 31 March 2016 the Council has the following material contingent liabilities:

a. Insurance

The Council obtained public and employer's liability insurance cover from the Independent Insurance Company between 1995 and 1998. The company went into liquidation to the extent that it will not be able to meet any current or future liabilities, meaning the Council is effectively not insured for this period. It is expected that only the liabilities for employers liability remain, as we would have expected all public liability claims for this period to have been submitted. However, in light of recent historic sexual abuse claims and with the Goddard enquiry focusing in this area; it is still possible that claims under the Public Liability policy will still be submitted. The position is independently reviewed annually by the insurance reserve actuary to ensure that reserves are sufficient to cover the total liability.

Municipal Mutual Insurance Limited (MMI), the Council's former insurer, ceased writing insurance business in September 1992 and entered a Scheme of Arrangement for an expectation of a solvent run off. This has not occurred and a Scheme of Arrangement has been invoked. The Council paid MMI 15% of the total amount of claims paid on behalf of the County Council, however, a contingency liability still exists due to potential future claims depending upon the future solvency requirements of MMI. The levy applicable to the scheme members has recently been increased to 25% with indications that this may rise to 34%.

From 1st April 2013 there is no longer insurance provisions in place for conditions caused by the exposure to asbestos or the Legionella Bacterium, for staff or the public. However, the Council has stringent policies and procedures in place to minimise the exposure to either of these risks.

b. Expansion of Eastern Shires Purchasing Organisation (ESPO)

Lincolnshire County Council is one of seven Authorities that comprise the purchasing consortium known as ESPO. The consortium has no separate legal identity and Leicestershire County Council, as the servicing Authority for ESPO, takes on this role in terms of all ESPO's contractual obligations.

ESPO relocated to a new custom built store in Leicester on February 2006. The new store has been financed by a £12.6m PWLB loan taken out by Leicestershire County Council on behalf of the ESPO consortium. Leicestershire has obtained an indemnity from all six other consortium member Authorities to meet the conditions of the loan should ESPO ever fail to make payments. The potential maximum liability is £2.000m.

A financial provision has not been raised in the accounts to cover any future payments under these indemnities as the risk is considered minimal.

c. Extra Contractual Referrals

In Lincolnshire, there are a small number of people with Learning Disabilities who were placed in Health accommodation by other Health Authorities. Due to these establishments closing in recent years, Service Users have been moved into places within the community or in some cases their prior accommodation has become their community provision. A part of the pooled arrangements with Lincolnshire Health, we have hitherto paid for the care of these individuals and invoiced the other Local Authorities with the cost.

There is one authority who is challenging this process on the basis that the Service User is now deemed as an ordinary resident of the County and as such, funding responsibility lies with the Council. With on-going involvement with the Department of Health and Legal Services.

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

Note 47. Contingent Assets.

At 31 March 2016 the Council has no material contingent assets.

Lincolnshire County Council's Pension Fund

Pension Fund Account - For the year ended 31 March 2016.

	See Note	2014-15 £000	2015-16 £000
Contributions and Benefits			
Contributions Receivable	8	82,503	85,292
Transfers in	9	6,372	7,077
		88,875	92,369
Benefits Payable	10	78,057	80,745
Leavers	11	34,458	2,649
		112,515	83,394
Net additions from dealings with fund members		(23,640)	8,975
Management Expenses	12	10,992	11,035
Returns on Investments			
Investment Income	13	26,619	27,895
Profit (Loss) on Forward Deals & Currency Deals	17	(4,149)	(18,003)
Change in Market Value of Investments	15	177,023	(5,058)
		199,493	4,834
Net increase in the Fund during the year		164,861	2,773
Opening net assets of the Fund		1,591,422	1,756,283
Closing net assets of the Fund		1,756,283	1,759,056
Net Assets statement as at 31 March 2016			
Investments	15		
Equities		972,857	951,839
Pooled Investments:			
Property		189,640	199,306
Private Equity		73,692	56,338
Fixed Interest		194,083	191,741
Index Linked Bonds		34,466	35,859
Equities		88,445	99,033
Alternatives		164,801	183,434
Cash Deposits		25,695	25,570
Other Investment Balances	18	473	2,021
		1,744,152	1,745,141
Current Assets and Liabilities			
Cash Balances		7,855	8,328
Debtors	19	4,005	7,417
Long Term Debtors	19	2,132	1,706
Creditors	19	(1,861)	(3,536)
		12,131	13,915
Net Assets of the Fund at 31st March		1,756,283	1,759,056

Notes to the Pension Fund Account

1 Pension Fund Account

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

The following information is a summary only, and further detail can be found in the Lincolnshire Pension Fund Annual Report 2015-16 (available on the Fund's shared website at www.wypf.org.uk), and in the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

General

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

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of Lincolnshire County Council, the district councils in Lincolnshire and a range of other scheduled and admitted bodies within the county. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

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

Membership

Membership of the LGPS is automatic for eligible employees, but they are free to choose whether to remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include charitable organisations and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 197 contributing employer organisations in the Fund including the County Council (a list of scheduled employers is shown in Note 28) and the membership numbers are shown below:

	31 March 2015	31 March 2016
Number of employers with active members	182	197
Number of employees in the scheme:		
- Lincolnshire County Council	10,679	12,868
- Other employers	10,583	12,583
Total	21,262	25,451
Number of pensioners:		
- Lincolnshire County Council	10,664	12,232
- Other employers	6,600	6,049
Total	17,264	18,281
Number of deferred pensioners:		
- Lincolnshire County Council	18,872	20,752
- Other employers	8,705	6,866
Total	27,577	27,618

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2013, and employer contribution rates were set ranging from 15.1% to 28.7% of pensionable pay. In addition, a number of employers are paying deficit contributions as cash payments.

Benefits

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

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

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year is worth 1/80 x final pensionable salary.	Each year is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3/80 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to our shared pensions website at www.wypf.org.uk.

2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2015-16 financial year and its position at year end as at 31 March 2016.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits due. The accounts do not take into account liabilities to pay pensions and other benefits after the end of the financial year. These liabilities are dealt with through the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined by these valuations.

The accounting policies set out below have been applied consistently to all periods presented within these financial statements.

3 Significant Accounting Policies

Fund account - revenue recognition

Contributions income

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

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

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

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the relevant regulations. Transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Investment Income

Dividends, interest, stock lending and other investment income have been accrued for in the accounts where amounts were known to be due at the end of the accounting period.

Fund account - expense items

Benefits payable

Pensions and lump sum benefits payable are included in the accounts at the time of payment.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

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

Oversight and Governance

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

Investment expenses

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

Fees for the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase and decrease as the value of the investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee be performance related:

- Invesco Asset Management - Global Equities (ex UK)
- Schroder Investment Management - Global Equities
- Threadneedle Asset Management - Global Equities
- Morgan Stanley Investment Management Ltd - Alternative Investments

During the year, the fee terms with Neptune Investment Management, who manage a Global Equities mandate, were amended to remove the performance fee element.

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.

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

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

Net assets statement

Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

Market Quoted investments - The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

Fixed Interest Securities - These are recorded at net market value based on their current yields.

Unquoted Investments - The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Council expects to receive on wind-up, less estimated realisation costs.

- Securities subject to takeover offer - the value of the consideration offered under the offer, less realisation costs.

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

- Limited partnerships - Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

- Pooled investment vehicles - These are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of withholding tax.

Transaction costs are included in the purchase and sale costs of investments and are identified in the notes to the accounts.

Foreign currency transactions

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. The exchange rates used at 31 March 2016 are shown in Note 29.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to certain risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contracts are priced at fair value and open contracts are included within the other investment balances.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is 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.

Cash and cash equivalents

Cash comprises of cash in hand, deposits and includes amounts held by external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimum risk of changes in value.

Financial liabilities

Financial liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Prior Period Adjustments

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

The following disclosures will be made:

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

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

Changes in Accounting Policies

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

4 Actuarial Valuation

An actuarial valuation of the Fund undertaken as at 31 March 2013 indicated that the Fund's assets were £1,495m and covered 71.5% of the Funds liabilities. This compared with assets of £1,204m at the valuation as at 31 March 2010, which covered 76% of the Fund's liabilities. The main actuarial assumptions for the 2013 valuation were as follows:

	Nominal per annum %	Real per annum %
Investment Return		
- Equities	4.6	2.1
- Bonds	3.0	
Rate of Pensionable pay inflation	3.8	1.3
Rate of Price inflation	2.5	

The Fund is valued using the projected unit method, which is consistent with the aim of achieving a 100% funding level. The changes in contribution rates resulting from the actuarial valuation as at 31 March 2013 will be effective from April 2014. The contribution rates have been set by the Actuary to target a funding level, for most employers, on an ongoing basis of 100% over a period of up to 20 years. The next actuarial valuation will be undertaken as at 31 March 2016. A copy of the Fund Valuation report can be obtained from the Council's website.

5 Actuarial Present Value of Promised Retirement Benefits

Below is the note provided by the Fund's Actuary, Hymans Robertson, to provide the Actuarial present value of the promised retirement benefits, as required under the Code. The report titled 'Actuarial Valuation as at 31 March 2016 for IAS19 purposes' referred to in the note can be obtained from the Pensions section at the County Council.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2015-16 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for Lincolnshire Pension Fund, which is in the remainder of this note.

Balance sheet

Present value of Promised retirement benefits	31 Mar 2015	31 Mar 2016
	£m	£m
Active members	1,400	1,373
Deferred pensioners	557	491
Pensioners	996	900
Total	2,953	2,764

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £278m.

Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2015	31 Mar 2016
	% p.a.	% p.a.
Inflation/Pension Increase rate	2.4%	2.2%
Salary Increase Rate	3.8%	3.2%
Discount Rate	3.2%	3.5%

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.5 years	26.8 years

*Future pensioners are assumed to be aged 45 at the most recent formal valuation as at 31 March 2013.

Please note that the assumptions are identical to those used for the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2016 for IAS19 purposes'. The covering report identifies the appropriate reliance's and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.



Anne Cranston AFA
For and on behalf of Hymans Robertson LLP
28 April 2016

6 Assumptions Made and Major Sources of Uncertainty

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

The items in the accounts for the year ended 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Uncertainties		Effect if actual results differ from assumptions
Actual present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used; the rate at which salaries are projected to increase; changes in retirement ages; mortality rates and expected returns on investments. A firm of consulting actuaries are engaged to provide expert advice about the assumptions to be applied.	<p>The effects of changes in the individual assumptions can be measured. For example:</p> <p>1) a 0.5% increase in the discount rate assumption would result in a decrease of the pension liability of £267m.</p> <p>2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £49m.</p> <p>3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £194m.</p> <p>4) a one-year increase in assumed life expectancy would increase the liability by approximately £83m.</p>
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Fund are £56m. There is a risk that these may be over or understated in the accounts.

7 Pension Fund Investments 2015-16

The strategic asset allocation for the investment of the Fund, as agreed by the Pensions Committee, is detailed below.

