

County Offices
Newland
Lincoln
LN1 1YL

16 September 2016

Audit Committee

A meeting of the Audit Committee will be held on **Monday, 26 September 2016 at 10.00 am in Committee Room Three, 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, 26 SEPTEMBER 2016**

Item	Title	Pages
1	Apologies for Absence	
2	Declarations of Members' Interests	
3	Minutes of the meeting held on 18 July 2016	5 - 14
4	Internal Audit Progress Report <i>(To receive a report from Rachel Abbott, Audit Team Leader, which provides an update on internal audit work undertaken in the period 9 July – 12 September 2016)</i>	15 - 58
4a	Payroll and Pension Internal Audit <i>(To receive a report by Fiona Thompson (Service Manager - People) which provides and update on the actions being taken to address and rectify the issues identified in both the Payroll and Pensions Audits)</i>	59 - 114
4b	Concerto Audit <i>(To receive a verbal update on the actions being taken to address and rectify the issues identified in the Concerto Property Asset Management System)</i>	Verbal Report
5	Review of Audit & Inspection Financial Procedure 7 and Internal Audit Charter <i>(To receive a report by Lucy Pledge, Audit and Risk Manager, which presents the Committee with revised versions of the Financial Procedure 7 – Audit and Inspections, and the Internal Audit Charter, taking into account the recently updated UK Public Sector Internal Audit Standards and Accounts and Audit Regulations 2015)</i>	115 - 142
6	Approval of the County Council's Annual Governance Statement 2015-16 <i>(To receive a report by Lucy Pledge, Audit and Risk Manager, which provides the Committee with an opportunity to consider the Council's Annual Governance Statement)</i>	143 - 162
7	External Audit's ISA 260 Report to those charges with Governance on Lincolnshire County Council's Statement of Accounts and Lincolnshire County Council Pension Fund Accounts for 2015/16	To Follow

- 8 Statement of Accounts for Lincolnshire County Council for the year ended 31 March 2016** 163 - 328
(To receive a report by Claire Machej, Head of Finance (Corporate), which presents the final Statement of Accounts for Lincolnshire County Council for the financial year 2015/16 for approval)
- 9 Work Plan** 329 - 336
(To receive a report by Lucy Pledge, Audit and Risk Manager, which provides the Committee with information relevant to the core assurance activities currently scheduled for the 2016/17 work plan)

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

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

Contact details set out above.

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**AUDIT COMMITTEE
18 JULY 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

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

Officers in attendance:-

Rachel Abbott (Audit Team Leader), Claire Machej (Head of Finance (Corporate)), Lucy Pledge (Audit and Risk Manager), Richard Wills (Executive Director, Environment and Economy) and Rachel Wilson (Democratic Services Officer)

13 APOLOGIES FOR ABSENCE

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

14 DECLARATION OF MEMBERS' INTERESTS

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

15 MINUTES OF THE MEETING HELD ON 20 JUNE 2016

The Executive Director for Environment and Economy provided an update on the progress of the review by KPMG of the Serco contractual arrangements (minute number 5 refers). It was reported that KPMG had not yet received clearance from the Public Sector Audit Appointments Ltd that it could carry out this work, and it was taking longer than expected to obtain this approval.

It was still believed that this approval would be received and it was hoped that something could be reported to the Committee on 1 September 2016. Interviews had been arranged with key members of staff, so as soon as approval was received work was ready to begin.

RESOLVED

That the minutes of the meeting held on 20 June 2016 be signed by the Chairman as a correct record.

16 INTERNAL AUDIT ANNUAL REPORT - 2015/16

Consideration was given to a report which gave 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.

It was reported that during 2015/16 there had been a number of areas where the need for improved compliance and strengthening of the control processes had been identified – most notably the Agresso system and the Council's IMT systems.

Due to the negative impact these have had throughout the Council, it had been assessed that overall both the financial and internal control environment had deteriorated since the Head of Audit opinion given the previous year. Therefore, both Internal and Financial control environment had been assessed as red/amber. This showed inadequate performance, where urgent management action identified (in progress) on major governance issues or high risk in a key system/process area which had a negative impact throughout the Council

However, on a more positive note, it was reported that the Council's governance and risk framework had been assess as green/amber and was performing well with some improvements identified.

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:

- 98% of the revised plan had been delivered. The changes to the plan had to be made due to a number of vacancies within the team and the amount of time it took to fill them.
- It was noted that the audit on SEND transport had been moved to the current plan.
- It was queried why South Holland District Council had terminated their use of the LCC audit services, and members were advised that there were complicated audit arrangements in place with South Holland, as they shared a senior management team with Breckland district council, and so in trying to streamline services, they agreed to used Breckland's audit services. It was noted that it was a mutually agreed parting.
- It was confirmed that the implementation of the Mosaic case management system was behind plan, but it was aimed to go live in October 2016. There would be a meeting with programme managers in order to give assurance around Mosaic.
- It was noted that although the recovered funds of £950 of the £97,380 lost through fraud cases was low, the fraud had been stopped therefore preventing further losses. Members were disappointed that more funds had been recovered, but it was noted that this was due to the burden of proof, and there not being enough evidence for a criminal case. However, the employees involved were dismissed.
- Members were advised that an informal meeting of the Committee would take place on 4 August 2016 to allow the Committee to fully discuss the reports for

the two audits which received low assurance. It was noted that it was not appropriate to bring the reports to this meeting as they were not yet ready. Relevant officers would also be available on this date to answer any queries from members.

- In relation to the delay in implementation of Mosaic, it was noted that the Director for Adult Care did not want this system to be rolled out until it could be properly supported by the IT systems.
- It was queried whether IT resilience could be guaranteed as there were increasing numbers of staff who relied on IT to be able to perform their roles.
- It was requested whether assurance could be given on the current status of the IT systems.
- It was reported that the previous year had been particularly challenging for the service as two key staff had left and recruitment had taken longer than expected. However, it was thought that there were sufficient resources to deliver the Audit Plan.

RESOLVED

1. That the content of the Head of Internal Audit's Annual report be noted.
2. That assurance be sought on the current status of the Council's IT systems.
3. That the Audit Committee meet informally to consider the two reports which received low assurance.

17 REVIEW OF GOVERNANCE FRAMEWORK & DEVELOPMENT OF ANNUAL GOVERNANCE STATEMENT 2016

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

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

- It was noted that the Annual Governance Statement was part of the Statement of Accounts, and would be formally signed off at the September meeting of the Audit Committee.
- Officers were fully confident that the Statement was a realistic self-assessment.
- It was noted that schools were no longer automatically audited, but the authority would audit those schools which were causing concern or those schools who requested an audit. Internal audit was working with education to pull together an offer so if schools wished to procure audit services they could.
- Members were advised that if schools wished to use a different financial system to Agresso, this would not affect their ability to be audited.
- It was confirmed that the annual spend of Lincolnshire County Council was around £1.1bn. It was noted that the Council had a net budget which was

agreed by Council, but £1.1bn was the amount that the Council spent, as it received money from other sources including grants.

RESOLVED

1. That the Committee agree that the Annual Governance Statement 2016 accurately reflects how the Council was run.
2. That the Committee agree that the Statement included the significant governance issues/key risks it would have expected to be published.

18 COUNTER FRAUD ANNUAL REPORT 2015/16

Consideration was given to a report which provided information on the overall effectiveness of the Authority's arrangements to counter fraud and corruption and reviewed the delivery of the 2015/16 counter fraud work plan.

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 reported that 86% of the 2015/16 work plan had been completed, and those areas which were outstanding were already at the advice stage.
- £30,000 had been recovered through the data matching work of the National Fraud Initiative (NFI).
- It was intended that proactive work would be increased in 2016/17.
- It was queried how it was tested that the counter fraud risks were being managed. Members were advised that there were certain areas which were dealt with more regularly, such as procurement, and so the number of referrals which were received would be examined.
- It was queried how the authority benchmarked against other councils, and it was reported that CIPFA did have a benchmarking club. However, in terms of recoveries, it was difficult to compare, as in some years there would be a very good level of recoveries. Members were advised that policies and strategies were tested against other areas. It was noted that Lincolnshire did seem to be ahead of the game in terms of forward thinking.
- It was queried how it was determined whether the whistleblowing policy was accepted by staff, and it was reported that at a recent procurement event, delegates were actively asked whether they were aware of the whistleblowing arrangements. This was something that needed to be done regularly to ensure that people were aware of the policy. 19 referrals had been received which related to LCC, however, the Lincolnshire Fraud Partnership received increased traffic which was then referred on to the relevant partner to follow up.
- It was confirmed that the authority was supportive of individuals who reported concerns, and advice would always be offered.
- It was noted that this was not an alternative way to raise a grievance, and the team was there to ensure that there was no victimisation of the individual.

- Any fraud that was identified would trigger the production of an action plan which would include who would be responsible for implementing the actions and timescales.

RESOLVED

That the Council's arrangements to counter fraud and corruption and the progress made to implement policy be assessed as effective.

19 INTERNAL AUDIT PROGRESS REPORT

Consideration was given to a report which provided an update on the internal audit work undertaken in the period 1 June – 8 July 2016.

The Committee was guided through the report and the following was highlighted:

- The audit on the Integrated Community Equipment Scheme, which received high assurance, did not require any recommendations.
- There were two audits which received limited assurance – the Mental Capacity Act and Accounts Payable.
- In relation to the Mental Capacity Act, it was planned to do some additional work and revise and reissue this report, which would go to the September meeting of the committee.

The Committee was provided with the opportunity to ask questions to the officers present in relation to the information contained within the report and some of the points raised included the following:

- It was queried whether the low assurance of the Pensions would affect the actuaries report. Members were advised that this would need to be answered by the appropriate manager.
- It was commented that a reference to a zero tolerance of duplicate payments would have been preferred. It was noted that duplicate payments had been a significant problem since the introduction of Agresso, but the situation was improving. The language used was to highlight that there had been an improvement.
- It was queried what the implications for the General Ledger were, and it was reported that officers were in the process of finalising the audit of the General Ledger.
- In relation to the Mental Capacity Act it was acknowledged that there had been some issues with capacity within adult care, and there would be an update on this situation when the report was reissued in September.
- Clarification was sought of the value of the duplicate payments, and what percentage of payments were affected.

RESOLVED

That the outcomes of Internal Audit Work be noted.

20 CORPORATE COMPLAINTS AND COMPLIMENTS

The Committee received a report in response to its request to provide an annual report reviewing the effectiveness of the Council's complaints and compliments process.

It was reported that an annual report could not be provided at this time as a new process of capturing data had been developed in response to the Corporate Complaints Review which took place the previous year. Lincolnshire County Council Complaints Review was presented to CMB in October 2015. 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 produced a new Corporate Complaints and Compliments Policy and supporting procedure and developed a list of indicators to support data collection and further actions as proposed in the report.

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 data on complaints and compliments for each service area usually went to each of the relevant scrutiny committees.
- It was queried how this would be incorporated into the performance management system.
- It was suggested that the Committee should note the report rather than support it, as it did not want to be seen to be deciding the work.

RESOLVED

That the proposed indicators and the follow-on actions required to be undertaken by the Corporate Complaints and Compliments Work groups be noted.

21 WORK PLAN

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

It was reported that more work would be taking place regarding improving the effectiveness of the Audit Committee following the self-assessment workshop.

Members were advised that more formal agenda setting meetings would be taking place with the Chairman and Vice-Chairman a couple of weeks before the agenda was circulated.

RESOLVED

1. That the Audit Committee's work plan contained the assurances necessary to approve the Annual Governance Statement 2016
2. That the outstanding actions designed to improve the effectiveness of the Committee be noted.

22 DRAFT STATEMENT OF ACCOUNTS 2015/16

Consideration was given to a report which provided the members of the Audit Committee with an opportunity to scrutinise and comment on the draft Statement of Accounts for Lincolnshire County Council for the financial year 2015/16. The final Statement of Accounts would be presented to the audit Committee in September for approval. Ian Fifield from LG Futures was in attendance at the meeting to guide the Members through the Statement of Accounts and help them to fulfil their role to scrutinise and comment on the financial statements.

Members were advised that there had been a number of problems preparing the accounts this year, and they may not be of the same quality as normal. A slightly revised set of accounts would be given to KPMG for when they started the process on 1 August 2016.

The Members of the Committee were guided through the draft Statement of Accounts, and were provided with the opportunity to ask questions on each section. Some of the points raised during discussion included the following:

- This was the draft Statement of Accounts, and it was good practice that the Audit Committee considered the draft statement before formal approval in September.
- There were no substantial changes to the format.
- Page 143 – reserves had been used during the year, and the underspend had been in schools.
- Page 147 – Pension Fund Liability
- Page 149 – this showed how reserves had moved. It was noted that the final reserves figure was very misleading as it included unusable reserves.
- In terms of the reserves, there was £18m in the balance that belonged to schools.
- Ian Fifield from LG Futures advised that he was aware of the issues experienced by the authority during this year. It was noted that it would be difficult to compare this year with last year, and the audit report would be longer than normal.
- There would be a need to state what had been found and what had been changed
- It was commented that the funds in the financial volatility reserve were entirely appropriate in the current financial situation.
- Page 151 – the figure of £1.1bn for the spend of the authority was correct, as this was gross expenditure.

- In relation to the underspend on adult care, the outturn report would be going to the Executive in September. The underspend was due to the numbers of people coming into the service being a little lower than expected.
- It was queried whether in view of the issues with the general ledger, was there any notion of the potential margin of error that may be coming out of it. It was noted that the accounts were in a relatively reasonable state, and it was issues around future systems that were the areas causing the most problems.
- The constitution stated that each service should only overspend or underspend by up to 1%. Every service area which had underspent had done so by at least 1% therefore, no service area should be disadvantaged by having to carry forward an overspend.
- It was noted that there had been a reduction in planning services income.
- It was noted that Economic Regeneration had had large incomes in previous years as a result of a large grant for 'Growing Places'.
- Differences in the expenditure of the corporate and democratic core was due to the costs of the elections in 2015.
- Page 152 – cash and cash equivalents – the authority had not gone into an overdraft therefore not incurring bank charges.
- There would be a big change in 2016/17 as highways assets would be valued in a different way.
- Note 4 – it was queried whether any mention of the ongoing issues with Agresso would be included in the accounts, and members were advised that this would not be included.
- It was noted that money from LEP contributions to county council schemes would be included in creditors paid. It was clarified that any money spent by the LEP would not form part of the County Council's accounts. Only funds that were paid to the council would be shown as an income.
- It was noted that any surplus from council tax collection would be included in the budget book. However, it was a relatively modest figure. This figure would be larger in 2016/17
- Page 203 – this showed the breakdown of usable and unusable reserves.
- It was not believed that the figures would be incorrect to the magnitude that the accounts would be affected.
- Note 46 – it was thought that the contingent liabilities were exactly the same as the year before.

Pension Fund Accounts

- There had not been much variation in the value of the funds from the previous year.
- The Fire Fighters pension fund was unfunded, as it was part of a larger, national scheme.
- It was acknowledged that officers had had difficulty in producing these accounts this year and it was queried how much work was left to do. It was also commented that officers had done well to get the accounts to this stage. Members were advised that members of the team were still working on some aspects of the accounts that would normally be finished by this time. It was hoped that they would reach the minimum standard.
- Once these accounts had been completed the team would be starting to think about getting back to normal for 2016/17.

RESOLVED

That the comments made in relation to the draft Statement of Accounts for 2015/16 be noted.

The meeting closed at 12.55 pm

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Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	26 September 2016
Subject:	Internal Audit Progress Report

Summary:

This report provides an update on internal audit work undertaken in the period 9th July to 12th September 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 audit work during the period 9th July to 12th September 2016 and advises on progress with the 2016/17 Audit Plan.

Conclusion

During the period we have completed 10 County audits, 6 to final report and 4 to draft report stage as well as finalising 1 school audit. There are currently 14 further audits in progress.

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

- understand the level of assurances being given as a result of audit work and the impact on the Council's governance, risk and control environment
- ensure management action has or is being taken to improve controls / manage risks identified

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 Progress Report

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Introduction

1. The purpose of this report is to:
 - Provide details of the audit work during the period 9th July to 12th September 2016
 - Advise on progress with the 2016/17 Audit Plan
 - Raise any other matters that may be relevant to the Audit Committee role

Key Messages

2. During the period we have completed 10 County audits, 6 to final report and 4 to draft report stage as well as finalising 1 school audit.
3. There are currently 14 further audits in progress.
4. The detailed 2016/17 Audit Plan is shown in Appendix 3 with current progress as follows:

- 15% completed or at draft report stage
- 27% in progress
- 4% agreed and scheduled during quarter 2
- 39% agreed and scheduled during quarters 3 and 4
- 15% potential audit areas to be agreed and scheduled¹

Internal Audit work completed in the period 9th July 2016 to 12th September 2016.

5. 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"> ■ Mental Capacity Act ■ EU Procurement ■ Income 		<ul style="list-style-type: none"> ■ Payroll Key Controls ■ Pension Contributions 2015/16 ■ Concerto Property Asset Management System

¹ Our quarterly liaison meetings agree and schedule audits during the year based on the risk based plan and new emerging risk areas.

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.

6. Since our last progress report we have issued 3 final reports providing Substantial Assurance:

Mental Capacity Act

The legal framework provided by the Mental Capacity Act 2005 is supported by A Code of Practice (the 2005 Code). Our review sought to provide assurance that the adult care workforce has regard to the Code when acting or making decisions.

We confirmed that 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. Our review of this confirmed expansive resources, support and guidance as well as a range of face to face and e-learning training covering Mental Capacity overall as well as focus on specific elements.

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 some issues which affect the value of the quality assurance process:

- There has been a continuing trend of fewer scheduled audits actually taking place, with rates of completion falling 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 did not have a complete understanding of the reasons for noncompliance.

EU Procurement – Application of the Public Contract Regulations 2015

Procurement across the Council is largely decentralised with most Directorates undertaking their own standard procurements. As such our focus was on arrangements to support and guide officers charged with procurement in compliant procurement process and decision making. We are confident that

these arrangements are sufficiently robust and consistently applied in practice in order to give the necessary assurance that the Authority requires.

We found the Council's Contract Regulations have been updated to reflect the changes to the Public Contract Regulations 2015. Training has been provided to procurement leads on these changes and the contract regulations are publicly available to all.

Consultation with procurement leads confirmed receipt of recent training and confidence in the training of their teams in conducting procurement activity. One area where the leads identified an issue was access to updated Contract and Procurement Procedure Rules (CPPR's) which at the time of the audit were not available; however these have since been ratified and released.

Our work revealed some areas where we make recommendations for improvement, most significantly:

- A formal training programme should be developed to support staff updates and learning for new staff.
- Introduction of quality assurance checks over procurement should be considered.

Income

We have carried out a review of income processes. This is the first full system review of income since the service transferred to Serco and new finance system - Agresso.

Our review identified that in general income processes operated by the Serco Income Team are working well and their cash handling arrangements are well controlled. Given the difficulties encountered in other areas since the implementation of Agresso, this is a positive outcome and reflects the efforts and experience of the team. We identified many areas where processes and controls are strong; however our report makes some recommendations for improvement, most significantly in relation to independent authorisation of refunds and responsibility for printing and supplying official LCC receipt books.

7. We have also issued 3 final reports providing Limited or Low Assurance. The executive summaries of these reports can be found at Appendix 2; however in brief these audits are:

Payroll – Key Controls (Low Assurance)

Our work assessed key controls and conducted extensive testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment. Assurance is low as key controls were missing or inconsistently applied. Our report details:

- limited exception reporting,
- inadequate information trails,

- issues with system access and system parameters
- concerns over staff turnover, skills and capacity
- findings relating to poor recovery of over payments.

Pensions Contributions 2015/16 (Low Assurance)

Our review of 2015/16 pension contributions concluded that pension scheme rules have not been consistently applied and we could not confirm that contributions are complete or accurate.

Management at LCC and Serco have developed a project plan to effectively implement the agreed actions to these very significant Payroll and Pension audit findings. Further details of this will be presented separate to this progress report by LCC and Serco Management.

Concerto Property Asset Management System (Low Assurance)

Concerto is a replacement for the existing Techno forge system. It will be used to manage property information, maintenance and management. There will be supplier access through a defined 'portal'.

The support arrangements for the system are as follows:

- Software: Support is provided by the supplier.
- Server hardware and operating system: Support is provided by the supplier, who also hosts the system.

The Concerto web application appears to have been developed with only minimal concern for application security. Access controls need substantial improvement to prevent unauthenticated users from accessing restricted areas of the application. Several security holes exist that could be exploited by users with no privileges to reveal sensitive and confidential data. In its present version the Concerto application would present a serious risk to the commercially sensitive data it holds.

Audits in Progress

8. We have 4 audit's at draft report stage:

General Ledger – Key Controls

Our annual work to provide assurance over the financial control environment has been delayed slightly for General Ledger to coincide with the action plan to support closure of accounts. This audit is complete, but has yet to be issued as we have yet to receive a management response.

HR – Absence Management

Adult Care and Children's Services were previously identified as areas where there were high levels of sickness and reviews have been undertaken by the Absence Management Project Team. Reviews of these 'hot spots' were undertaken in 2012/13 and 2013/14 and considerable improvements have occurred in both areas.

Our audit has sought to provide assurance on application of the Sickness Management Policy across areas of the council not previously subjected to focused review.

Adult Care – Workforce Development

The final version of the Adult Care Workforce Development strategy was signed off in February 2016. This strategy details the delivery and monitoring arrangements within the workforce development process. The purpose of our audit is to review whether the processes and priorities detailed in the workforce development strategy have been actioned and are working effectively in order to provide assurance over this important area of Adult Care.

Lincolnshire Waste Partnership

We have carried out a review of the Lincolnshire Waste Partnership and the Joint Municipal Waste Management Strategy. The Lincolnshire Waste Partnership (LWP) has been set up to enhance the way that sustainable waste management is delivered within Lincolnshire through the identification of best value and long term goals. The LWP consists of one Member and one officer from LCC and all 7 Lincolnshire District Councils. There is also representation from the Environment Agency.

Our review has sought to provide assurance that there are strong Governance arrangements in place for the LWP, as well as ensuring that the Joint Municipal Waste Management Strategy is an up to date and relevant document.

9. The following audits are currently in progress nearing completion:

Adult Safeguarding Referrals

Our audit seeks to provide assurance over safeguarding referrals through examination of the following:

- Confirmation that the Council is Care Act compliant via the referral process
- Robustness of the Risk Assessment process
- Clarity over the different roles and responsibilities and how these interlink
- Effectiveness of the procedures and guidance available to staff

Better Care Fund (BCF)

Lincolnshire's BCF is one of the largest in the Country, setting a 2016/17 budget of £193.7m. This pooled budget is supported by a delivery plan, which specifies where expenditure will be targeted to maximise the chance of performance indicators being met. Lincolnshire County Council (LCC), as host authority for the fund, are responsible for accounting and audit as well as completion and submission of quarterly and annual returns.

Our audit seeks to provide assurance that management and staffing arrangements for the BCF in relation to performance reporting is adequate for reliance purposes. We have also assessed quarterly reporting information to confirm it is accurate, in a suitable format, uses appropriate sources of information, and is subject to appropriate governance arrangements.

Debtors

Our review aims to give you independent assurance that the processes and controls in place for raising, collecting and recovering debts are appropriate and robust. Our work has included full system mapping of the new processes within Agresso as well as detailed testing of controls.

Good Governance Review

Another piece of work that is nearing conclusion has a focus on the revised CiPFA Good Governance Framework – we have adopted a two phase approach to this audit, with phase one due to be completed by the end of September 16 – phase one has been to develop a toolkit to measure the council's conformance against the 7 key elements of good governance and then test through review of LCC's key documentation and guidance. The second phase will use the outcome of phase one to further explore governance arrangements through discussion with staff, management and key partners. Both phases will result in an Audit assurance report.

10. We also have another 10 audits in progress. Details of these can be found at Appendix 3, which details the entire 2016/17 audit plan.

Other Key Work

11. Other key work undertaken during the period includes:

TransportConnects Transport Company (Consultancy Assignment)

Lincolnshire County Council have set up an Arms Length Management Organisation (ALMO), which will operate under 'Teckal' exemption. This Organisation will trade as a passenger transport company and will fill a gap currently experienced in the market. The company started trading on 12th September 2016.

We were engaged on a consultancy basis to provide support and advice to the project team on Governance, Risk Management and Control arrangements for the company during the set up stage. As the project moved at a fast pace we issued a series of advice notes covering a range of subjects that included UK Taxation, Company Administration, Governance, Legal Considerations, Financial and Performance Monitoring and Strategy and Objectives. This consultancy assignment is now concluded.

Planning Software Replacement (Consultancy Assignment)

We have also been engaged to provide support and advice on a project to procure and implement a new planning software system. Pre procurement advice has been given and the project is currently in the final stages of the tender process. Once a supplier and system has been agreed implementation will commence, with further audit support expected. The new system will go live 1st April 2017.

Families Working Together

We have commenced our annual audit work of the Families working Together Grant with review and sign off of the first submission 2016/17 for payment. This did not identify any concerns or issues.

Local Enterprise Partnership – Capital Grant Sign Off

We have also conducted an audit to verify and sign off of the LEP capital grant 2015/16 to confirm appropriate use and spending.

Performance Information

12. Our performance against targets for 2016/17 is shown in the analysis below:

Performance Indicator	Annual Target	Profiled Target	Actual
Percentage of plan completed (based on revised plan)	100%	31%	24%
Percentage of recommendations agreed	100%	100%	100%
Percentage of recommendations implemented	100% or escalated	100% or escalated	N/A – not yet due
Timescales:			
Draft Report issued within 10 days of completion	100%	100%	80%
Final Report issued within 5 days of management response	100%	100%	N/A
Draft Report issued within 2 months of	80%	80%	60%

Performance Indicator	Annual Target	Profiled Target	Actual
fieldwork commencing			
Client Feedback on Audit (average)	Good to excellent	Good to excellent	Good to excellent

13. Progress with the implementation of agreed management action can be found at Appendix 4.

Other Matters of Interest

14. CiPFA Better Governance Forum – Audit Committee Update Issue 20. Published August 2016.

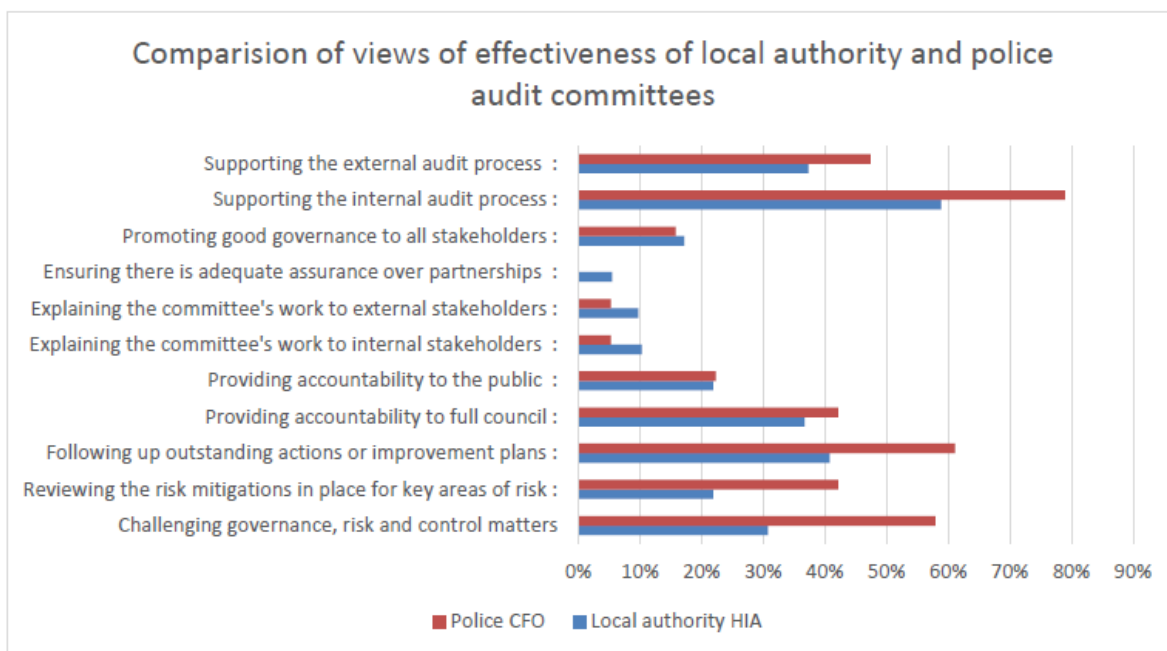
This issue features the main findings of the CiPFA survey of Audit Committees 2016, which we have summarised below. It also covers updates on recent legislation, reports and guidance. The full update can be found at <http://www.cipfa.org/services/networks/better-governance-forum/corporate-governance-documentation/audit-committee-update-issue-20>

CiPFA Survey of Audit Committees 2016

The survey, which was completed by more than 300 heads of internal audit, chief finance officers (CFOs) and chairs of audit committees at local authorities and police bodies provides an excellent insight into the successes and challenges of audit committees in these sectors. It should help audit committee members and those working with them to compare and review their own arrangements and look for opportunities to improve further. As the survey covers two sectors it also allows for comparison between police and local authority committees.

The survey found that since 2011 local authority committee membership has increased on average from 7 to 9 members and there has also been a small increase in the number of independent members from 31% to 39%.

All respondents were asked about audit committee effectiveness in relation to key responsibilities, comparisons can be seen below



Percentage of respondents answering 'very effective'.

Interestingly this showed higher confidence in committees being 'very effective' in police bodies than local authorities; However when analysing responses from audit committee chairs only the trend reverses, with local authorities being more confident in effectiveness.

Respondents also provided information on barriers to effectiveness with local authorities identifying 'limited knowledge and experience' as the major barrier.

Feedback on training and support for audit committee members was general very positive in both sectors. Questioning about wider support received the following:

Do members of the audit committee have access to any of the following resources and support?		
	Local authority chairs	Police chairs
Regular training on relevant subjects	62%	47%
Regular briefings on relevant subjects	82%	76%
Regular briefings or updates on developments affecting the council/police	84%	76%
None of the above	5%	12%

CIPFA has prepared extensive briefings on the findings which will be available to download from the website shortly. We will also have access to tables showing the results of the survey, which we will share through future reports as necessary.

Cards on the Table: English Devolution and Governance

A report by the Centre for Public Scrutiny considering the role of governance in shaping the development of devolution deals. It is intended to be a resource to support those developing devolution arrangements and also to support those

who will provide scrutiny of the arrangements. It can be found at the following link - [Centre for Public Scrutiny](#)

Failing Well

This report from the Institute for Government provides insights on dealing with failure and turnaround from four critical areas of public service delivery. The report raises concerns that there is a greater risk of failure in the public services as a result of budget pressures and structural changes. It also highlights governance aspects that make an organisation more likely to fail. It can be found at the following link - [Institute for Government](#)

15. Public Sector Audit Appointments

We received correspondence from PSAA with updated information on the position on local auditor appointment requirements, following recent developments. Information is as follows:

Local auditor appointments

Last month, the Secretary of State for Communities and Local Government confirmed that Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 (the 2014 Act) and the Local Audit (Appointing Person) Regulations 2015. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements we are developing, for audits of the accounts from 2018/19.

Current auditor appointments are made under the audit contracts previously let by the Audit Commission and now managed by PSAA under transitional arrangements. These audit contracts will end with the completion of the 2017/18 audits for principal local government bodies including police and fire bodies, and the completion of the 2016/17 audits for NHS bodies.

A top priority for PSAA in developing the new scheme will be to ensure they are able to make independent auditor appointments at the best possible prices. They will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration or joint working initiatives.

They are currently working on the details of the scheme, including a timetable, and will provide further information as soon as possible.

Timetable

Over the next few months all principal authorities will need to decide how their auditors will be appointed under the new requirements. They may make their

auditor appointment themselves, or in conjunction with other bodies. Or principal local government bodies can take advantage of the national collective scheme that PSAA is developing, which should pay dividends in terms of quality, cost, responsiveness and convenience.

New appointments, for the 2018/19 accounts for principal local government bodies, must be made under the provisions of the 2014 Act and confirmed by 31 December 2017.

The date by which principal local government bodies will need to opt into the appointing person arrangement is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult on appointments with authorities before the 31 December 2017 deadline. They anticipate that invitations to opt in will be issued before December 2016.

The Local Audit (Appointing Person) Regulations 2015 require that a principal authority may only make the decision to opt into the appointing person arrangement by the members of the authority meeting as a whole, except where the authority is a corporation sole, in which case the decision may be made by the holder of the office.

More information

PSAA will provide further updates as soon as we can.

Information is available on their website on the specified appointing person arrangements and on the transition to local auditor appointment more generally. A prospectus for the new scheme is also available on the website.

16. **Appendix 1 - Assurance Definitions²**

<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>

² 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.

Financial Control Systems Work – Payroll

Background and Context

Issues and risks around the implementation of the payroll module figured regularly in reports to project management and the Project Board during 2014/15. The project did not have 'business expertise' in this area until mid-way through the year, compressing the time available to develop the payroll solution. As a consequence, the Agresso payroll module was implemented in April 2015 with known issues – some functionality had not been built, elements of functionality such as sickness had not been fully tested and there had been no clear parallel runs completed to confirm the system calculated all payments and deductions correctly. In addition, there had been little testing to determine the accuracy of postings to the ledger and no testing around postings to supplier and control accounts. At the time of Agresso implementation Audit could not provide assurance on the system given the lack of parallel run tests and the absence of evidence. The Agresso Board, in conjunction with the Project Manager and team, however determined the risk of not going live was greater than implementing on schedule.

Lincolnshire County Council has experienced significant operational and control issues post implementation of Agresso in April 2015. Payroll has been one of the most problematic systems with ongoing system design issues and high error rates following 'go-live'. Payroll is a significant account within the Financial Statements with a total expense of £343m. Although assurance information suggested the payroll system

was becoming more stable, the risk of fraud and error remained high. This risk is supported by our update to Audit Committee in January 2016 which gave the payroll system low assurance.

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 completed a high level Payroll review in quarter 3. This approach provided independent insight and assessment over system, processes and controls and highlighted outstanding issues and risks (report finalised in December 2015). We have also been commissioned to review the accuracy of pension deductions, third party pay-overs and pension contribution reporting – this work is ongoing and will be reported separately.

In quarter 4 Serco and LCC management reported an improved control environment and we commenced this payroll audit 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. We completed our audit fieldwork in May 2016 having examined 330 payroll transactions. PWC were also appointed by SERCO as consultants in quarter 4 to carry out a review of payroll and re-perform payroll calculations based on agreed rules and parameters to gain further assurance on the accuracy of the payroll functionality. This review was still on going at the time of our audit.

In addition to our Internal Audit work other assurance work undertaken by the Council and SERCO (PWC) has identified the following issues in the payroll system:

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

- **Incorrect calculation of NI** – this applies to arrears of pay, where incorrect 'NI rules' have been applied. This was a configuration issue and a fix is being applied for the July 2016 payroll. Work is underway to quantify the impact on individuals pay - initial figures indicate that the number of people affected (across all payrolls) is between the range of 1500 to 2200 people with the value of the error totalling in the region of £105k underpaid NI (£174k underpaid / £68k overpaid). Investigation into all records will be completed by the end of July, with a consolidated position being determined and reported to by SERCO by the end of October 2016.
- **Occupational Sick Pay** – incorrect terms and conditions have been applied to the LCC payroll and some schools. This relates to employees on long term sick – the 5 months full pay and 5 months half pay has not been applied from the 1st April 2015. Work is underway to identify those affected, a system fix is planned to be implemented in September, with rectification of historic records completed by the end of October. In the interim a manual workaround is in place.

Now that the Council and SERCO are in a better position to fully understand and quantify the payroll issues we have advised them to contact HMRC as soon as possible to provide assurance on the actions being taken to ensure the correct accounting of income tax and NI

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:

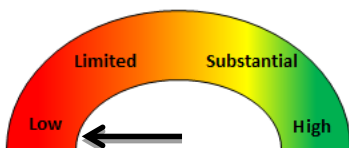
Starters / Leavers / Changes / Claims / Exception Reporting / Payment Runs /Deductions & Pay-overs to External Bodies

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

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

Executive Summary

Low Assurance



Findings	Recommendations	
	High	Medium
1 - 15	35	11

Key Messages



Lack of key controls: Our work has confirmed that key controls required within a payroll system and processes to prevent and detect errors have been or are still missing at quarter 4, or have not been applied consistently throughout 2015/16. This absence of key controls relating primarily to accuracy and completeness of the payroll system has contributed to the level and nature of known errors. The risks related to poorly controlled payroll processes - overpayments, accounting errors, fines and reputational damage - continue to occur. Ongoing issues mean that the risk of fraud and error remains high.

Limited exception reporting: The absence / inadequacy of exception reporting and checking controls have had a significant impact on accurate payroll delivery. The arrangements in place until August 2015 were not adequate and did not provide a robust mechanism to detect potential errors. Although there has been some improvement in the arrangements since August, this audit continues to highlight concerns around the consistency and evidence of checking across the teams and that sufficient time is allowed for completing checks on all exception reports' before payrolls are finalised.

Lack of information trail: 18% (overall average) of Starter, Leaver and Change of Circumstance (COC) forms and claims could not be located. The system also has no historic information audit log. This facility has not been activated due to potential performance system issues. Once a form is approved any information previously requested but not included on the form is not shown. As a result we were unable to gain assurance over many key controls e.g. authorisation, completeness and accuracy of information. Management need to provide training to staff to ensure that no claim or form is processed unless it is completed correctly with adequate supporting information.

High turnover of staff: We remain concerned around the level and expertise of the resources within Payroll to cope

Executive Summary

Key Messages



with the demands of query and error resolution. During our audit there was and continues to be a high turnover of key payroll staff. This results in a loss of systems knowledge and expertise. Until new key staff have been appointed there remains uncertainty over the ability of the payroll team to satisfactorily correct any errors identified and provide assurance over future payroll accuracy.

Incomplete and inaccurate overpayments schedules: 56% of the errors we identified from our testing which resulted in an overpayment were found not to be included on the overpayment schedule. 45% of the overpayment schedule cases tested were found to be incorrectly calculated. These findings bring into doubt the accuracy and completeness of the overpayment schedule.

Analytical review of payments: We completed in December 2015 an analytical review of payments made from April to July 2015. We reviewed 908 payments and produced a list of 292 potential errors +/- £800 that did not appear to have been corrected. This review highlighted several potential error types, the most significant being: Statutory maternity and Statutory sick pay payments, incorrect mileage rates, negative net pay, advances not recovered, employees paid double their salary and incorrect manual corrections. This list of potential error cases was passed to payroll in January 2015 but we were disappointed to find that they have still not been reviewed at year-end. As part of this audit we performed some follow up work on a sample of 30 cases identified as having potential errors. This testing identified that 60% of these potential errors were in fact incorrect and resulted in an overpayment of £75k. Of this total £45k had been corrected but the remainder still need to be corrected to ensure payment, payroll and ledger entries are accurate. This lack of action on the part of the payroll section to review these potential error queries brings into doubt a swift error resolution for cases identified by LCC and PWC audit teams.

Concern over level of skills, experience and capability of payroll staffing resources: Our review of payments made during the year identified that in 23% of the cases tested overpayments occurred as a result of incorrect information processing or manual corrections being made. The volume of errors identified and the lack of action taken on the analytical review queries gives us concern over the knowledge and experience of the payroll staff especially since PWC are also likely to identify several complex cases which could potentially be wrong. The Council

Executive Summary

Key Messages



need to have assurance that Serco has sufficient resources with satisfactory level of skills, experience and capability to correct all the errors identified by PWC and Internal audit and to deliver the level of payroll services to comply with contract specifications and agreed performance levels. We have concerns however about the lack of payroll and pension expertise in the Council to be able to undertake informed Serco contract management, oversight and monitoring. Currently client expertise focusses on Human Resources.

System parameter issues: We identified 10 cases where the mileage was greater than 10,000 but the employees were still paid at 45p per mile when the system should have reduced this to 25p. Also at present there are still no upper limits on mileage rates and the system will still allow high mileage rates e.g. £45 per mile to be paid. These are system parameter issues which require immediate attention to reduce the risk of overpayments being made.

Systems Access – There is still no enforced separation of duties within the Agresso payroll module as all payroll staff have the same standard payroll access. Additionally a number of staff who have access to payroll also have HR admin access (allowing access to amend the establishment structure and create positions). Separation of duties ensures that no one individual can complete a process from end to end and is designed to reduce the risk of fraud.

Overpayments and advances not recovered: The majority of the overpayments on the overpayments schedule had not been recovered at the time of the audit. Recovery letters were sent out at year end. We also identified that 7% of advances with a value of £97k have still not been recovered. Due to the delay in recovering these overpayments and advances there is a greater risk that they will not be recovered and that the errors will remain in payroll and in the Council's accounts. Throughout the Financial year 15/16 3102 faster payroll payments (advances) were made with a total value of £2m. Although the number of faster payments has dropped during the year in April 2016 158 faster payments were still made with a value of £86.9k. This level of faster payments is still rather high since Faster payments require more administration to ensure that they are recovered and administered correctly on the payroll system

Key Messages

Executive Summary



Pay overs: At year end issues remain in reconciling to the LGPS Contribution report and HMRC RTI submissions. It is essential that these are resolved promptly to ensure payments and the Council's accounts are complete and accurate in 2016/17. Continuing issues with HMRC also increase the risk of further fines and an HMRC inspection. Reconciliation to supplier accounts has been impacted by delays in payroll postings and payment by CHAPS. By the end of the year checks prior to payment release were in place (with the exception of HMRC). To improve reconciliation in 2016/17 review should include the cumulative position to ensure continuous balancing. To complete this task, the Senior Control Officer should be given view only access to supplier accounts which he does not have at present.

Prior audit recommendation's not actioned: At the time of the audit 45% of these recommendations had still not been actioned. Some were due to be actioned at year end. These recommendations were found to still be relevant and if actioned earlier would have improved the assurance over controls within the payroll system significantly. Management need to ensure that all of these recommendations and the new recommendations within this report are actioned on a timely basis.

Survey: We carried out a survey in March 2016 to find out how satisfied the schools and corporate users were with the payroll service in 2015-16. The results of this survey support our opinion of Low assurance since Schools scored the payroll service very badly with 91% rating poor service and 81% consider the improvement in the service throughout 2015/16 to be poor.

Executive Summary

Areas of Good Practice



Although significant issues remain, it is important to acknowledge the work that Serco Payroll staff, HR Administration and the Agresso project team have undertaken to try to improve system controls and correct system problems.

Council Management response – Fiona Thompson

The Council Management accepts the findings of the Audit Report. As a priority, the Council will put in place immediate arrangements to address the issue of the adequacy of client skills / capability to manage this aspect of the Serco contract. The Council will also ensure that the lead Client role for payroll is directly involved with Serco, to ensure strategic oversight of the review of the end to end payroll process as part of the overall review of the Payroll Operational delivery by Serco.

Over the past 8 -10 months, the Council Management have been liaising with colleagues in Serco, West Yorkshire Pension Fund (WYPF) and managers to seek to address the range of payroll issues (including Fire and Rescue.) Through regular escalation of global issues and progress monitoring, it is clear there is more stability in the payroll system. However this in depth audit investigation and detailed testing undertaken by Internal Audit has identified the root causes to the issues that the Council has raised. This enables the LCC Client function to deliver its assurance role through monitoring and reviewing the adequacy of the performance, risk management and controls that are being put in place by Serco for the operational delivery of the payroll service.

As reflected in the action plan, the LCC Client function will:

- Track the Serco Payroll audit action plans. Performance will be highlighted to the Recovery Board and the HR & Payroll Portfolio Board on a monthly basis to report those recommendations have been implemented and which are still outstanding
- Monitor on monthly basis that overpayments are corrected and records are amended within the required timescales
- Determine for the future, the additional management information required as part of the KPI contract monitoring arrangements
- Maintain the weekly meetings until end October 2016 between the LCC Service Manager – People and the Serco Head of People Management to monitor overall payroll service performance.
- Provide oversight through monitoring information on the value of both overpayments and recovered monies so that LCC can ensure effective and timely resolution of overpayment issues.

Serco Response – Abigail Tierney

Serco accepts the findings of this audit report. Urgent efforts are underway to improve the Agresso system and HR administrative process to improve the performance of payroll. Our aim is to ensure that every member of staff is paid correctly every time (allowing for business as usual queries / errors). The low assurance provided in this Audit clearly demonstrates the critical need to make the Agresso Payroll system and processes more effective.

This audit highlights the following critical actions which we must undertake:

- The urgent need to ensure Serco has the appropriate level of skills, capacity and training to manage run an effective payroll.
- The further development of the exception reports to robustly check for any payroll anomalies on a monthly basis.
- The implementation of monthly Payroll Checklists and sign offs will be implemented as a priority which will require evidence of reports and sign off by Senior Payroll Staff.
- Work has already commenced on reviewing the payroll reports provided to LCC and Schools to ensure these are fit for purpose. This includes engagement with key customers so the reports reflect their needs.
- A significant improvement plan is already underway to improve the customer service element of payroll. The aim is to target resolving as many queries at first point of contact (this will be measured as a KPI from September), as well as investing in additional resources to reduce the current backlog.
- Robust monitoring of the Audit Actions to ensure they are completed in a timely and effective manner.

Serco has already implemented a number of actions which have led to improvements since this audit was completed. This improvement can be seen in the reduced number of queries the payroll department is receiving on a monthly basis. These include:

- Investment in additional senior resources and 3 payroll administrators.
- The Payroll Manager has reviewed the skills of the Payroll Team and is designing and delivering a training programme to ensure that the necessary skills are available within the team. This includes training for the Payroll team which will be delivered by the Chartered Institute of Payroll Professionals. This includes all statutory and legislative pay.
- Reference sheets to capture all the local pay and conditions.
- A redesigned starters form to increase the mandatory fields and reduce free text to reduce the margin for error.
- Investing in Payroll Software (QTAC) to improve the accuracy of manual calculations.

Addressing the recommendations of this report requires Serco to consider how we can improve our own procedures - as reflected in the action plan - but also identifies changes in LCC's processes to improve the system as a whole. Since the draft audit report was published, we have been working closely with our partners at LCC to ensure our various contributions are properly coordinated and this will continue.

Pension Contributions 2015/16

Background and Context

Lincolnshire County Council has experienced significant operational and control issues since the implementation of Agresso in April 2015. Payroll has been one of the most problematic systems with ongoing system design issues and high error rates following 'go-live'.

The initial structure of the Serco Payroll Team did not include a Payroll Control Officer with specific responsibility and experience in managing the pay over of statutory and voluntary deductions to third parties, providing supporting information and ensuring that payroll reconciles to supplier and control accounts. As a result, delays occurred in these processes, including payment of pension contributions and payments to the Prudential for AVCs.

Concerns were subsequently raised about the accuracy and completeness of pension pay overs to West Yorkshire Pension Fund (WYPF) for local government pensions as the Contributions Report due to provide all data on the LGPS was not in place. As a consequence Internal Audit was commissioned to review processes around the deduction and pay over of pension contributions.

In February 2016 we provided an interim report on our work. This highlighted nine issues of which two relating to doubling of employers' deductions have been addressed. The others remain outstanding and are included within this report.

Scope

Our review was designed to provide independent assurance that Agresso has been set up to correctly apply pension scheme rules and deduct employee and employer contributions correctly.

We have focussed on the Local Government, Teachers and NHS Pension Schemes and payment of AVCs to the Prudential. For 2015/16 LCC has made payments to these schemes of approximately £33.2m, £17.9m, £349k and £706k respectively.

Errors with Firefighter pensions have already been identified by the Fire Service and we understand that Serco have taken steps to review all records and make corrections. Fire Pensions have therefore not been included in this review.

As part of this audit of Pension contributions we performed the following work:

- Discussion to identify how WYPF, NHS Pensions are notified of starters, changes and leavers. (Arrangements with WYPF were interim – information is now processed via the Contributions Report)
- Understanding system configuration to apply different pension bands
- Analytical Review – data matching / trend analysis / outliers
- Substantive testing of individual employee and employer records

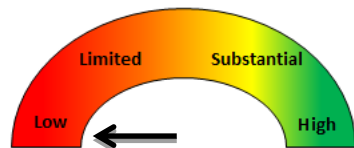
Our process discussions in December established that Teachers' Pensions was not being notified of Starters and Leavers. We understand that by March the backlog had been

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

brought up to date but we have not returned to review this process.

In response to LCC's request for all employee payments to be checked, Serco commissioned PWC to undertake analytical review of payroll data. We have been liaising with PWC to provide insight around elements of pension data that it would be useful to analyse to determine the full scope of identified errors.

Executive Summary



Low Assurance Low Assurance

Management Actions	No	To be completed by
High Priority	14	October 2016
Medium Priority	9	October 2016

Key Messages



On the basis of the testing completed we cannot provide assurance that scheme rules are consistently correctly applied or that contributions are complete and accurate. In our transaction testing we identified errors in 50% records examined (78 of 155), and of the records with errors 85% (66 of 78) affect the contributions paid by employees.

The level and the types of errors identified by our audit review reflect that some elements within Agresso were not set up correctly for go-live in April 2015. There are also ongoing issues with process such as entry of Position Changes (resulting in contributions ceasing or reducing) and a lack of understanding around pension schemes (e.g. corrections to employee deductions not being replicated for the employer). It is also notable that in many cases where issues have been identified (such as where Payment & Deduction (P&D) codes were not initially pensionable) there have been little or no retrospective adjustments to collect arrears of employee and employer contributions. It is essential going forwards that Serco introduces additional controls to detect potential errors around contributions, such as exception reporting to highlight where pension deductions have ceased or where there are one sided deductions (either employees or employers contributions are missing). All P& D codes should be checked to ensure they are set up correctly and all payroll staff need to have a better understanding of the schemes and how they work in Agresso.

Errors in deducting contributions not only means LCC as the employer is failing to comply with scheme regulations, but can impact on future employee pensions under CARE schemes if Pensionable Pay is also affected and a reduced figure reported. For 'fully funded' pension schemes such as the LGPS, a reduction in contributions will impact on generation of investment income and actuarial valuation. As a result, higher employer contributions will be required.

Executive Summary

Key Messages



The most significant issues we identified include:

Position Changes - when new Positions are being created in Agresso, a pension scheme is not always being attached. In addition to affecting new employees, this has also affected employees who have moved to new Positions through restructuring. As a result the deduction of pension contributions has ceased. A number of these cases have been identified by Serco and are being treated as overpayments, however we believe additional work is needed to ensure all are identified. This applies across all Pension Schemes. The input of the pension scheme is a manual process, therefore Serco need to consider how reporting can be used to proactively identify these cases in future before payroll is processed.

The percentage band applied for employee contributions to the LGPS scheme is determined by the Expected Pensionable Pay figure entered against the Position. Testing has identified occasions where a pension scheme is attached to the Position but the Expected Pensionable Pay is absent. The contribution rate then falls to the lowest in the scheme bands and as a result employees have underpaid. The employer has a responsibility to apply the correct percentage deduction on the basis of Pensionable Pay and the underpayment by these employees needs to be recovered.

Teachers' Pension rules – the pension contribution paid by teachers is based on the pensionable pay received each month. This means the percentage deduction applied can vary during the year. Teachers' Pensions guidance on the scheme identifies how to determine monthly pensionable pay for particular scenarios such as where employees are on reduced pay due to maternity or sickness absence or where pay increases are paid in arrears. Our testing indicates that Agresso has not been set up as described by this guidance and as a result, in these scenarios, employee contributions have been taken at the incorrect rate.

Teachers' Pensions guidance also states that payments under individual contracts must be treated separately and not combined when determining the band to apply. The schools payroll includes part time teachers who receive payment for additional hours (against zero hours Positions). Testing determined that these payments are being combined but it is not clear whether these should be treated as separate contracts. Serco need to review guidance on the Teachers' Pension scheme and seek advice as necessary to confirm interpretation and ensure Agresso is correctly configured.

Executive Summary

Key Messages



Statutory Sick Pay (SSP) - Pension contributions have not been deducted on SSP paid to employees since go-live. The total amount of SSP paid between April 2015 and March 2016 is approximately £712k. Contributions vary, but combined employees' and employer's contributions due are likely to be in excess of £190k. The issue had been identified by Serco in December and was being investigated by Unit 4. It remains outstanding at May 2016, but we understand the cause has now been identified as an error in the 'workaround' written to support sickness processing.

Statutory Maternity Pay (SMP), Statutory Paternity Pay (SPP) & Variable Payments – In the early part of the year SMP and SPP were not set up as pensionable payments (SMP April to June, SPP April to August). No employee or employer contributions were therefore deducted. We also identified that on the PR (corporate) payroll, pension has not been deducted on variable payments paid in April and May 2015 such as additional hours, overtime and special responsibility allowance. Although the P&D codes have subsequently been amended the arrears due has not been collected. This is also likely to mean that the Pensionable Pay reported for these employees is incorrect and therefore impact on the pension built up during the year. All employee records affected need to be identified and arrangements to address the shortfall in contributions and Pensionable Pay agreed by LCC and Serco.

Delay in deducting Teachers' Pension Contributions - our testing highlighted that 12/20 teachers appointed from April 2015 have not had pension contributions deducted for at least the 1st month of their employment and this has not been corrected. Pensionable service for teachers is reported on an annual service return each year. Provided this is based on the date of appointment held on Agresso rather than the date from which contributions have been deducted, pensionable service (and therefore future pension) should not be affected. LCC is however failing to apply scheme regulations correctly.

Issues relating to Teachers' Pension contributions and application of scheme rules will be identified by the Council's External Auditors when they complete the End of Year Certificate audit and there is a high likelihood of qualification.

Executive Summary

Key Messages



Concern over level of skills, experience and capability of payroll staffing resources: Our review of pension contributions identified that in 30% of the cases tested errors occurred as a result of incorrect information processing or manual corrections being made. The volume and type of errors identified gives us concern over the knowledge and experience of payroll staff and the capacity to correctly address the issues being highlighted. PWC are also likely to identify several complex cases which could potentially be wrong and Serco's internal analysis of pensions (based on reporting from the Project Team) will add to the transactions to be reviewed and corrected. The Council need to have assurance that Serco has sufficient resources with satisfactory level of skills, experience and capability to correct all the errors and to deliver level of payroll services to comply with contract specifications and agreed performance levels.

We also have concerns around a lack of payroll and pension expertise in the Council – currently client expertise focusses on HR. Given the technical and complex nature of both payroll and pensions it is important that the client understands the technical aspects to be able to undertake more informed contract management oversight and monitoring. LCC need to review the adequacy of client skills / capability to manage this aspect of the SERCO contract.

Payslip Display –The % of the pension deduction is not displayed on the payslip. It is therefore difficult for an employee to check that the rate is correct / has not unexpectedly changed.

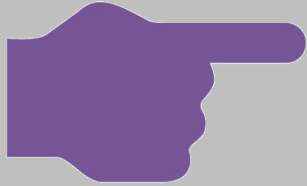
Serco should investigate making changes to the payslip report so that the % deduction is displayed making it easier for both employees and Payroll staff to check the % is correct and that any change is correct.

Other errors we have identified relating to the calculation of pension contributions affect fewer employees and include:

- Excessive employers' LGPS contributions have been taken for 18 members of staff in April 2015.
- Employer's contributions have been overpaid for the LGPS 50:50 scheme – 19.7% contributions have been deducted on double the actual pensionable pay for the members of the scheme
- Occasions where arrears of employees contributions have been collected where deductions have not been made in a month, but there has been no corresponding collection of arrears for employer's contributions

Executive Summary

Areas of Good Practice



Although significant issues remain, it is important to acknowledge the work that Serco Payroll staff, HR Administration and the Agresso project team have undertaken to try to improve payroll system controls and correct system problems.

Through generating reports from Agresso, we are able to confirm that the amounts paid over to West Yorkshire Pension Fund and Teachers' Pensions differ by only very minor amounts to the deductions in payroll (0.005% and 0.02% respectively). The NHS and Prudential deductions agree exactly.

Council Management response:

The Council Management accepts the findings of the Audit Report. As a priority, the Council will put in place immediate arrangements to address the issue of the adequacy of client skills / capability to manage this aspect of the Serco contract. The Council will also ensure that the lead Client role for pensions is directly involved with Serco, to ensure strategic oversight of the review of the end to end pensions' process (part of the review of payroll operational delivery) so that we have assurance that the improvements made are sustainable and fit for purpose.

Over the past 8 -10 months, the Council Management have been liaising with colleagues in Serco, West Yorkshire Pension Fund (WYPF) and managers to seek to address the range of payroll and pensions issues (including issues affecting Fire and Rescue staff.) Through regular progress monitoring, it is clear there has been some progress, albeit limited, i.e. there have been significant improvements in the quality and timeliness of the monthly returns sent by Serco payroll to WYPF. Additionally an audit has commenced by the Payroll Team in relation to Fire Fighters' Pension Schemes in response to issues identified by the Council. However due to Serco resourcing constraints this audit has not progressed as quickly as expected. Additional resources have now been identified by Serco to be able to progress with this audit.

This in depth audit investigation and detailed testing undertaken by Internal Audit has identified the root causes to the issues that the Council has raised. This enables the LCC Client function to deliver its assurance role through monitoring and reviewing the adequacy of the performance, risk management and controls that are being put in place by Serco for the operational delivery of the payroll service. As reflected in the action plan, the LCC Client function will also:

- Track the Serco Pensions audit action plans. Performance will be highlighted to the Recovery Board and the HR & Payroll Portfolio Board on a monthly basis to report those recommendations have been implemented and which are still outstanding
- Monitor on monthly basis that overpayments (due to under contributed pensions) are corrected and records are amended within the required timescales
- Determine for the future, additional management information required as part of the existing KPI contract monitoring arrangements.

Serco Response:

Serco accepts the findings of this audit report and urgent efforts are underway to develop and improve the Agresso system and HR administrative process to ensure they apply pension scheme rules and deduct employee and employer contributions correctly.

This audit points to the following main actions which we must undertake:

- The urgent need to ensure the appropriate level of skills, capacity and training to manage pensions.
- The essential work to be completed by the Resources Team to review all Pension contributions in 2015/16; identify any errors; and ensure these are corrected. This will include close liaison with those individuals affected, LCC and the Pension Authorities.
- Regular and effective engagement with Pension Authorities.
- Robust monitoring of the Audit Actions to ensure they are completed in a timely and effective manner.
- Serco are reviewing payslips to see if %s of contributions can be displayed, along with more detail on other allowances and expenses.

Serco has already implemented a number of actions which have led to improvements since this audit was completed. These include:

- Investment in additional senior resources and 3 additions to the Resources Team (currently 6 people and moving to 9) to undertake a thorough review of all Pension contributions in 2015/16, ensuring any findings are also applied to improve current systems and processes.
- The production of Agresso reports to highlight any anomalies across pensions, both historically and then on an ongoing monthly basis to ensure no further errors are made.
- The Payroll Manager has reviewed the skills of the Payroll and Pensions Team and is designing and delivering a training programme to ensure that the necessary skills are available within the team.
- A redesigned starters form to increase the mandatory fields and reduce free text to reduce the margin for error in both payroll and pensions.
- Investing in payroll software (QTAC) to improve the accuracy of manual calculations.

Addressing the recommendations of the report requires Serco to consider how we can improve our own processes - as reflected in the action plan – but also identifies changes in LCC's processes to improve the system as a whole. We will work closely with our partners at LCC to ensure our various contributions are properly coordinated.

Concerto Property Management System

Introduction and Scope

An audit review of the Concerto web application was included in the 2015-16 Internal Audit operational plan. The objective of the audit was to assist Lincolnshire County Council in achieving its objectives, by reporting on the adequacy and application of controls in place to manage the inherent risks associated with the Concerto application and the access controls within.

The terms of reference for the audit were agreed with the Contract Manager at the start of the audit. The agreed objective of the activity is as follows:

Concerto is a replacement for the existing Technoforge system. It will be used to manage property information, maintenance and management. There will be supplier access through a defined 'portal'.

The support arrangements for the system are as follows:

- ◆ Software: Support is provided by the supplier.
- ◆ Server hardware and operating system: Support is provided by the supplier, who also host the system.

This report presents the findings of the audit review and the recommendations made.

Scope & Methods

The audit examined the strength of controls surrounding the Concerto application. The audit was carried out by means of discussions with system administrators and relevant users. The testing made use of non-invasive audit tools in order to assess whether adequate controls are in place to protect the system and data from unauthorised access, modification and system unavailability.

Executive Summary **Assurance Opinion - Low**

The Concerto web application appears to have been developed with only minimal concern for application security. Access controls need substantial improvement to prevent unauthenticated users from accessing restricted areas of the application. Several security holes exist that could be exploited by users with no privileges to reveal sensitive and confidential data. In its present version the Concerto application would present a serious risk to the commercially sensitive data it holds. Further detailed information about the findings is found in Appendix 1.