Asset allocation	
UK Equities	20.0%
Global Equities	40.0%
Property	11.5%
Fixed Interest	13.5%
Alternative Investments (incl. Private Equity)	15.0%
	<u>100.0%</u>

Surplus funds are invested in a wide variety of UK and overseas companies, Government Securities, property and other investments; in line with a Statement of Investment Principles. The assets are managed in a number of active and passive investment portfolios. Investment performance is monitored by the Pensions Committee of the County Council.

Fund manager	31 March 2015		31 March 2016	
	£m	%	£m	%
EXTERNALLY MANAGED				
Invesco	362	21	367	21
Neptune	92	5	82	5
Schroder	90	5	89	5
Threadneedle	91	5	95	5
Morgan Stanley (Global Brands)	89	5	99	6
Morgan Stanley (Alternatives)	175	8	187	10
Morgan Stanley (Private Equity)	77	7	62	4
Blackrock	116	7	120	7
BMO	112	6	108	6
INTERNALLY MANAGED				
Pooled Investments:				
- Property	194	11	202	12
- UK Equity	346	20	333	19

The Pension Fund Statement of Recommended Practice was amended with effect from 2008-09 to require that managers report valuations at closing prices (either bid or last traded), rather than mid prices that had previously been used. The managers within the Pension Fund have reported their year end valuations at either bid or fair value, as detailed in the table below.

Fund Manager	Valuation Pricing
EXTERNALLY MANAGED	
Invesco	Bid
Neptune	Bid
Schroder	Bid
Threadneedle	Bid
Morgan Stanley	Bid/Fair Value
Blackrock	Bid
BMO	Bid
INTERNALLY MANAGED	
Property	Bid/Fair Value
UK Equity	Bid

The Fund lends stock to third parties under a stock lending agreement with the Fund's custodian, JPMorgan. The total amount of stock on loan at the year end was £38.866m and this value is included in the net assets statement to reflect the Funds continuing economic interest in the securities on loan. As security for the stocks on loan, the Fund was in receipt of collateral at the year end valued at £42.486m, which represented 109.3% of the value of securities on loan.

Income received from stock lending activities, before costs, was £0.477m for the year ending 31 March 2016 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

8 Contributions Receivable

Contributions receivable are analysed below:

	2014-15 £000	2015-16 £000
Employers		
Normal	56,897	57,734
Deficit Funding	5,465	7,793
Additional - Augmentation	1,457	1,119
Members		
Normal	18,577	18,551
Additional years	107	95
	82,503	85,292

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

	2014-15 £000	2015-16 £000
Lincolnshire County Council	37,286	36,864
Scheduled Bodies	40,522	42,713
Admitted Bodies	4,695	5,715
	82,503	85,292

9 Transfers In

	2014-15 £000	2015-16 £000
Individual transfers from other schemes	6,372	7,077
Bulk transfers in from other schemes	0	0
	6,372	7,077

There were no material outstanding transfers due to the Pension Fund as at 31 March 2016.

10 Benefits Payable

	2014-15 £000	2015-16 £000
Pensions	63,097	64,624
Commutations & Lump Sum Retirement Benefits	13,348	14,405
Lump Sum Death Benefits	1,612	1,716
	78,057	80,745

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

	2014-15 £000	2015-16 £000
Lincolnshire County Council	41,623	43,281
Scheduled Bodies	32,477	34,512
Admitted Bodies	3,957	2,952
	78,057	80,745

11 Payments to and on account leavers

	2014-15 £000	2015-16 £000
Individual transfers to other schemes	3,726	2,574
Bulk transfers to other schemes	30,638	0
Refunds to members leaving service	94	75
	34,458	2,649

There were no material outstanding transfers due from the Pension Fund as at 31 March 2016.

12 Management Expenses

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

The external Audit fee for the year was £0.028m and is included within the oversight and governance costs below.

	2014-15 £000	2015-16 £000
Administrative Costs	1,289	1,654
Investment Management Expenses	9,312	9,030
Oversight and Governance Costs	391	351
Total Management Expenses	10,992	11,035

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

	2014-15 £000	Restatement £000	Restated 2014-15 £000	2015-16 £000
Transaction Costs	0	839	839	664
Management Fees	3027	4105	7,132	7,397
Performance Related Fees	0	962	962	531
Custody Fees	100	279	379	438
Total Investment Management Expenses	3,127	6,185	9,312	9,030

The comparator figures for 2014-15 were restated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The restatement reflects:

- reclassifying £0.962m to the new expense category of Performance Related Fees for costs previously charged to Management Fees.
- grossing up for investment management fees, transaction costs and custody fees previously netted off against asset values.

13 Investment Income

	2014-15 £000	2015-16 £000
Equities	25,369	26,458
Pooled Investments:		
- Property	895	899
- Alternatives	(6)	0
Cash deposits	59	55
Stock Lending	302	483
Total	26,619	27,895

Analysis of Investment Income Accrued 31 March 2016:

	UK £000	Non-UK £000	Global £000	Total £000
Equities	2,602	1,463	841	4,906
Bonds	0	0	0	0
Property (direct holdings)	0	0	0	0
Alternatives	287	0	0	287
Cash and Equivalents	0	0	0	0
Other	0	0	0	0
Total	2,889	1,463	841	5,193

Analysis of Investment Income Accrued 31 March 2015:

	UK £000	Non-UK £000	Global £000	Total £000
Equities	2,552	1,346	818	4,716
Bonds	0	0	0	0
Property (direct holdings)	0	0	0	0
Alternatives	254	0	0	254
Cash and Equivalents	0	0	0	0
Other	0	0	0	0
Total	2,806	1,346	818	4,970

14 Taxes on Income

	2014-15 £000	2015-16 £000
Withholding tax - Equities	1,114	1,057
Total	1,114	1,057

15 Investments

	Value at 31 March 2015 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31 March 2016 £000
Equities	972,857	302,531	280,881	(42,668)	951,839
Pooled Investments:					
- Property	189,640	2,766	8,972	15,872	199,306
- Private Equity	73,692	3,450	32,271	11,467	56,338
- Fixed Interest	194,083	1,926	2,986	(1,282)	191,741
- Index Linked Bonds	34,466	0	0	1,393	35,859
- Equities	88,445	0	906	11,494	99,033
- Alternatives	164,801	81,006	61,039	(1,334)	183,434
	1,717,984	391,679	387,055	(5,058)	1,717,550
Cash Deposits	25,695				25,570
Other Investment Balances	473				2,021
Current Assets & Liabilities	12,131				13,915
	1,756,283	391,679	387,055	(5,058)	1,759,056

	Value at 31 March 2014 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31 March 2015 £000
Equities	880,027	334,616	349,377	107,591	972,857
Pooled Investments					
Property	174,701	3,323	12,329	23,945	189,640
Private Equity	83,313	1,555	23,767	12,591	73,692
Fixed Interest	168,971	21,392	3,232	6,952	194,083
Index Linked Bonds	29,623	1,845	3,338	6,336	34,466
Equities	74,715	0	803	14,533	88,445
Alternatives	125,936	122,982	89,192	5,075	164,801
	1,537,286	485,713	482,038	177,023	1,717,984
Cash Deposits	38,836				25,695
Other Investment Balances	4,365				473
Current Assets & Liabilities	10,935				12,131
	1,591,422	485,713	482,038	177,023	1,756,283

Geographical Analysis of Fund Assets as at 31 March 2016:

	UK £'000	Non-UK £'000	Global £'000	Total £'000
Equities	325,544	364,828	360,500	1,050,872
Bonds	35,858	23,774	167,967	227,599
Property (direct holdings)	0	0	0	0
Alternatives	181,013	71,757	186,309	439,079
Cash and Equivalents	25,570	0	0	25,570
Other	0	0	0	0
Total	567,985	460,359	714,776	1,743,120

Geographical Analysis of Fund Assets as at 31 March 2015:

	UK £'000	Non-UK £'000	Global £'000	Total £'000
Equities	344,094	358,688	358,521	1,061,303
Bonds	34,465	23,380	170,703	228,548
Property (direct holdings)	0	0	0	0
Alternatives	170,750	88,606	168,777	428,133
Cash and Equivalents	25,695	0	0	25,695
Other	0	0	0	0
Total	575,004	470,674	698,001	1,743,679

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

	2014-15 £000	2015-16 £000
Property		
- Unit Trusts	133,426	145,608
- Other managed funds (LLP's)	56,214	53,698
Private Equity		
- Other managed funds (LLP's)	73,692	56,338
Fixed Interest		
- Other managed funds	194,083	191,741
Index linked gilts		
- Other managed funds	34,466	35,859
Equities		
- Other managed funds	88,445	99,033
Alternatives		
- Other managed funds	164,801	183,434
Total Pooled Vehicles	745,127	765,711

It is required to disclose where there is a concentration of investment (other than in UK Government Securities) which exceeds 5% of the total value of the net assets of the scheme. The three investments that fall into this category as follows:

Investment	2014-15		2015-16	
	Value (£000)	% of net assets	Value (£000)	% of net assets
BMO Absolute Return Bond Fund	112,371	6.4	108,036	6.2
Morgan Stanley Alternative Investments	164,801	9.4	183,434	10.7
Morgan Stanley Global Brands	88,445	5.0	99,033	5.7

16 Analysis of Derivatives

The holding in derivatives is used to hedge exposures to reduce risk in the fund. The use of any derivatives is managed in line with the investment management agreements of the various investment managers.

The only direct derivative exposure that the Fund has is in forward foreign currency contracts. In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to one month						
	EUR	288	GBP	227	1	0
	GBP	13	AUD	24	0	0
	GBP	16	HKD	183	0	0
	GBP	24	JPY	3,856	0	0
Over one month						
	CHF	39,900	GBP	27,991	1,171	0
	EUR	116,600	GBP	86,800	5,996	0
	GBP	882	CAD	1,669	0	(16)
	GBP	27,712	CHF	39,900	0	(1,451)
	GBP	101,430	EUR	136,376	0	(7,054)
	GBP	82,524	JPY	14,108,080	0	(5,030)
	GBP	452,892	USD	663,062	0	(8,079)
	JPY	8,947,070	GBP	51,403	4,139	0
	USD	404,800	GBP	273,399	7,969	0
Total					19,276	(21,630)
Net forward currency contracts at 31 March 2016						(2,354)
Prior year comparative						
Open forward currency contracts at 31 March 2015					18,669	(23,494)
Net forward currency contracts at 31 March 2015						(4,825)

17 Profit (Loss) on Forward Deals and Currency Exchange

The profit or loss from any forward deals and from currency exchange is a result of the normal trading of the Fund's managers who manage multi-currency portfolios. It also includes the unrealised loss of £3.8m (unrealised loss of £0.5m in 2014-15) from the Fund's two Currency Overlay Managers.