Appendix 3 – Internal Audit Plan 2016/17

Audit Area	Assurance Being Sought	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Given
Commissioning Strategy 1: Children are Safe and Healthy					
Families Working Together	Audit sign off as per the requirements of the grant.	Aug 16	Aug 16		1 st Grant sign off complete
Child Sexual Exploitation (CSE) joint working	Confirm a strategy and local action plan setting out the roles and responsibilities of all partner organisations is in place. Adequate data and intelligence gathering arrangements exist between key providers to ensure a joined-up response in dealing with children at risk of sexual exploitation.	Jun 16	Jun 16		Initial work halted due to unexpected departure of auditor
Missing Children	<p>Confirm that LCC complies with its statutory requirements in relation to missing children to include consideration of risks in relation to Child Sexual Exploitation and Radicalism. Assurance will be sought over 3 strands:</p> <ul style="list-style-type: none"> • Children missing from home or care • Children missing education • Children not receiving 25 hours education per week <p>Our audit will leverage assurance from other sources of recent review, where possible.</p>	Nov 16			

Commissioning Strategy 2: Learn and Achieve					
Social Care and SEND transport	Over transitional arrangements from the current providers to the new arrangements that will commence January 2017	Aug 16	Aug 16		In Progress
School Admissions	Confirmation that the risks regarding implementation of new admissions software have been managed to minimise disruption to schools.	Sep 16			Deferred to Quarter 4 – client request
Inclusion	Verify that the 'Inclusive Lincolnshire' strategy is embedded across Lincolnshire education settings and how the Behaviour Outreach Support Service (BOSS) success is measured and reported.	Feb 17			
Local Authority Arrangement for Supporting School Improvement	Sufficiency of transition arrangements for moving from a contracted service to a sector led approach.	Feb 17			
SEND reform	Update on embedding of the new SEND framework in key areas of the service.	Aug 16			
Commissioning Strategy 3: Readiness for Adult Life					
Careers Advice	That the alternative delivery model for careers advice to young people achieves required outcomes.	Jan 17			
Commissioning Strategy 5: Adult Specialities					
Transfer of the attendance allowance	Support and advice in development of arrangements for the transfer of responsibilities of attendance allowance from Department of Work & Pensions to LCC – maximising governance, risk management and control arrangements.	Mar 17			
Commissioning Strategy 6: Carers					
CSC Carers Team	Confirm Carers mobilisation plan complete and progress made against delivery of this plan.	Aug 16	Aug 16		In progress
Commissioning Strategy 7: Adult Frailty, Long Term Conditions and Physical Disability					
Workforce Development	That the workforce development plan is embedded and delivery arrangements and monitoring are effective to	Sep 16	Jul 16	Sep 16	Complete – Limited Assurance

	develop and maintain a skilled workforce.				
Assessment of needs / Annual care assessments	That there are effective processes and procedures are in place to ensure that timely reviews/reassessments of current and new service user's needs are being undertaken.	Sep 16	Aug 16		In progress
Provider payments – validation and data quality	Confirm there are effective systems and processes in place for validation and authorisation of payments to various providers of care and support for Adults.	Jan 17			
Client Contributions Policy	Confirm that the new contributions policy has been fully implemented and is applied consistently to all applicable service users.	Feb 17			
Better Care Fund	Confirm adequacy of governance, financial management and performance monitoring arrangements to ensure the BCF meets its objectives in the medium term.	Jun 16	Jun 16		In Progress
Integration with Health	Progress and delivery of the plan to integrate Health and Social Care.	Mar 17			
Commissioning Strategy 8: Safeguarding Adults					
Adult Safeguarding – Follow up of Peer review action plan	That actions resulting from the June 2016 peer review of adult safeguarding are progressing as agreed and ensuring desired outcomes.	Feb 17			
Domestic Homicide Reviews	Follow up of Domestic Homicide Reviews involving LCC to confirm that agreed actions have been taken or are progressing and that lessons learnt are embedded.	Jun 16	Jun 16		Audit stopped due to client – Jul 16
Commissioning Strategy 9: Enablers and support to the Council's outcomes					
SERCO – Agresso Post Implementation Review	Review of the implementation of Agresso throughout the key stages of the project, go live and post implementation issues and resolution in order to identify lessons learnt	Jun 16	Jun 16		Draft report
ICT - Key Application Audit – Agresso	Overall Administration of this key application, to include Access, Security and Processing controls.	Not Scheduled			
ICT - Key Application Audit –Case Management	Overall Administration of this key application, to include Access, Security and Processing controls.	Sep 16	Sep 16		In progress

System (MOSIAC)					
ICT Audit	<p>Scheduling of individual ICT audits to be agreed in year. Possible areas for focus include:</p> <ul style="list-style-type: none"> • ICT provider governance arrangements • ICT strategy • Data Sharing • Change Control <p>We will discuss and agree the final ICT plan with the Chief Commissioning</p>	Not Scheduled			
Business Support	Confirm effective and efficient support is given at the right time, place and people to meet the needs of the business	Nov 16			
Service Transformation	Confirm that service reviews, restructures and reductions have been performed in line with the commissioning cycles and aligned to budget plans.	Jul 16			
Contracts	Management of capital and revenue contracts	Not Scheduled			
Commissioning Strategy 10: How we do our business					
Corporate Complaints	Review of the complaints process to provide assurance that it is fit for purpose and meeting targets in resolving customer complaints at the earliest contact.	Jul 16			
Corporate Policies and Procedures	Assurance over effectiveness of Corporate Policies and Procedures in providing the 2 nd line of the 3 lines of assurance model.	Jun 16	Jul 16		In progress
Scrutiny functions	Assurance over effectiveness of Scrutiny functions in providing the 2 nd line of the 3 lines of assurance model.	Sep 16	Sep 16		In progress
Performance Management	Assurance over effectiveness of performance management in providing the 2 nd line of the 3 lines of assurance model.	Not Scheduled			
Pension Fund	British Wealth Funds - this will change how money is invested and will result in changes for Pensions	Mar 17			

	Committee					
Budget Management	Should be more self-service (although other Agresso issues have impacted)	Sep 16				
Bank reconciliation	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	Sep 16				
General Ledger		Oct 16				
Payroll	How often Internal Audit review these activities depends on previous assurance opinions, when we last examined the activity and if there has been any significant changes to the system or senior management. We also consider the requirements of External Audit.	Jan 17				
Income		May 16	May 16		Draft report	
Creditors		Feb 17				
Debtors		Jun 16	Jun 16		Draft report	
Treasury Management		Nov 16				
VAT		Agresso has impacted and system not working smoothly as previous. Possible change in risk rating from HMRC	Aug 16			Scoping
Key Control Testing		Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	Jan 16			
Key Controls – Starters, Leavers and Changes (Schools)	Delivery of HR key control testing at a sample of schools to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	Jul 16	Jul 16		In progress	
Schools	Periodic audits of maintained schools.	Throughout year			In progress	
Commissioning Strategy 11: Protecting the Public						
Trading Standards	Capacity issues are managed using a risk based methodology and the future model based on income generation is realistic and deliverable.	Sep 16	Aug 16		In progress	
Commissioning Strategy 12: Sustaining and growing business and the economy						
European Regional Development Fund	Accounts are adequate to support expenditure in line with grant conditions.	Jul 16			Scoping	

Commissioning Strategy 13: Protecting and sustaining the environment					
Joint Waste Management Strategy	Review to provide assurance on waste management strategy applied. To include management of overspends – prediction and prevention.	Jun 16	May 16		Draft report
Local Enterprise Partnership Grant sign off	Verification and audit sign off to confirm appropriate use and spending of the LEP capital grant 2015/16	Jul 16	Jul 16	Jul 16	Complete
Commissioning Strategy 14: Sustaining and developing prosperity through infrastructure					
Highways Maintenance Contract	Consultancy - Support and advice on project to implement the recommendations of the 'Cranfield University work'.	Aug 16			Scoping
Planning software procurement	Consultancy - Support and advice in procurement and development of a new planning management system to ensure adequate governance, risk management and controls.	Apr 16	Apr 16		Fieldwork in progress
Transport Connects – 'Teckal' Trading Company	Consultancy – Support and advice on the Governance, Risk Management and Control arrangements for the setup of this 'Teckal Company' to provide passenger transport.	May 16	May 16		Complete
Commissioning Strategy 15: Community Resilience and Assets					
Heritage sites	Effective governance and financial and stock management in key sites	Mar 17			
Lincolnshire Archives	Consultancy - Support and Advice on the planning process for relocation of the archives to a new site	Oct 16			
Commissioning Strategy 16: Wellbeing					
Local Commissioning Framework	The effectiveness of the new Local Commissioning Framework. The Framework will be tested using the Libraries procurement as a sample.	Sep 16			Scoping
ICES	The new contract is being effectively managed and is delivering efficiencies as set out.	Dec 16			Scoping
Commissioning Strategy 17: Enablers and support to key relationships					
Partnership Management	High level review of the process in place for managing and monitoring partnerships.	Aug 16			

Devolution	Confirming effectiveness of governance arrangements of the devolved committee.	Jan 17			
Other relevant Areas					
Combined Assurance	Updating assurances on the Council's assurance map with senior managers and helping to co-ordinating the annual status report.	Nov 16			Preparation work
Follow up work – Joint Commissioning Board	2 nd Follow up on progress made with the action plan from this key 2014/15 audit	Sep 16	Sep 16		In progress
Follow up of Recommendations	Audit Reports issued during 2015/16 where an audit opinion of 'Limited' or 'Low' will be followed to establish progress in implementing agreed management actions.	Nov 16			
Advice & Liaison		Various throughout the year			In progress
Annual Report		Jun 16	Jun 16		In progress
Local code of Governance	To develop a toolkit which will then be used to assess the council's code of governance against the revised CiPFA SOLACE guidance on good governance	Aug 16	Aug 16		In progress
Annual Governance Statement	Support development of the AGS and review of the local code of gov in light of the revised CiPFA SOLACE guidance	Jun 16	Jun 16		In progress
Audit Committee		Various throughout the year			In progress

Appendix 4 – Overdue Actions at 31st August 2016

Audit Area	Date	Assurance	Agreed Actions	Implemented	Overdue		Not Due
					H	M	
Coroners	June 2014	Limited/ Substantial	52	45	5	2	0
Information Governance	Mar 2015	Limited	15	12	3	0	0
Home to School Transport	January 2015	Substantial	14	11	0	3	0
Civil Parking Enforcement	April 2014	Substantial	3	2	0	1	0
Business Continuity	January 2016	Limited	4	1	1	0	2
Payroll Audit 1 2016	March 2016	Low	27	19	8	0	0
Payroll – Key controls 2016	July 2016	Low	50	11	4	3	37
Pension Contributions 2015/16	July 2016	Low	48	10	1	0	42
Accounts Payable – Key Controls	July 2016	Limited	10	1	1	0	8
Totals			223	112	23	9	89

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Regulatory and Other Committee

Open Report on behalf of Debbie Barnes, Executive Director of Children's Services

Report to:	Audit Committee
Date:	26 September 2016
Subject:	Internal Audit Progress Report

Summary:

This report gives an update on the actions being taken to address and rectify the issues identified in both the Payroll and Pensions Audits.

Recommendation(s):

That the Committee notes the approach and progress made with these audit actions and identifies any further actions it requires.

Background

This report provides details of the audit work during the period 9th July to 12th September 2016 and advises on progress with the 2016/17 Audit Plan.

Conclusion

Members should seek assurance that the control environment of the Payroll and Pensions systems has improved with Internal Audit recommendations being implemented.

Consider the level of confidence over the completeness and accuracy of the payroll and pension systems.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Payroll and Pensions Audit Action Log
Appendix B	Response to Payroll and Pension Audits (Powerpoint Presentation)

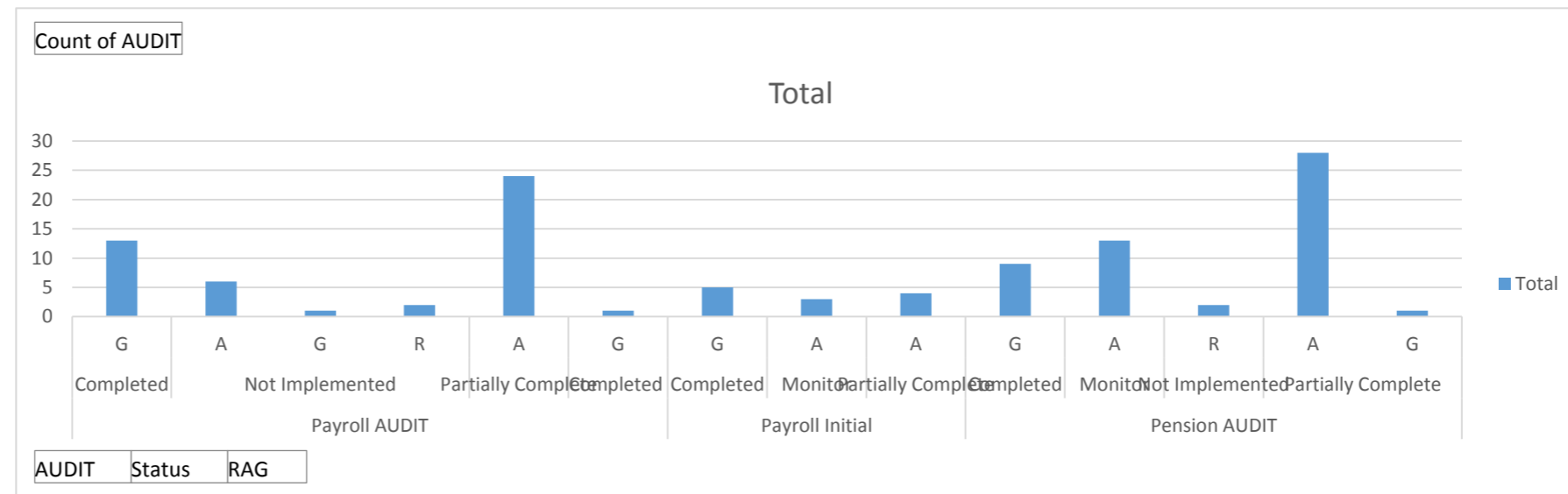
Background Papers

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 Progress Report	

This report was written by Fiona Thompson, who can be contacted on 01522-552207 or fiona.thompson@lincolnshire.gov.uk.

Row Labels	Count of AUDIT
Payroll AUDIT	47
Completed	13
G	13
Not Implemented	9
A	6
G	1
R	2
Partially Complete	24
A	24
Completed	1
G	1
Payroll Initial	12
Completed	5
G	5
Monitor	3
A	3
Partially Complete	4
A	4
Pension AUDIT	53
Completed	9
G	9
Monitor	13
A	13
Not Implemented	2
R	2
Partially Complete	29
A	28
G	1
Grand Total	112



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AUDIT	Agreed management action	Ref	Related to finding...	Owner	Date to be completed	Revised date for completion	Status	RAG	Response Comments
Payroll Initial	<p>When the audit log function was enabled the system slowed down significantly and had to be disabled. Now reviewing the possibility and impact of only turning on specific screens. A feasibility study to assess this is now underway.</p> <p>The areas to be switched on will be discussed and shared with Audit.</p>	4.1	<p>Previous discussions with the project team indicated that the audit log had not been switched on across Agresso as it significantly slows the system.</p> <p>Without this facility there is a risk that inappropriate changes cannot be identified and traced to users.</p>	Julie Jackson	31-Jan-16	30-Sep-16	Completed	G	07/09: Feasibility study completed and areas to be switched on are now under detail discussion with LCC audit and People Management through a series of workshops. Payroll creating files of data to provide audit checks to validate pay in the interim while the system audit logging solution is agreed 31/08: Workshops in progress with LCC (inc audit) to confirm what audit logs are required. Aim to have screens identified and agreed by 30Sep which will then allow process and reporting to follow (which will be BAU operational)
Payroll Initial	<p>Currently Headteachers approve their own expenses after Bursars input them.</p> <p>The expenses should be inputted by Headteachers and then approved by Bursars.</p> <p>LCC have agreed this will be an acceptable process, but still awaiting final agreed action from Serco.</p>	5.1	<p>Although there is separation of duties between the input and approval of Headteachers' pay and expense claims, the current workflow results in self-authorisation.</p> <p>Internal control arrangements have always required payments to be authorised by an officer other than the payee.</p> <p>The approval workflow is driven by the relation between the Positions of the inputter and authoriser. We understand that changes to this may impact on other processes within Agresso.</p>	Abi Tierney	31-Mar-16		Completed	G	31/08: This work has completed and process agreed at schools board. Communication went out to schools in July newsletter
Payroll Initial	Some limits have already been set and work continues to set limits for the remaining codes.	19.1	We can confirm that upper limits have now been entered on some P&D expense codes such as car parking, but there are no limits on entries where the rate per mile can be entered manually. As a result there remains a risk that excessive amounts could be claimed and not identified when managers authorise mileage claims and other expenses (initial testing has identified a small number of occasions where this has occurred).	Julie Jackson	31-Mar-16	30-Sep-16	Completed	G	07/09: This has been completed and in part of BAU audit reconciliation of higher and lower values
Payroll Initial	<p>This only applies to a very few staff who have more than one role at LCC. When such staff have sick leave the system gets confused about which role to allocate the sickness absence.</p> <p>Manual checking and changes are deployed to address this issue until such time as the system issue can be resolved.</p>	22.1	Sickness processing continues to make use of a 'workaround' (SQL report) outside of Agresso payroll. The errors identified in payroll payments demonstrate that this 'workaround' does not calculate sickness payments accurately on a consistent basis.	Julie Jackson	31-Mar-16	30-Sep-16	Completed	g	05/09: Agresso testing has concluded and the fix is now in the live environment ready for running of Absence Transfer 31/08: Fix received from Unit 4 w/e 26Aug which is undergoing testing at present to confirm if resolves issue. Anticipate that this could be promoted to live if all testing is successful by end Sep16
Payroll Initial	Further work / investigation is need to understand this issue as it should already be available.	24.1	<p>Pay advances are currently made to employees by the LCC Treasury Team via Faster Payments. Payroll provide a list of payments (with individual's bank details) whenever advances are required, often several times a week.</p> <p>This payment method should only be a temporary arrangement - it incurs charges for each transaction, creates additional work for Treasury and there is a risk of error in providing and entering the details for payment.</p>	Julie Jackson	31-Jan-16	30-Sep-16	Completed	G	31/08: Given the significant reduction in advances (only 10 in Aug16) this is less critical. Investigation complete on what is feasible for supplementary payroll runs. Further discussion would be required with LCC (KT) & Payroll to discuss supplementary payroll runs

Payroll Initial	Review of access right currently being undertaken. More levels of access are being developed and then individual roles will be allocated to the extended range of access levels.	Access to the HR Admin role is not sufficiently restricted / controlled. This role allows amendment to the Council's establishment and structure, and the creation of new Positions. We also observed that: <ul style="list-style-type: none"> • there are system users who still have access to Agresso even though they have left the Council • other individuals have the HR Admin role (e.g. some employees within Revenue Services) where they need access to undertake certain tasks but should not have full access to this role. 	Julie Jackson	31-Jan-16	30-Sep-16	Monitor	A	05/09: Action is to be tracked against ref 11.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Payroll Initial	Review of access right currently being undertaken. More levels of access are being developed and then individual roles will be allocated to the extended range of access levels.	At present there is no enforced segregation of duties between HR Admin and payroll processes or within the payroll system itself: <ul style="list-style-type: none"> • HR Admin staff set up employee records (including bank details) as well as having access to create Positions within the establishment structure. • Some users with the HR Admin role also have the payroll role and vice versa. • Whilst 3 different payroll roles have been created in the Development system, these have not yet been fully tested for implementation in the Production environment. All users have a standard payroll access. <p>Current access presents a risk of fraud. The current difficulties with payroll posting and reporting increase the risk that fraud and error may not be detected</p>	Colin Airs	31-Jan-16	30-Sep-16	Monitor	A	05/09: Action is to be tracked against ref 11.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Payroll Initial	Review of access right currently being undertaken. More levels of access are being developed and then individual roles will be allocated to the extended range of access levels.	We previously reported that access to be able to amend Payment & Deduction (P&D) codes in the live Agresso system is not sufficiently restricted. These codes underpin payroll payments and deductions and determine how data entered to the system is processed. We understand that this issue remains unchanged and staff who have update access to the P&D register include payroll staff, Unit 4 consultants, and employees with either the HR System Admin role or full system access (Serco IT). Such wide access increases the risk of inappropriate changes to the P&D codes. We are aware that errors have occurred due to incorrect amendments being made to P&D codes	Julie Jackson	31-Jan-16	30-Sep-16	Monitor	A	05/09: Action is to be tracked against ref 11.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also

Payroll Initial	<p>A comprehensive list of exception reports have been produced and are waiting to be developed by the Agresso Team.</p> <p>Training on how to make the best use of the exception reports will be part of the roll out process when these reports are available.</p>	<p>Our review has confirmed that the arrangements to check payrolls have been improved since April / May / June to detect and correct errors prior to payment. However, we still have concerns around the consistency, coverage and timeliness of these checks.</p> <p>These include:</p> <ul style="list-style-type: none"> • time and resource spent to address queries is impacting on time available for input and checking processes • whether sufficient staff have the level of knowledge to identify errors • the Unit 4 system variance report was still not available in September 2015 – a comparison of current and previous month's pay was manually created • exception reports available do not pick up specific errors (e.g. mismatch between NI code and allocation to a pension scheme, unbalanced payslips) • ensuring complete retention of all reports relating to payroll processing (e.g. tax load, backpay report, error & warnings, net pay comparison) - dating back to April 2015 <p>Whilst we were able to confirm that reports had been generated, checked and retained on Corporate payrolls in September, we have not received a response from Serco on the checks completed on the schools (SC) payroll.</p> <p>The checking of exception reports is the most important control to minimise the occurrence of errors.</p>	Julie Hill	TBC		Partially Complete	A	12/09 exception reports identified and being used by Payroll Team. Action is ongoing, training is being scheduled.
Payroll Initial	<p>A separate project has been ongoing since October to identify all over and under payments and decide the process / time scales for collecting outstanding monies.</p> <p>Process to include the outlining how overpayments will be reversed in the payroll system</p>	<p>A process has not yet been implemented to correct payroll information where overpayments have occurred and cannot be corrected through adjustments to future payments (e.g. where the employee has left employment). This process amends postings in the general ledger and payroll control accounts.</p> <p>If these amendments are not made, payroll data and accounting information will be incorrect at year end. This is also likely to impact on the accuracy of data submitted by RTI.</p>	Colin Airs	31-Mar-16	30-Nov-16	Partially Complete	A	12/9: this is part of the project to contact all employees by end of October
Payroll Initial	<p>A separate project has been ongoing since October to identify all over and under payments and decide the process / time scales for collecting outstanding monies.</p> <p>Process to include the outlining how overpayments will be reversed in the payroll system</p>	<p>Issues with data input and processing, particularly in the first 4 months after implementation are known to have caused overpayments to staff. As limited checking was completed in this period, there is a risk that overpayments made have not been detected or reported by employees.</p> <p>The results of our initial testing in this area confirm that there are unrecovered overpayments (some of which are significant), particularly from the first 4 months.</p> <p>We recognise that budget holder checking should help to identify errors</p>	Colin Airs	31-Mar-16	30-Nov-16	Partially Complete	A	12/9: this is part of the project to contact all employees by end of October

Payroll Initial	Clarify the support available and relationship with Unit 4 post implementation		As previously highlighted, there is currently an over reliance on one individual (the HR/Payroll Consultant) who has both payroll expertise and the understanding of Agresso payroll functionality. This individual's time is split between supporting the operational teams, resolving complex system errors and addressing outstanding project tasks. The conflicting demands on this individual are delaying resolution of outstanding operational and system issues. More significantly, the pressure on this individual juggling conflicting high priority tasks is not sustainable.	Julie Jackson	31-Jan-16		Partially Complete	A	Support arrangements have been reviewed and additional resources identified. New Agresso Consultant started on 13th Sept.
Payroll AUDIT	The Council will develop a tracker system and progress will be monitored via the monthly Operational Group chaired by the Council's HR Service Delivery Lead.	1.1	45% of the recommendations agreed in the previous payroll audit report in December 2015 were not implemented by the due date. The following Key controls areas have outstanding recommendations: <ul style="list-style-type: none"> -Systems access -Exception reporting -Overpayments -Third party payments and reporting We have concerns that the recommendations included in this report will also not be implemented on a timely basis by Serco. See Appendix A for details of the previous recommendations and the actions implemented.	Marie Robertson - Strategic PM Advisor	01-Sep-16		Completed	G	Tracker has been developed and agreed with Serco. Progress also to be monitored by the Audit Committee and Monthly People Management Service Review Meeting.
Payroll AUDIT	A performance report will be requested from Serco which will be a standard agenda item on the Serco/LCC HR and Portfolio Board.	1.2	45% of the recommendations agreed in the previous payroll audit report in December 2015 were not implemented by the due date. The following Key controls areas have outstanding recommendations: <ul style="list-style-type: none"> -Systems access -Exception reporting -Overpayments -Third party payments and reporting We have concerns that the recommendations included in this report will also not be implemented on a timely basis by Serco. See Appendix A for details of the previous recommendations and the actions implemented.	Marie Robertson - Strategic PM Advisor	30-Sep-16		Completed	G	MR to request from Serco. Agreed to go to Service Review meeting rather than Portfolio Board.

<p>Payroll AUDIT</p>	<p>The payroll Services uses a standard Errors and Warning Report. Serco will work with Unit 4 to redesign the Errors and Warning Report to remove the limitations.</p>	<p>2.1</p> <p>The checking of errors and warnings reports, Gross to net reports and Net pay variances are the most important controls to minimise the occurrence of errors prior to payment</p> <p>We have concerns around the consistency, coverage and timeliness of the following exception reporting checks:</p> <p>1) The Errors and warnings report control check is performed in order to detect and correct errors prior to payment. It is a fundamental control which supports the accuracy and completeness of the payroll. However, the report includes a large number of items which are not required to be looked at (eg Transaction in workflow, Transaction draft status). These items are shown on a cumulative basis and are not being cleared off the report. Also there is no evidence that this control has been performed consistently throughout 2015/16.</p> <p>2) Since December 2015 Individual School's Gross to Net pay report are sent to schools to check the accuracy of the payroll details prior to the payment run being processed. However during 15/16 schools could not perform this check because several crucial payroll entries are not being shown in the report (eg additional hours, mileage). Also the Gross payroll figure is the total of all positions, not just the position at one school which represents a data protection issue.</p> <p>3) Since September 2015 Net pay variances have been reviewed monthly by Serco to obtain explanations for any large variances. This check has not been performed on a consistent basis and there was no evidence of the action taken as a result of the review.</p> <p>These reports are fundamental controls support the accuracy and completeness of the payroll. They are important to provide</p>	<p>Julie Jackson, Business Development Operations Manager</p>	<p>30-Sep-16</p>		<p>Partially Complete</p>	<p>A</p>	<p>26/08: RT still on track to give the codes. Unknown on agresso plan - RISK 16/08: Scoping has been completed. Next step is to complete configuration by end of September.</p>
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<p>Payroll AUDIT</p>	<p>Identify all exception reports that are required and then scope and redesign so they are fit for purpose</p>	<p>2.2</p> <p>The checking of errors and warnings reports, Gross to net reports and Net pay variances are the most important controls to minimise the occurrence of errors prior to payment</p> <p>We have concerns around the consistency, coverage and timeliness of the following exception reporting checks:</p> <p>1) The Errors and warnings report control check is performed in order to detect and correct errors prior to payment. It is a fundamental control which supports the accuracy and completeness of the payroll. However, the report includes a large number of items which are not required to be looked at (eg Transaction in workflow, Transaction draft status). These items are shown on a cumulative basis and are not being cleared off the report. Also there is no evidence that this control has been performed consistently throughout 2015/16.</p> <p>2) Since December 2015 Individual School's Gross to Net pay report are sent to schools to check the accuracy of the payroll details prior to the payment run being processed. However during 15/16 schools could not perform this check because several crucial payroll entries are not being shown in the report (eg additional hours, mileage). Also the Gross payroll figure is the total of all positions, not just the position at one school which represents a data protection issue.</p> <p>3) Since September 2015 Net pay variances have been reviewed monthly by Serco to obtain explanations for any large variances. This check has not been performed on a consistent basis and there was no evidence of the action taken as a result of the review.</p> <p>These reports are fundamental controls support the accuracy and completeness of the payroll. They are important to provide</p>	<p>Colin Airs/Rita Turner</p>	<p>31-Aug-16</p>		<p>Completed</p>	<p>G</p>	<p>10/08: Exception reports have been identified. Scoping and configuration work to be undertaken.</p>
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<p>Payroll AUDIT</p>	<p>The Payroll Manager is undertaking a review of the skills of the Payroll Team and will design and deliver a training programme to ensure that the necessary skills are available within the team.</p>	<p>2.3</p> <p>The checking of errors and warnings reports, Gross to net reports and Net pay variances are the most important controls to minimise the occurrence of errors prior to payment</p> <p>We have concerns around the consistency, coverage and timeliness of the following exception reporting checks:</p> <p>1) The Errors and warnings report control check is performed in order to detect and correct errors prior to payment. It is a fundamental control which supports the accuracy and completeness of the payroll. However, the report includes a large number of items which are not required to be looked at (eg Transaction in workflow, Transaction draft status). These items are shown on a cumulative basis and are not being cleared off the report. Also there is no evidence that this control has been performed consistently throughout 2015/16.</p> <p>2) Since December 2015 Individual School's Gross to Net pay report are sent to schools to check the accuracy of the payroll details prior to the payment run being processed. However during 15/16 schools could not perform this check because several crucial payroll entries are not being shown in the report (eg additional hours, mileage). Also the Gross payroll figure is the total of all positions, not just the position at one school which represents a data protection issue.</p> <p>3) Since September 2015 Net pay variances have been reviewed monthly by Serco to obtain explanations for any large variances. This check has not been performed on a consistent basis and there was no evidence of the action taken as a result of the review.</p> <p>These reports are fundamental controls support the accuracy and completeness of the payroll. They are important to provide</p>	<p>Colin Airs/Rita Turner</p>	<p>31-Aug-16</p>		<p>Completed</p>	<p>G</p>	<p>26/08: Training sessions set-up with CIPP and Serco HR Sys Admin 10/08: Skills matrix for the payroll team has been identified and the training programme is being devised.</p>
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<p>Payroll AUDIT</p>	<p>A monthly Checklist will be designed and implemented to effectively capture all payroll responsibilities and this will contain a secondary check and require a sign off by payroll manager before payroll is finalised</p>	<p>2.4</p> <p>The checking of errors and warnings reports, Gross to net reports and Net pay variances are the most important controls to minimise the occurrence of errors prior to payment</p> <p>We have concerns around the consistency, coverage and timeliness of the following exception reporting checks:</p> <p>1) The Errors and warnings report control check is performed in order to detect and correct errors prior to payment. It is a fundamental control which supports the accuracy and completeness of the payroll. However, the report includes a large number of items which are not required to be looked at (eg Transaction in workflow, Transaction draft status). These items are shown on a cumulative basis and are not being cleared off the report. Also there is no evidence that this control has been performed consistently throughout 2015/16.</p> <p>2) Since December 2015 Individual School's Gross to Net pay report are sent to schools to check the accuracy of the payroll details prior to the payment run being processed. However during 15/16 schools could not perform this check because several crucial payroll entries are not being shown in the report (eg additional hours, mileage). Also the Gross payroll figure is the total of all positions, not just the position at one school which represents a data protection issue.</p> <p>3) Since September 2015 Net pay variances have been reviewed monthly by Serco to obtain explanations for any large variances. This check has not been performed on a consistent basis and there was no evidence of the action taken as a result of the review.</p> <p>These reports are fundamental controls support the accuracy and completeness of the payroll. They are important to provide</p>	<p>Colin Airs/Rita Turner</p>	<p>31-Aug-16</p>		<p>Completed</p>	<p>G</p>	<p>26/08: In progress - basic checklist done and in use final version to be in place by end Sep 10/08: Draft underway for pilot in August.</p>
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Payroll AUDIT	Completed - process in place but Payroll manager to ensure that these checks are evidence in future.	<p>2.5</p> <p>The checking of errors and warnings reports, Gross to net reports and Net pay variances are the most important controls to minimise the occurrence of errors prior to payment</p> <p>We have concerns around the consistency, coverage and timeliness of the following exception reporting checks:</p> <p>1) The Errors and warnings report control check is performed in order to detect and correct errors prior to payment. It is a fundamental control which supports the accuracy and completeness of the payroll. However, the report includes a large number of items which are not required to be looked at (eg Transaction in workflow, Transaction draft status). These items are shown on a cumulative basis and are not being cleared off the report. Also there is no evidence that this control has been performed consistently throughout 2015/16.</p> <p>2) Since December 2015 Individual School's Gross to Net pay report are sent to schools to check the accuracy of the payroll details prior to the payment run being processed. However during 15/16 schools could not perform this check because several crucial payroll entries are not being shown in the report (eg additional hours, mileage). Also the Gross payroll figure is the total of all positions, not just the position at one school which represents a data protection issue.</p> <p>3) Since September 2015 Net pay variances have been reviewed monthly by Serco to obtain explanations for any large variances. This check has not been performed on a consistent basis and there was no evidence of the action taken as a result of the review.</p> <p>These reports are fundamental controls support the accuracy and completeness of the payroll. They are important to provide</p>	Colin Airs/Rita Turner	31-Aug-16	30-Sep-16	Partially Complete	A	<p>12/09: confirmed still on track for completion prior to end of September</p> <p>26/08: In progress - basic checklist done and in use final version to be in place by end Sep</p> <p>10/08: Pilot to be run on August Corporate payroll</p>
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<p>Payroll AUDIT</p>	<p>This is already being undertaken and training is being completed through the team on how to action this</p>	<p>2.6</p> <p>The checking of errors and warnings reports, Gross to net reports and Net pay variances are the most important controls to minimise the occurrence of errors prior to payment</p> <p>We have concerns around the consistency, coverage and timeliness of the following exception reporting checks:</p> <p>1) The Errors and warnings report control check is performed in order to detect and correct errors prior to payment. It is a fundamental control which supports the accuracy and completeness of the payroll. However, the report includes a large number of items which are not required to be looked at (eg Transaction in workflow, Transaction draft status). These items are shown on a cumulative basis and are not being cleared off the report. Also there is no evidence that this control has been performed consistently throughout 2015/16.</p> <p>2) Since December 2015 Individual School's Gross to Net pay report are sent to schools to check the accuracy of the payroll details prior to the payment run being processed. However during 15/16 schools could not perform this check because several crucial payroll entries are not being shown in the report (eg additional hours, mileage). Also the Gross payroll figure is the total of all positions, not just the position at one school which represents a data protection issue.</p> <p>3) Since September 2015 Net pay variances have been reviewed monthly by Serco to obtain explanations for any large variances. This check has not been performed on a consistent basis and there was no evidence of the action taken as a result of the review.</p> <p>These reports are fundamental controls support the accuracy and completeness of the payroll. They are important to provide</p>	<p>Colin Airs/Rita Turner</p>	<p>31-Oct-16</p>		<p>Completed</p>	<p>G</p>	<p>10/08: Continuing monitoring will form part of the standard payroll process with data sign off by Payroll Manager.</p>
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<p>Payroll AUDIT</p>	<p>Performance of LCC Managers in processing forms and being responsible for the accuracy of the information processed, is to be included in the performance report</p>	<p>2.7</p>	<p>The checking of errors and warnings reports, Gross to net reports and Net pay variances are the most important controls to minimise the occurrence of errors prior to payment</p> <p>We have concerns around the consistency, coverage and timeliness of the following exception reporting checks:</p> <p>1) The Errors and warnings report control check is performed in order to detect and correct errors prior to payment. It is a fundamental control which supports the accuracy and completeness of the payroll. However, the report includes a large number of items which are not required to be looked at (eg Transaction in workflow, Transaction draft status). These items are shown on a cumulative basis and are not being cleared off the report. Also there is no evidence that this control has been performed consistently throughout 2015/16.</p> <p>2) Since December 2015 Individual School's Gross to Net pay report are sent to schools to check the accuracy of the payroll details prior to the payment run being processed. However during 15/16 schools could not perform this check because several crucial payroll entries are not being shown in the report (eg additional hours, mileage). Also the Gross payroll figure is the total of all positions, not just the position at one school which represents a data protection issue.</p> <p>3) Since September 2015 Net pay variances have been reviewed monthly by Serco to obtain explanations for any large variances. This check has not been performed on a consistent basis and there was no evidence of the action taken as a result of the review.</p> <p>These reports are fundamental controls support the accuracy and completeness of the payroll. They are important to provide</p>	<p>Julie Jackson, Business Development Operations Manager (Kulvinder Kaur, PM)</p>	<p>31-Oct-16</p>		<p>Partially Complete</p>	<p>A</p>	<p>10/08: Communication will be provided to schools on processing forms as part of the re-launch for schools improvement plan in September 2016. 13.09.16 - the number of manual forms submitted is going to be monitored as part of the new SLA between LCC and Serco People Management.</p>
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<p>Payroll AUDIT</p>	<p>Workshop set up on 7th of July with School Bursars to review the reports required for schools and implement improvements for new school year in September</p>	<p>2.8</p> <p>The checking of errors and warnings reports, Gross to net reports and Net pay variances are the most important controls to minimise the occurrence of errors prior to payment</p> <p>We have concerns around the consistency, coverage and timeliness of the following exception reporting checks:</p> <p>1) The Errors and warnings report control check is performed in order to detect and correct errors prior to payment. It is a fundamental control which supports the accuracy and completeness of the payroll. However, the report includes a large number of items which are not required to be looked at (eg Transaction in workflow, Transaction draft status). These items are shown on a cumulative basis and are not being cleared off the report. Also there is no evidence that this control has been performed consistently throughout 2015/16.</p> <p>2) Since December 2015 Individual School's Gross to Net pay report are sent to schools to check the accuracy of the payroll details prior to the payment run being processed. However during 15/16 schools could not perform this check because several crucial payroll entries are not being shown in the report (eg additional hours, mileage). Also the Gross payroll figure is the total of all positions, not just the position at one school which represents a data protection issue.</p> <p>3) Since September 2015 Net pay variances have been reviewed monthly by Serco to obtain explanations for any large variances. This check has not been performed on a consistent basis and there was no evidence of the action taken as a result of the review.</p> <p>These reports are fundamental controls support the accuracy and completeness of the payroll. They are important to provide</p>	<p>Julie Jackson, Business Development Operations Manager</p>	<p>30-Sep-16</p>		<p>Completed</p>	<p>G</p>	<p>13.09.16 New Gross report used for September Payroll. 26/08: New gross report has been developed - now requires testing. 16/08: LCC are working with Serco to agree cut off date for manual forms and communication plan for this. 10/08: Report is currently under development with the Agresso Team.</p>
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<p>Payroll AUDIT</p>	<p>The original instructions to Managers will be reinforced by LCC People Management through revised communications to remind Managers of their responsibilities in this regard.</p> <p>Improving performance in this area also need to be owned and driven through Director Area Management Teams, and commitment and ownership via CMB will assist in ensuring this is effectively implemented.</p> <p>Performance of LCC Managers in authorising all starter/ leaver/ change of circumstance reports and being responsible for the accuracy of the information processed, needs to be included in the performance report, outlined in point 1, above.</p>	<p>3.1</p>	<p>Key control checks are required in order to ensure that payroll is processed accurately and completely and authorised correctly. Our testing highlighted the following areas where we have concerns about the standard of the checks performed:</p> <p>1) The HR Recruitment team regularly authorise the manual or E-Starter form in place of the authorised signatory (Line manager). Council managers have therefore delegated their responsibility over the accuracy of the payroll information processed on Agresso. This increases the risk of fraudulent starters being processed.</p> <p>2) 24% of leavers tested had overpayments. This was mainly due to the leaver form not being processed on a timely basis. At present no check is performed on a monthly basis to ensure that all leavers forms received in that month have been processed. This check would reduce the risk of overpayment. A schools monthly leavers log was set up in October 2015 to monitor leavers but this was not completed on a consistent basis and was also accidentally deleted off the Serco server in January 2016.</p> <p>3) The Serco HR teams at present do perform some random accuracy checks on the Starter / leaver and Change of Circumstance information processed on Agresso. However no consistent and complete log is maintained of the volume or timing of the checks performed. It is therefore not possible for the council to be given assurance that adequate accuracy and quality checks have been performed.</p>	<p>Marie Robertson - Strategic PM Advisor</p>	<p>31-Jul-16</p>	<p>30-Nov-16</p>	<p>Partially Complete</p>	<p>A</p>	<p>Communications have been drafted and are in the process of being agreed. Need to confirm with Serco about what date managers should only use electronic forms.</p>
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<p>Payroll AUDIT</p>	<p>Serco will investigate the best method for logging starters / leavers / change circumstances and implement Log Schedules</p>	<p>3.2</p>	<p>Key control checks are required in order to ensure that payroll is processed accurately and completely and authorised correctly. Our testing highlighted the following areas where we have concerns about the standard of the checks performed:</p> <p>1) The HR Recruitment team regularly authorise the manual or E-Starter form in place of the authorised signatory (Line manager). Council managers have therefore delegated their responsibility over the accuracy of the payroll information processed on Agresso. This increases the risk of fraudulent starters being processed.</p> <p>2) 24% of leavers tested had overpayments. This was mainly due to the leaver form not being processed on a timely basis. At present no check is performed on a monthly basis to ensure that all leavers forms received in that month have been processed. This check would reduce the risk of overpayment. A schools monthly leavers log was set up in October 2015 to monitor leavers but this was not completed on a consistent basis and was also accidentally deleted off the Serco server in January 2016.</p> <p>3) The Serco HR teams at present do perform some random accuracy checks on the Starter / leaver and Change of Circumstance information processed on Agresso. However no consistent and complete log is maintained of the volume or timing of the checks performed. It is therefore not possible for the council to be given assurance that adequate accuracy and quality checks have been performed.</p>	<p>Mark Davies</p>	<p>31-Dec-16</p>		<p>Not Implemented</p>	<p>A</p>	<p>This is part of the bigger optimisation project looking at the Employee Lifecycle, through starters, movers and leavers. A scoping document has been drafted.</p>
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Payroll AUDIT	Implement secondary check of log items (linked to action above).	3.3	<p>Key control checks are required in order to ensure that payroll is processed accurately and completely and authorised correctly. Our testing highlighted the following areas where we have concerns about the standard of the checks performed:</p> <p>1) The HR Recruitment team regularly authorise the manual or E-Starter form in place of the authorised signatory (Line manager). Council managers have therefore delegated their responsibility over the accuracy of the payroll information processed on Agresso. This increases the risk of fraudulent starters being processed.</p> <p>2) 24% of leavers tested had overpayments. This was mainly due to the leaver form not being processed on a timely basis. At present no check is performed on a monthly basis to ensure that all leavers forms received in that month have been processed. This check would reduce the risk of overpayment. A schools monthly leavers log was set up in October 2015 to monitor leavers but this was not completed on a consistent basis and was also accidentally deleted off the Serco server in January 2016.</p> <p>3) The Serco HR teams at present do perform some random accuracy checks on the Starter / leaver and Change of Circumstance information processed on Agresso. However no consistent and complete log is maintained of the volume or timing of the checks performed. It is therefore not possible for the council to be given assurance that adequate accuracy and quality checks have been performed.</p>	Mark Davies	31-Dec-16		Not Implemented	A	This is part of the bigger optimisation project looking at the Employee Lifecycle, through starters, movers and leavers. A scoping document has been drafted.
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<p>Payroll AUDIT</p>	<p>Investigate option for starter e-forms to be automatically loaded in Lagan to create a log that can be cross-checked with Agresso and then implement. These logs will then be checked on a regular basis and the outcome of the checks documented and stored</p>	<p>3.4</p>	<p>Key control checks are required in order to ensure that payroll is processed accurately and completely and authorised correctly. Our testing highlighted the following areas where we have concerns about the standard of the checks performed:</p> <p>1) The HR Recruitment team regularly authorise the manual or E-Starter form in place of the authorised signatory (Line manager). Council managers have therefore delegated their responsibility over the accuracy of the payroll information processed on Agresso. This increases the risk of fraudulent starters being processed.</p> <p>2) 24% of leavers tested had overpayments. This was mainly due to the leaver form not being processed on a timely basis. At present no check is performed on a monthly basis to ensure that all leavers forms received in that month have been processed. This check would reduce the risk of overpayment. A schools monthly leavers log was set up in October 2015 to monitor leavers but this was not completed on a consistent basis and was also accidentally deleted off the Serco server in January 2016.</p> <p>3) The Serco HR teams at present do perform some random accuracy checks on the Starter / leaver and Change of Circumstance information processed on Agresso. However no consistent and complete log is maintained of the volume or timing of the checks performed. It is therefore not possible for the council to be given assurance that adequate accuracy and quality checks have been performed.</p>	<p>Colin Airs/Rita Turner</p>	<p>30-Nov-16</p>		<p>Not Implemented</p>	<p>A</p>	<p>This is part of the bigger optimisation project looking at the Employee Lifecycle, through starters, movers and leavers. A scoping document has been drafted.</p>
<p>Payroll AUDIT</p>	<p>This instruction will be issued by LCC People Management through the communication to Managers and to DMT's, as outlined in point 3 above.</p>	<p>4.1</p>	<p>We identified from our testing a consistent lack of information trail</p> <p>1) 23% of starters, 37% leavers, 22% changes and 17% claim forms tested were not located by Serco</p> <p>2) 11% of the forms/ claims tested had limited information held on the system.</p> <p>3) 7% of school starters tested had limited or no supporting documentation held by Serco.</p> <p>4) 20% of school starters had no evidence by Serco that DBS checks were completed before the employee started work.</p> <p>5) 4% of school leavers and 2 corporate no resignation letters were held by Serco.</p> <p>Whilst errors in the processing of information should be identified by the authoriser this lack of information trail means that there is an increased risk :</p> <ul style="list-style-type: none"> - that incorrect changes cannot be identified and traced to users - that fraudulent claims are authorised and processed - that required starter supporting documentation checks are not performed by schools. - that incorrect date changes are not identified which result in overpayments. 	<p>Marie Robertson - Strategic PM Advisor</p>	<p>31-Jul-16</p>	<p>30-Nov-16</p>	<p>Partially Complete</p>	<p>A</p>	<p>Linked to Action 24 Point 3 above.</p>

Payroll AUDIT	Completed - System established	4.2	<p>We identified from our testing a consistent lack of information trail</p> <p>1) 23% of starters, 37% leavers, 22% changes and 17% claim forms tested were not located by Serco 2) 1% of the forms/ claims tested had limited information held on the system. 3) 7% of school starters tested had limited or no supporting documentation held by Serco. 4) 0% of school starters had no evidence by Serco that DBS checks were completed before the employee started work. 5) 4% of school leavers and 2 corporate no resignation letters were held by Serco.</p> <p>Whilst errors in the processing of information should be identified by the authoriser this lack of information trail means that there is an increased risk :</p> <ul style="list-style-type: none"> - that incorrect changes cannot be identified and traced to users - that fraudulent claims are authorised and processed - that required starter supporting documentation checks are not performed by schools. - that incorrect date changes are not identified which result in overpayments. 				Completed	G	
Payroll AUDIT	To be implemented as part of Rectification Phase 1.	4.3	<p>We identified from our testing a consistent lack of information trail</p> <p>1) 23% of starters, 37% leavers, 22% changes and 17% claim forms tested were not located by Serco 2) 1% of the forms/ claims tested had limited information held on the system. 3) 7% of school starters tested had limited or no supporting documentation held by Serco. 4) 0% of school starters had no evidence by Serco that DBS checks were completed before the employee started work. 5) 4% of school leavers and 2 corporate no resignation letters were held by Serco.</p> <p>Whilst errors in the processing of information should be identified by the authoriser this lack of information trail means that there is an increased risk :</p> <ul style="list-style-type: none"> - that incorrect changes cannot be identified and traced to users - that fraudulent claims are authorised and processed - that required starter supporting documentation checks are not performed by schools. - that incorrect date changes are not identified which result in overpayments. 	Julie Jackson, Business Development Operations Manager	31-Dec-16		Not Implemented	A	Communications have been drafted related to the use of forms and mandatory fields and are in the process of being agreed.

Payroll AUDIT	Serco have already started work on this action to produce a schools documentation checklist form.	4.4	<p>We identified from our testing a consistent lack of information trail</p> <p>1) 23% of starters, 37% leavers, 22% changes and 17% claim forms tested were not located by Serco</p> <p>2) 11% of the forms/ claims tested had limited information held on the system.</p> <p>3) 7% of school starters tested had limited or no supporting documentation held by Serco.</p> <p>4) 20% of school starters had no evidence by Serco that DBS checks were completed before the employee started work.</p> <p>5) 4% of school leavers and 2 corporate no resignation letters were held by Serco.</p> <p>Whilst errors in the processing of information should be identified by the authoriser this lack of information trail means that there is an increased risk :</p> <ul style="list-style-type: none"> - that incorrect changes cannot be identified and traced to users - that fraudulent claims are authorised and processed - that required starter supporting documentation checks are not performed by schools. - that incorrect date changes are not identified which result in overpayments. 	Mark Davies	30-Sep-16	Partially Complete	A	
Payroll AUDIT	<p>The Payroll manager is producing a skills matrix of the Payroll Team and will develop a training programme to ensure that the service has the necessary knowledge and training.</p> <p>A full audit of overpayments is being undertaken back to April 2015.</p>	5.1	<p>Issues with data input and processing and incorrect manual corrections particularly in the first 4 months after Agresso implementation are known to have caused overpayments to staff.</p> <p>We identified an average 29% error rate in our testing of starters, leavers and change of circumstance for the first 6 months and 17% error rate for the final 6 months which resulted in overpayments.</p> <p>Although these results suggest that improvements have been made the level of error throughout the year still gives rise to concern over:</p> <ul style="list-style-type: none"> - The knowledge and experience of the payroll staff - The adequacy of the exception reporting control - Configuration of the system - Processes supporting error correction and quality control processes operated by Serco. <p>The work being performed by PWC and Serco project team will help provide some assurance over system configuration</p>	Colin Airs/Rita Turner	26-Aug-16	Completed	G	<p>26/08: Serco can confirm that the skills matrix tracker is built to meet the known knowledge requirements</p> <p>10/08 - Training matrix in development stage. Training being organised with CIPP with a focus on schools and teachers payroll.</p> <p>Overpayments have been identified through various forms and a master tracker is established to track and rectify.</p>

Payroll AUDIT	The Payroll manager is producing a skills matrix of the Payroll Team and will develop a training programme to ensure that the service has the necessary knowledge and training.	5.2	<p>Issues with data input and processing and incorrect manual corrections particularly in the first 4 months after Agresso implementation are known to have caused overpayments to staff.</p> <p>We identified an average 29% error rate in our testing of starters, leavers and change of circumstance for the first 6 months and 17% error rate for the final 6 months which resulted in overpayments.</p> <p>Although these results suggest that improvements have been made the level of error throughout the year still gives rise to concern over:</p> <ul style="list-style-type: none"> -The knowledge and experience of the payroll staff -The adequacy of the exception reporting control -Configuration of the system -Processes supporting error correction and quality control processes operated by Serco. <p>The work being performed by PWC and Serco project team will help provide some assurance over system configuration</p>	Colin Airs/Rita Turner	Ongoing		Partially Complete	A	10/08: This will be ongoing activity within the Payroll Team with the necessary skill sets identified payroll specific.
Payroll AUDIT	Knowledge base being used to develop detailed guidance readily available for payroll and admin staff.	5.3	<p>Issues with data input and processing and incorrect manual corrections particularly in the first 4 months after Agresso implementation are known to have caused overpayments to staff.</p> <p>We identified an average 29% error rate in our testing of starters, leavers and change of circumstance for the first 6 months and 17% error rate for the final 6 months which resulted in overpayments.</p> <p>Although these results suggest that improvements have been made the level of error throughout the year still gives rise to concern over:</p> <ul style="list-style-type: none"> -The knowledge and experience of the payroll staff -The adequacy of the exception reporting control -Configuration of the system -Processes supporting error correction and quality control processes operated by Serco. <p>The work being performed by PWC and Serco project team will help provide some assurance over system configuration</p>	Colin Airs/Rita Turner	30-Nov-16		Partially Complete	A	14.09.16 A lot of work has been done to populate Knowledge Based with detailed guidance. Meeting taking place on 15.9.14 to agree roll out. 10/08: Review of current drafts and update accordingly.

<p>Payroll AUDIT</p>	<p>The responsibility for the management of the training provision is currently the subject of commercial discussions with Serco. The approach to training is being considered within the scope of the Optimisation Project, in particular with a focus on achieving self- service objectives.</p>	<p>5.4</p> <p>Issues with data input and processing and incorrect manual corrections particularly in the first 4 months after Agresso implementation are known to have caused overpayments to staff.</p> <p>We identified an average 29% error rate in our testing of starters, leavers and change of circumstance for the first 6 months and 17% error rate for the final 6 months which resulted in overpayments.</p> <p>Although these results suggest that improvements have been made the level of error throughout the year still gives rise to concern over:</p> <ul style="list-style-type: none"> -The knowledge and experience of the payroll staff -The adequacy of the exception reporting control -Configuration of the system -Processes supporting error correction and quality control processes operated by Serco. <p>The work being performed by PWC and Serco project team will help provide some assurance over system configuration</p>	<p>Wendy Henry</p>	<p>31-Mar-17</p>		<p>Not Implemented</p>	<p>A</p>	<p>Commercial discussions on provision of training are ongoing.</p>
<p>Payroll AUDIT</p>	<p>Serco has established a Resources Team which is tasked with reviewing and processing all overpayments from 2015/16. This work will include undertaking the audit described above</p>	<p>5.5</p> <p>Issues with data input and processing and incorrect manual corrections particularly in the first 4 months after Agresso implementation are known to have caused overpayments to staff.</p> <p>We identified an average 29% error rate in our testing of starters, leavers and change of circumstance for the first 6 months and 17% error rate for the final 6 months which resulted in overpayments.</p> <p>Although these results suggest that improvements have been made the level of error throughout the year still gives rise to concern over:</p> <ul style="list-style-type: none"> -The knowledge and experience of the payroll staff -The adequacy of the exception reporting control -Configuration of the system -Processes supporting error correction and quality control processes operated by Serco. <p>The work being performed by PWC and Serco project team will help provide some assurance over system configuration</p>	<p>Colin Airs/Rita Turner</p>	<p>31-Oct-16</p>		<p>Partially Complete</p>	<p>A</p>	<p>10/08: Team identified with QTAC software installed for 6 users. Master tracker established to provide status updates on overpayments and for reporting purposes.</p>

<p>Payroll AUDIT</p>	<p>Develop automated reports to identify and report on overpayments. Internal payroll process to capture overpayments will be reviewed</p>	<p>6.1 In 56% of the cases tested where errors were identified the overpayments were not included on the overpayments schedule. We notified payroll team who then included them on the overpayment schedule. 20 overpayment cases included in the overpayment schedules were selected for re-performance. 9 of these overpayment calculations were wrong.. Corporate and Fire overpayments recovered per the Finance recovery schedule have not been included in the overpayments schedule These findings increase the risk that : -Serco are understating the number and value of overpayments made in 2015/16 -There are unrecovered overpayments -Overpayments recovered have not been calculated correctly. -The knowledge and experience of the payroll staff is not of a sufficient standard to calculate complex overpayment calculations.</p>	<p>Colin Airs/Rita Turner</p>	<p>31-Oct-16</p>		<p>Complete</p>	<p>G</p>	<p>13.09.16 Errors and Warning reports will also pick up highs and lows and identify potential errors. Tracker on overpayments now complete and in use and will continue to be updated. These reports will be produced from the tracker that is in development so Serco will be able to report on different areas (i.e. Fire, Teachers etc.) and different issues (i.e. Pension, NI, Sick Pay) and by cost centre.</p>
<p>Payroll AUDIT</p>	<p>This was highlighted by the Council as part of the monitoring of KPI 6 in the Book of Measures, whereby a sample of records should be checked. This process has not yet been agreed as part of the review of the KPI's exercise. This will be completed by Serco as part of the audit of overpayments. Training will be provided where identified and linked to the training programme and matrix.</p>	<p>6.2 In 56% of the cases tested where errors were identified the overpayments were not included on the overpayments schedule. We notified payroll team who then included them on the overpayment schedule. 20 overpayment cases included in the overpayment schedules were selected for re-performance. 9 of these overpayment calculations were wrong.. Corporate and Fire overpayments recovered per the Finance recovery schedule have not been included in the overpayments schedule These findings increase the risk that : -Serco are understating the number and value of overpayments made in 2015/16 -There are unrecovered overpayments -Overpayments recovered have not been calculated correctly. -The knowledge and experience of the payroll staff is not of a sufficient standard to calculate complex overpayment calculations.</p>	<p>Colin Airs/Rita Turner</p>	<p>31-Oct-16</p>		<p>Partially Complete</p>	<p>A</p>	<p>Serco have identified the areas that are going into KPI6 and have completed the first batch for Corporate in August.</p>

Payroll AUDIT	<p>The Council has been trying to establish more detailed monitoring arrangements to satisfy itself that Serco are progressing with the recovery of overpayments in a timely manner. This is delayed because the detailed overpayments schedule has not however been provided to the Council.</p> <p>Serco will investigate and develop automated reports to identify and report on overpayments.</p>	6.3	<p>In 56% of the cases tested where errors were identified the overpayments were not included on the overpayments schedule. We notified payroll team who then included them on the overpayment schedule.</p> <p>20 overpayment cases included in the overpayment schedules were selected for re-performance. 9 of these overpayment calculations were wrong..</p> <p>Corporate and Fire overpayments recovered per the Finance recovery schedule have not been included in the overpayments schedule</p> <p>These findings increase the risk that :</p> <ul style="list-style-type: none"> -Serco are understating the number and value of overpayments made in 2015/16 -There are unrecovered overpayments -Overpayments recovered have not been calculated correctly. -The knowledge and experience of the payroll staff is not of a sufficient standard to calculate complex overpayment calculations. 	Sue Fletcher and Rita Turner/Colin Airs	31-Oct-16		Completed	G	13.09.16 A detailed master database has been developed with input from LCC.
Payroll AUDIT	<p>Serco is already working with the Council to recover all identified over payments. The Payroll Resources Team has been established to deal with the backlog of issues and ensure these are resolved</p>	7.1	<p>Due to issues with system functionality in the first few months after implementation a large number of pay advances were made.</p> <p>Pay advances are made to employees by LCC Treasury Team via Faster payments. Payroll provide Treasury with a list of payments whenever advances are required.</p> <p>This payment method was only meant to be a temporary arrangement since it incurs charges for each transaction and increases the risk of error when entering details for payments. This system is however still in place at year end.</p> <p>In total 3102 pay advances were made in 2015/16 with a total value of £2m. We can confirm that 84% of these pay advances were recovered in full. However in 7% of cases totalling £97,281.59 the advances made exceeded the amounts recovered and in 9% of the cases totalling £129,548.36 the recovery amount exceeded the advances. For these cases the ledger does not agree to the payroll system. We have concerns that insufficient reconciliation between the ledger and the payroll system is being performed (See appendix B for details of cases).</p> <p>Although the number of faster payments has dropped during the year in April 2016 158 faster payments were still made with a value of £86.9k. This level of faster payments is still rather high since Faster payments incur charges for each transaction. They also require more administration to ensure that they are recovered and administered correctly on the payroll system.</p>	Colin Airs/Rita Turner	31-Dec-16		Partially Complete	A	Serco have begun the process to identify all staff impacted and ensure issues are resolved.

<p>Payroll AUDIT</p>	<p>The pay advance process is owned by LCC. Serco will contribute to any review of this process.</p>	<p>7.2</p>	<p>Due to issues with system functionality in the first few months after implementation a large number of pay advances were made. Pay advances are made to employees by LCC Treasury Team via Faster payments. Payroll provide Treasury with a list of payments whenever advances are required. This payment method was only meant to be a temporary arrangement since it incurs charges for each transaction and increases the risk of error when entering details for payments. This system is however still in place at year end.</p> <p>In total 3102 pay advances were made in 2015/16 with a total value of £2m. We can confirm that 84% of these pay advances were recovered in full. However in 7% of cases totalling £97,281.59 the advances made exceeded the amounts recovered and in 9% of the cases totalling £129,548.36 the recovery amount exceeded the advances. For these cases the ledger does not agree to the payroll system. We have concerns that insufficient reconciliation between the ledger and the payroll system is being performed (See appendix B for details of cases).</p> <p>Although the number of faster payments has dropped during the year in April 2016 158 faster payments were still made with a value of £86.9k. This level of faster payments is still rather high since Faster payments incur charges for each transaction. They also require more administration to ensure that they are recovered and administered correctly on the payroll system.</p>	<p>LCC Finance / Colin Airs</p>	<p>31-Aug-16</p>	<p>TBC</p>	<p>Partially Complete</p>	<p>A</p>	<p>LCC have confirmed how they would like the pay advance process to be improved. Serco will now review this proposal and come back with a process for implementing.</p>
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<p>Payroll AUDIT</p>	<p>Council will monitor through operations group in July</p>	<p>7.3</p>	<p>Due to issues with system functionality in the first few months after implementation a large number of pay advances were made. Pay advances are made to employees by LCC Treasury Team via Faster payments. Payroll provide Treasury with a list of payments whenever advances are required. This payment method was only meant to be a temporary arrangement since it incurs charges for each transaction and increases the risk of error when entering details for payments. This system is however still in place at year end.</p> <p>In total 3102 pay advances were made in 2015/16 with a total value of £2m. We can confirm that 84% of these pay advances were recovered in full. However in 7% of cases totalling £97,281.59 the advances made exceeded the amounts recovered and in 9% of the cases totalling £129,548.36 the recovery amount exceeded the advances. For these cases the ledger does not agree to the payroll system. We have concerns that insufficient reconciliation between the ledger and the payroll system is being performed (See appendix B for details of cases).</p> <p>Although the number of faster payments has dropped during the year in April 2016 158 faster payments were still made with a value of £86.9k. This level of faster payments is still rather high since Faster payments incur charges for each transaction. They also require more administration to ensure that they are recovered and administered correctly on the payroll system.</p>	<p>Marie Robertson - Strategic PM Advisor</p>	<p>31-Jul-16</p>		<p>Partially Complete</p>	<p>A</p>	<p>13.09.16 Reporting not taking place and will be monitored through Service Review Meeting in September and then ongoing.</p>
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<p>Payroll AUDIT</p>	<p>Serco will implement a check as part of the checklist process to ensure that advanced recoveries are made prior to payroll sign off.</p>	<p>7.3</p>	<p>Due to issues with system functionality in the first few months after implementation a large number of pay advances were made. Pay advances are made to employees by LCC Treasury Team via Faster payments. Payroll provide Treasury with a list of payments whenever advances are required. This payment method was only meant to be a temporary arrangement since it incurs charges for each transaction and increases the risk of error when entering details for payments. This system is however still in place at year end.</p> <p>In total 3102 pay advances were made in 2015/16 with a total value of £2m. We can confirm that 84% of these pay advances were recovered in full. However in 7% of cases totalling £97,281.59 the advances made exceeded the amounts recovered and in 9% of the cases totalling £129,548.36 the recovery amount exceeded the advances. For these cases the ledger does not agree to the payroll system. We have concerns that insufficient reconciliation between the ledger and the payroll system is being performed (See appendix B for details of cases).</p> <p>Although the number of faster payments has dropped during the year in April 2016 158 faster payments were still made with a value of £86.9k. This level of faster payments is still rather high since Faster payments incur charges for each transaction. They also require more administration to ensure that they are recovered and administered correctly on the payroll system.</p>	<p>Colin Airs/Rita Turner</p>	<p>30-Sep-16</p>		<p>Completed</p>	<p>G</p>	<p>Tested in August and is now part of BAU checklist from September payroll onwards</p>
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Payroll AUDIT	This action forms part of the work programme for the Resources Team. The team will be processing all outstanding payroll issues relating to the 2015/16 Financial year	8	<p>We completed in December 2015 an analytical review of payments made from April to July 2015. We reviewed 908 payments and produced a list of 292 potential errors +/- £800 that did not appear to have been corrected.</p> <p>This review highlighted several potential error types, the most significant being:</p> <ul style="list-style-type: none"> - Statutory maternity - Statutory sick pay - incorrect mileage rates - negative net pay - advances not recovered - employees paid double their salary and - incorrect manual corrections. <p>This list of potential error cases was passed to payroll in January 2015 but we were disappointed to find that they have still not been reviewed at the year end.</p> <p>As part of this audit we performed some follow up work on a sample of 30 cases identified as having potential errors. This testing identified that 60% of these potential errors were in fact incorrect and resulted in an overpayment of £75k. Of this total £45k had been corrected through other reporting mechanisms but the remainder still need to be corrected to ensure payment, payroll and ledger entries are accurate.</p>	Colin Airs/Rita Turner	31-Dec-16		Not Implemented	A	The project for processing all outstanding payroll issues relating to the 2015/16 financial year is on track. The timescales are tight given the level of issues uncovered in PwC Audit.
Payroll AUDIT	<p>The Council will, as part of the performance report referred to in point 1 above, to the HR and Portfolio Board, request a regular update of the payroll establishment; audit of payroll knowledge and skills in line with industry standards; training and development plans; recruitment and retention plans; quality assurance processes and plans.</p> <p>It will be necessary to ensure that Serco are willing to disclose this information.</p>	9.1	<p>Our review of payments made during the year identified that in 23% of the cases tested overpayments occurred as a result of incorrect information processing or manual corrections being made.</p> <p>The volume of errors identified gives us concern over the knowledge and experience of the payroll staff especially since PWC are also likely to identify several complex cases which could potentially be wrong.</p> <p>During our audit there was and continues to be a high turnover of key payroll staff. This results in a loss of systems knowledge and expertise. Until new key staff have been appointed there remains uncertainty over the ability of the payroll team to satisfactorily correct any errors identified and provide assurance over future payroll accuracy.</p>	Marie Robertson - Strategic PM Advisor	30-Sep-16		Partially Complete	A	<p>Data will be shared on a monthly basis and discussed at the Service Review Meeting by exception. A skills and knowledge audit is being conducted by Colin Airs, Serco payroll manager CIPP payroll training is to be jointly run for Serco payroll team and LCC key representatives.</p> <p>05/09: CIPP training session held 5Sep</p>

Payroll AUDIT	<p>The Council will put in place immediate interim arrangements to address this issue, however this identifies a significant resource pressure for the Council's Client Team who are already working beyond full capacity. This level of expertise was not built into the structure when establishing the client team prior to commencing the Serco contract, and had not been in place when managing the Mouchel contract.</p> <p>The importance of strengthening this client role and ensuring a robust strategic overview in relation to the end to end payroll process is fully recognised, especially considering the financial and operational impact on both the Council and schools when the whole system does not operate effectively.</p>	9.2	<p>During our audit we identified a lack of payroll and pension expertise in the Council. Currently client expertise focusses on HR. Given the technical and complex nature of both payroll and pension it is important that the client understands the technical aspects to be able to undertake more informed contract management, oversight and monitoring.</p>	Colin Airs / Marie Robertson	26-Aug-16	30-Sep-16	Completed	G	initial CIPP session held 5Sep with Serco Payroll - invite for further session would be forward to Marie Robertson to attend
Payroll AUDIT	All cases have been identified. The Resources Team will ensure that any overpayments have been recovered as part of the recovery of overpayments process.	10.1	<p>We identified from our testing three system parameter issues:</p> <p>1) Mileage claims over 10,000 per annum are being paid at 45p per mile whereas they should only be paid at 25p for all mileage above 10000. There are 10 cases where the mileage is > 10000 - in all these cases therefore there is a potential overpayment. The system has been adjusted for March to take account of this fact but the overpayments have not yet been calculated or recovered.</p> <p>2) 1 expense claim the person worked part time yet was paid overtime all at 1.5 rate. Up to 37 hours threshold should have been paid at rate of 1 resulting in an overpayment.</p> <p>3) Discussion with staff identified that parameters could be switched on and off. We found that the upper limit mileage rate was initially entered on P&D codes but was then switched off by Serco. The Council should seek confirmation and assurance from Serco around its change control process over the payroll system, including how new P&D codes are processed or amended (Development - test- production).</p> <p>4) There remains a risk that excessive amounts could be claimed and not identified when manager authorise the claim.</p>	Colin Airs/Rita Turner	31-Dec-16		Partially Complete	A	Serco have begun the process to identify all staff impacted and ensure issues are resolved.