18 Other Investment Balances

	2014-15 £000	2015-16 £000
Dividends Receivable	3,830	3,627
Recoverable Tax	1,100	1,521
Outstanding Foreign Exchange	(4,825)	(2,354)
Outstanding Stock Lending	30	35
Unsettled Trades: - Purchases	(1,796)	(1,307)
- Sales	2,134	499
	473	2,021

19 Current Assets and Liabilities

Debtors are recorded in the accounts when income due to the Pension Fund, for example from sales of investments or dividend payments, has not actually been received. Debtors include a figure of £4.018m for contributions due from employers (£2.495m in 2014/15). Long term debtors are amounts due to the Pension Fund that will not be received within 12 months. The Pension fund only has one long term debtor, the Magistrates Court, who are funding the cost of their pensioner and deferred member liabilities over a 10 year period. Similarly, Creditors are recorded where services supplied to the Pension Fund, or purchases of investments have been made by 31 March, but payment is not made until the following financial year. As required by the Code, creditors and debtors are split by type below:

	2014-15	2015-16
	£000	£000
Debtors:		
Central Government Bodies	1,683	1,512
Other Local Authorities	1,466	5,079
NHS Bodies	0	0
Public Corporations and Trading Funds	141	133
Other Entities and individuals	715	693
	4,005	7,417
Long Term Debtors:		
Central Government Bodies	2,132	1,705
Other Local Authorities	0	0
NHS Bodies	0	0
Public Corporations and Trading Funds	0	0
Other Entities and individuals	0	0
	2,132	1,705
Creditors:		
Central Government Bodies	(667)	(560)
Other Local Authorities	(87)	(1,291)
NHS Bodies	0	0
Public Corporations and Trading Funds	(1,106)	(1,664)
Other Entities and individuals	(1)	(21)
	(1,861)	(3,536)

20 Contingent Liabilities and Contractual Commitments

Investment commitments have been made to a number of pooled vehicles that make private equity or property investments. At the year end, the value of outstanding commitments to the 23 investment vehicles amounted to £21.219m.

21 Contingent Assets

Five admitted body employers in the Fund hold insurance bonds or equivalent cover to guard against the possibility of being unable to meet their pension obligations. These arrangements are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

22 Impairment Losses

The Fund has no recognised impairment losses.

23 Additional Voluntary Contributions

Scheme members may make additional contributions to enhance their pension benefits. All Additional Voluntary Contributions (AVC) are invested in a range of investment funds managed by the Prudential plc. At the year end, the value of AVC investments (excluding any final bonus) amounted to £9.095m (£9.233m in 2014-15). Member contributions of £0.993m (£1.217m in 2014-15) were received by the Prudential in the year to 31st March and £1.513m (£1.135m in 2014-15) was paid out to members. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

24 Dividend Tax Claims

During the financial year 2006-07, the County Council lodged a number of claims with HM Revenue and Customs for the recovery of dividend tax credits relating to earlier years. Claims to the value of £0.793m relate to Foreign Income Dividends paid by UK companies and certain dividends paid by overseas companies. The claims are based on interpretations of European Union law and a number of recent relevant judgements. The County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2009-10, the County Council lodged a claim with HM Revenue and Customs for the recovery of withholding tax suffered on manufactured overseas dividends. This is a tax imposed on overseas dividends due to the Pension Fund when the stock is on loan to another party, through the stock lending service provided by the Fund's custodian, JPMorgan. The value of the claim is approximately £0.714m and relates to the periods from 2004-05 to 2008-09. In 2010-11 a top-up claim was submitted for the year 2009-10, for approximately £0.278m. No additional claims were made in this area in 2012-13, however top-up claims for the period from 1st April 2011 to 31st March 2013 were made in May 2013, for £0.377m. As with the tax claim detailed in the paragraph above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

During the financial year 2011-12, the County Council lodged a claim with the relevant tax authorities for the recovery of withholding tax suffered on overseas dividends from Spain (approx. £0.101m) and Germany (approx. £0.165m), covering the periods from 2007-2010. In Spain repayments are increasingly being seen and a repayment of €79,565 was received in April 2015. After this repayment, the only quarter outstanding is Q4 2007.

It is expected that resolution of these claims will take a number of years and, if unsuccessful, the Fund could incur a share of the costs of the Commissioners of the Inland Revenue.

25 Related Party Transactions

In accordance with Financial Reporting Standard 8 'Related Party Disclosures' material transactions with related parties not disclosed elsewhere are detailed below:-

Under legislation introduced in 2003-04, Councillors have been entitled to join the Scheme, however this changed from the 1st April 2014 and no new Councillors are now able to join the scheme. Councillors who are current members will cease to be in the scheme following the end of their current term as Councillor. Committee members M Allan, R Phillips, P Wood and A Antcliff are contributing members of the Pension Fund as at 31st March 2016.

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund.

The Treasury Management section of the County Council acts on behalf of the Pension Fund to manage the cash position held in the Pension Fund bank account. This is amalgamated with the County Council's cash and lent out in accordance with the Council's Treasury Management policies. During the year, the average balance in the Pension Fund bank account was £6,981.6m and interest of £52k was earned over the year.

Lincolnshire County Council paid contributions of £26.3m into the Pension Fund during the year.

Paragraph 3.9.4.2 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulations 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit Regulations 2005); satisfy the key management and personnel disclosure requirements of paragraph 16 of IAS24. This applies in equal measure to the accounts of Lincolnshire Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Lincolnshire County Council at Note 47. This can be found on the Council's website at www.lincolnshire.gov.uk.

26 Financial Instruments

Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading. No financial assets were reclassified during the accounting period.

	2014-15			2015-16		
	Designated as fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost	Designated as fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
Financial Assets						
Equities	972,857	0	0	951,839	0	0
Pooled Investments:						
Property	189,640	0	0	199,306	0	0
Private Equity	73,692	0	0	56,339	0	0
Fixed Interest	194,083	0	0	191,741	0	0
Index Linked Bonds	34,466	0	0	35,858	0	0
Equities	88,445	0	0	99,033	0	0
Alternatives	164,801	0	0	183,434	0	0
Cash	0	33,550	0	0	33,898	0
Other Investment Balances	25,763	0	0	24,958	0	0
Debtors	0	6,137	0	0	9,123	0
	1,743,747	39,687	0	1,742,508	43,021	0
Financial Liabilities						
Other Investment Balances	(25,290)	0	0	(22,937)	0	0
Creditors	0	0	(1,861)	0	0	(3,536)
	(25,290)	-	(1,861)	(22,937)	-	(3,536)
	1,718,457	39,687	(1,861)	1,719,571	43,021	(3,536)

Net gains and losses on financial instruments

	2014-15 £000	2015-16 £000
Financial Assets		
Fair value through profit & loss	170,838	(5,058)
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Financial Liabilities		
Fair value through profit & loss	(4,825)	(2,354)
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
	166,013	(7,412)

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the managers to the private equity funds in which the Lincolnshire Fund has invested.

These valuations are prepared in accordance with the Private Equity and Venture Capital Valuation Guidelines (US investments), and the International Private Equity and Venture Capital Valuation Guidelines (non US investments) which follow the valuation principles of IFRS and US GAAP. Valuations are shown to the latest valuation date available and adjusted for cash flow where required to 31st March 2016.

The value for the alternatives investments with Morgan Stanley are provided by the underlying managers within the pool of investments and assurance is provided by Morgan Stanley on the quality of the valuations.

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

Values at 31 March 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit & loss	1,303,429	199,306	239,773	1,742,508
Loans and receivables	43,021	0	0	43,021
Financial liabilities measured at amortised cost	0	0	0	0
Total Financial Assets	1,346,450	199,306	239,773	1,785,529
Financial Liabilities				
Fair value through profit & loss	0	(22,937)	0	(22,937)
Loans and receivables	0	0	0	0
Financial liabilities measured at amortised cost	(3,536)	0	0	(3,536)
Total Financial Liabilities	(3,536)	(22,937)	-	(26,473)
Net Financial Assets	1,342,914	176,369	239,773	1,759,056

Values at 31 March 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Fair value through profit & loss	1,315,614	189,640	238,493	1,743,747
Loans and receivables	39,687	0	0	39,687
Financial liabilities measured at amortised cost	0	0	0	0
Total Financial Assets	1,355,301	189,640	238,493	1,783,434
Financial Liabilities				
Fair value through profit & loss	0	(25,290)	0	(25,290)
Loans and receivables	0	0	0	0
Financial liabilities measured at amortised cost	(1,861)	0	0	(1,861)
Total Financial Liabilities	(1,861)	(25,290)	-	(27,151)
Net Financial Assets	1,353,440	164,350	238,493	1,756,283

27 Nature and Extent of Risks Arising from Financial Instruments

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the Fund. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Market Risk

Market risk is the loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future prices and yield movements and the asset mix.

To mitigate market risk, the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories, having taken advice from the Fund's Investment Consultant. The management of the assets is split between a number of managers with different performance targets and investment strategies. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to the Pensions Committee where they are monitored and reviewed.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instrument. To mitigate this price risk, each manager is expected to maintain a diversified portfolio within their allocation.

Price risk - sensitivity analysis

Following analysis of historical data and expected investment return during the financial year, the Fund, in consultation with a fund manager, has determined that the following movements in market price are reasonably possible for the 2016-17 reporting period.

Asset Type	Potential market movements (+/-)
UK Equities	18.4%
Overseas Equities	14.6%
UK Bonds	6.7%
UK Index Linked	8.5%
Overseas Bonds	8.0%
Private Equity	18.4%
Alternative Investments	10.0%
Property	5.8%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

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

Asset Type	Value at 31 March 2016 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	25,570	0.0	25,570	25,570
UK Equities	347,676	18.4	411,648	283,704
Overseas Equities	703,195	14.6	805,861	600,529
UK Bonds	83,706	6.7	89,314	78,098
UK Index Linked	35,858	8.5	38,906	32,810
Overseas Bonds	108,036	8.0	116,679	99,393
Private Equity	56,339	18.4	66,705	45,973
Alternative Investments	183,434	10.0	201,777	165,091
Property	199,306	5.8	210,866	187,746
Dividends Accrued	3,628	0.0	3,628	3,628
Recoverable Tax	1,521	0.0	1,521	1,521
Outstanding FX	(2,354)	0.0	(2,354)	(2,354)
Outstanding Stock Lending	35	0.0	35	35
Unsettled Purchases	(1,307)	0.0	(1,307)	(1,307)
Unsettled Sales	498	0.0	498	498
Total assets available to pay benefits	1,745,141		1,969,348	1,520,934

Asset Type	Value at 31 March 2015 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	25,695	0.0	25,695	25,695
UK Equities	361,374	12.0	404,739	318,009
Overseas Equities	699,928	10.7	774,820	625,036
UK Bonds	81,712	7.5	87,840	75,584
UK Index Linked	34,466	10.0	37,913	31,019
Overseas Bonds	112,371	9.0	122,484	102,258
Private Equity	73,692	10.7	81,577	65,807
Alternative Investments	164,801	10.0	181,281	148,321
Property	189,640	5.8	200,639	178,641
Dividends Accrued	3,830	0.0	3,830	3,830
Recoverable Tax	1,100	0.0	1,100	1,100
Outstanding FX	(4,825)	0.0	(4,825)	(4,825)
Outstanding Stock Lending	30	0.0	30	30
Unsettled Purchases	(1,796)	0.0	(1,796)	(1,796)
Unsettled Sales	2,134	0.0	2,134	2,134
Total assets available to pay benefits	1,744,152		1,917,462	1,570,842

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes to market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Asset Type	31 March 2015 £000	31 March 2016 £000
Cash deposits	25,695	25,570
Cash balances	7,855	8,328
Pooled Fixed Interest Securities	228,549	227,599
Total	262,099	261,497

Interest rate risk - sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	Value at	Change in Year	
	31/03/2016	+1%	-1%
	£000	£000	£000
Cash deposits	25,570	25,826	25,314
Cash balances	8,328	8,411	8,245
Pooled Fixed Interest Securities	227,599	229,875	225,323
Total	261,497	264,112	258,882

Asset Type	Value at	Change in Year	
	31/03/2015	+1%	-1%
	£000	£000	£000
Cash deposits	25,695	25,952	25,438
Cash balances	7,855	7,934	7,776
Pooled Fixed Interest Securities	228,549	230,834	226,264
Total	262,099	264,720	259,478

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling.