<p>Payroll AUDIT</p>	<p>Completed - this change has been tested, implemented and checked that it is working correctly</p>	<p>10.2</p>	<p>We identified from our testing three system parameter issues:</p> <p>1) Mileage claims over 10,000 per annum are being paid at 45p per mile whereas they should only be paid at 25p for all mileage above 10000. There are 10 cases where the mileage is > 10000 - in all these cases therefore there is a potential overpayment. The system has been adjusted for March to take account of this fact but the overpayments have not yet been calculated or recovered.</p> <p>2) 1 expense claim the person worked part time yet was paid overtime all at 1.5 rate. Up to 37 hours threshold should have been paid at rate of 1 resulting in an overpayment.</p> <p>3) Discussion with staff identified that parameters could be switched on and off. We found that the upper limit mileage rate was initially entered on P&D codes but was then switched off by Serco. The Council should seek confirmation and assurance from Serco around its change control process over the payroll system, including how new P&D codes are processed or amended (Development - test- production).</p> <p>4) There remains a risk that excessive amounts could be claimed and not identified when manager authorise the claim.</p>				<p>Completed</p>	<p>G</p>	
<p>Payroll AUDIT</p>	<p>This will be included as part of the communications plan.</p>	<p>10.3</p>	<p>We identified from our testing three system parameter issues:</p> <p>1) Mileage claims over 10,000 per annum are being paid at 45p per mile whereas they should only be paid at 25p for all mileage above 10000. There are 10 cases where the mileage is > 10000 - in all these cases therefore there is a potential overpayment. The system has been adjusted for March to take account of this fact but the overpayments have not yet been calculated or recovered.</p> <p>2) 1 expense claim the person worked part time yet was paid overtime all at 1.5 rate. Up to 37 hours threshold should have been paid at rate of 1 resulting in an overpayment.</p> <p>3) Discussion with staff identified that parameters could be switched on and off. We found that the upper limit mileage rate was initially entered on P&D codes but was then switched off by Serco. The Council should seek confirmation and assurance from Serco around its change control process over the payroll system, including how new P&D codes are processed or amended (Development - test- production).</p> <p>4) There remains a risk that excessive amounts could be claimed and not identified when manager authorise the claim.</p>	<p>Marie Robertson - Strategic PM Advisor</p>	<p>31-Jul-16</p>	<p>30-Nov-16</p>	<p>Partially Complete</p>	<p>A</p>	<p>Communications have been drafted and are in the process of being agreed.</p> <p>05/09: LCC to confirm status and any revised date</p>

<p>Payroll AUDIT</p>	<p>This is being reviewed as part of Agresso Rectification and a fix will be identified and implemented.</p>	<p>10.4</p>	<p>We identified from our testing three system parameter issues:</p> <p>1) Mileage claims over 10,000 per annum are being paid at 45p per mile whereas they should only be paid at 25p for all mileage above 10000. There are 10 cases where the mileage is > 10000 - in all these cases therefore there is a potential overpayment. The system has been adjusted for March to take account of this fact but the overpayments have not yet been calculated or recovered.</p> <p>2) In 1 expense claim the person worked part time yet was paid overtime all at 1.5 rate. Up to 37 hours threshold should have been paid at rate of 1 resulting in an overpayment.</p> <p>3) Discussion with staff identified that parameters could be switched on and off. We found that the upper limit mileage rate was initially entered on P&D codes but was then switched off by Serco. The Council should seek confirmation and assurance from Serco around its change control process over the payroll system, including how new P&D codes are processed or amended (Development - test- production).</p> <p>4) There remains a risk that excessive amounts could be claimed and not identified when manager authorise the claim.</p>	<p>Julie Jackson</p>	<p>31-Dec-16</p>		<p>Completed</p>	<p>G</p>	<p>10/08: Draft checklist underway for pilot in August. Will also be flagged in errors and exception report. 16/08: The Agresso Rectification Plan is on track, including addressing the mileage issue. 26/08: Mileage issue resolved in Agresso.</p>
<p>Payroll AUDIT</p>	<p>Payroll Check list will include exception reporting that covers flags on large amounts of overtime.</p>	<p>10.4</p>	<p>We identified from our testing three system parameter issues:</p> <p>1) Mileage claims over 10,000 per annum are being paid at 45p per mile whereas they should only be paid at 25p for all mileage above 10000. There are 10 cases where the mileage is > 10000 - in all these cases therefore there is a potential overpayment. The system has been adjusted for March to take account of this fact but the overpayments have not yet been calculated or recovered.</p> <p>2) In 1 expense claim the person worked part time yet was paid overtime all at 1.5 rate. Up to 37 hours threshold should have been paid at rate of 1 resulting in an overpayment.</p> <p>3) Discussion with staff identified that parameters could be switched on and off. We found that the upper limit mileage rate was initially entered on P&D codes but was then switched off by Serco. The Council should seek confirmation and assurance from Serco around its change control process over the payroll system, including how new P&D codes are processed or amended (Development - test- production).</p> <p>4) There remains a risk that excessive amounts could be claimed and not identified when manager authorise the claim.</p>	<p>Colin Airs/Rita Turner</p>	<p>31-Aug-16</p>	<p>30-Sep-16</p>	<p>Partially Complete</p>	<p>A</p>	<p>12/09: Partially completed, high/low report in place but further monitoring required. Will be using it again in September and then will become business as usual. 31/08: Mileage issue was resolved as part of Agresso stabilisation. Payroll ops confirm that high & low checking in place - clarification on tolerances to be closed out with Lcc</p>

Payroll AUDIT	System roles and levels have been defined on Agresso. These are currently being audited. A couple of changes are being made due to visibility to Payslips for Payroll officers then roles will be rolled out to the remaining of the teams.	11.1	<p>We identified from our testing three system access issues:</p> <p>1) There is still no enforced separation of duties within the Agresso payroll module as all payroll staff have the same standard payroll access. Separation of duties ensures that no one individual can complete a process from end to end and is designed to reduce the risk of fraud.</p> <p>2) From discussions with HR we identified that User ID is not automatically shut down when an employee leaves and therefore an employee could potentially still access the system once they have left.</p> <p>3) For school employees with positions at different schools there is a potential data protection issue since the bursar and head teacher have access to see all the information relating to the other positions held by the employee.</p>	Julie Jackson, Business Development Operations Manager	30-Aug-16	30-Sep-16	Partially Complete	A	12/09: Payroll Manager has identified the required levels of access for team. There are a couple of queries outstanding regarding additional access for some individuals. To be confirmed by end of week. 26/08: Roles set-up and tested. Payroll operations to confirm names in roles w/e 2Sep to then have roles implemented w/e 9Sep
Payroll AUDIT	Serco is reviewing starters and leavers process from end to end and will implement improvements as part of HR optimisation	11.2	<p>We identified from our testing three system access issues:</p> <p>1) There is still no enforced separation of duties within the Agresso payroll module as all payroll staff have the same standard payroll access. Separation of duties ensures that no one individual can complete a process from end to end and is designed to reduce the risk of fraud.</p> <p>2) From discussions with HR we identified that User ID is not automatically shut down when an employee leaves and therefore an employee could potentially still access the system once they have left.</p> <p>3) For school employees with positions at different schools there is a potential data protection issue since the bursar and head teacher have access to see all the information relating to the other positions held by the employee.</p>	G. Roberts/A Tierney	31-Dec-16		Not Implemented	G	This is part of the bigger optimisation project looking at the Employee Lifecycle, through starters, movers and leavers. A scoping document has been drafted. This project is on track.
Payroll AUDIT	System roles and levels have been defined on Agresso. A couple of changes are being made due to visibility to Payslips for Payroll officers then roles will be rolled out to the remaining of the teams	11.3	<p>We identified from our testing three system access issues:</p> <p>1) There is still no enforced separation of duties within the Agresso payroll module as all payroll staff have the same standard payroll access. Separation of duties ensures that no one individual can complete a process from end to end and is designed to reduce the risk of fraud.</p> <p>2) From discussions with HR we identified that User ID is not automatically shut down when an employee leaves and therefore an employee could potentially still access the system once they have left.</p> <p>3) For school employees with positions at different schools there is a potential data protection issue since the bursar and head teacher have access to see all the information relating to the other positions held by the employee.</p>	Julie Jackson, Business Development Operations Manager	30-Sep-16		Partially Complete	A	Roles set-up and tested. Payroll operations to confirm names in roles to then have roles implemented w/e 9Sep

Payroll AUDIT	Completed Pay-overs for last year are now correct and have been reconciled. BAU from April onwards	12a.1	<p>The Senior Control Officer has implemented processes to reconcile payroll to AP prior to payment over of statutory and voluntary deductions. At 31 March 2016 this did not include HMRC as issues remain with posting the correct entries to AP. The reconciliations between payroll and AP are being completed for the month being paid, this has not included review over the full year although we understand that this is being completed by Finance as part of closedown.</p> <p>It is essential that payroll and AP are fully reconciled for all deductions on an ongoing basis during the year to confirm payment and the authority's accounts are complete and accurate.</p> <p>At present we understand that although responsibility for payroll reconciliations is defined within the SCO's job description, he does not have view only access to AP or finance to be able to undertake this role.</p>	Russell Kidger, Senior Control Officer & Matt Dobson, HR/Payroll Consultant	31-Aug-16	30-Sep-16	Partially Complete	A	12/09: Review for last year - completed No HMRC issues. Submitting RTI in time on 22/09 when this action can then be completed. 10/08 - Access has been granted. Internal reconciliation will be undertaken.
Payroll AUDIT	This action relies on LCC to authorise this level of access. (Currently the SCO has to go through other officers to obtain the information)	12a.2	<p>The Senior Control Officer has implemented processes to reconcile payroll to AP prior to payment over of statutory and voluntary deductions. At 31 March 2016 this did not include HMRC as issues remain with posting the correct entries to AP. The reconciliations between payroll and AP are being completed for the month being paid, this has not included review over the full year although we understand that this is being completed by Finance as part of closedown.</p> <p>It is essential that payroll and AP are fully reconciled for all deductions on an ongoing basis during the year to confirm payment and the authority's accounts are complete and accurate.</p> <p>At present we understand that although responsibility for payroll reconciliations is defined within the SCO's job description, he does not have view only access to AP or finance to be able to undertake this role.</p>	Russell Kidger, Senior Control Officer & Matt Dobson, HR/Payroll Consultant	31-Jul-16		Completed	G	10/08 - Access has been provided for this purpose. Action now closed
Payroll AUDIT	LG - Completed FRS - Will be actioned when current submission problem is resolved. This process is in place	12b	<p>The systems set up since the Senior Control Officer came into post in December 2015 ensure that payover reports generated from payroll are reconciled to the payment made for the majority of third party payments. Evidence is retained to confirm this is the case.</p> <p>At March 2016 there remain two exceptions: Information on deductions is submitted to HMRC on the Real Time Information (RTI) Full Payment Summary (FPS) report each month. Whilst discussion indicated that the totals on this report had been checked to actual payment each month there is no evidence to confirm this.</p> <p>The Contributions reported submitted to West Yorkshire Pension Fund each month is not yet accurate and the SCO has not had the access to be able to reconcile. There are known discrepancies between the information on the report and pay-over due to the inclusion of non LGPS scheme members on the report.</p> <p>Reconciliation of reports to payment is essential to confirm accuracy and completeness.</p>	Russell Kidger, Senior Control Officer & Matt Dobson, HR/Payroll Consultant	31-Jul-16		Completed	G	10/08: HRMC has been balanced. We are aware of due and what has been submitted. RK in contact with HRMC. West Yorkshire Pension Fund payments have also been submitted. Action now closed.

Payroll AUDIT	This is being addressed in Agresso Rectification	13	From discussion with payroll staff we identified that some positions automatically have allowances. These allowances could be specific to an employee but when that employee leaves or moves positions those allowances remain with that "position". This could result in some new starters or "internal movers" receiving allowances to which they are not entitled.	Julie Jackson, Business Development Operations Manager	30-Sep-16		Partially Complete	A	26/08: Documented which ones are at risk and manual check will be in place by end Sep to capture any changes in employment (movers)
Payroll AUDIT	At year end Finance produced a list of all employees with a default salary code moved each case to the correct cost centre. They are now performing this review on a monthly basis. Also this issue will be monitored as part of the performance report	14	2 starters, 2 travel claims and 1 expense claim tested were found to use default (suspense) salary codes They were still on these codes at year end. The budget centres for these cases are therefore being understated.	Marie Robertson - Strategic PM Advisor	30-Sep-16		Partially Complete	A	MR to confirm format of report and how it will be monitored with Serco.
Payroll AUDIT	The Payroll Manager will undertake a review of this issue.	15	From reviewing payslips we noted several cases where a manual correction was made which should have overridden the system adjustment. However the system appears to ignore the manual adjustment and makes the same adjustment in the following month. This issue seems to have been more of a problem in April to July15. We were unable to obtain an explanation why the system performs this "override" action when a manual correction was made. In the majority of cases where we identified this occurrence it resulted in an overpayment and therefore this issue increases the risk of overpayments occurring.	Colin Airs/Rita Turner	30-Sep-16		Partially Complete	A	10/08: Error reason has been identified and system configuration is required and this has been raised with the Agresso Project Team to assist with resolution. There is a workaround in place ahead of system configuration.
Pension AUDIT	A new payroll manager has been appointed with significant experience of operating and optimising large complex payrolls. He will start on 11th July.	1.1	The types and level of errors identified in our testing of contributions raises concerns around the knowledge and experience of payroll staff and particularly the understanding of pension schemes. 59% of the errors detected were due to incorrect information processing or manual corrections being made. We also have concerns around Serco's capacity to address the issues identified, which will be supplemented by feedback from PWC analytical work and the internal pension contribution checking that we understand has been initiated by the Project Team.	Abi Tierney	31-Jul-16		Completed	G	31/08: Colin Airs and Rita Turner are in post
Pension AUDIT	A pension expert is being identified to support the improvements.	1.2	The types and level of errors identified in our testing of contributions raises concerns around the knowledge and experience of payroll staff and particularly the understanding of pension schemes. 59% of the errors detected were due to incorrect information	Colin Airs	31-Aug-16		Completed	G	31/08: New pension expert recruited and started with the Serco team 22Aug
Pension AUDIT	A skills assessment will be completed of the team and a training plan implemented to address any gaps.	1.3	The types and level of errors identified in our testing of contributions raises concerns around the knowledge and experience of payroll staff and particularly the understanding of pension schemes. 59% of the errors detected were due to incorrect information	Colin Airs	30-Sep-16		Partially Complete	A	
Pension AUDIT	Instructions and check lists on how to update pensions will be developed to ensure any issues or gaps are picked up and corrected before they become an error.	1.4	The types and level of errors identified in our testing of contributions raises concerns around the knowledge and experience of payroll staff and particularly the understanding of pension schemes. 59% of the errors detected were due to incorrect information	Colin Airs	31-Aug-16	30-Sep-16	Partially Complete	A	12/09: To be covered in training session with Sharron. Date TBC but will due during September. 31/08: New checklists have been produced and are in use by the teams. The new pension expert will continue to verify and quality assure during September

Pension AUDIT	Update all employee records with opt out data and eligibility criteria, and look at all the people who we know don't have a pension scheme in to ensure they are updated.	1.5	The types and level of errors identified in our testing of contributions raises concerns around the knowledge and experience of payroll staff and particularly the understanding of pension schemes. 59% of the errors detected were due to incorrect information	Colin Airs	30-Sep-16		Partially Complete	A	26/08: ongoing review and should complete by end Sep
Pension AUDIT	If pension scheme is mandatory scheme in the record, once data has been cleansed, then we will have an exceptions report for anyone who does not have a pension deduction.	1.6	The types and level of errors identified in our testing of contributions raises concerns around the knowledge and experience of payroll staff and particularly the understanding of pension schemes. 59% of the errors detected were due to incorrect information	Colin Airs	31-Oct-16		Partially Complete	A	As part of the errors and warning report anyone without a pension deduction will be flagged.
Pension AUDIT	As part of a performance report to the Recovery Board and the HR and Payroll Portfolio Board, request a regular update of the payroll establishment; audit of payroll knowledge and skills in line with industry standards; training and development plans; recruitment and retention plans; quality assurance processes and plans.	1.7	The types and level of errors identified in our testing of contributions raises concerns around the knowledge and experience of payroll staff and particularly the understanding of pension schemes. 59% of the errors detected were due to incorrect information	Vicki Sharpe	30-Sep-16		Partially Complete	A	Serco will share Skills Matrix when completed, as well as forward training plan.
Pension AUDIT	The Council will develop a tracker system and progress will be monitored via the monthly Operational Group chaired by the Council's HR Service Delivery Lead.	1.8	The types and level of errors identified in our testing of contributions raises concerns around the knowledge and experience of payroll staff and particularly the understanding of pension schemes. 59% of the errors detected were due to incorrect information	Vicki Sharpe	31-Aug-16		Completed	G	31/08: Tracker in place
Pension AUDIT	A performance report will be requested from Serco which will be a standard agenda item on the HR & Payroll Portfolio Board and the Recovery Board	1.9	The types and level of errors identified in our testing of contributions raises concerns around the knowledge and experience of payroll staff and particularly the understanding of pension schemes. 59% of the errors detected were due to incorrect information	Vicki Sharpe	30-Sep-16		Partially Complete	A	A performance report will be provided to the Service Review Meeting from September onwards.
Pension AUDIT	The Council will put in place immediate interim arrangements to address this issue.	2.1	There is a lack of payroll and pension expertise in the Council – currently client expertise focusses on HR. Given the technical and complex nature of both payroll and pensions it is important that the client understands the technical aspects to be able to undertake more informed contract management oversight and monitoring.	Fiona Thompson	30-Sep-16		Completed	G	Vicki Sharpe is now the designated LCC contract lead for Pensions
Pension AUDIT	The Council will ensure that the lead client role for pensions provides a strategic overview on the review of Payroll Operational delivery to ensure that the end to end pensions' process is fit for purpose.	2.2	There is a lack of payroll and pension expertise in the Council – currently client expertise focusses on HR. Given the technical and complex nature of both payroll and pensions it is important that the client understands the technical aspects to be able to undertake more informed contract management oversight and monitoring.	Fiona Thompson	30-Sep-16		Completed	G	Marie Robertson is now the designated LCC lead for Payroll
Pension AUDIT	Pension reports have been written by the Agresso Team. There is a new team of 8 people in place and they will use these reports to complete a root and branch review of all pensions to ensure that every employee has had the correct deductions since April 2015.	3.1	During the year a number of employees have ceased paying pension contributions when they have not opted out of pension schemes. Review indicates that this a process issue and occurs when an employee has a change of Position entered onto Agresso and a pension scheme is not entered onto the system. As a result employees have been overpaid, and more significantly there is a risk that pensionable service is reduced. It is unclear whether all these cases have been identified (although we have highlighted this issue to PWC for inclusion in their data analytics work).	Colin Airs	31-Oct-16		Partially Complete	A	12/09 Reports have been completed by Agresso Team. This work is being continued by the Pension Team with PWC.

Pension AUDIT	There is ongoing liaison with the Pension Authorities and this will continue throughout the process. As and when corrections are made these will be fed over to the relevant Pension Administrators.	3.2	During the year a number of employees have ceased paying pension contributions when they have not opted out of pension schemes. Review indicates that this a process issue and occurs when an employee has a change of Position entered onto Agresso and a pension scheme is not entered onto the system. As a result employees have been overpaid, and more significantly there is a risk that pensionable service is reduced. It is unclear whether all these cases have been identified (although we have highlighted this issue to PWC for inclusion in their data analytics work).	Colin Airs	30-Sep-16		Partially Complete	A	12/9 Pilot successful at 31/08 Will be repeated in September and then become business as usual.
Pension AUDIT	Payroll team, supported by pension team will run monthly variance reports from the payment proposals to check and compare month on month any missing contributions.	3.3	During the year a number of employees have ceased paying pension contributions when they have not opted out of pension schemes. Review indicates that this a process issue and occurs when an employee has a change of Position entered onto Agresso and a pension scheme is not entered onto the system. As a result employees have been overpaid, and more significantly there is a risk that pensionable service is reduced. It is unclear whether all these cases have been identified (although we have highlighted this issue to PWC for inclusion in their data analytics work).	Colin Airs	30-Sep-16		Partially Complete	A	Pilot 31/08 and will be repeated in September and then become business as usual.
Pension AUDIT	Agresso team have provided reports to undertake reconciliation exercise incorporating e.g. schemes, EE's and ER's payments etc There is a new team of 8 people in place and they will use these reports to complete a root and branch review and full reconciliation of all pensions to ensure that every employee has had the correct deductions since April 2015.	4.1	Pension contributions have not been deducted on payments of SSP to employees during 2015/16. We understand that this is due to missing information in the 'workaround' needed for sickness processing. Our testing also highlighted that pension contributions were not taken on SMP for the period April to June and we have identified employees in receipt of SPP in August that have not paid contributions on the amount received. Employers' contributions have not been deducted on these payments. Failure to take contributions and treat this pay as pensionable will reduce Pensionable Pay notified to WYPF for members of the LGPS impacting on the annual contribution to the CARE pension. This issue also affects the tax paid by an employee during the year and impacts on the contributions received by Pension	Colin Airs	31-Oct-16		Partially Complete	A	Work ongoing with PwC to review the contributions and the P&D codes.
Pension AUDIT	Currently workaround is being applied within the system – As part of rectification Agresso project will be working on the solution for SSP and SMP.	4.2	Pension contributions have not been deducted on payments of SSP to employees during 2015/16. We understand that this is due to missing information in the 'workaround' needed for sickness processing. Our testing also highlighted that pension contributions were not taken on SMP for the period April to June and we have identified employees in receipt of SPP in August that have not paid contributions on the amount received. Employers' contributions have not been deducted on these payments. Failure to take contributions and treat this pay as pensionable will reduce Pensionable Pay notified to WYPF for members of the LGPS impacting on the annual contribution to the CARE pension. This issue also affects the tax paid by an employee during the year and impacts on the contributions received by Pension	Julie Jackson	30-Sep-16		Partially Complete	A	05/09: Agresso testing has concluded and the fix is now in the live environment ready for running of Absence Transfer

Pension AUDIT	Serco is following agreed policies for recovering overpayments and making up under payments. Serco is also liaising with pension authorities in complex cases to ensure these are resolved in line with legislation.	4.3	<p>Pension contributions have not been deducted on payments of SSP to employees during 2015/16. We understand that this is due to missing information in the 'workaround' needed for sickness processing.</p> <p>Our testing also highlighted that pension contributions were not taken on SMP for the period April to June and we have identified employees in receipt of SPP in August that have not paid contributions on the amount received.</p> <p>Employers' contributions have not been deducted on these payments.</p> <p>Failure to take contributions and treat this pay as pensionable will reduce Pensionable Pay notified to WYPF for members of the LGPS impacting on the annual contribution to the CARE pension. This issue also affects the tax paid by an employee during the year and impacts on the contributions received by Pension</p>	Colin Airs	Ongoing		Partially Complete	A	Ongoing liason with Pension Authorities.
Pension AUDIT	LCC People Management will monitor the management of the recovery of overpayments by Serco. Those cases caused by under payment of pensions contributions, will be reported to Vicki Sharpe to oversee that errors/queries are responded to on an individual basis, and all requirements for repayment plans agreed within the required timescales.	4.4	<p>Pension contributions have not been deducted on payments of SSP to employees during 2015/16. We understand that this is due to missing information in the 'workaround' needed for sickness processing.</p> <p>Our testing also highlighted that pension contributions were not taken on SMP for the period April to June and we have identified employees in receipt of SPP in August that have not paid contributions on the amount received.</p> <p>Employers' contributions have not been deducted on these payments.</p> <p>Failure to take contributions and treat this pay as pensionable will reduce Pensionable Pay notified to WYPF for members of the LGPS impacting on the annual contribution to the CARE pension. This issue also affects the tax paid by an employee during the year and impacts on the contributions received by Pension</p>	Sue Fletcher Vicki Sharpe	ongoing		Partially Complete	A	Monitoring will be ongoing.
Pension AUDIT	Agresso team will produce a report of P&D codes to support pension calculations and consistency across groups.	5.1	Our testing identified a P&D code (First Aid on the SC payroll) where the main deduction code is set up as non-pensionable but the arrears and adjustment P&D codes were pensionable. This inconsistency is clearly incorrect.	Julie Jackson	30-Sep-16		Partially Complete	A	12/09 Discission to take place 13/9 Meeting with LJ this week. Codes have been provided. Review now need to be completed.
Pension AUDIT	Agresso team in agreement with LCC will be reviewing payslips and incorporating potential changes e.g. allowances, expenses etc.	6.1	Payslips do not display the percentage at which employee pension contributions are being deducted. This makes it difficult to confirm that rates applied are correct and that any change in rate during the year is appropriate.	Julie Jackson	30-Sep-16		Partially Complete	A	Payslip workshop with LCC w/c 12Sep to confirm change requirements to then allow confirmation of plan dates to complete the system changes
Pension AUDIT	All reconciliation of Pension payovers to payroll and reports have been completed. The LGPS was completed in April, which was within the designated timescale.	7.1	<p>Reconciliation of Pension payovers to payroll and reports was not undertaken until October 2015. The appointment of the Senior Control Officer has addressed this in all cases but the LGPS (at March 2016 – due to issues with the Contribution Report).</p> <p>Our reconciliation of pension P&D codes for LGPS, Teachers', NHS and Prudential AVCs to payments made identified only small discrepancies over the year for the 2 main schemes. LGPS was underpaid by £1559.67 (0.005% of total deductions) and Teachers' Pensions was overpaid by £3945.70 (0.02% of total deductions).</p> <p>Payments for NHS and Prudential reconciled to what had been paid by employees and employer.</p>	Completed			Completed	G	

Pension AUDIT	Payroll team, supported by pension team will run monthly variance reports from the payment proposals to check and compare month on month any missing contributions.	7.2	Reconciliation of Pension payovers to payroll and reports was not undertaken until October 2015. The appointment of the Senior Control Officer has addressed this in all cases but the LGPS (at March 2016 – due to issues with the Contribution Report). Our reconciliation of pension P&D codes for LGPS, Teachers', NHS and Prudential AVCs to payments made identified only small discrepancies over the year for the 2 main schemes. LGPS was underpaid by £1559.67 (0.005% of total deductions) and Teachers' Pensions was overpaid by £3945.70 (0.02% of total deductions). Payments for NHS and Prudential reconciled to what had been paid by employees and employer.	Colin Airs	30-Sep-16		Monitor	A	05/09: Action is to be tracked against ref 3.3 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	LCC discretionary policies were formally agreed in 2014 and documented. These are still valid. Vicki Sharpe to work with WYPF to raise awareness for staff on how pension bandings are allocated.	8.1	Discussion during the audit indicated that there was an understanding that the pension band allocated within the LGPS was based on salary as 1 April plus additional pensionable payments made in the previous 12 months. This was the approach taken in 2015/16 - we are aware of employees whose salary changed at 1 April 2015 and as a result the pension band was increased / decreased accordingly. When the approach to be taken for 2016/17 was queried by Serco, WYPF were able to highlight the 2014 Discretionary Policy which states that pension bands should be based on the previous 12 months pensionable pay. This approach has therefore been applied for 2016/17. Given the different approaches in the 2 years under the same policy there is a risk that members may query / complain about the rate at which pension is deducted - particularly for those where under the 2015/16 method the deduction would have decreased.	Vicki Sharpe	30-Sep-16		Partially Complete	A	WYPF are now clear about the discretionary policies which were agreed in 2014 and these have not changed. The communication for staff is better timed nearer to April 2017. VS is meeting with WYPF to agree this communication.
Pension AUDIT	Agresso team have provided reports to undertake reconciliation exercise incorporating e.g. schemes, EE's and ER's payments etc. There is a new team of 8 people in place and they will use these reports to complete a root and branch review and full reconciliation of all pensions to ensure that every employee has had the correct deductions since April 2015.	9.1	The pension band to be applied to the pay of an employee in the Local Government Pension scheme is determined by an entry on their payroll record known as the Expected Pensionable Pay (P7EP). Our testing identified examples where this entry was missing. This often occurred when there has been a change to the employee's Position. As a result, Agresso defaults to making deductions at the lowest contribution band rather than the rate that should apply based on pensionable pay. Whilst this does not affect the pension accruing for the individual, the LGPS scheme regulations are not being correctly applied and there will be an impact on the Pension Fund as contributions are reduced.	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 4.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	Payroll team, supported by pension team will run monthly variance reports from the payment proposals to check any changes from the April 2016 rate.	9.2	The pension band to be applied to the pay of an employee in the Local Government Pension scheme is determined by an entry on their payroll record known as the Expected Pensionable Pay (P7EP). Our testing identified examples where this entry was missing. This often occurred when there has been a change to the employee's Position. As a result, Agresso defaults to making deductions at the lowest contribution band rather than the rate that should apply based on pensionable pay. Whilst this does not affect the pension accruing for the individual, the LGPS scheme regulations are not being correctly applied and there will be an impact on the Pension Fund as contributions are reduced.	Colin Airs	30-Sep-16		Monitor	A	05/09: Action is to be tracked against ref 3.3 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also

Pension AUDIT	Agresso team have provided reports to undertake reconciliation exercises incorporating e.g. schemes, EE's and ER's payments etc. There is a new team of 8 people in place and they will use these reports to complete a root and branch review and full reconciliation of all pensions to ensure that every employee has had the correct deductions since April 2015.	10.1	Testing on the Corporate payroll identified that in April and May 2015 employer's contributions had not been deducted on variable payments such as additional hours. Underpayment of contributions to the LG Pension Fund may impact on the actuarial review and result in increased employers' rates.	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 4.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	Agresso team have provided reports to undertake reconciliation exerciser incorporating e.g. schemes, EE's and ER's payments etc. There is a new team of 8 people in place and they will use these reports to complete a root and branch review and full reconciliation of all pensions to ensure that every employee has had the correct deductions since April 2015.	11.1	The employer contributions for the 50:50 LGPS scheme have been based on double the actual monthly pensionable pay during 2015/16. This appears to be due to system configuration rather than process error. Employee contributions were paid at lower rates and are based on actual pensionable pay. LCC has overpaid the Pension Fund for these employees.	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 4.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	Agresso team have provided reports to undertake reconciliation exercises incorporating e.g. schemes, EE's and ER's payments etc There is a new team of 8 people in place and they will use these reports to complete a root and branch review and full reconciliation of all pensions to ensure that every employee has had the correct deductions since April 2015.	12.1	Review of a sample of employees contributing to the Corporate 100% LGPS pension scheme identified errors in 54% (27 out of 50). The majority relate to non-deduction of pension contributions on SSP, SMP and SPP. We also identified employees where: <input checked="" type="checkbox"/> a change resulted in contributions falling to 5.5% <input checked="" type="checkbox"/> new part time employees overpaid contributions as they were allocated to a band at the full time equivalent <input checked="" type="checkbox"/> starters paid initially paid contributions at 5.5% (up to June) rather than the band appropriate to their starting salary <input checked="" type="checkbox"/> employer's contributions had not been deducted when arrears of employee's contribution were taken The errors identified were highlighted to Serco at the beginning of February but had not been corrected at the end of March 2016.	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 4.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	Payroll teams implement a workaround to manually input pension contributions on SSP on a monthly basis whilst fix is confirmed Position number	12.2	Review of a sample of employees contributing to the Corporate 100% LGPS pension scheme identified errors in 54% (27 out of 50). The majority relate to non-deduction of pension contributions on SSP, SMP and SPP. We also identified employees where: <input checked="" type="checkbox"/> a change resulted in contributions falling to 5.5% <input checked="" type="checkbox"/> new part time employees overpaid contributions as they were allocated to a band at the full time equivalent <input checked="" type="checkbox"/> starters paid initially paid contributions at 5.5% (up to June) rather than the band appropriate to their starting salary <input checked="" type="checkbox"/> employer's contributions had not been deducted when arrears of employee's contribution were taken The errors identified were highlighted to Serco at the beginning of February but had not been corrected at the end of March 2016.	Colin Airs	31-Jul-16		Completed	G	This has been completed and was done in July and August and will continue.

Pension AUDIT	Monthly check to ensure appropriate EE and ER adjustments are completed.	12.3	<p>Review of a sample of employees contributing to the Corporate 100% LGPS pension scheme identified errors in 54% (27 out of 50). The majority relate to non-deduction of pension contributions on SSP, SMP and SPP. We also identified employees where:</p> <ul style="list-style-type: none"> ☒ a change resulted in contributions falling to 5.5% ☒ new part time employees overpaid contributions as they were allocated to a band at the full time equivalent ☒ starters paid initially paid contributions at 5.5% (up to June) rather than the band appropriate to their starting salary ☒ employer's contributions had not been deducted when arrears of employee's contribution were taken <p>The errors identified were highlighted to Serco at the beginning of February but had not been corrected at the end of March 2016.</p>	Colin Airs	31-Oct-16		Partially Complete	A	Part of the monthly check list.
Pension AUDIT	<p>Agresso team have provided reports to undertake reconciliation exercises incorporating e.g. schemes, EE's and ER's payments etc</p> <p>There is a new team of 8 people in place and they will use these reports to complete a root and branch review and full reconciliation of all pensions to ensure that every employee has had the correct deductions since April 2015.</p>	13.1	<p>35% (17 out of 50) of our sample LGPS members from the Schools payroll had errors in either the employee or employer pension deducted (or both). In addition to the expected errors for employees with SSP and doubled employers deductions for the 50:50 scheme, we found:</p> <ul style="list-style-type: none"> ☒ an employee where pension was deducted in error against First Aid arrears or adjustments but not from the First Aid P&D code ☒ a delay of 2 months in taking Teachers' Pension deductions when an employee started an additional job ☒ employees allocated to the incorrect pension band based on their starting salary ☒ an incorrect split of pension contributions between the LGPS and Teachers' Pension scheme for an employee paid additional hours in 2 jobs ☒ 5 employees with one-off calculation errors on either employee or employer contributions during the year 	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 4.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	Operations teams to ensure pensions' set up is correct start date	13.2	<p>35% (17 out of 50) of our sample LGPS members from the Schools payroll had errors in either the employee or employer pension deducted (or both). In addition to the expected errors for employees with SSP and doubled employers deductions for the 50:50 scheme, we found:</p> <ul style="list-style-type: none"> ☒ an employee where pension was deducted in error against First Aid arrears or adjustments but not from the First Aid P&D code ☒ a delay of 2 months in taking Teachers' Pension deductions when an employee started an additional job ☒ employees allocated to the incorrect pension band based on their starting salary ☒ an incorrect split of pension contributions between the LGPS and Teachers' Pension scheme for an employee paid additional hours in 2 jobs ☒ 5 employees with one-off calculation errors on either employee or employer contributions during the year 	Colin Airs	30-Sep-16		Partially Complete	A	Being completed as part of the review of pensions.

Pension AUDIT	Agresso team have provided reports to undertake reconciliation exercises incorporating e.g. schemes, EE's and ER's payments etc There is a new team of 8 people in place and they will use these reports to complete a root and branch review and full reconciliation of all pensions to ensure that every employee has had the correct deductions since April 2015.	14.1	Investigation of LGPS 100% employer's contributions for April 2015 identified 18 employees where the deduction was excessive (the largest value being £11,271). We estimate that this has resulted in an overpayment of almost £70k by LCC to the Pension Fund.	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 4.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	Agresso team have provided reports to undertake reconciliation exercises incorporating e.g. schemes, EE's and ER's payments etc There is a new team of 8 people in place and they will use these reports to complete a root and branch review and full reconciliation of all pensions to ensure that every employee has had the correct deductions since April 2015.	15.1	In June 2015 the LGPS 100% employer's deduction on the Corporate payroll was double what it should have been. This was adjusted in August 2015 but our data analysis identified 175 employees where a deduction was made in June but there was no refund in August. Whilst review identified some of these as leavers between the 2 dates others were not. In all cases a refund should have been processed to correct the payments between LCC and the LGPS Pension Fund. On those identified the overpayment by LCC to the LGPS is estimated at £90k.	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 4.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	Reports have been provided to the resources operational team for analysis of the bandings. The resources operations team will use these reports to complete a root and branch review and full reconciliation of all pensions to ensure that every employee has had the correct deductions since April 2015.	16.1	We sampled some employee records on the Corporate payroll to confirm the LGPS pension contribution band applied corresponded to previous year's pensionable pay. This identified apparent discrepancies - particularly employees paying at a higher band than would be expected. This generally corresponded to a higher rate of deduction being made on SAP. If incorrect bands are applied, LCC is not complying with scheme regulations and the Pension Fund is not receiving the appropriate contributions. The bands have been reviewed and revised from 1 April 2016 based on the previous year's pensionable pay held in Agresso. A sample review identified that the figure for Expected Pensionable Pay was as expected for the majority tested. There were differences on 2 records examined but this was not significant enough to make the % applied incorrect.	Colin Airs	31-Oct-16		Partially Complete	A	05/09: Action is to be tracked against ref 4.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	Vicki Sharpe to oversee that errors/queries relating to incorrect bandings are responded to on an individual basis, corrected where needed and all requirements for repayment plans agreed within the required timescales	16.2	We sampled some employee records on the Corporate payroll to confirm the LGPS pension contribution band applied corresponded to previous year's pensionable pay. This identified apparent discrepancies - particularly employees paying at a higher band than would be expected. This generally corresponded to a higher rate of deduction being made on SAP. If incorrect bands are applied, LCC is not complying with scheme regulations and the Pension Fund is not receiving the appropriate contributions. The bands have been reviewed and revised from 1 April 2016 based on the previous year's pensionable pay held in Agresso. A sample review identified that the figure for Expected Pensionable Pay was as expected for the majority tested. There were differences on 2 records examined but this was not significant enough to make the % applied incorrect.	Vicki Sharpe /Pensions payroll team	Ongoing		Partially Complete	A	This will be done my the monthly review meeting between VS and Pensions.

Pension AUDIT	As part of the root and branch review, the resources team will also make corrections to pension and personnel records.	17.1	Discussions with the Payroll Pensions team determined that they use payslips and payment transaction reports to collate the information to pass to WYPF for calculation of pension estimates and pension payments. During 2015/16 this has relied heavily on the information from SAP, but as time progresses more information will be drawn from Agresso. Given the errors / overpayments since April 2015 and that these have not all been revised on the system we are concerned that there is a risk that incorrect information may be used for pension calculations.	Colin Airs	31-Oct-16		Partially Complete	A	Being completed as part of the review of pensions.
Pension AUDIT	There will be monthly checks in place pick up any discrepancies.	17.2	Discussions with the Payroll Pensions team determined that they use payslips and payment transaction reports to collate the information to pass to WYPF for calculation of pension estimates and pension payments. During 2015/16 this has relied heavily on the information from SAP, but as time progresses more information will be drawn from Agresso. Given the errors / overpayments since April 2015 and that these have not all been revised on the system we are concerned that there is a risk that incorrect information may be used for pension calculations.	Colin Airs	31-Oct-16		Partially Complete	A	Checklist in Place for August and will be tested again in September and then be business as usual.
Pension AUDIT	Any adjustments made as a result of review will also be communicated to pension authorities.	17.3	Discussions with the Payroll Pensions team determined that they use payslips and payment transaction reports to collate the information to pass to WYPF for calculation of pension estimates and pension payments. During 2015/16 this has relied heavily on the information from SAP, but as time progresses more information will be drawn from Agresso. Given the errors / overpayments since April 2015 and that these have not all been revised on the system we are concerned that there is a risk that incorrect information may be used for pension calculations.	Colin Airs	Ongoing		Partially Complete	A	Being done as errors are found.
Pension AUDIT	Where figures are being sent to pension administrators a manual assessment of the entire record is completed, issues are noted and further updates to pension administrators are provided when applicable.	17.4	Discussions with the Payroll Pensions team determined that they use payslips and payment transaction reports to collate the information to pass to WYPF for calculation of pension estimates and pension payments. During 2015/16 this has relied heavily on the information from SAP, but as time progresses more information will be drawn from Agresso. Given the errors / overpayments since April 2015 and that these have not all been revised on the system we are concerned that there is a risk that incorrect information may be used for pension calculations.	Colin Airs	Ongoing		Partially Complete	A	Being done as errors are found.

Pension AUDIT	Through regular monitoring meetings, the LCC Client will require regular highlight reports to ensure audit of detailed records to demonstrate how errors have been corrected and to be able to deal with Pensions / pay queries in future years.	17.5	Discussions with the Payroll Pensions team determined that they use payslips and payment transaction reports to collate the information to pass to WYPF for calculation of pension estimates and pension payments. During 2015/16 this has relied heavily on the information from SAP, but as time progresses more information will be drawn from Agresso. Given the errors / overpayments since April 2015 and that these have not all been revised on the system we are concerned that there is a risk that incorrect information may be used for pension calculations.	Vicki Sharpe	Ongoing		Partially Complete	A	This will be done my the monthly review meeting between VS and Pensions.
Pension AUDIT	Serco will review the guidance from Teachers' Pensions and seek advice as necessary to confirm the correct rules and make amendments to system configuration as required	18.1	From April 2015 employees in the Teachers' Pension scheme pay contributions at a percentage band derived from their monthly pay rather than the FTE as had previously been the case. As a result the % paid can vary from month to month. Teachers' Pensions have provided guidance on how to calculate the monthly pay (and therefore the % band to apply) in various circumstances such as: ☑ reduction in pay due to sickness and maternity leave ☑ backdated payment of arrears ☑ treatment of individual teaching contracts Based on our interpretation of guidance these rules are not being applied within Agresso. As a result changes in the % deducted are occurring where we do not believe this should be the case. Employees will either be under or over paying contributions.	Colin Airs	30-Sep-16		Partially Complete	A	Information confirmed on what the correct rules across the various Teacher pension schemes should be and investigation ongoing into what changes could be required to the system config
Pension AUDIT	Agresso team will investigate this issue during rectification to establish what was built within the system for Teachers Pension.	18.2	From April 2015 employees in the Teachers' Pension scheme pay contributions at a percentage band derived from their monthly pay rather than the FTE as had previously been the case. As a result the % paid can vary from month to month. Teachers' Pensions have provided guidance on how to calculate the monthly pay (and therefore the % band to apply) in various circumstances such as: ☑ reduction in pay due to sickness and maternity leave ☑ backdated payment of arrears ☑ treatment of individual teaching contracts Based on our interpretation of guidance these rules are not being applied within Agresso. As a result changes in the % deducted are occurring where we do not believe this should be the case. Employees will either be under or over paying contributions.	Julie Jackson	30-Sep-16		Completed	G	Agresso team have concluded investigation and produced a report on Teachers pensions and the underlying system build and issues encountered since go live.
Pension AUDIT	This task will be completed as part of the root and branch review of all pensions. Serco will liaise with Teachers Pensions to agree how these will be recovered.	19.1	Our testing on new teachers set up on Agresso between April and October 2015 identified that for 60% (12 out of 20) contributions had not been deducted for the first month or 2 months. This is a process issue where the scheme has not added to the employee's record on appointment. No backdated adjustments have been made when the employees have been brought into the scheme later in the year.	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 17.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also

Pension AUDIT	This task will be completed as part of the root and branch review of all pensions.	20.1	In our sample of 30 teachers who had transferred from SAP we found 9 errors in pension payments (30%). Our testing identified issues with 15 of the 20 employees who started with schools since April 2015 (75%). In addition to the expected errors already identified within this report we found: ☒ 2 employees paid more than full pay when off sick ☒ unpaid leave had not been deducted before calculating pension due for the month ☒ a teacher with multiple positions as a swimming instructor that has 2 different conditions of service (and pension scheme) applied	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 17.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	Serco have created a report of all new starters from April 2015 – March 2016 and this has been sent to TPS.	21.1	When we completed our discussions to identify how starters, changes and leavers were notified to Teachers' Pensions we identified there was no clear process in place and there was backlog. In March we were told that the backlog had been addressed but we have not confirmed this. Changes in staff on the Schools' Team raises a concern that further backlogs may occur in processing notifications.	Completed			Completed	G	
Pension AUDIT	For leavers, Serco has added them to the Year-end submission which was submitted on 6th July.	21.2	When we completed our discussions to identify how starters, changes and leavers were notified to Teachers' Pensions we identified there was no clear process in place and there was backlog. In March we were told that the backlog had been addressed but we have not confirmed this. Changes in staff on the Schools' Team raises a concern that further backlogs may occur in processing notifications.	Completed			Completed	G	
Pension AUDIT	Serco are up to date on the retirement notifications and can confirm there is no back log.	21.3	When we completed our discussions to identify how starters, changes and leavers were notified to Teachers' Pensions we identified there was no clear process in place and there was backlog. In March we were told that the backlog had been addressed but we have not confirmed this. Changes in staff on the Schools' Team raises a concern that further backlogs may occur in processing notifications.	Completed			Completed	G	
Pension AUDIT	For 15/16 all leavers are going to be on the year end submission. And from July onwards Serco are doing monthly starters and leavers lists and sharing these with Pension Authorities and NHS.	21.4	When we completed our discussions to identify how starters, changes and leavers were notified to Teachers' Pensions we identified there was no clear process in place and there was backlog. In March we were told that the backlog had been addressed but we have not confirmed this. Changes in staff on the Schools' Team raises a concern that further backlogs may occur in processing notifications.	Colin Airs	31-Jul-16	30-Sep-16	Partially Complete	A	12/09: Submitted annual return for TP. On track to ensure all Starters/Leavers for Frie/TPF/NHS since April16 are submitted YE done LGPS monthly report being done, VC doing fire still not looked at TP Aim 30Sep to be up and running back to Apr 16
Pension AUDIT	Completing monthly starters and leavers reports for Pension Administrators.	21.5	When we completed our discussions to identify how starters, changes and leavers were notified to Teachers' Pensions we identified there was no clear process in place and there was backlog. In March we were told that the backlog had been addressed but we have not confirmed this. Changes in staff on the Schools' Team raises a concern that further backlogs may occur in processing notifications.	Pensions Team	31-Oct-16		Partially Complete	A	12/09: Submitted annual return for TP. On track to ensure all Starters/Leavers for Frie/TPF/NHS since April16 are submitted YE done LGPS monthly report being done, VC doing fire still not looked at TP Aim 30Sep to be up and running back to Apr 16

Pension AUDIT	Work with schools to encourage teachers to register and use Tponline to keep TPS up to date with all changes.	21.6	When we completed our discussions to identify how starters, changes and leavers were notified to Teachers' Pensions we identified there was no clear process in place and there was backlog. In March we were told that the backlog had been addressed but we have not confirmed this. Changes in staff on the Schools' Team raises a concern that further backlogs may occur in processing notifications.	Pensions Team	30-Sep-16		Partially Complete	G	Messages to encourage teachers to use Tponline will be included in the schools comms w/c 12Sep
Pension AUDIT	Agresso team have provided report to the resourcing operational team to complete root and branch review.	22.1	Review of a sample of employees contributing to the NHS pension schemes identified errors in 60% (6 out of 10) records reviewed. The majority have occurred where there has been a change to the employee's Position, resulting in failure to take deductions (particularly employers') or a reduction to the lowest rate of 5%. Errors also included: <input checked="" type="checkbox"/> deducting LGPS contributions rather than NHS for 2 months of the year <input checked="" type="checkbox"/> taking deductions on part of a month's pay rather than the full month <input checked="" type="checkbox"/> applying a higher band than appropriate being for 3 months of the year We identified other errors in our sample that had been corrected by the end of March but the records of these employees had not.	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 16.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also
Pension AUDIT	Agresso team have provided report to the resourcing operational team to complete root and branch review	23.1	Employer's contributions were deducted at 14% rather than 14.3% until December 2015, and for 7 employees deductions for part of the year were based on double the actual monthly pensionable pay. Whilst corrections were made in March 2016, the calculation of employer's refund has not taken into account other errors that have occurred on employer's pension for some employees during the year.	Colin Airs	31-Oct-16		Monitor	A	05/09: Action is to be tracked against ref 16.1 as same action addresses both findings. Status set to monitor and outcome will be checked to confirm closes out concern on this element also

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Appendix B

Response to Payroll and Pension Audits

4th August 2016

Fiona Thompson
Abi Tierney

Agenda:

- 1) Background and Overview
- 2) Progress since Audit Reports Received
- 3) Project Plan
- 4) Improvements
- 5) Next Steps
- 6) Council Summary

Background:

- Payroll has been one of the most problematic systems with ongoing system design issues and high error rates following 'go-live'.
- The audit fieldwork was completed in May 2016
- PwC were also appointed by SERCO as consultants in quarter 4 to carry out a review of payroll
- Through a combination of reviews by Serco, LCC Internal Audit and PwC we have identified a number of key issues relating to the payroll since the Serco contract commenced in April 2015
- Actions to urgently resolve these issues have been consolidated into one project plan, with all the high priority actions from the audits to be implemented by the end of October 2016.

Progress since draft reports received in June:

- Serco has already implemented a number of actions which have led to improvements since this audit was completed. These include:
 - Investment in two experienced and skilled payroll managers.
 - Robust check list for running payroll along with improved errors and warning reports
 - The first training session with the Chartered Institute for Payroll Professionals has taken place, and the feedback was very positive on the skills level of the team.
 - Reference sheets to capture all the local pay and conditions.
 - A redesigned starters form to increase the mandatory fields and reduce free text to reduce the margin for error.
 - Investing in Payroll Software (QTAC) to improve the accuracy of manual calculations.

	Completed	Partially Completed	Monitor	Not implemented	Green	Amber	Red
Initial Payroll Audit	5	4	3		5	7	
Payroll Audit	12	22	3	12	12	27	6
Pensions Audit	9	26	13	5	9	38	5
Total	26	52	16	17	27	67	11*

- All actions assigned due for 30th September are either complete or partially complete (because further work was identified during the completing the action)

Next Steps:

- Implement all actions
- There is a weekly meeting to monitor all actions
- Evidence is also being collected to demonstrate that the actions are being implemented
- Complete PwC review and implement any further actions identified through this process
- Serco internally monitor improvements through KPIs and SLAs, but also through spot checks and reviews
- LCC monitor that actions are being implemented in a timely and effective manner

Council Summary:

- The Client Team is satisfied that good progress is being made against all actions to ensure improvements in the Agresso system and associated administrative processes to improve the performance of payroll
- The Client Team continues to be directly involved in many of the projects and has strategic oversight of the review of the end to end payroll and pensions processes.
- There are immediate improvements in Serco's governance arrangements for performance, risk management and controls
- The Client Team has also implemented increased governance arrangements as planned

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Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	26 September 2016
Subject:	Review of Audit & Inspection Financial Procedure 7 & Internal Audit Charter

Summary:

One of the key roles of the Audit Committee is to ensure that the Council has effective audit arrangements in place.

There are two key policy documents to support this activity:

- 1 Financial Procedure 7 - Audit and Inspection, and
- 2 Internal Audit Charter.

This report presents the Committee with the revised documents - taking into account the recently updated UK Public Sector Internal Audit Standards and Accounts and Audit Regulations 2015.

Recommendation(s):

That the Committee:

- 1 Considers and approves the revised Audit & Inspection Financial Procedure 7 (subject to any changes it wishes to be made) and:
- 2 Considers and comments on the draft Internal Audit Charter prior to wider consultation and approval by the Corporate Management Team.

Background

Financial Procedure 7 – Audit and Inspection

This procedure forms part of the Financial Regulations and procedures in the Constitution of the Council. It aims to inform officers and members of the mandatory requirements and provide guidance on good practice in the roles of internal and external audit and other inspection regimes.

The revised draft has taken into account the revised UK Public Sector Internal Audit Standards which were published in April 2016 and in the Accounts and Audit

Regulations 2015. A copy of revised Financial Procedure 7 – Audit and Inspection is attached in Appendix A.

In discharging its role of having oversight of the Council's audit arrangements the Committee are asked to consider and approve the content ensuring that includes the areas it wishes to be **mandatory elements** and key areas of best practice.

Track changes has been used to help identify where the procedure has been amended

Internal Audit Charter

The Internal Audit Charter is a key document setting out the nature, role, responsibilities and authority of the Internal Audit Service within the Council.

It has been updated to ensure conformance with the revised UK Public Sector Internal Audit Standards – published in April 2016

As one of the Committee's roles is the oversight and monitoring of the effectiveness of Internal Audit Service the draft Charter is being presented to enable the opportunity to note and comment on the content before wider consultation.

The draft Charter is attached in Appendix B

Conclusion

Audit and Inspection forms a key component of the Council's governance framework and assurance arrangements. The Audit & Inspection Financial Procedure and Internal Audit Charter will strengthen our policy and procedures in this area.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Financial Procedure 7 - Audit & Inspection

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
UK Public Sector Internal Audit Standards	Internet
Accoutns and Audit Regulations 2015	Internet

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

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FINANCIAL PROCEDURE 7

AUDIT AND INSPECTION

This Procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council.

1. Principles Covered

1.1 The Audit and Inspection areas covered in this procedure include:

- Provision of Internal Audit
- Co-operation with other Agencies
- External audit
- Other inspection regimes
- National Fraud Initiative
- Voluntary Funds

2. Reference Documents

2.1 Reference to the following documents may be required:

County Council Constitution :	David O'Conner <u>Richard Wills</u> – Executive Director and Monitoring Officer
Internal Audit Charter	Lucy Pledge – Head of Audit and Risk Management
Public Sector Internal Audit Standards – 2012	Lucy Pledge – Head of Audit and Risk Management
External & Internal Audit Joint Working Protocol	Lucy Pledge – Head of Audit and Risk Management

3. Contacts for Advice

3.1 Lincolnshire County Council	David Forbes – <u>County Finance Officer</u> Assistant Director – Finance and Resources
	Lucy Pledge – Head of Audit and Risk Management

4. Purpose of the Procedure

4.1 To inform officers of mandatory requirements, including those embodied in the County Council's Constitution and to provide guidance on principles of best practice.

- 4.2 To highlight the roles of internal and external audit and the responsibility of officers to these and other inspection regimes.
- 4.3 **Mandatory elements of the Financial Procedure are printed in bold type. Departures from the mandatory elements cannot be granted.** The Executive Director – Finance & Public Protection of Resources and Community Safety has statutory duties for the financial administration and stewardship of the Council which cannot be overridden.

These statutory duties include:

- setting and monitoring compliance with corporate standards;
- advising on the key financial controls necessary to secure sound financial management.

Other parts of this Procedure represent best practice and provide guidance.

- 4.4 It is recognised that in a continually changing environment there may be a need for flexibility. In certain instances a departure from the guidance may be appropriate.
- 4.5 There should be a convincing need for any such departures and **any departures from the guidance must be agreed with the Executive Director – Finance and Public Protection of Resources and Community Safety in writing.**

5. Provision of Internal Audit

- 5.1 The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities:

- make arrangements for the proper administration of their financial affairs.
- nominate one officer to take responsibility for the administration of those affairs.

- 5.2 The Section 151 officer has a number of statutory duties, including the duty to report any unlawful financial activity involving the authority (past, present or proposed) or failure to set or keep to a balanced budget. The Section 151 officer also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.

The Executive Director – Finance and Public Protection of Resources and Community Safety has been delegated this responsibility by the Council.

- 5.3 The Accounts and Audit Regulations 2015⁵¹, more specifically require that the Council (as a relevant body) must:

- undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance
 - ensure any officer or member of the Council for the purpose of internal audit:
 - make available such documents and records; and
 - supply such information and explanations;
- as considered necessary by those conducting the internal audit.

- must each year:
 - conduct a review of the effectiveness of the system of internal control
 - prepare an Annual Governance Statement
 - approve the Annual Governance Statement through the Audit Committee
- ~~undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices for internal control.~~
- ~~conduct a review, at least once in a year, of the effectiveness of its system of internal control.~~
- ~~at least once in a year, conduct a review of the effectiveness of its internal audit.~~
- ~~approve an annual governance statement, prepared in accordance with proper practices for internal control.~~

Purpose, Authority and Responsibility of Internal Audit

5.4 Definition of Internal Auditing – an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes

~~5.5 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It examines, evaluates and reports on the adequacy of governance, risk and internal control as a contribution to the proper, economic, efficient and effective use of resources.~~

5.56 An internal audit providers mission is to:

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight to our clients

5.7 Within Lincolnshire County Council, these duties are undertaken by the Audit & Risk Management Service, headed by the ~~Head of~~ Audit and Risk Management (The Head of Internal Audit).

Key Controls

The key controls for Internal Audit are:

- It is independent in its planning and operation with internal auditors performing their work objectively.
- That the purpose, authority and responsibility of internal audit is set out in an Internal Audit Charter which has been approved by the Corporate Management Board and Audit Committee.
- An Internal Audit strategy that sets out the basis of internal audit activity and how the head of internal audit will provide an annual internal audit opinion on the Council's framework of governance, risk management and control.
- The ~~Head of~~ Audit and Risk Management direct access to the Executive Director – ~~Resources and Community Safety~~ Finance & Public Protection, all levels of management and to all elected members.
- The Head of Audit and Risk Management must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.
- Benchmark against CIPFA Statement on the Role of the Head of Internal Audit.
- Internal Auditors must conform to the Code of Ethics set out in the Public Sector Internal Audit Standards.
- Internal auditors comply with the Public Sector Internal Audit Standards.
- The ~~Head of~~ Audit and Risk ~~Management~~ Manager must develop and maintain a quality assurance framework and improvement programme that covers all aspects of the internal audit activity. Ensuring general conformance with the Public Sector Internal Audit Standards, including the Definition of Internal Audit, Code of Ethics, Core Principles and Standards of Practice.
- Executive Director – ~~Resources and Community Safety~~ Finance and Public Protection ensures the Council has an adequately resourced and effective ~~Counter Fraud and~~ Internal Audit service.
- The Council's Audit Committee monitors Council's policies and considers the effectiveness the Whistleblowing and Counter Fraud & Corruption arrangements.
- **The Council's Audit Committee monitors the effectiveness of the internal audit process, including its independence, objectivity, performance, and professionalism. Follow this link for the terms of reference of the Audit Committee (insert link).**
- Senior Management must consider and respond promptly to recommendations in audit reports – attending the Audit Committee if requested.

Responsibilities of the Executive Director of ~~Resources and Community Safety~~ Finance and Public Protection

5.68 The ~~Executive Director of Finance and Public Protection~~ ~~Director of Resources and Community Safety~~ is responsible for ensuring that internal auditors have the necessary authority to undertake their duties. This includes giving the authority to:

- Access ~~council~~ Council premises at all reasonable times.
- Access all assets, records, documents, correspondence and control systems.
- Receive any information and explanation considered necessary concerning any matter under review.
- Require any employee of the ~~council~~ Council to account for cash, stores or any other Authority asset under his or her control.
- Access records belonging to third parties, such as contractors, when required.
- Directly access the Council's Executive Directors, Executive and Audit Committee.
- To approve and report as necessary the audit plans prepared by the ~~Head of Audit and Risk~~ Management Manager in accordance with Council priorities and agreed ~~Internal Audit Strategy~~ risk assessment methodology.
- To ensure the effective procedures are in place to investigate promptly any fraud or irregularity. (See also Financial Procedure 6 Risk Management).

Responsibilities of Executive Directors

5.79 Management are responsible for managing the risks facing their service and to maintain an adequate and effective system of internal control to increase the likelihood that established objectives and goals will be achieved. They also plan, organise and direct the performance of sufficient actions to provide a reasonable level of assurance that objectives and goals will be achieved. They are the key assurance provider in the Council's assurance framework.

5.810 Executive Directors are responsible for:

- Maintaining an adequate and effective system of internal control.
- Ensuring that staff are aware of the processes and procedures required to operate the control systems.
- Commenting on and inputting to, the audit plan and activities.
- Agree (but not direct) the Terms of Reference for each audit assignment to ensure attention is focused on areas of greatest risk or concern to enable the most effective audit coverage and minimise duplication.
- To notify Audit of any major changes in order that time can be allocated within the audit plan.
- To ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
- To ensure the auditors are provided with any information and explanations that they seek in the course of their work.
- To consider and respond promptly to recommendations in audit reports.
- To ensure that any agreed action arising from audit recommendations are carried out in a timely and efficient fashion.

- To notify the ~~Head of~~ **Audit and Risk Management** immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the authority's property or resources. Pending investigation and reporting, the Executive Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.
- To ensure that potential irregularities remain confidential and to determine what action should be taken as a result of an investigation

Co-operation with other Agencies

5.911 The Internal Audit section work in conjunction with the Council's External Auditors, ~~under a "Managed Audit" arrangement.~~ The External Auditor seeks to place reliance on the work of Internal Audit where this is relevant to their work, particularly when appraising the controls operated by management over financial systems. This arrangement makes the best use of the combined audit resources and helps reduce any unnecessary overlap of audit effort.