To assist in managing this risk and to reduce the volatility associated with fluctuating currency rates, the Fund has appointed two active currency overlay managers. Record Currency Management and HSBC Trinkaus & Burkhardt each overlay half of the value of the Global Equity ex UK portfolio managed by Invesco.

The following table summarises the Fund's currency exposure at 31 March 2016 and 31 March 2015.

Currency Exposure - Asset Type	31/03/2015	31/03/2016
	£000	£000
Overseas Equities (quoted)	611,483	604,163
Pooled Investments:		
Overseas Property	20,098	18,747
Overseas Private Equity	72,484	55,886
Overseas Fixed Interest	112,371	108,036
Total	816,436	786,832

Currency risk - sensitivity analysis

Following analysis of historical data, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11%, as measured by one standard deviation (10% in 2014-15).

A 11% fluctuation in the currency is considered reasonable based on an analysis of historical movements in volatility of exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 11% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Value at	Change in Year	
	31/03/2016	+11%	-11%
	£000	£000	£000
Overseas Equities (quoted)	604,163	670,621	537,705
Pooled Investments:			
Overseas Property	18,747	20,809	16,685
Overseas Private Equity	55,886	62,033	49,739
Overseas Fixed Interest	108,036	119,920	96,152
Total	786,832	873,383	700,281

Currency Exposure - Asset Type	Value at	Change in Year	
	31/03/2015	10%	-10%
	£000	£000	£000
Overseas Equities (quoted)	611,483	672,631	550,335
Pooled Investments:			
Overseas Property	20,098	22,108	18,088
Overseas Private Equity	72,484	79,732	65,236
Overseas Fixed Interest	112,371	123,608	101,134
Total	816,436	898,080	734,792

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

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

The securities lending programme is run by the Fund's custodian, JPMorgan, who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon type of transaction. This level is assessed daily to ensure it takes account of market movements. To further mitigate risk, JPMorgan provide an indemnity to cover borrower default, overnight market risks, falls on return of loaned securities and entitlements to securities on loan. Securities lending is capped by investment regulations and statutory limits are in place to ensure that no more than 25% of eligible assets can be on loan at any one time.

Forward currency contracts are undertaken by the Fund's two currency overlay managers - Record and HSBC Trinkaus & Burkhardt. The responsibility for these deals therefore rests with the appointed managers. Full due diligence was undertaken prior to the appointment of these managers and they are regularly monitored and reviewed. Both managers are FSA regulated and meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009.

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

Liquidity risk

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

The Fund holds a working cash balance in its own bank account to cover the payment of benefits and other lump sum payments. At an investment level, the Fund holds a large proportion of assets in listed equities - instruments that can be liquidated at short notice, normally three working days. As at 31st March 2016, these assets totalled £1,278m, with a further £25.6m held in cash. Currently, the Fund is cash flow positive each month (i.e. the contributions received exceed the pensions paid). This position is monitored regularly and reviewed at least every three years alongside the Triennial Valuation.

An additional area of risk is in the outsourcing of services to third party service organisations.

The main service areas that the Pension Fund outsources, and the controls in place to monitor them, are:

Pensions Administration

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

Custody, Accounting and Performance Measurement

JPMorgan are the Pension Fund's appointed Custodian, with responsibility for safeguarding the assets of the Fund. JPMorgan are a global industry leader, with more than \$15 trillion in assets under custody. They have been the Fund's Custodian since 2004, and were reappointed at the end of their seven year contract in March 2011. Monthly reconciliations of holdings are performed to ensure that the Custodian's records match those of the Managers. Regular meetings and conference calls are held to discuss performance, and quarterly key performance indicators are produced.

Fund Management

The Fund appoints a number of segregated and pooled fund managers to manage portions of the Pension Fund. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Managers report performance on a monthly basis to officers and performance is reported to the Pensions Committee on a quarterly basis. All segregated managers present in person to the Committee at least once a year. Regular meetings and discussions are held between officers and managers.

28 Scheduled & Admitted Bodies

Analysis of Active and Ceased Employers in the Fund

	Active	Ceased	Total
Scheduled Body	180	17	197
Admitted Body	17	11	28
Total	197	28	225

Scheduled & Admitted Bodies Contributing to the Fund

County and District Councils

Lincolnshire County Council
(incl. LCC schools and CfBT)
Boston Borough Council
East Lindsey District Council
City of Lincoln Council
North Kesteven District Council
South Holland District Council
South Kesteven District Council
West Lindsey District Council

Internal Drainage Boards

Black Sluice
Lindsey Marsh
North East Lindsey
South Holland
Upper Witham
Welland and Deeping
Witham First
Witham Fourth
Witham Third

Parish and Town Councils

Billingham PC
Bourne TC
Bracebridge Heath PC
Cherry Willingham PC
Crowland PC
Deeping St James PC
Gainsborough TC
Greetwell PC
Heighington PC
Horncastle TC
Ingoldmells PC
Langworth PC
Louth TC
Mablethorpe and Sutton TC
Market Deeping TC
Metheringham PC
Nettleham PC
North Hykeham TC
Pinchbeck PC
Skegness TC
Skellingthorpe PC
Sleaford TC
Stamford TC
Sudbrooke PC
Washingborough PC
Woodhall Spa PC

Further Education Establishments

Bishop Grosseteste College
Boston College
Grantham College
Lincoln College
Stamford College

Other Scheduled Bodies

Compass Point
Lincolnshire Police Chief Constable
Police & Crime Commissioner
Acorn Freeschool

Admitted Bodies

Acis Group
Active Nation
Adults Supporting Adult
BG (Lincoln) Ltd
Boston Mayflower
Edwards & Blake

Academies

Alford Queen Elizabeth
Beacon Primary
Boston Grammar
Boston High School
Boston West Academy
Boston Witham Federation
Bourne Elsea Primary
Bourne Abbey C of E
Bourne Academy
Bourne Grammar
Bourne Westfield Primary
Bracebridge Infant and Nursery
Branston Community
Branston Junior Academy
Caistor Grammar
Caistor Yarborough
Carlton Academy
Castle Wood Academy Gainsborough
Charles Read Academy
Cordeaux Academy
Donington on Bain Primary School
Ellison Boulters Academy
Ermine Primary
Fosse Way
Gainsborough Benjamin Adlard
Gainsborough Parish Church
Giles Academy
Gipsey Bridge Academy
Grantham Ambergate
Grantham Isaac Newton Primary
Grantham Kings School
Grantham Sandon
Grantham Walton Girls
Harrowby C of E Infants
Hartsholme Academy
Heighington Millfield Academy
Hillcrest EY Academy
Holbeach Primary
Hogsthorpe Primary Academy
Horncastle Banovallum
Horncastle QE Grammar
Huntingtower Community Primary
Huttoft Primary Academy
Ingoldsby Primary Academy
Ingoldmells Academy
John Spendluffe Tech. College
Keelby Primary Academy
Kesteven & Sleaford High
Kesteven and Grantham Academy
Kidgate Primary Academy
Kirkby La Thorpe
Lincoln Anglican Academies
Lincoln Castle Academy
Lincoln Christs Hospital School
Lincoln Our Lady of Lincoln
Lincoln St Hugh's
Lincoln St Peter & St Paul's
Lincoln UTC
Lincoln Westgate Academy
Ling Moor Academy
Little Gonerby C of E
Long Bennington C of E
Louth King Edward VI Grammar
Mablethorpe Primary Academy

Manor Leas Infant Academy
Manor Leas Junior Academy
Market Rasen De Aston School
Mercer's Wood Academy
Mount Street Academy
Monks Dyke Tennyson College
Monkshouse Primary School
National C of E Juniors
Nettleham Infants Academy
North Kesteven School
North Thoresby Primary
Phoenix Family Academy
Pinchbeck East C of E Primary
Priory Federation of Academies
Rauceby C of E
Ruskington Academy
Sir John Glead
Sir Robert Pattinson Academy
Sir William Robertson
Skegness Academy
Skegness Grammar
Skegness Infant Academy
Skegness Junior Academy
Sleaford Carres Grammar
Sleaford Our Lady of Good Counsel
Sleaford St Georges Academy
Sleaford William Alvey
Somercotes Academy
Spalding Grammar
Spalding Parish C of E Day School
Spilsby Eresby
Spilsby King Edward Academy
St Giles Academy
St John's Primary Academy
Stamford Malcolm Sargent
Stamford Queen Eleanor
Stamford St Augustine's
Stamford St Gilberts
St Bernards Academy Louth
St Lawrence Academy Horncastle
St Thomas C of E Primary Boston
Surfleet Primary
Tattershall Gartree Community
The Deepings Academy
The Gainsborough Academy
The Garth School
The Priory School
The Phoenix School
Thomas Cowley Academy
Thomas Middlecott Academy
Tower Road Academy
Trent Valley Academy
University Academy Holbeach
Utterby Primary
Wainfleet Magdalene Primary
Washingborough Academy
Welton St Mary's C of E
Welton William Farr CE
West Grantham Federation
Weston St Mary
White's Wood Academy
William Lovell Academy
Witham St Hughs Academy
Woodhall Spa Academy

G4S
Lincoln Arts Trust
Lincoln BIG
Lincs HIA
Lincs Sports Partnership
Kier Group (May Gurney)

Making Space
Magna Vitae
New Linx Housing
Serco
Vinci Construction UK Ltd

29 Exchange Rates Applied

The exchange rates used at 31 March 2016 per £1 sterling were:

Australian Dollar	1.8684
Brazilian Real	5.0938
Canadian Dollar	1.8591
Swiss Franc	1.3764
Danish Krone	9.3970
Euro	1.2613
Hong Kong Dollar	11.1485
Indonesian Rupiah	19,058.5978
Israeli Shekel	5.4035
Japanese Yen	161.5453
Korean Won	1,643.6963
Mexican Peso	24.6321
Norwegian Krone	11.8883
New Zealand Dollar	2.0701
Polish Zloty	5.3495
Swedish Krona	11.6518
Singapore Dollar	1.9355
Thai Baht	50.5642
Turkish Lira	4.0470
Taiwan Dollar	46.2581
US Dollar	1.4373
South African Rand	21.1398

Lincolnshire Fire & Rescue Pensions Fund for the year ended 31 March 2016

2014-15	Fund Account	Note	2015-16
£'000			£'000
	Contributions Receivable:		
	From employer:		
(1,620)	Contributions in relation to pensionable pay	4	(1,631)
(38)	Early Retirements - Ill Health	4	(19)
	From members		
(1,275)	Fire-fighters' contributions	4	(1,399)
0	From CLG (commutations special income)		0
	Transfers in:		
0	Individual transfers from other schemes from Local Authorities	7	(88)
(31)	Individual transfers from other schemes other than Local Authorities	7	0
	Benefits payable:		
4,405	Pensions	5	5,031
1,420	Commutations and lump sum retirement benefits	5	1,812
0	Lump sum death benefits	5	0
	Payments to and on account of leavers:		
2	Individual transfer out to other schemes	7	0
1	Refunds of contributions	7	0
2,864	Sub Total Net amount payable for the year before top up grant receivable		3,706
(2,864)	Top up grant receivable from sponsoring department	6	(3,706)
	(0) net amount payable/receivable		0

31 March 2015	Net Asset Statement as at:	31 March 2016
£'000		£'000
	Current Assets:	
376	Pensions paid in Advance	0
0	Amounts due from LCC	0
1,034	Pensions top up grant due	1,411
1,410	Total Current Assets	1,411
	Current Liabilities:	
(1,205)	Amounts payable to LCC	(1,411)
(205)	Unpaid pension benefits	0
0	Pension payable to central government	0
(1,410)	Total Current Liabilities	(1,411)
	0 Total	0

Notes to the Fire & Rescue Pension Fund Account

1 Basis of Preparation

The Financial Statements have been prepared in accordance with the main recommendations of the code of practice on Local Authority Accounting issued by the Chartered Institute of Finance & Accountancy.

There is no separate bank account for the Pension Fund, therefore the County Council's General Fund is shown as a debtor/creditor in the Net Asset Statement.

The Net Asset Statement does not take account of liabilities to pay pensions and other benefits after the period end.

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

2 Lincolnshire Fire and Rescue Pension Fund Account

The Fund was established at 1 April 2006 and covers the 1992, 2006 and 2015 Fire-fighters' Pension Schemes. It was established by the Fire-fighters' Pension Scheme (Amendment) (England) Order 2006 (SI2006 No1810), amended by the Fire-fighters' Pension Scheme (England) Regulations 2014; and is administered by Lincolnshire County Council. Employee and employer contributions are paid into the fund, from which payments to pensioners are made with any difference being met by top up grant from Central Government.

3 Accounting Policies

The Principal Accounting Policies are as follows:

Contributions

For employees who are members of the pension schemes, contributions are receivable from the employer (Council) and the members (employees) throughout the year based on a percentage of pensionable pay. The rates are set nationally by the DCLG/Government Actuary Department and subject to triennial revaluation by the Government Actuary's Department.

If ill health retirements are granted the Council is required to make a contribution to the pension fund in accordance with the regulations. This contribution is spread over a 3 year period to deal with financial volatility as the number of Fire-fighters' who retire on grounds of ill health varies from year to year.

No provision is made in the accounts for contributions on pay awards not yet settled.

Benefits

Benefits include recurring payments that are paid in advance of the month for which they relate. An accrual is made at year end so that the payments are accounted for in the year to which they relate and this is shown in the net asset statement. Lump Sum payments are paid as they become due.

The accounts do not take account of liabilities to pay pensions and other benefits after the year end.

Transfer Values

The value of accrued benefits transferred from or to another pension arrangement, including Fire-fighters' pension schemes outside England, are recorded in the accounts on a receipts and payments basis.

Top up Grant

Central Government pay an instalment of top up grant during the year based on estimated activity. The balance is included within the amount of grant receivable and identified in the Net asset statement under current assets or liabilities.

The accounts do not take account of liabilities to pay pensions and other benefits after the year end.

4 Contribution Rates

Under the Fire-fighters pension regulations the contribution rates are set nationally and are subject to triennial revaluation by the Governments Actuary's Department. During 2015-16 the contribution rates for the 2006 scheme were a minimum of 20.5% of pensionable pay (12% employers and tiered contribution of 8.5% to 12.5%, based employees' pensionable pay banding). The contribution rates for the 1992 scheme were a minimum of 32.7% of pensionable pay (21.7% employers and tiered contribution of 11% to 17%, based on employees' pensionable pay banding). The contribution rates for the 2015 scheme were a minimum of 31.7% of pensionable (21.7% employers and tiered contribution of 10.0% to 14.5%, based on employees' pensionable pay banding). Contribution tiers for part time and retained firefighters to be based on whole time equivalent pay for their role.

Contributions, by the employer for fire-fighters who retire due to ill health are also paid into the Pension Fund in accordance with the regulations. This also applies to protected rights whole time equivalent compensatory payments paid to retained firefighters who were employed from 6th April 2006 and who had been ill health retired due to a qualifying injury.

5 Benefits paid

Lump sum and ongoing pensions are paid to retired officers, their survivors and others who are eligible for benefits under pension schemes. The recurring payments are usually paid monthly in advance at the beginning of the period for which they relate.

6 Central Government pension top up grant

This is an unfunded scheme and consequently there are no investment assets. The fund is balanced to zero each year by receipt of a top up grant from the Central Government Department for Communities and Local Government (DCLG) if contributions are insufficient to meet the cost of benefits payable, or by paying over any surplus to the DCLG. The difference between grant received during the year and grant required to balance to zero is set up as an accrual and shown in the Net Asset Statement.

7 Transfers in and out

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

Audit Opinion

Annual Governance Statement for Lincolnshire County Council 2015-16

Lincolnshire County Council in statistics

Lincolnshire has **731,500** residents comprising **306,971** households.

The number of residents aged 75 years and over is projected to double over the next 20 years to **139,000**.

The average annual house price, all types, is **£176,119**.

Lincolnshire has **87** exciting and varied venues licensed by LCC for civil marriage/partnership.

104,195 pupils are enrolled at **361** schools across Lincolnshire

Lincolnshire's secondary schools have outperformed the national rise in GCSE results. **56.1%** of Lincolnshire's pupils achieved 5A* - C grades.

The unemployment claimant rate as a percentage of the working age population is **1.5%**.

Lincoln's hire bike scheme launched in 2013 and **100** bikes are now available to rent from **19** docking stations across Lincoln.

320,000 passengers used CallConnect in 2015, a service designed to provide accessible transport for the most rural and isolated areas of the county. Adjusting for the difference in working days compared to 2014, this represents a **1.3%** increase in patronage.

200,000 people visited Lincoln Castle in the first 6 months after its £22 million refurbishment.

Lincoln Castle is now the only place in the world where an original **1215** Magna Carta and **1217** Charter of the Forest can be seen side by side, on permanent loan from Lincoln Cathedral.

49.6% of Lincolnshire's household waste is recycled. The remaining black bin waste which used to go to landfill is now processed at the Energy from Waste facility at North Hykeham and presents an opportunity to develop a District Energy Network to benefit local businesses and residents.

How has this Statement been prepared?

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

To help us do this the Council's Audit Committee undertakes a review of the Council's governance framework¹ – considering and challenging evidence and information supplied by an Officer Group (comprising of the Chief Financial Officer, Monitoring Officer, Head of Internal Audit, Head of Legal Services and Democratic Services Manager).

On the xxxxxx the draft statement was agreed and signed off by the Corporate Management Team.

On the 18th July 2016 the Audit Committee considered the significant governance issues identified in the Statement – ensuring that the Statement properly reflects how the Council is run and identified any improvement actions.

The final statement was formally approved by the Audit Committee on the 19th September 2016 - where it was recommended for signing by the Leader of the Council, Chief Executive and the Executive Director – Finance and Public Protection.

¹ The Council has adopted a governance and assurance structure which is consistent with the principles of the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government – 2012 Edition

Introduction by Pete Moore

Executive Director, Finance and Public Protection

*"If management is about running the business – governance is about seeing that it is run properly"*²

Good governance is required by the Council to ensure it achieves its objectives and policy priorities in an effective and well managed way. It runs throughout the Council from decision making and scrutiny at the top to service delivery on the front line. It relies on good management, effective processes and other appropriate controls. The Governance Group within the Council has assessed that overall governance arrangements are working effectively. However, the Council has faced and continues to face a number of challenges, which include:

- The continued significant reductions in Government funding through to 2019/20, requiring a continued programme of efficiency savings and service reductions to balance the budget. This is requiring the Council to re-assess how it assesses and manages risks.
- The implementation of key IT systems including Agresso and Mosaic. Problems in the implementation of the former has weakened aspects of the financial control environment during 2015/16.
- The development of new areas of governance covering the devolution arrangements, including a potential combined authority with a mayor.

The Council will continue to monitor the operation of its governance arrangements and make appropriate adjustments, where and when required.

² Robert Tricker. An expert in Corporate Governance.

What is Corporate Governance?

Lincolnshire County Council spends around £1,000 million of public money every year. It is our duty to “*ensure the greatest benefits for the people in Lincolnshire from the resources we use.*”

The public have a right to expect high standards and value for money in how we spend this money to improve the lives of the people of Lincolnshire.

Local Government has been and will continue to undergo significant change. The way we operate and deliver services – either directly, with or through other organisations will provide challenges for managing risk, ensuring transparency and demonstrating accountability. We need to aim for the standards of the best and our governance arrangements should not only be sound but also seen to be sound.

The Framework consists of the systems and processes, cultures and values by which the Council is directed and controlled. It sets out how we

account to and engage with the people of Lincolnshire - it's about **Community Leadership**.

It helps us monitor our progress in achieving our goals and whether or not those goals are leading to effective and top quality services.

Our Governance Framework brings together an underlying set of legislative requirements, good practice principles and management processes.

Updated good practice guidance was published in April 2016 – we will benchmark our governance arrangements against these during 2016 – reporting the outcome in our Annual Governance Statement for 2016/17.

Whose responsibility is it?

Having good governance arrangements is important to everyone involved in the Council. However, it is a key leadership responsibility of the Leader of the Council and of the Chief Executive. They are accountable for ensuring good governance in the Council.

Figure 1 - Our governance framework



The Council – How it works

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

All 77 Councillors meet at full Council to agree the budget and policy framework. In 2015/16 ten Councillors form the Executive. The Executive make the decisions that deliver the budget and policy framework.

The remaining 67 Councillors form scrutiny committees. These committees develop policy and scrutinise decisions made by the Executive and key decisions made by officers – holding them to account. A number of Committees deal with Regulatory issues.