5.4012 Internal Audit also co-operate with other agencies in undertaking reviews (e.g. HM Revenue and Customs)

6. Provision of External Audit

6.1 **The Local Audit and Accountability Act 2014 make the Comptroller and Auditor General responsible for the preparation and maintenance of the code of Audit Practice (the Code) – with day to day operation via the National Audit Office.**

6.2 **External Auditors responsibilities are set out in the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice appointed by the Public Sector Appointments Ltd must comply with the Code.**

6.3 **The External Auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."**

6.4 ~~The Code of Audit Practice~~ summaries External Audit responsibilities into two objectives, requiring External Audit to review and report on the Council's:

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

- 6.1 The ~~authority's~~ Council's accounts are examined by ~~external~~ External auditors Auditors, who must be satisfied that the statement of accounts 'true and fair view' of the financial position of the authority and its income and expenditure for the year in question and complies with the legal requirements.

As part of this work external audit will consider:

- ~~The~~ the adequacy of measures taken by the ~~council~~ Council to limit the possibility of fraud and corrupt practice.
- ~~The~~ the key risks affecting the Council's financial statements.
- ~~The~~ the significant qualitative aspects of the Council's accounting practices and financial reporting.
- ~~Assess~~ the Council's process for preparing the accounts and its support for an efficient audit.
- the Annual Governance Statement – confirming that it complies with Delivering Good Governance in Local Government – A Framework published by CIPFA/SOLACE. Ensuring that the Statement is not misleading or inconsistent with other information from the audit of the financial statements.
- whether the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. Taking into account their knowledge of the relevant local sector as a whole, and the Council specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the Council's arrangements

- 6.2 The responsibility for ensuring completion, accuracy and completeness of grant claims lies with the ~~council~~ Council. Government departments usually require independent examination as a condition of their acceptance of claims or returns. In such circumstances the ~~Head of~~ Audit and Risk Management provides independent certification of the claim.

Key Controls

- ~~External~~ External Auditors are appointed by the ~~Audit Commission~~ Public Sector Audit Appointments Ltd - normally for a minimum period of five years.
- ~~The~~ Audit Commission National Audit Office prepares a ~~code~~ Code of audit Audit practice Practice, which external auditors must follow when carrying out their audits.
- The Council's Audit Committee reviews the Council's annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statement or the audit that need to be brought to the attention of the Council.
- The Council's Audit Committee monitors the effectiveness of the external audit process, including its independence and performance. It specifically considers the external auditors annual Audit Letter, relevant reports and the report to those charged with governance. Follow this link for the terms of reference of the Audit Committee (insert link).

6.3 Responsibilities of the Executive Director of ~~Resources and Community Safety~~Finance and Public Protection

- **To ensure that external auditors are given access at all reasonable times to premises, personnel, documents, and assets that the external auditors consider necessary for the purposes of their work.**
- To ensure there is effective liaison between external audit and internal audit
- To work with the ~~external~~External auditor-Auditor and advise the ~~Full~~ Council, Executive and Executive Directors on their responsibilities ~~in~~ relation to external audit.
- To ensure that effective processes are in place to produce a complete set of ~~draft~~ accounts – meeting required deadlines.
- **To ensure that the Annual Governance Statement is considered and approved with the statement of accounts.**
- **To ensure that appropriate accounting practices in place and complied with.**
- **Determine the form of the Council's accounting records and -the Council's financial control systems including:**
 - a) measures to :**
 - **ensure that financial transactions are recorded as soon as, and as accurately as, reasonably practical**
 - **enable the prevention and the detection of inaccuracies and fraud, and the reconstruacion of any lost records**
 - **to ensure risk is appropriately managed**
 - b) identification of the duties of officers dealing with financial transactions and division of responsibilities of those officers.**
- **Ensure that the Council has a sound system of Internal Control which:**
 - a) facilitates the effective exercise of it's functions and the achievement of its aims and objectives**
 - b) ensures that financial and operational management of the Council is effective; and**
 - a)c) includes effective arrangements for the management of risk (see Financial Procedure 6 – Risk Management)**

6.4 Responsibilities of Executive Directors

- To ensure that external auditors are given access at all reasonable times to premises, personnel, documents, and assets that the external auditors consider necessary for the purposes of their work.
- To ensure that all records and systems are up to date and available for inspection.

7. Other Inspection Regimes

7.1 There are a number of inspection bodies with statutory duty to monitor and review the services of Local Authorities. In addition the Authority may also be subject to audit or investigation by such bodies as the HM Revenue and Customs, who have statutory rights of access.

7.2 Responsibilities of Executive Directors

- To ensure officers remain up to date with legislation and regulations relating to inspection of their service.
- To ensure records and systems are up to date and available for inspection.
- To ensure that inspectors are given access at all reasonable times to premises, personnel, documents and assets that the inspectors consider necessary for the purposes of their work.
- To ensure that inspectors are provided with any information and explanations that they seek in the course of their work.
- To consider and respond promptly to inspection reports.
- To ensure any agreed actions arising from the inspection are carried out in a timely and efficient manner.

8. National Fraud Initiative (NFI)

8.1 The NFI is the ~~Audit Commission's Cabinet Office~~ data matching exercise that is designed to help participating bodies to detect fraudulent and erroneous payments from the public purse. ~~It began in 1996, and now runs every two years. The core of NFI is the matching of data to help reduce the level of housing benefit fraud, occupational pension fraud and tenancy fraud.~~

8.2 ~~The Audit Commission has~~ Local Audit and Accountability Act 2014 ~~requires Council's designated NFI to be part of the statutory external audit and authorities are legally obliged to provide the relevant data, which is required under Section 6 of the Audit Commission Act 1998 to support the NFI process.~~

9. Voluntary Funds (School and Amenity Funds)

9.1 Voluntary funds are in the main operated within schools and Social Services establishments. They are for the benefit of the service users, e.g. pupils or Social Service users.

They are any fund which although not officially owned by the ~~Authority Council~~ is controlled or administered solely or in part by an employee by reason of his or her employment by the Authority or by a school Governing body. ~~Some of the funds such as those in prime account schools may be shown as part of the Authority's accounts.~~

- 9.2 It is important to recognise the difference between school and amenity funds and the funds of outside bodies e.g. Parent Teachers Associations, Friends of the establishment. Such bodies are separate entities and have funds which are administered separately by their own rules and membership.

Key Controls

- Declaration to the County Council, and in the case of schools Governors, by the Head of the establishment of the existence of the fund, the annual balances on the fund and confirmation they have been audited.
- Maintenance of a single comprehensive fund which reflects all the activities of the fund.
- **Appointment of an independent, competent auditor to provide an annual audit of the fund. The audit should be carried out in line with the Charity Commission requirement if the fund is so registered. Independence is the freedom of conditions that threaten the ability of the auditor to carry out their responsibilities in an unbiased manner. Auditors must be impartial and avoid any conflicts of interest.**
- Adequate accounting records and evidence to support transactions should be maintained as would be expected for the County Council accounts.
- Adequate security of all assets relating to the fund.
- **To notify the ~~Head of~~ Audit and Risk Management immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the fund.**

- 9.3 Responsibilities of the Executive Director ~~of Resources and Community Safety~~ Finance and Public Protection

- To provide advice where required on the operation of voluntary funds.

- 9.4 Responsibilities of Executive Directors

- To ensure officers operating the funds receive adequate detailed guidance.
- To monitor the existence of funds and that the annual audit has been undertaken and appropriately reported.

INTERNAL AUDIT CHARTER

CONTROL

Owner/ Policy Lead Officer:	Head Audit & Risk Management <u>Manager</u>
Location:	Orchard House, County Offices, Lincoln, <u>LN1 1YG</u>
Consultation:	<u>Executive</u> Director – <u>Finance and Public Protection</u> of Resources & Community Safety / Audit Committee
Date:	October 2013 <u>November 2013</u>
Review Arrangements:	Annual (as required – by (Owner/Policy Lead Officer, Director of Resources & Community Safety / Audit Committee) <u>As Required</u>

The purpose of this charter is to set the nature, role, responsibilities and authority of the Internal Audit service within Lincolnshire County Council (the Council).

Purpose of Internal Audit

Definition of Internal Auditing – an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. ~~Internal Audit provides an independent assurance and consulting activity designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes.~~ A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised through the UK public sector Internal Audit Standards (PSIAS).

As an internal audit provider our mission is to:

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight to our clients

As our primary objective is to provide independent and objective assurance on critical activities and key risks - we play a key part in the Council's overall assurance arrangements which are designed to ensure that its governance, risk and control frameworks are working.

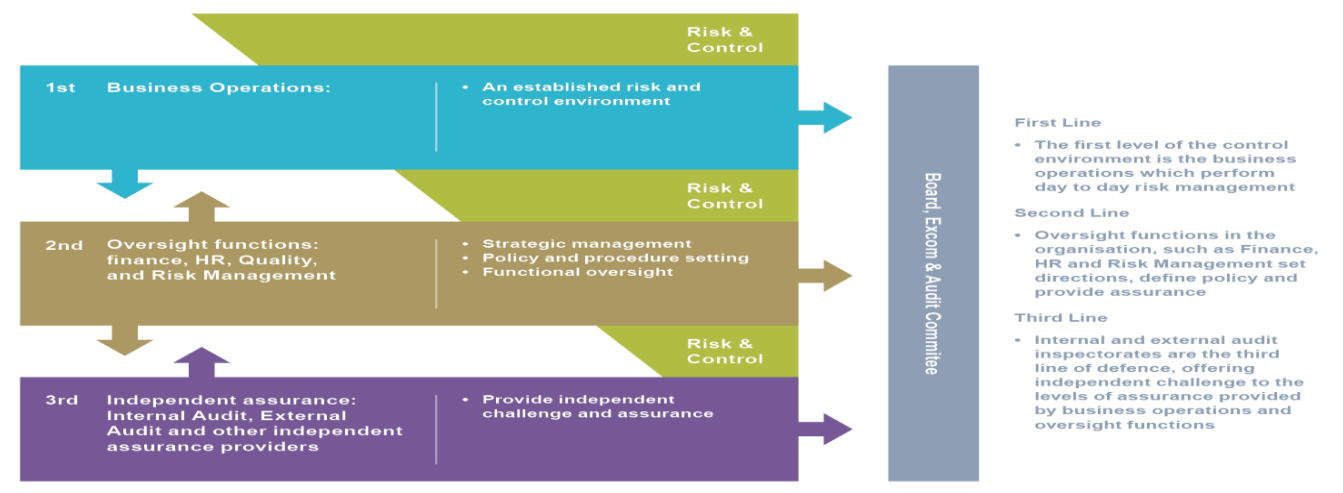
Our aim is to align our work with other assurance functions. We may seek to place reliance on, or use the work of others where we have confidence in the work carried out.

~~This helps us — seeking to look at different ways of leveraging assurance to help us to~~ maximise the best use of the Internal Audit resource and other assurance functions in the Council.

We continue to have the right to conduct our own assurance activity freely and independently to fulfil our role and remit. However, if we need to provide assurance through our work plans then the reasons will be clearly understood by the Management Board and Audit Committee.

The assurance arrangements for the Council include:

Figure 1 – Three Lines of Assurance



Internal Audit objectively examines, evaluates and reports on the adequacy of the governance, risk and control environment as a contribution to the proper, economic, efficient and effective use of resources. Specifically we provide assurance to:

- Support the Executive Director - ~~Resources & Community Safety~~ **Finance & Public Protection** to help him to discharge his responsibilities Statutory Officer of the Council (S151 of the Local Government Act 1972 relating to the proper administration of the Council's financial affairs).
- Support the Monitoring Officer to help maintain an effective governance framework for the Council.
- Provide appropriate inputs and opinions to support the development of the Annual Governance Statement.
- Contribute to and support the Council's Business Plan objectives and performance framework.
- Support management to understand its exposure to risks and advise on risk management principles/methods and appropriate controls / contingencies to manage risks.
- Operate the Whistleblowing arrangements.
- Provide resources to implement the Council's counter fraud policy and for the investigation of fraud and irregularities.

Scope of Internal Audit

Internal Audit has unrestricted right of access to all Council activities which includes all records, information, resources and assets deemed necessary to fulfil our responsibilities.

Internal Audit may enter Council property and have unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Authority Council or where contractual arrangements exist should be set out in conditions of funding and contract.

The Head of Internal Audit and Risk Management has direct access to all levels of management, all employees and to all elected members and particularly to those charged with governance ie the Chairmen of the Audit Committee, the Chief Executive, the Executive Director – Performance and Governance Environment & Economy (Monitoring Officer), the Executive Director - Finance & Public Protection Resources & Community Safety (Section 151 Officer).

Independence is achieved through the organisational status of Audit & Risk Management and the objectivity of Internal Auditors. Internal Audit provides objective assessment and advice and seeks to be free from operational systems involvement or influence. All Council and contractor staff in Internal Audit are required to make an annual declaration of interest so that any potential conflicts of interest are appropriately managed.

The Council's Internal Audit function is provided by an in house team which operates as part of Assurance Lincolnshire. Assurance Lincolnshire¹ is a collaborative working partnership where we operate common working practices, pool / share resources where can and share good practice.

The Council has We are an integrated assurance function for the Council with the Head of Audit and Risk Management Manager operationally responsible for internal audit, counter fraud, risk management, health and safety and insurance functions. External Assurance is sought on these functions- overseen by the Assistant Director – Finance and Resources County Finance Officer.

Internal Audit complies with the policies of the Council including the staff code of conduct which requires all staff to act with honesty, integrity impartiality and objectivity and in an environment where all its employees are treated with dignity and respect.

Authority of Internal Audit

The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs'.

¹ Assurance Lincolnshire is collaboration between – Lincolnshire County Council, City of Lincoln, East Lindsey District Council and Leicester City Council.

The Accounts and Audit Regulations ~~2014~~2015, more specifically require that the Council (as a relevant body) must:

- ~~undertake an~~ effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. ~~adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices for internal control.~~
 - ~~conduct a review, at least once in a year of the effectiveness of its internal audit and or a committee to consider the findings of that review. The Council's Audit Committee undertakes this responsibility.~~
 - ensure any officer or member of the Council for the purpose of internal audit:
 - make available such documents and records; and
 - supply such information and explanations;
- as considered necessary by those conducting the internal audit.

Audit & Risk Management seeks to meet the standards laid down by professional bodies and in particular the Public Sector Internal Audit Standards. These standards set the basic principles for carrying out internal audit in the public sector and provide quality criteria against which quality and performance can be evaluated. Policies and practice guidance have been put in place to ensure all staff understand and comply with these ~~standards~~Standards.

The provision of Internal Audit is the responsibility of the Council; this responsibility has been formally delegated to the Executive Director – ~~Resources & Community Saf~~Finance and Public Protection. Financial procedure 7 – Audit and Inspections informs officers of the mandatory requirements and provides guidance on best practice.

Responsibilities of Management

The effective operations of the Council's governance, risk and control processes are the direct responsibility of Senior Management. ~~(Management Board (Executive Directors), Assistant Directors and Head of Service)~~. For the purposes of the UK Public Sector Internal Audit Standards – Senior Management are the Corporate Management Board.

Management are responsible for managing the risks facing their service and to maintain an adequate and effective system of internal control to increase the likelihood that established objectives and goals will be achieved. They also plan, organise and direct the performance of sufficient actions to provide a reasonable level of assurance that objectives and goals will be achieved. They are the key assurance provider in the Council's assurance framework.

They are also responsible for ensuring staff are aware of and comply with the policies, processes and procedures required to operate these control systems.

Executive Director – ~~Resources and Community Safety~~ Finance and Public Protection ensures the Council has an adequately resourced and effective Counter Fraud and Internal Audit service.

Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence. A key relationship is with Management and staff. Management at all levels need complete confidence in the integrity, independence and capability of Internal Audit. Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives.

Management can assist the process of Internal Audit by:

Commenting on and inputting to, the audit plan and activities. Agree **(but not direct)** the Terms of Reference for each audit assignment to ensure attention is focused on areas of greatest risk or concern to enable the most effective audit coverage and minimise duplication.

Audit work, especially its timing, should be planned in conjunction with management to minimise abortive work and time unless, for example this jeopardises the 'challenge' aspect of internal audit work or where an unannounced visit is deemed necessary.

Giving information and explanations that are sought in the course of audit work

Providing access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.

Early notification of plans for change, including new operational systems and processes.

Considering and responding promptly to recommendations in audit reports.

Ensuring that agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

Notifying the Head of Audit and Risk Management immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources.

Pending investigation and reporting, the Executive Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

Management can assist the process of Internal Audit by:

Internal Audit Service and Context

The ~~Head of~~ Audit and Risk ~~Management Manager~~ is required to manage the provision of a complete audit service to the Council. This includes:

Service Area	Specific Responsibilities
<p>Audit</p>	<p>The Head of Audit and Risk Management Manager is required to provide an annual opinion on the effectiveness of the Council’s governance, risk and control framework to the Council and Executive Director – Resources and Community Finance & Public Protection Safety. To help achieve this Internal Audit will:</p> <ul style="list-style-type: none"> • Prepare an audit and risk strategy showing how the internal audit service will be delivered – focussing on the critical activities and key risks facing the Council and leveraging assurance for other assurance providers where we can. • Prepare a risk based plan designed to implement the audit strategy in consultation with senior management and taking into account the adequacy and outcomes of the Authority’s combined assurance framework. This plan is approved by the Executive Director – Finance & Public Protection Resources & Community Safety and the Audit Committee. The audit plan will be regarded as flexible rather than as an absolute expression of audit policy/coverage. This will enable the audit plan to be able to reflect changing risks and priorities. • Internal Auditors agree the terms of reference for an audit assignment in consultation with management. This helps to confirm the objectives of the activity and agree the scope and focus of the audit assurance being given. • Ensure that appropriate links are developed and maintained with the Council's risk management function – evaluating and contributing to the improvement of risk management in the Council. • Providing resources required to deliver the audit strategy

Service Area	Specific Responsibilities
	<p>and annual plan. A workforce strategy exists, which reflects the required roles, qualifications, competencies, skills experience and personal attributes necessary to deliver the service. This strategy includes the flexibility to engage external consultants to support the delivery of the annual audit plan thereby accessing expertise for specialist audit areas and addressing any capacity issues that may arise.</p>
<p>Counter Fraud</p>	<p>The Council will actively seek to deter and prevent fraud, corruption and theft to ensure that all possible risks in these areas are minimised. Where fraud, corruption or theft is suspected or detected it will be thoroughly investigated and any proven fraud dealt with in a consistent and proportionate manner.</p> <p>The National Fraud Initiative is the Audit Commission's Cabinet Office data matching exercise that is designed to help participating bodies to detect fraudulent and erroneous payments from the public purse. Internal Audit co-ordinates the Council's involvement in this initiative.</p> <p>Internal Audit provides resources to implement the counter fraud policy and for the investigation of fraud, irregularities and the operation of the Council's whistleblowing arrangements.</p> <p>Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors should, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that a fraud or corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Managing the risk of fraud and corruption is the responsibility of management.</p>
<p>Corporate Complaints Policy – Stage 2</p>	<p>A complaint occurs when someone feels that the County Council has failed to do something that it should have done, or has done something badly or when they feel that they have been unfairly treated.</p> <p>If the complainant is not satisfied with the response from the Service area then they can ask for the complaint to go to the next stage – the complaint will then be referred to an Executive Director or Assistant Director. The complaint or part of the complaint may require independent investigation. Corporate Audit provides resources for the investigation of</p>

Service Area	Specific Responsibilities
	Stage 2 complaint referrals, if required.
Good Governance	<p>Our internal audit activity is designed to improve the governance, risk and control processes of the Council. The outcome of our work is reported in regular progress reports and an annual report to Senior Management and the Audit Committee – these all help inform the Council's Annual Governance statement.</p> <p><u>As part of our risk based Internal Audit Plan we periodically review the Council's governance framework – benchmarking it against good practice guidance.</u></p>
External Audit	<p>The Internal Audit section work in conjunction with the Council's External Auditors under a "Managed Audit" arrangement. The External Auditor seeks to place reliance on the work of Internal Audit where this is relevant to their work, particularly when appraising the controls operated by management over financial systems. This arrangement makes the best use of the combined audit resources and helps reduce any unnecessary overlap of audit effort.</p>
Best Practice Advice	<p>Internal Audit will also respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.</p>
New Developments	<p>Internal Audit may also provide consultancy services, such as providing advice on new systems and emerging risks – any significant consultancy not already included in the annual Internal Audit plan that may affect the level of assurance work undertaken will be reported to the Audit Committee.</p> <p>Where we provide support, advice and guidance on risks and controls to staff involved in the design and implementation of new systems and processes. To maintain independence, any staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.</p>
Consultancy work	<p><u>Corporate Internal</u> Audit can also, where resources and skills exist, provide additional services beyond their assurance work. The scope of this type of work is agreed with management and should assist management in meeting the</p>

Service Area	Specific Responsibilities
	<p>objectives of the organisation without undermining the key principles of independence and objectivity. Work may include:</p> <ul style="list-style-type: none"> • facilitation • training • <u>advice on governance, risk and control</u> <p><u>Our terms of reference makes it clear that no assurance opinion will be provided but the outcome of this work will be reported to the Audit Committee - in so far as it impacts on the Council's governance, risk and control environment.</u></p>
<p>External work</p>	<p>Audit Assurance t Lincolnshire also provides internal audit services to a number of <u>the public sector</u> external clients. Approval is sought from the Section 151 officer and the Audit Committee before entering into any significant engagement.</p> <p>The level and extent of external work is also reported in the approval of the audit plan and the Head of Audit and Risk Management's annual report.</p>

Responsibilities of the Audit Committee

The Audit Committee is a key component of the Council's governance framework. Their role is to provide those ~~in~~-charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. For the purposes of the UK Public Sector Internal Audit Standards the Audit Committee performs the role of the 'Board'.

The Audit Committee is ~~also~~ responsible for the following aspects of the internal audit function:

- formally approving (but not directing) the overall strategy to ensure that it meets the Councils overall strategic direction.,
- approving the annual internal audit plan (paying particular attention to whether there is sufficient and appropriate coverage)
- monitoring progress against plan
- supporting the effectiveness of the internal audit process through regular oversight of performance and delivery
- undertaking an annual assessment as to whether adequate skills and resources are available to provide an effective audit function meeting the requirements set out in Accounts and Audit Regulations 2011-2015 and the UK Public Sector Internal Audit Standards. This includes oversight of the Assurance Framework and any improvement plans.

- Oversee Internal Audits independence, objectivity and professionalism.
- Ensure that effective relationships exist between external audit and internal audit and that the value of the audit process is actively promoted

The ~~Head of Internal~~Audit and Risk Management also has the opportunity to meet in private with the Audit Committee if the need arises.

Audit Reporting Framework

All audit activity is intended to assist management to fulfil their objectives of delivering services and contributing to the overall objectives of the Council. Outputs from Audit work can range from informal advice to formal written reports.

The reporting structure is designed to ensure that final versions are agreed with and by managers and are both accurate and practicable. After agreement any report or guidance will be issued to senior management of the area reviewed. Copies of audit reports are also made available to the Council's External Auditors. The circulation of audit reports will be agreed at the outset of an audit assignment and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing Internal Audit from meeting its reporting responsibilities to the wider organisation.

In addition to meetings about individual pieces of work, liaison meetings are held with each Executive Director or their nominees to discuss at a summary level, any issues or themes arising from work performed and to agree planned work.

The UK Public Sector Internal Audit Standards requires the ~~Head of~~Audit and Risk Management to report at the top of the organisation and this is done in the following ways:

- The audit and risk strategy and internal audit charter is presented to Executive Directors and the Management Board. Both are approved by the Audit Committee.
- The annual Internal Audit Plan is compiled by the ~~Head of~~Audit & Risk Management taking account the Council's governance, risk and control frameworks (including the effectiveness of its combined assurance arrangements). This is after input from Executive Directors and senior management. The Internal Audit Plan is then presented to the Management Board for noting and comment.
- Performance and delivery against the Internal Audit plan and any significant risks and control issues arising from Internal Audit work are reported to the Corporate Management Board and the Audit Committee on a regular basis.
- Results of the annual review on the effectiveness of Internal Audit (including outcomes of its Quality Assurance and Improvement programme) will be reported to both the Management Board and the Audit Committee.

- Any non-conformance with the UK Public Sector Internal Audit Standards will be included in the Head-of-Audit & Risk Management annual report. If this is significant then this will be included in the Council's Annual Governance Statement.
- The internal audit budget is reported to the Executive and Full Council for approval annually as part of the overall Council's budget. The Head-of Audit & Risk Management will draw to the attention of the Executive Director – Resources and Community Safety Finance and Public Protection and the Audit Committee any resourcing issues that potentially impact on the effectiveness of the Internal Audit function.
- Member involvement in the audit process is critical. This commences with key issues being shared with Portfolio Holders by Directors and Internal Audit. Another key element is the free and unfettered access the Head-of-Audit & Risk Management has to the Chairman of the Audit Committee.
- The Chairman of the Audit Committee also provides the Council with an annual report on the work of Audit Committee.

Quality of Service and Due Professional Care

The Internal Audit section operates in accordance with standards of best practice applicable to Internal Audit (in particular the UK Public Sector Internal Audit Standards and Standards in Public Life's Seven Principles of Public Life. the Seven Principles of Public Life (Nolan Principles).

We have a Quality Assurance and Improvement Programme Framework that covers all areas of internal audit activity. This consists of:

- A practice manual that outlines the key responsibilities of auditors and defines an audit process which:
 - Promotes promotes conformance with the Public Sector Internal Audit Standards (PSIAS) - helping us meet the ten Core Principles in the PSIAS
 - encourages consistency and quality
 - results in assignment conclusions that can be supported by sufficient, relevant and reliable fieldwork
- Internal review of work standards through a system of management review involving senior audit staff and the Head-of Audit & Risk Management. This incorporates review of all audit documentation and reports prior to release to the relevant Senior Manager.
- Annual appraisal of the Head-of Audit & Risk Management informed by both the Chief Executive and the Chairman of the Audit Committee. This includes reference to

CIPFA's 'comply or explain' statement on the 'Role of the Head of Internal Audit' in ~~Public Service Organisation 2010~~.

- Regular liaison meetings are also undertaken with Senior Management in each Directorate to discuss work performed and planned.
- Opinions are regularly canvassed from management responsible for ~~establishments and/or~~ activities under review.
- A suite of performance indicators and targets have been developed to monitor the quality of the service provided. Performance reports are submitted on a quarterly basis to the Audit Committee via a progress and delivery report.
- Annual assessment of the service and its compliance with the UK Public Sector Internal Audit Standards – with this assessment being undertaken through an external assessment at least every five years by a suitably qualified, independent assessor.
- External review by Audit Committee who undertakes an annual assessment as to whether adequate skills and resources are available to provide an effective audit function.
- A programme of Continuous Professional Development for all staff to ensure they maintain and enhance their knowledge, skills and audit competencies.
- The ~~Head of~~ Audit and Risk Management is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

Location

Within Lincolnshire County Council the Internal Audit function is located within the ~~Resources Directorate~~ Finance & Public Protection, County Offices, Newland, Lincoln LN1 1YG. ~~Corporate Audit & Risk Management is headed by Lucy Pledge, the Head of Service – Corporate Audit and Risk Management.~~

Advice and Support

Key contacts:

Lucy Pledge (~~Head of~~ Audit & Risk ~~Management~~ Manager)

lucy.pledge@lincolnshire.gov.uk

John Sketchley (~~Audit Manager~~ Team Leader – Audit)

john.sketchely@lincolnshire.gov.uk

~~Rachel Abbott (Team Leader – Audit)~~ [Rachel.abbott@lincolnshire.gov.uk](mailto:rachel.abbott@lincolnshire.gov.uk)

~~Stephanie Kent~~ Dianne Downs (~~Audit Manager~~ Team Leader – Counter Fraud)

stephanie.kent@lincolnshire.gov.uk dianne.downs@lincolnshire.gov.uk

<http://microsites.lincolnshire.gov.uk/AuditLincolnshire>

General contact:

Email CorporateAudit@lincolnshire.gov.uk
Telephone: 01522 5536836

Whistleblowing:
Telephone: 0800 0853716
Email whistleblowing@Lincolnshire.gov.uk

Address:
Lincolnshire Local Authorities
PO Box 640
Lincoln
LN1 1WF

Approval of Charter

This charter is reviewed annually as necessary and approved by the Corporate Management Team and the Audit Committee.

Related Documents

The other related documents that should be read in conjunction with this charter are:

- Risk Management Strategy
- Counter Fraud policy
- Whistleblowing policy
- Financial Procedure No 7 which forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council
- Audit Protocol with External Audit

Links to be inserted

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Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	26 September 2016
Subject:	Approval of the Council's Annual Governance Statement 2015-16

Summary:

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

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

A 'good' Annual Governance Statement is an open and honest self-assessment of how well we have run our business across all activities - with a clear statement of 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 adoption by the Council.

The Committee considered the draft statement at its meeting on the 18 July 2016.

Recommendation(s):

That the Committee considers the contents of the Annual Governance Statement 2015-16 and:-

- 1 Agree that it accurately reflects how the Council is run;
- 2 That the statement includes the significant governance issues/key risks it would have expected to be published;
- 3 Approves the statement and recommend it for adoption by the Council.

Background

What do we mean by Governance?

1. 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"

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

What is the Governance Framework?

3. Our Governance Framework brings together an underlying set of legislative requirements, governance principles and management processes. It ensures that the Council's business is conducted in a legal and proper way – ensuring that public money is properly used - economically, efficiently and effectively.
4. At its meeting on the 18 July 2016 the Audit Committee considered the draft Annual Governance Statement for 2016. A minor change to the statement was suggested by the Committee – this has been actioned.

Governance Issues

5. The areas identified where further work is required to improve systems or monitor how the key risks facing the Council are being managed are:
 - Financial challenges ahead
 - Financial control environment
 - Case Management (MOSIAC)
 - Information Management Team (SERCO)
 - Establishing the Combined Authority
 - Governance arrangements of the Council
 - Risk Culture
6. 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.

7. The final Annual Governance Statement can be found in Appendix A. It is presented to the Committee for your consideration of the contents eg:
- Does the Statement accurately reflect the Committee's understanding of how the Council is run?
 - Have the changes requested by the Committee on the draft statement – considered in July 2016 – been actioned.

Conclusion

8. The Council has strong governance arrangements which are demonstrated by the realistic and open assessment of its functions and activities.
9. Officers have identified a number of governance issues to be included in the Annual Governance Statement – demonstrating accountability, transparency and openness to local taxpayers.

Consultation

a) Policy Proofing Actions Required

n/a

Appendices

These are listed below and attached at the back of the report	
Appendix A	Liincolnshire County Council - Annual Governance Statement 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
Draft Annual Governance Statement 2015-16	Audit Committttee records 18 July 2016

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

Annual Governance Statement

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2015/2016

Version 3 16.06.16

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.

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 6th July 2016 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.

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.

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

² Robert Tricker. An expert in Corporate Governance.

What is Corporate Governance?

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

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

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

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

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.

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

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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

Assurance Required Upon

Code of Corporate Governance

- 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

Assurances Received

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

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.