The conduct of Council's business is defined by formal procedures and rules – known as the Constitution. This explains the roles and remits of all committees and the delegation arrangements that are in place. It also contains the Budget and Policy Framework, finance and other procedure rules and the Codes of Conduct for Members and Employees.

Council elections were held on the 2nd May 2013. This resulted in a change in the ruling political group on the Council, which is now the Lincolnshire Administration – a coalition of Conservatives, Liberal Democrats and Independents.

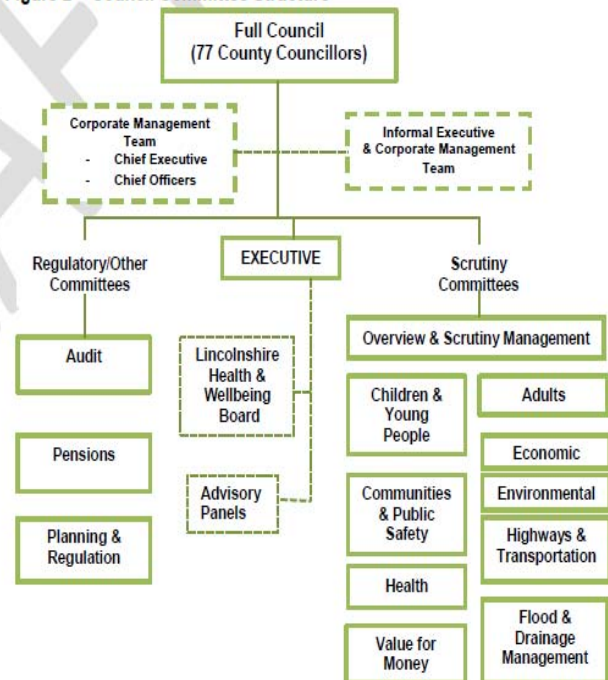
In times motivated by change we are committed to sharing as much information about our plans and programmes as possible. Meetings are therefore normally open to the public and we undertake extensive consultation on major changes to the way we propose to deliver our services.

With substantial funding cuts and cost pressures to absorb we undertook a fundamental budget review – including a widespread public consultation. This helped us identify our overriding priorities, particularly services which keep individuals and communities secure. We deliberately set a one year budget to enable us to respond to changes following the general election. We are delivering £41m savings this year, with an estimated £78m in further savings required over the next three years. This will be through better ways of doing things and being more efficient in how we operate.

We still a way to go and some difficult decisions to make. The risk of service failure will increase in a lower funded environment. Risk will be a key driver in determining future budget reductions. Having a strong governance framework during this period will be vital to our success.

Having far closer co-operation with health partners and community groups will play a key part in how we run our business. Collaborative governance and accountability arrangements will need to be fully developed – balancing accountability for successful delivery of outcomes with proportionate and pragmatic approaches based on acceptable levels of risk and affordability.

Figure 2 – Council Committee Structure



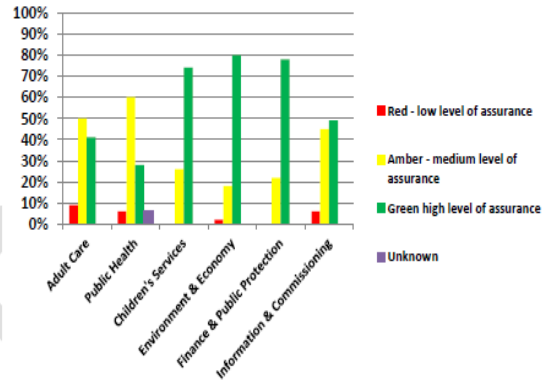
How do we know our arrangements are working?

There are a number of ways we assess if our governance arrangements are working.

Our managers have the day to day responsibility for managing and controlling services - they are accountable for their successful delivery. They set 'the tone from the top' and develop and implement the policies, procedures, processes and controls – ensuring compliance.

A Combined Assurance Status report is produced by each Director on the level of confidence the Council can have on its service delivery arrangements, management of risks, operation of controls and performance for their area of responsibility. These reports are reviewed by the Audit Committee. **Figure 3** shows the current assurance levels for each Executive Director – it gives a positive assurance picture for the Council. This is likely to be the last year where the Council will be able to give this level of positive assurance. The future will mean that the Council will need to be comfortable with taking more high risk decisions and accepting that there may be service failures as a consequence of budget and service reductions.

Figure 3 – Overall Assurance Levels 2015



We communicate the vision and purpose of the authority to the public by setting out our objectives and priorities for the year within our [LCC Business Plan](#)

We make sure the public receive high quality services by measuring our success and publicly reporting our overall financial position in our [Statement of Accounts](#).

The Leader's [Statement](#) at the Council's Annual General Meeting on the 20th May 2016 also gives an account of the achievements of the Council during the year.

If for any reason someone feels that the Council has failed to do something that should have been done or has done something badly or feel that they have been treated unfairly we have a [Complaints Policy](#) to proactively deal with complaints and learn from our mistakes.

From time to time the council makes decisions that others want to challenge. Apart from our own complaints mechanisms, people who are

dissatisfied after that process may take a complaint to the Local Government Ombudsman.

There is one other route for challenge, that of judicial review. This is a legal challenge on the processes that we have followed or allegedly with which we have not complied. The Council was challenged by a Claimant about the Council's Library service plans for a second time at a Judicial Review in July 2015. The Court considered the Claimant's arguments but these were dismissed by the Court.

Role of Monitoring Officer

The Executive Director – Environment and Economy is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by us as detailed in the [Constitution](#)

The Monitoring Officer is responsible for ensuring the Council complies with its duty to promote and maintain high standards of conduct by members and co-opted members of the authority. The Council has adopted a Councillors' Code of Conduct and has a Local Scheme by which the Monitoring Officer deals with complaints that Members may have failed to comply with the requirements of that Code.

In 2015/16 the Monitoring Officer dealt with fewer informal and formal Code of Conduct complaints than in the previous year. In December 2014, the Council added the attribute of "Respect" to the 7 Principles for Standards in Public Life already contained within the Code. It is possible that this has had a positive influence in the way councillors have acted.

In most cases of complaint, the Monitoring Officer found that the complaint did not fall within the Code of Conduct scheme or were dealt with informally. One complaint required an Investigation and a report was submitted to a Standards Panel of the Audit Committee for consideration. The determination was that there had been a breach of the Code and it was referred to the relevant Group Leader for action.

The Monitoring Officer provided an [Annual Report](#) to the Council on how he discharged his duties during the year on the 20th May 2016. It gave assurances that:

- the Council acted and operated within the law
- that appropriate arrangements in place and operated effectively under the Regulation of Investigatory Powers Act and the Council's Whistleblowing policy.
- effective officer and member register of interest process in place
- action taken arising from the published findings by the Local Government Ombudsman

Effective Scrutiny and Review

Our [Overview and Scrutiny](#) Management Committee exists to review and scrutinise any decision made by the Executive, Executive Councillor or key decision made by an officer. It examines the County Council's overall performance and advises our Overview and Scrutiny Committees of any areas of performance requiring detailed consideration.

In early 2015 the Council commissioned an independent review on how well its scrutiny function worked. In December 2015 the Constitution was amended to transfer responsibility for scrutinising corporate performance and finance from the Value for Money Scrutiny Committee to the Overview and Scrutiny Management Committee. A number of other recommended improvements were made and accepted as part of the [Scrutiny Review](#)

Each year an [Overview and Scrutiny Annual Report](#) is produced which shows the activities undertaken by the 10 Committees and how they have contributed to the delivery of agreed priorities and outcomes.

Managing our Risks

Good risk management is part of the way we work. It is about taking the right risks when making decisions or where we need to encourage innovation in times of major change – balancing risk, quality, cost and affordability. This will put us in a stronger position to deliver our goals and provide excellent services. Our risk management process is well established in the way we work. The Audit Committee is responsible for reviewing how effective our risk management procedures are. Our

Strategic Risk Register is regularly reviewed and more details can be found in our [Risk Management Strategy](#)

Our strategic risk management team supports management to help create an environment of 'no surprises'. An Internal Audit Review identified some opportunities to improve risk information around key decisions, projects and the level of risk the Council is prepared to take across its different business units.

For more information go to: [Assurance Lincolnshire's Risk Management Service](#)

Tackling Fraud Locally

We are dedicated to promoting a strong culture to prevent and detect fraud. This is supported by our [Counter Fraud Policy](#) and our [Whistleblowing Policy](#)

Our response to Central Government's expectations for tackling fraud and corruption is reflected in the Counter Fraud Policy and annual work plan.

Progress and delivery of our counter fraud work plan is monitored through our Audit Committee with an Annual Report produced to provide information on the overall effectiveness of the Council's Counter Fraud arrangements.

Tackling Fraud Locally (cont)

The Council secured £200,000 funding from the Department of Communities and Local Government to help create a Lincolnshire Counter Fraud Partnership – working with Lincolnshire Districts to tackle corporate fraud over a 2 year period. Results of this work have helped generate net savings of over £680k.

Chief Financial Officer

The Council has designated the Executive Director – Finance and Public Protection as the Chief Finance Officer under Section 151 of the Local

Government Act 1972. He leads and directs the Financial Strategy of the Council.

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

Our Audit Committee

The Audit Committee is a vital group that oversees and promotes good governance, ensures accountability and reviews the way things are done. The Audit Committee provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability. The Committee exists to challenge the way things are being done, making sure the right processes are in place. It works closely with both Internal Audit and senior management to continually improve the Council's governance, risk and control environment.

Our External Auditors attend Audit Committee meetings. At least once a year a private meeting is held with them to help provide the Audit Committee with independent insight on key issues facing the Council and how well its governance arrangements are working.

Our Internal Audit team is one of the Audit Committee's key independent assurance providers.

We have a non-elected member on the Committee. The ability of an independent member to offer different perspectives and constructive suggestions will improve the way we work. For more information go to: [Audit Committee Meetings](#)

Internal Audit

Internal Audit provides independent assurance designed to add value and improve how the Council operates. It helps the Council achieve its priorities and objectives by bringing a systematic and disciplined approach

to evaluate and improve the management of risk, control and governance processes. It provides constructive and independent challenge to management on the way things are done.

We review of the effectiveness of our Internal Audit service - ensuring it conforms to the UK Public Sector Internal Audit Standards including CIPFA's advisory note on the standards and their statement on the role of the Head of Internal Audit in public service organisations. An external assessment is scheduled for September 2016.

Our [Internal Audit Charter](#) sets out Internal Audits role and remit.

Each year the Head of Internal Audit (Audit and Risk Manager) provides an independent opinion on the effectiveness of the Council's governance, risk and control environment. This helps inform the Annual Governance Statement and is reported to the Audit Committee. For more information go to: [Audit Committee Meetings](#)

External Audit

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

KPMG, our External Auditors, audit our financial statements and provide an opinion on these.

They also assess how well we manage our resources and deliver value for money to the people of Lincolnshire.

Governance Issues

Whilst we are generally satisfied with the effectiveness of our governance framework and assurance arrangements our review identified the following areas where further work is required to improve systems or monitor how the key risks facing the Council are being managed:

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2016/17	Implementation Date
Financial Challenges Ahead			
<p>Since I last reported there have been a number of key, national announcements – the Spending Review 2016, the Local Government Finance Settlement and the Chancellor's Budget. These confirmed significant, further reductions in public spending and Government financial support to the Council for the remainder of this Parliament.</p> <p>During 2014 and 2015 the Council undertook two significant reviews of its budgets and identified a number of options to significantly reduce budgets going forward. Because of the late settlement and other grant announcements the Council published just a one year budget (2016/17). This incorporated budget savings and also significantly draws on the Financial Volatility Reserve in 2016/17.</p> <p>Looking forward the Council has updated its 4 year financial model to take account expected funding levels, budget pressures and anticipated savings. At this stage it is estimated that in addition to those savings identified in the FBR and Financial Challenge work the Council will need to find an additional £78m in base budget savings over the 3 years 2017/18 to 2019/20, with the most significant pressures likely to fall in 2018/19.</p>	Executive Director Finance and Public Protection	<p>Ongoing monitoring of budgets and plans to ensure the savings options previously agreed are delivered.</p> <p>The Corporate Management Board will be doing further work with the Executive to identify further savings options for 2017/18 and an indication of options for the following two years. A new Council will be elected in May 2017 and may wish to review options for the following two years.</p> <p>The Council will need to consider submitting a 4 year efficiency plan to</p>	<p>Ongoing</p> <p>It is expected that budget options will be available for wider discussion and scrutiny in the Council in the early autumn and that will work will feed into the wider consultation and budget processes leading to the final budget decisions in February 2017.</p> <p>This will need to be considered at the full</p>
<p>Within the final settlement announced in February 2016 the Government also invited councils to submit a 4 year 'efficiency plan' by 14th October 2016 in order to secure DCLG grant funding for the financial years 2017/18 to 2019/20.</p>		<p>help secure Government funding in future years.</p>	<p>Council meeting in September 2016.</p>
Financial Control Environment			
<p>The control environment has been significantly impacted during 2015/16 by the implementation of the Agresso system (HR and Financials), new business processes involved and the change to a new contractor (Serco) in April 2015. Internal controls were weakened during this period and it has taken much longer than anticipated for Serco to solve problems and implement improvements. Whilst some key improvements have been made (especially around creditor payments) there are still a number of both historical and current issues outstanding with respect to HR / payroll. This has also had a knock on impact in terms of postings to the general ledger and the availability of financial management information for the majority of 2015/16. The Finance Department has worked with budget holders to provide monitoring information and outturn estimates through alternative means. At the time of writing (June 2016) the majority of the year end activity has been completed. The one issue still being worked on relates to refining the detailed payroll entries in the school accounts. This should be complete by the end of July. It is envisaged that External Audit of the financial statements will start as scheduled on the 1st August 2016.</p>	Executive Director Finance and Public Protection	<p>Controls and monitoring mechanisms in respect of the Serco contract. This has been enhanced over the last 6 months both through a Member / Officer Recovery Board to monitor progress with Serco and ongoing dialogue between Senior Council Officers and Serco Board Members.</p> <p>Follow up of internal audit review of payroll. A separate independent payroll audit by PWC has also been commissioned by Serco and this is due to report in May 2016. An action plan to resolve issues identified will need to be agreed subsequently.</p> <p>Regular dialogue and liaison with External Auditors on close down and year end audit</p>	<p>Ongoing until all issues resolved.</p> <p>Complete any improvements identified by September 2016.</p> <p>Ongoing but complete by September 2016.</p>

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2016/17	Implementation Date
An independent, internal audit update on payroll has identified a number of control weaknesses that will need to be addressed.			
Case Management System (Mosaic)			
Delivery of the new Case Management System for Adults, Children's and Public Health for use by the Council, Serco and other delivery partners.	Chief Information and Commissioning Officer	To complete integration, testing, and transition to the new system.	By the end of 2016
Information Management Team (SERCO)			
Delivery IMT transformation projects is behind schedule which is delaying improvements to the Council's IT operations and service efficiencies across the Council.	Chief Information and Commissioning Officer	Various dates for projects tracked through the Transformation Board.	Through to 31.03.17
Establishing the Combined Authority			
Shortly after the General Election in May 2015, the Government indicated that they wished to see Combined Authorities led by a directly elected mayor. Although aimed at cities, our Council along with the other councils in the Greater Lincolnshire Local Enterprise Area (LEP) conferred and concluded that they wished to submit an expression of interest. They were clear that this was to be a combined authority established for the specific intent of receiving devolved powers and funding from Her Majesty's Government. Conversations took place with other organisations and a submission (<i>Greater Lincolnshire: A place to grow – faster than anywhere</i>) was made by the deadline of 4 September with a total of	Chief Executive Executive Director Environment & Economy	Consultation with residents and businesses in Greater Lincolnshire (Humber to the Wash) Decision on Mayoral Combined Authority for Greater Lincolnshire and agreement of next steps	July / August 2016 August / October 2016
21 signatories. The submission did not propose any powers being ceded by existing councils to the Combined Authority. Thus no direct governance issues arose for the County Council. During the final quarter of the 2015-16 financial year, a lot of work was undertaken by the chief executives and leaders of the ten constituent councils to produce devolution proposals that were negotiated with civil servants. The Government insisted that they would not consider proposals unless a directly elected mayor was included in a governance scheme for a Combined Authority. Council leaders acceded to this, with provision for a combined authority comprising the ten authorities and the Greater Lincolnshire LEP Chair. There will be indirect consequences for governance in the Council in the short term. It is anticipated that the Leader will be the County Council's representative. There are areas of devolved powers in which the Council has interests – transport, highways and skills development, for example. We will need to explore the relationships between our council and the Combined Authority, but it is anticipated that few significant governance problems will arise. The constituent councils will have to fund the operation of the Combined Authority, which will have a financial implication for the Council, albeit it is expected to be relatively small.			

Governance Issue	Lead Officer(s)	Key Delivery Milestones – 2016/17	Implementation Date
<p>Risk Culture</p> <p>Management of risks needs to be done in an effective way to allow the Council to achieve its strategic objectives and agreed priorities. Both councillors and officers will need to be comfortable in taking high risk decisions. Risk assessment and management is built into key decision making and into the delivery of services. Because of budget retrenchment and reductions in officer numbers and resilience this may lead to some deterioration of the Council's risk control environment, particularly on medium and lower priority activities. The Council's risk appetite and thresholds for risk may need to be reviewed allowing for a high degree of pragmatism that balances cost, affordability, quality and risks.</p> <p>The Council will need to continue to ensure its risk management processes work well and with a risk culture that promotes:</p> <ul style="list-style-type: none"> • Taking the right risks in an informed way. • Having clear accountability for ownership of specific risks and risk areas (officers and councillors). • Having transparent and timely risk information throughout the organisation and ensuring early and effective learning both from good practice and also when things go wrong. 	Executive Director Finance and Public Protection	<p>Continue with risk awareness training and workshops with councillors and members.</p> <p>Executive Directors to ensure the Strategic Risk Register is updated on an annual basis.</p>	<p>Refresh programme in October to January when changing budget priorities are known. Second programme for new councillors after elections 2017.</p> <p>December to February as changes to service and commissioning priorities are identified as part of the annual budget / business plan processes.</p>

Conclusion

We are satisfied that plans are in place that will address the areas identified above and will monitor their implementation and operation as part of performance management. The Audit Committee will help provide us with independent assurance during the year.

Signed

..... Date
 Executive Director – Finance & Public Protection

..... Date
 Chief Executive

..... Date
 Leader of the Council

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

SCHOOLS	2014-15		2015-16	
	Number of Staff		Number of Staff	
	Remuneration received (excl those receiving termination payments)	Staff who received termination payments	Remuneration received (excl those receiving termination payments)	Staff who received termination payments
Pay Band				
£155,000- £159,999	0	0	0	0
£150,000- £154,999	0	0	0	0
£145,000- £149,999	0	0	0	0
£140,000- £144,999	0	0	0	0
£135,000- £139,999	0	0	0	0
£130,000- £134,999	0	0	0	0
£125,000- £129,999	0	0	0	0
£120,000- £124,999	0	0	0	0
£115,000- £119,999	0	0	0	0
£110,000- £114,999	0	0	0	0
£105,000- £109,999	0	0	0	0
£100,000- £104,999	1	0	0	0
£95,000- £99,999	0	0	1	0
£90,000- £94,999	3	0	2	0
£85,000- £89,999	1	0	1	0
£80,000- £84,999	2	0	3	2
£75,000- £79,999	4	0	3	0
£70,000- £74,999	3	0	3	1
£65,000- £69,999	7	0	19	0
£60,000- £64,999	32	2	26	0
£55,000- £59,999	47	1	43	0
£50,000- £54,999	53	2	55	2
Total	153	5	156	5

OTHER SERVICES	2014-15		2015-16	
	Number of Staff		Number of Staff	
	Remuneration received (excl those receiving termination payments)	Staff who received termination payments	Remuneration received (excl those receiving termination payments)	Staff who received termination payments
Pay Band				
£155,000- £159,999	0	1	0	0
£150,000- £154,999	0	0	0	0
£145,000- £149,999	0	0	0	0
£140,000- £144,999	0	1	0	0
£135,000- £139,999	0	0	0	0
£130,000- £134,999	0	0	0	0
£125,000- £129,999	0	1	0	0
£120,000- £124,999	0	1	1	0
£115,000- £119,999	0	0	0	0
£110,000- £114,999	0	1	0	0
£105,000- £109,999	0	0	0	0
£100,000- £104,999	3	1	3	1
£95,000- £ 99,999	0	0	0	1
£90,000- £94,999	0	2	2	1
£85,000- £89,999	4	2	5	1
£80,000- £84,999	4	0	2	4
£75,000- £79,999	4	1	6	1
£70,000- £74,999	10	4	12	4
£65,000- £69,999	23	1	19	5
£60,000- £64,999	17	6	23	5
£55,000- £59,999	34	1	35	6
£50,000- £54,999	60	0	78	6
Total	159	23	186	35

STATEMENT OF ACCOUNTS GLOSSARY OF TERMS

Academy Schools

Academy schools are directly funded by central government (the Department for Education) and are independent of local Council control.

Accounting Period

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accounting Policies

The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its Financial Statements.

Accruals

Sums included in the final accounts to recognise revenue and capital income and expenditure attributable to the accounting period, but for which payment has not been received or made by 31 March.

Acquired Operations

Operations comprise services and division of service as defined in SERCOP. Acquired operations are those operations of the local Council that are acquired in the period.

Amortisation

The term used to describe the charge made for the cost of using intangible fixed assets. The charge for the year will represent the amount of economic benefits consumed (e.g. wear and tear).

Appropriation

The transfer of sums to and from reserves, provisions and balances.

Assets

An item having value to the Council in monetary terms, categorised as:

- Current assets are assets that are intended to be sold within the normal operating cycle; the assets are held primarily for the purpose of trading or the Council expects to realise the assets within 12 months after the reporting date.
- Non-current assets are assets that do not meet the definition of a current asset and can be tangible (e.g. school buildings) or intangible (e.g. computer software licences).

Audit of Accounts

An independent examination of the Council's financial affairs.

Balances

The total revenue reserves required to provide a working balance during the financial year, for example in periods when expenditure exceeds income.

Balance Sheet

Shows all balances including reserves, long-term debt, fixed and net current assets, together with summarised information on the fixed assets held.

Borrowing costs

Are interest and other costs that an entity incurs in connection with the borrowing of funds.

Budget

The forecast of net revenue and capital expenditure over the accounting period.

Capital Adjustment Account

Capital reserve largely consisting of resources applied to capital financing and not available to the Council to support new investment.

Capital Charges

This is a general term used for the notional charges made to service expenditure accounts for the use of fixed assets. The term covers depreciation and impairment charges (included in gross expenditure).

Capital Grants Unapplied Account

Grants that have been recognised as income in the Comprehensive Income and Expenditure Statement but where the expenditure has not yet been incurred.

Capital Expenditure

Expenditure on assets which have a long term value. Includes the purchase of land, purchase or cost of construction of buildings and the acquisition of plant, equipment and vehicles.

Capital Financing Costs

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

Capital Financing Requirement

Statutory requirement to ensure that over the medium term the net borrowing by the Council will only be for capital purposes.

Capital Receipts

Proceeds received from the sale of property and other fixed assets.

Carrying Amount

The amount of an asset that is recognised on the Balance Sheet after all costs have been charged for the accounting period (e.g. accumulated depreciation and impairment losses).

Cash equivalents

Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (e.g. bank balances).

Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes

CIPFA

The Chartered Institute of Public Finance and Accountancy.

Comprehensive Income and Expenditure Statement (CI&ES)

This statement reports the net cost of all the services which the Council is responsible for, and demonstrates how that cost has been financed.

Contingent Liability

Potential costs that the Council may incur in the future because of something that happened in the past, but there is no certainty that a cost will occur.

Contingent Asset

Is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council.

Corporate Democratic Core

The corporate and democratic management costs are the costs of activities which Local Authorities undertake specifically because they are elected multi-purpose Authorities. They cover corporate policy making, representing local interests, services to elected members as local representatives and duties arising from public accountability.

Creditors

Amounts owed by the Council for work done, goods received or services rendered but for which payment has not been made at 31 March.

Debtors

Sums of money owed to the Council but unpaid at 31 March.

Defined Benefit Scheme

Also known as a final salary scheme. Pension scheme arrangement where the benefits payable to the members are determined by the scheme rules. In most cases there is a compulsory member's contribution but over and above this all costs of meeting the quoted benefits are the responsibility of the employer.

Depreciation

The allocation of the cost of the useful economic life of the Council's non-current assets for the accounting period through general wear and tear, consumption or obsolescence.

Depreciated replacement cost (DRC)

Is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

Discontinued Operations

Operations comprise services and division of service as defined in SERCOP. Discontinued operations are those operations of the Council that are discontinued in the period. Responsibilities that are transferred from one part of the public sector to another are not discontinued operations.

Donated assets

These are assets which are transferred to the Council at nil value or acquired at less than fair value.

Earmarked Reserves

Those elements of total Lincolnshire County Council reserves which are retained for specific purposes.

Employee benefits

Are all forms of consideration (both monetary and in-kind) given by the Council in exchange for service rendered by employees.

Exceptional Items

Events which are material in terms of the County's overall expenditure and are not expected to recur frequently or regularly.

Fair Value

The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length deal.

Finance Costs

Reflects the element of annual payment for PFI or Leased assets which is in relation to interest payable on the loan liability.

Financial Assets

A right to future economic benefits controlled by the Council.

Financial Instrument

A contract that gives rise to a financial asset of one entity and a financial liability of another entity; for example, at its simplest, a contractual right to receive money (debtor) and a contractual obligation to pay money (creditor).

Financial Liability

An obligation to transfer economic benefits controlled by the Council.

Foundation Schools

Schools run by their own governing body, which employs the staff and sets the administrations criteria. Land and buildings are usually owned by the governing body or a charitable foundation.

General Fund

The main revenue fund of the Council. Income from the council tax precept and government grants is paid into the fund, from which the costs of providing services are met.

Going Concern

The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.

Government Grants

Payments by central government towards Council expenditure. They are receivable in respect of both revenue and capital expenditure.

Grants and Contributions

Assistance in the form of transfers of resources to the Council in return for past or future compliance with certain conditions relating to the operation of activities.

Heritage Assets

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

Impairment

A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet, due to damage, obsolescence or a general decrease in market value.

Intangible Asset

Is an asset without physical substance examples include: computer software and licences.

International Accounting Standard (IAS)

Regulations outlining the method of accounting for activities, IASs are currently being replaced with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board.

International Financial Reporting Standards (IFRS)

Regulations outlining the method of accounting for activities, issued by the International Accounting Standards Board.

Inventories

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

Leases

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment, the right to use an asset for an agreed period of time.

- Finance Lease – a lease whereby all the risks and rewards of ownership of an asset are with the lessee. In substance the asset belongs to the lessee.
- Operating Lease – a lease where the risks and rewards, and therefore ownership, of the asset remains with the lessor.

Lessee

The person or organisation that is using or occupying an asset under lease (tenant).

Lessor

The person or organisation that owns an asset under lease (landlord).

Liabilities

A present obligation to transfer economic benefits. Current liabilities are payable within one year.

Liquid Resources

Cash and current asset investments that can be easily converted to known amounts of cash without penalty, or can be traded in an active market.

Long-Term Contract

A contract entered into for the design, manufacture or construction of a single substantial asset, or the provision of a service (or a combination of assets and services which together constitute a single project), where the project life falls into more than one accounting period.

Long Term Debtors

Sums of money due to the Council originally repayable within a period in excess of twelve months but where payment is not due until future years.

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Minimum Revenue Provision (MRP)

A minimum amount, set by law, which the Council must charge to the income & expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).

Net Book Value

The value of fixed assets included on the Balance Sheet, being the historical cost or a current revaluation less the cumulative amounts provided for depreciation.

Net Debt

The Council's borrowings less liquid resources.

Non Distributed Costs

These are overhead costs from which no user now benefits. They include the costs associated with unused assets and certain pension costs.

Off Balance Sheet

Accounting category not shown or recorded on a Balance Sheet, such as an operating lease or a deferred or contingent asset or liability which is shown only when it becomes 'actual.'

Pension fund accounts

This covers accounting and reporting by pension funds to all fund participants as a group rather than being concerned with determination of the cost of retirement benefits in the Financial Statements of employers.

Precept

The amount levied by one Authority which is collected by another e.g. Lincolnshire County Council is the precepting Authority and the District Councils are the collecting Authorities for the collection of Council Tax. Water Authorities also precept on the Council for land drainage purposes.

Previous Year Adjustments

These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.

Principal

The amount of repayment to a lender which relates to the reduction in the loan, rather than the interest paid on the loan.

Private Finance Initiative (PFI)

A government initiative that enables Authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

Projected Unit Method

An accrued pension benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners and their dependants, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

Property, Plant & Equipment

Are tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

- Land and buildings.
- Vehicles, plant, furniture and equipment.
- Infrastructure assets that form part of the economic or social framework of the area and whose function is not transferable (e.g. highways, bridges and footpaths).
- Community assets are assets that the Council intends to hold in perpetuity, that have no determinable useful life and may have restrictions on their disposal (e.g. nature reserves, country & coastal parks and picnic sites).
- Surplus assets are non-current assets held by the Council but not directly occupied, used or consumed in the delivery of services.
- Investment properties are properties (land or buildings) held to earn rentals or for capital appreciation or both.
- Assets under construction are non-current assets which include expenditure capitalised for work in progress in respect of activities to develop, expand or enhance items of property, plant and equipment, intangible assets and exploration assets.
- Non-current assets held for sale and discontinued operations. These are non-current assets that are either going to be sold or disposed of within the next twelve months.

Provision

This is an amount which is put aside to cover future liabilities or losses which are considered to be certain or very likely to occur, but the amounts and timing are uncertain.

Prudential Indicators

Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that Councils' capital investment plans are affordable, prudent and sustainable. They are outlined in the CIPFA Prudential Code of Practice. The code was introduced in 2004, to underpin the system of capital finance in local government. All Councils must adhere to this.

There are 11 prudential indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A Council may also choose to use additional voluntary indicators.

Public Works Loan Board (PWLB)

A central government agency, which provides loans for one year and above to Authorities at favourable rates which are only slightly higher than the Government can borrow itself.

Recognition

The process upon which assets are deemed to belong to the Council either by purchase, construction or other forms of acquisition.

Related party

These are parties which are considered to be related if one party has the ability to control the other party, or exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related party transactions are transfers of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the Council or the Government of which it forms part.

Reserves

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the Revaluation Reserve and Capital Adjustment Account cannot be used to meet current expenditure.

Retirement Benefits

- Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.
- Actuarial basis is the estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the Financial Statements of an organisation.
- Actuarial gains and losses for a defined benefit pension scheme are the changes in actuarial deficits or surpluses that arise because:
 - Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
 - The actuarial assumptions have changed.
- Current service cost is the increase in the present value of a defined benefit obligation resulting from employee service in the current period.
- Defined benefit plans are post-employment benefit plans other than defined contribution plans.
- Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
- Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.
- Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Retrospective application

This is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Revaluation Gain

The increase to the fair value of an asset following a valuation.

Revaluation Reserve

This reserve contains revaluation gains on assets recognised since 1 April 2007 only, the date of its formal implementation.

Revenue Contributions

This refers to the financing of capital expenditure directly from revenue rather than from loans or other sources.

Revenue Expenditure

The day to day expenditure of the Council on such items as employees and equipment.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure which may be funded from capital, but which does not result in fixed assets owned by the Council. These costs are included in the net cost of services shown in the Income and Expenditure Account.

Revenue Support Grant (RSG)

Grant paid by central government to Local Authorities in aid of service provision.

Service Reporting Code of Practice (SERCOP)

Details standard definitions of service and total cost which enables spending comparisons to be made with other Local Authorities.

Short-term employee benefits

These are employee benefits (other than termination benefits) that fall due wholly within 12 months after the end of the period in which the employees render the related service.

Specific Grant

A grant awarded to a Council for a specific purpose or service that can not be spent on anything else.

Straight Line basis

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

Termination Benefits

Employee benefits paid upon termination of employment such as redundancy.

Treasury Management

The utilisation of cash flows through investments and loans.

Trust Funds

Funds administered by the Council for such purposes as prizes, charities and specific projects or on behalf of minors.

Useful Life

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

Value Added Tax (VAT)

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

This page is intentionally left blank