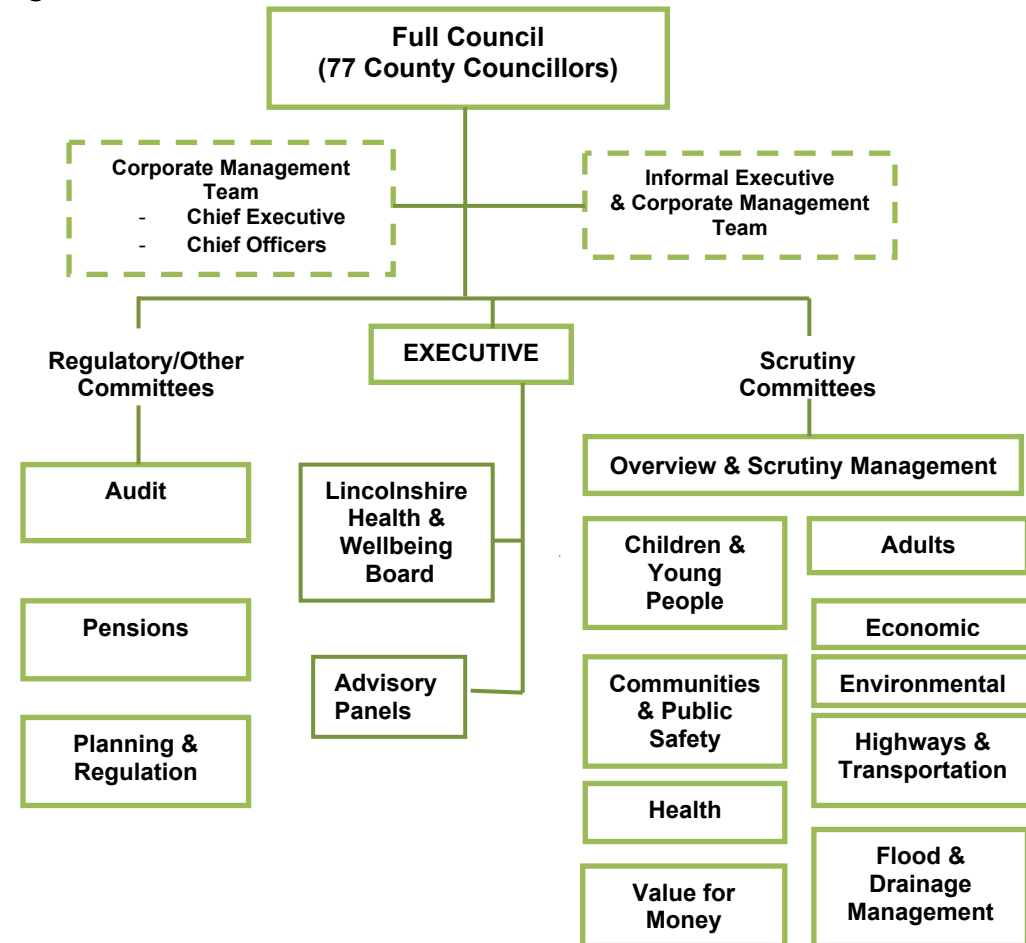
In times motivated by change we are committed to sharing as much information about our plans and programmes as possible. Meetings are therefore normally open to the public and we undertake extensive consultation on major changes to the way we propose to deliver our services.

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



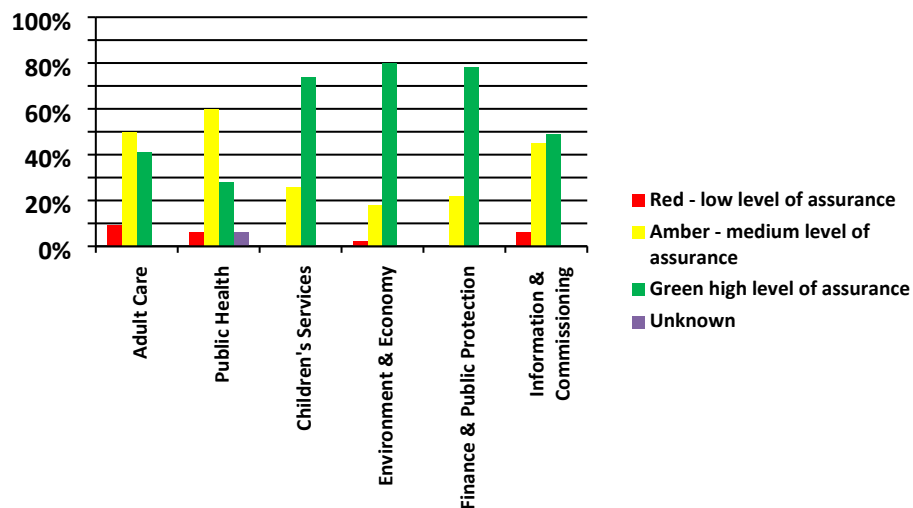
How do we know our arrangements are working?

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 help secure Government funding in</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 Council meeting in</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>future years.</p>	<p>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 21 signatories.	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>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 Issue	Lead Officer(s)	Key Delivery Milestones – 2016/17	Implementation Date
Governance Arrangements			
<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

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Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	26 September 2016
Subject:	Statement of Accounts for Lincolnshire County Council for the year ended 31 March 2016

Summary:

This report presents the final Statement of Accounts for Lincolnshire County Council for the financial year 2015/16 for approval.

Recommendation(s):

The Executive Director for Finance and Public Protection recommends the Audit Committee approve the Statement of Accounts for 2015/16.

Background

1.1 The Council is required to make arrangements to prepare Statement of Accounts which give a 'true and fair' view of the financial position for the County Council and for the Pension Fund as at 31 March 2016 together with a record of income and expenditure for the financial year 2015/16.

1.2 The accounts have been prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. The format of the statements and the detailed disclosure notes are specifically prescribed in the Code of Practice.

1.3 Councillors, have little discretion to influence the detail and content of the statements, however, councillors do have a responsibility for corporate governance, including robust scrutiny of the Council's accounts and financial position. For this reason, the Audit Committee were presented with the draft Statements of Accounts for 2015/16 at its meeting on 18 July 2016. At this meeting members scrutinised and made comment on the draft accounts.

1.4 The external auditor, KPMG, has largely completed their work on the Statement of Accounts and you as 'Those Charged with Governance' have already received their ISA 260 Report as part of this agenda.

1.5 The Audit Committee is now asked to approve the Statement of Accounts.

Conclusion

2.1 The Audit Committee are asked to approve the Statement of Accounts for Lincolnshire County Council for the financial year ended 31 March 2016.

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 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

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Statement of Accounts 2015-16

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 Statement of Responsibilities for the Statement of Accounts

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

Review of 2015/16 (Narrative Statement)

This provides a general introduction to the Accounts, initially focusing on explaining the more significant features of the Council's financial activities during the period 1 April 2015 to 31 March 2016, followed by a review of non-financial performance indicators and an assessment of future financial and economic developments that could affect the Council. Together these statements provide evidence of the economy, efficiency and effectiveness of the Council's use of resources over the financial year.

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.

Audit Opinion

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

Annual Governance Statement

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

The Lincolnshire Pension Fund Account

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

The Lincolnshire Fire and Rescue Pension Fund Account

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

Executive Director - Finance and Public Protection Review of 2015-16

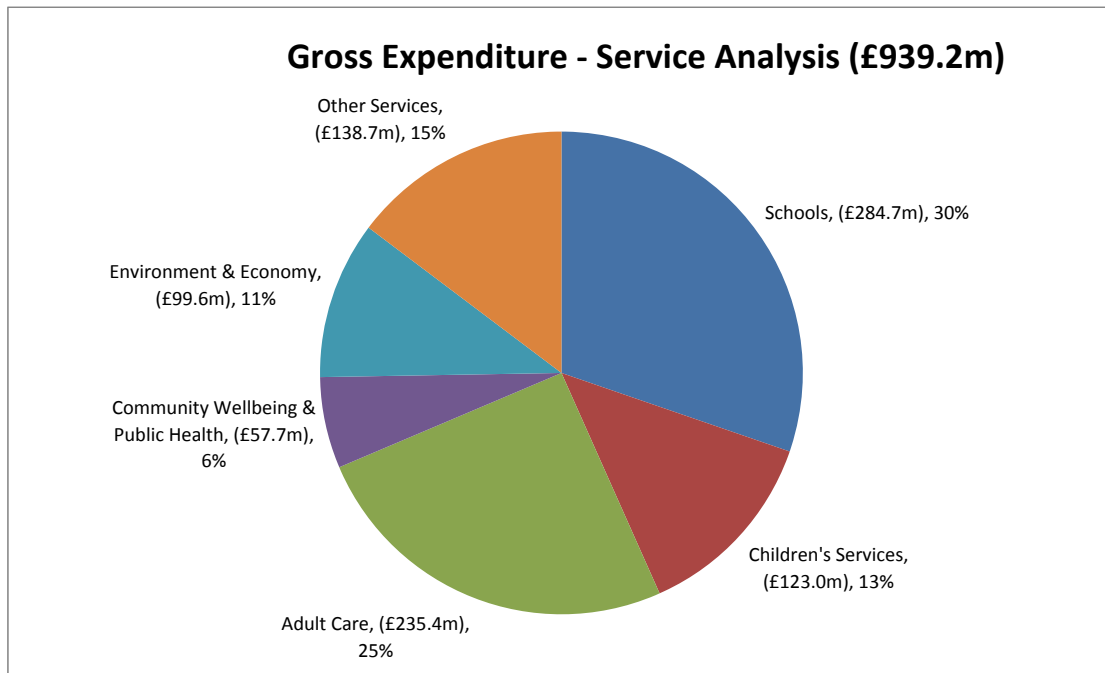
Review of the Year

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'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.

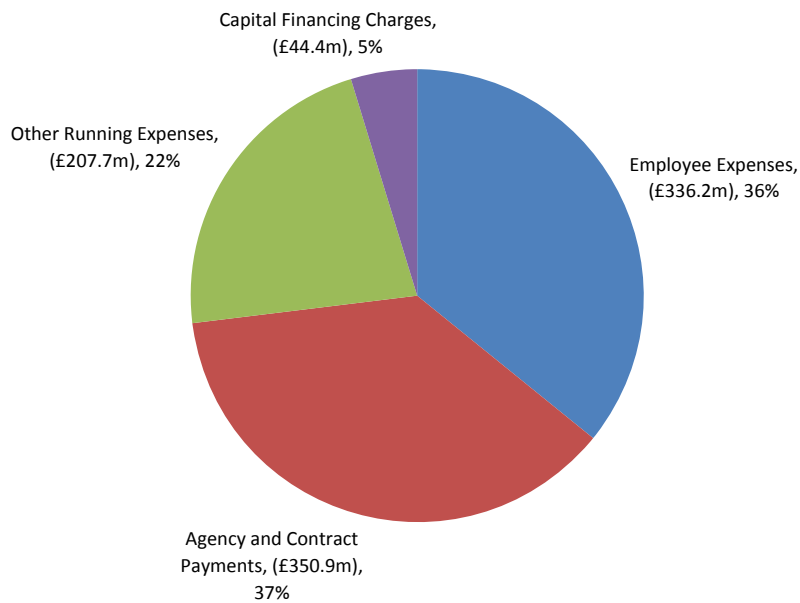
Adult Care Includes: Adult Safeguarding, Adult Frailty, Long Term Conditions and Physical Disability, Carers and Adult Specialities.

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.

Gross Expenditure - Subjective Analysis (£939.2m)



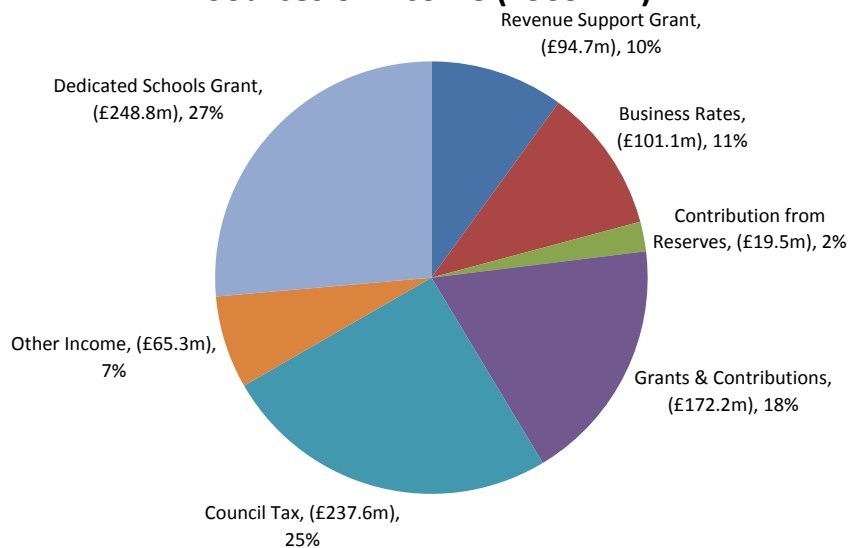
The distribution of expenditure by type differs significantly between different services. For example, salaries and wages comprises 62% of expenditure for schools. For services other than schools, salaries and wages comprises 24% of expenditure and contract payments comprises 38% of total expenditure. 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 75).

Annual income

The Council's revenue spending was funded by:

Sources of Income (£939.2m)



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 £11.329m or 2.64% (previously £11.252m or 2.62%).
- Schools were underspent by £16.801m or 6.75% (previously £18.802m or 7.04%) of the schools budget.
- There was an underspend of £10.828m or 15.72% (previously £11.925m or 17.32%) on other budgets.
- The Council received £2.789m or 0.61% less general funding income than was originally budgeted for.
- The Council transferred £0.273m from earmarked reserves into the capital programme.
- This gave the Council an overall underspend of £36.440m (previously £39.190m).

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:

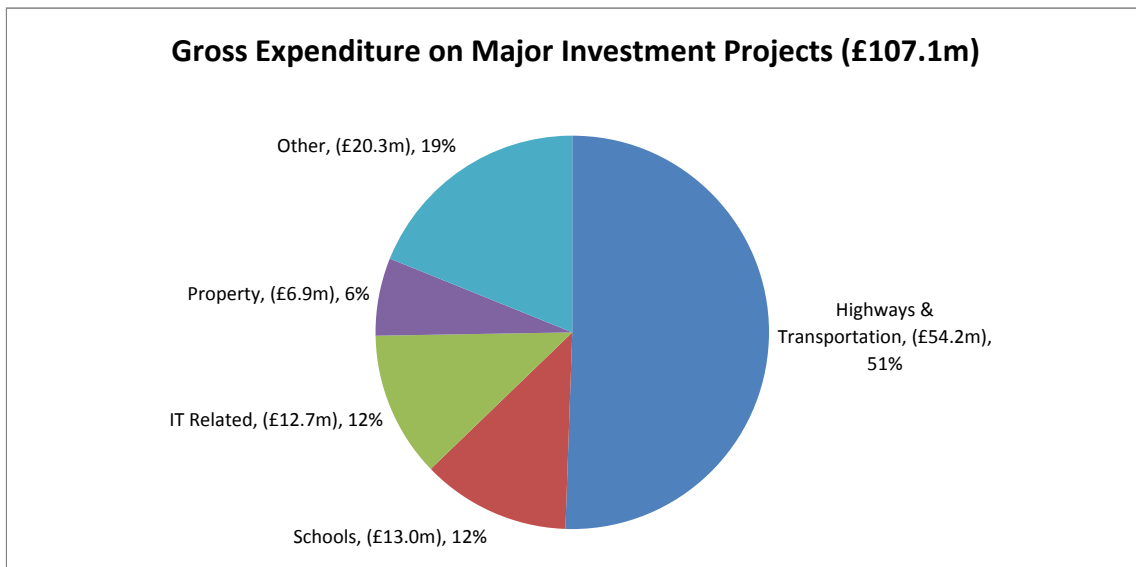
- Wellbeing (£1.140m underspend) The main element of this relates to the redesign and procurement of the Wellbeing and Housing Related Support activities planned savings being brought forward;
- Sustaining and Developing Prosperity Through Infrastructure (£3.637m underspend). This was due to a number 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 (£16.801m 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 (£78.3m) to fund: maintenance work on roads, the Council's programme of modernisation and improvement of condition of school buildings and provision of education places. £20.7m 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 £152.0m (£137.2m at 31 March 2015). Although the Council holds a negative cash balance of £12.829m 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. In preparation for further funding reductions; the Council has undertaken review of its service priorities and related budgets. The decision to leave the European Union, as a result of the referendum on 23rd June 2016, will have both long and short term consequences for the UK economy. It is too early to assess how this might impact on the Council at this stage.

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 decreased 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 Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Financial Officer.

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Approve the Statement of Accounts.

The Statement of Accounts were be approved at a meeting of Lincolnshire County Council Audit Committee in September 2016 and signed below by the Chair of Audit Committee:

Signed: Dated:

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
<i>Movement in Reserves during 2015-16</i>							
Surplus/(Deficit) on the provision of services		(109,098)	-	-	(109,098)	-	(109,098)
Other Comprehensive Income and Expenditure		-	-	-	-	239,415	239,415
Other Recognisable Gains/(Losses)		(263)	214		(49)		(49)
Total Comprehensive Income and Expenditure		(109,361)	214	-	(109,147)	239,415	130,268
Adjustments between accounting basis & funding basis under regulations	(8)	89,133	-	10,045	99,178	(99,178)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves		(20,228)	214	10,045	(9,969)	140,237	130,268
Transfers to/from Earmarked Reserves	(9)	19,928	(19,886)	(42)	-	-	-
Increase/(Decrease) in Year 2015-16		(300)	(19,672)	10,003	(9,969)	140,237	130,268
Balance as at 31 March 2016 Carried Forward		15,600	150,150	62,677	228,427	136,048	364,475

N.B. The Council does not have a Capital Receipts Reserve as it is the Council's policy to fully utilise all capital receipts 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	£'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)	-	-	(56,929)	-	(56,929)
Other Comprehensive Income and Expenditure		-	-	-	-	(105,655)	(105,655)
Other Recognisable Gains		(4,050)	(85)		(4,135)	-	(4,135)
Total Comprehensive Income and Expenditure		(60,979)	(85)	-	(61,064)	(105,655)	(166,719)
Adjustments between accounting basis & funding basis under regulations	8	69,395	-	(5,438)	63,957	(63,957)	-
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	-	-	-
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**

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)	378,589	(294,931)	83,658
98,759	(16,513)	82,246	Children's Social Care		100,857	(17,186)	83,671
234,576	(78,820)	155,756	Adult Care		258,518	(93,791)	164,727
100,482	(9,134)	91,348	Highways and Transport Services		99,636	(10,242)	89,394
21,421	(2,369)	19,052	Cultural and Related Services		20,365	(4,569)	15,796
42,198	(4,413)	37,785	Environmental and Regulatory Services		35,815	(1,223)	34,592
24,131	(15,117)	9,014	Planning Services		21,661	(3,698)	17,963
32,787	(2,870)	29,917	Fire and Rescue Services		33,854	(2,051)	31,803
26,725	(30,033)	(3,308)	Public Health		35,882	(35,616)	266
15,112	(956)	14,156	Housing Services - Travellers Sites		12,425	(700)	11,725
5,951	(3,142)	2,809	Central Services to the Public		5,776	(1,375)	4,401
4,191	(174)	4,017	Corporate and Democratic Core		2,736	(7)	2,729
3,611	0	3,611	Non Distributed Costs		1,868	(2,354)	(486)
995,253	(471,330)	523,923	Cost of Services		1,007,982	(467,743)	540,239
		39,159	Other Operating Expenditure	(10)			57,145
		36,344	Financing and Investment Income and Expenditure	(11)			41,011
		(542,497)	Taxation and Non-Specific Grant Income	(12, 39(a))			(529,297)
		56,929	(Surplus)/Deficit on Provision of Services				109,098
		(42,934)	(Surplus)/Deficit on Revaluation of Non-Current Assets	(25)			(53,864)
			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				49
		109,790	Other Comprehensive Income and Expenditure				(239,366)
		166,719	Total Comprehensive Income and Expenditure				(130,268)

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)	1,269,306
52,625	Heritage Assets	(14)	66,989
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)	7,275
1,458,384	Long Term Assets		1,447,896
159,469	Short Term Investments	(17)	225,106
2,545	Assets Held for Sale	(20)	1,302
610	Inventories	(18)	2,384
61,175	Short Term Debtors	(19)	58,035
223,799	Current Assets		286,827
(3,845)	Cash and Cash Equivalents		(12,829)
(25,715)	Short Term Borrowing	(17)	(19,604)
(52,651)	Short Term Creditors	(21)	(94,671)
(4,406)	Short Term Provisions	(22)	(7,684)
(86,617)	Current Liabilities		(134,788)
(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		364,472
238,396	Usable Reserves	(24)	228,424
(4,189)	Unusable Reserves	(25)	136,048
234,207	Total Reserves		364,472

*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	109,098
(111,033)	Adjustments to net surplus or deficit on the provision of services for non - cash movements	(233,396)
74,062	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	80,353
19,981	Net cash flow from Operating Activities (Note 26)	(43,945)
(13,945)	Investing Activities (Note 27)	70,645
(7,566)	Financing Activities (Note 28)	(17,716)
(1,530)	Net (increase) or decrease in cash and cash equivalents	8,984
5,375	Cash and cash equivalents as at 1 April	3,845
3,845	Cash and cash equivalents as at 31 March	12,829

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;
- 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); and
- 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 material 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 September 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 2015-16 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 2015-16 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.

The Council considers that the vote to leave the European Union (EU) as a result of the referendum on 23 June 2016, constitutes a non-adjusting event for which no estimate can be made for its effect on the Council. Specifically, until exit negotiations are concluded, The United Kingdom remains a full member of the EU and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister, to begin negotiations to leave the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in the future, once the UK has left the EU.

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)	0	80,353
(15,859)	0	15,859	Revaluation losses on Property Plant and Equipment	(13,154)	0	13,154
(120)	0	120	Revaluation losses on Held for Sale Assets	(18)	0	18
11,220	0	(11,220)	Movements in the market value of Investment Properties	4,536	0	(4,536)
(2,116)	0	2,116	Amortisation of intangible assets	(2,347)	0	2,347
49,191	0	(49,191)	Capital grants and contributions applied	52,470	0	(52,470)
2,510	0	(2,510)	Capital Receipts applied	2,634	0	(2,634)
(16,584)	0	16,584	Revenue expenditure funded from capital under statute (net of Grants and Contributions)	(12,199)	0	12,199
(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)	0	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	0	(22,196)
6,790	0	(6,790)	Capital expenditure charged against the General Fund	7,259	0	(7,259)

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	0	13,615	(13,615)
(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	0	(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)	0	77,061
38,912	0	(38,912)	Employer's pensions contributions and direct payments to pensioners payable in the year	41,387	0	(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	0	(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 requirements	109	0	(109)
(69,397)	5,438	63,959	Total Adjustments	(89,133)	(10,045)	99,178

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	16,587	(21,553)	26,602
				Other Earmarked Reserves:				
3,999	2,167	(3,999)	2,167	Other Services	2,167	4,295	(2,167)	4,295
1,000	0	0	1,000	Adverse Weather	1,000	0	0	1,000
5,086	1,134	0	6,220	Insurance	6,220	175	0	6,395
2,932	17	(772)	2,177	Health and Well Being	2,177	14	(1,036)	1,155
2,350	1,249	(806)	2,793	Shared Services Reserves (Legal and Procurement)	2,793	538	(1,135)	2,196
6,780	21,871	(6,780)	21,871	Financial Volatility - Budget				
43,006	12,417	(23,789)	31,634	Shortfall	21,871	20,165	(21,871)	20,165
5,843	0	(3,640)	2,203	Financial volatility	31,634	12,195	(20,165)	23,664
4,000	0	(1,368)	2,632	Roads Maintenance	2,203	0	(2,115)	88
10,821	1,660	(2,240)	10,241	Support Services contract	2,632	0	(922)	1,710
				Other Service Earmarked Reserves	10,241	4,651	(1,307)	13,585
				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	20,176	(14,556)	27,755
2,467	4,791	(2,467)	4,791	Schools	4,791	7,273	(4,433)	7,631
5,395	631	(1,076)	4,950	Other Grants and Contributions	4,950	(4,005)	(1,368)	(423)
165,275	80,623	(76,076)	169,822	Total	169,822	87,026	(106,698)	150,150

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	56,035
120	Revaluation losses on assets held for sale	18
39,159	TOTAL	57,145

Note 11. Financing and Investment Income and Expenditure.

2014-15		2015-16
£'000		£'000
19,726	Interest payable and similar charges	20,314
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	41,011

Note 12. Taxation and Non Specific Grant Income.

2014-15		2015-16
£'000		£'000
(228,745)	Council tax income	(239,223)
(99,913)	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)
(2,412)	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)	(76,129)
(542,497)	TOTAL	(529,297)

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	717,304	126,992	752,394	0	21,911	28,230	1,646,831	20,699
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	614
Revaluation Decrease to RR	(12,554)	(556)	0	0	(4,007)	0	(17,117)	(281)
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
Reclassifications - Other	6,260	364	30,601	0	1,526	(37,806)	945	0
At 31 March 2016	676,056	126,111	807,517	0	15,673	35,431	1,660,788	21,309
Depreciation and Impairment								
At 1 April 2015	(23,263)	(34,903)	(291,725)	0	(453)	0	(350,344)	(1,007)
Depreciation Charge for 2015-16	(28,731)	(10,480)	(41,029)	0	(113)	0	(80,353)	(492)
Depreciation written out on upward revaluation	27,552	0	0	0	22	0	27,574	886
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
Reclassifications - Other	(2)	0	0	0	2	0	0	0
At 31 March 2016	(18,241)	(40,431)	(332,754)	0	(64)	0	(391,490)	(613)
Net Book Value								
At 31 March 2016	657,815	85,680	474,763	0	15,609	35,431	1,269,298	20,696
At 1 April 2015	694,041	92,089	460,669	0	21,458	28,230	1,296,487	19,692

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 (*1)	745,011	128,098	713,555	0	23,432	27,404	1,637,500	20,862
Additions	12,856	2,675	40,996	1	853	17,914	75,295	100
Revaluation Increase to RR	35,719	0	0	0	644	0	36,363	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
Reclassifications - Other	(865)	2,360	2,752	0	3,522	(8,909)	(1,140)	23
As at 31 March 2015	717,304	126,992	752,394	0	21,911	28,230	1,646,831	20,697
Depreciation and Impairment								
At 1 April 2014 (*1)	(21,535)	(30,260)	(259,200)	0	(2,812)	0	(313,807)	(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
Reclassifications - Other	41	0	0	0	(42)	0	(1)	0
As at 31 March 2015	(23,263)	(34,903)	(291,725)	0	(453)	0	(350,344)	(1,007)
Net Book Value								
As at 31 March 2015	694,041	92,089	460,669	0	21,458	28,230	1,296,487	19,690
At 1 April 2014	723,476	97,838	454,355	0	20,620	27,404	1,323,693	19,207

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 £15.520m.

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 Vinci 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	85,680
Infrastructure	460,669	474,763
Community Assets	0	0
Assets Under Construction	28,228	35,431
Total Cost of Valuation	580,986	595,874

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
Revaluations recognised in the Revaluation Reserve	64	0	14,273	14,337
Reclassifications	0	0	0	0
At 31 March 2016	5,001	19,988	42,000	66,989

	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
Revaluations recognised in the Revaluation Reserve	0	0	0	0
Reclassifications	120	8,059	0	8,179
At 31 March 2015	4,934	19,964	27,727	52,625

b) 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	27
Revaluations	3,718	(4)	(38)	0	14,337
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	66,989

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 Vinci 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	15,734	2,681	18,415
- Accumulated amortisation	(8,821)	(397)	(9,218)
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	16,490	2,681	19,171
- Accumulated amortisation	(10,864)	(701)	(11,565)
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 £1m):

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 - Care Management System	1,757
Infrastructure & Refresh of PC's	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	8,082	7,525	44,296	85,051
Total Creditors	8,082	7,525	44,296	85,051
Investments				
Loans and Receivables	200	200	74,916	131,625
Available for Sale Financial Assets	0	0	84,553	93,481
Unquoted Equity Investments At Cost	14	14	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0	0	0
Total Investments	214	214	159,469	225,106
Debtors				
Loans and Receivables	7,336	7,275	0	0
Financial Assets Carried at Contract Amount	0	0	43,286	48,645
Total Debtors	7,336	7,275	43,286	48,645

b. Financial Instruments Income, Expense, Gains or Losses

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

The Council's Financial Assets are predominantly loans and receivables valued at amortised cost; although its investments held in Stable Net Asset Value Money Market Funds are classed as Available for Sale Financial Assets which are valued at fair value that equates to the carrying value, as 1 unit held in these funds = £1 fair value. Investments held in Certificate of Deposits or Bonds are also classed as Available for Sale which are also valued at fair value based on the prevailing price at 31st March 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	0
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
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	7,525	7,525
Total Financial Liabilities at Amortised Cost	471,491	567,815	489,272	592,305

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	7,275	7,488
Financial Assets at Amortised Cost	82,046	82,261	139,100	139,313

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	225,106
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	225,320

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	Fair Value	Fair Value
	31 March 2016	at 1% Higher	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 58. 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	Fair Value	Fair Value
	31 March 2016	at 1% Higher	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

Note 19. Debtors.

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	1,907
4,790	NHS bodies	4,305
6,776	Bodies external to general government	14,288
12,381	Council tax agency and business rates agency arrangements	15,538
18,220	Payments in advance	5,378
61,175	Total Short Term Debtors	58,035

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	34
91	NHS bodies	115
4,485	Bodies external to general government	4,701
7,336	Total Long Term Debtors	7,275

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

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	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.

2014-15	Amounts falling due in one year:	2015-16
£'000		£'000
(644)	Central government bodies	(1,213)
(2,155)	Other local authorities	(1,675)
(1,513)	NHS bodies	(5,762)
(40,051)	Other entities and individuals	(76,366)
(8,288)	Council tax agency and business rates agency arrangements	(9,655)
(52,651)	Total Short Term Creditors	(94,671)

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 1 April 2015	Additional Provisions made in 2015-16	Amounts Used in 2015-16	Unused amounts reversed in 2015-16	Unwinding of discounting in 2015-16	Balance at 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	(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)

Short Term Provisions	Balance at 1 April 2015	Additional Provisions made in 2015-16	Amounts Used in 2015-16	Unused amounts reversed in 2015-16	Unwinding of discounting in 2015-16	Balance at 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 1 April 2015	Additional Provisions made in 2015-16	Amounts Used in 2015-16	Unused amounts reversed in 2015-16	Unwinding of discounting in 2015-16	Balance at 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 claims
	£'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	(169,822)	(150,150)
General Fund	(15,900)	(15,600)
Total	(238,395)	(228,426)

Note 25. Unusable Reserves.

Balance at 31 March 2015		Note	Balance at 31 March 2016
£'000			£'000
(289,143) Revaluation Reserve		(25a)	(314,712)
(603,570) Capital Adjustment Account		(25b)	(567,863)
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			(136,046)

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	£'000
(279,312)	Balance at 1 April		(289,143)
(52,668)	Upward revaluation of assets	(66,497)	
9,734	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	12,633	
(42,934)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(53,864)	
9,256	Difference between fair value depreciation and historical cost depreciation	10,665	
23,847	Accumulated gains on assets sold or scrapped	17,630	
33,103	Amount written off to the Capital Adjustment Account	28,295	
(289,143)	Balance at 31 March		(314,712)

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)	12,199
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	(28,295)
122,319	Net written out amount of the cost of non-current assets consumed in the year	138,417
	<u>Capital financing applied in the year:</u>	
(2,510)	Use of Capital Receipts to finance new capital expenditure	(2,634)
(49,191)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(52,470)
(26,353)	Application of grants to capital financing from the Capital Grants Unapplied Account	(13,615)
(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	(7,259)
(108,657)		(98,174)
(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	(567,863)

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)
	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)
	(2,566)	
(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	
	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)
	(215)		
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	20,324
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	(80,353)
(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	(44,866)
12,779	Increase/decrease in debtors	555
(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	(51,793)
12,605	Other non-cash items charged to the net surplus or deficit on the provision of services	271
(111,033)	Net surplus/(deficit) on provision of services for non cash movements	(233,396)

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

2014-15		2015-16
£'000		£'000
0	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investment in associates, joint ventures and subsidiaries)	0
70,106	Capital Grants credited to Surplus or deficit on the provision of services	76,129
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	80,353

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	88,140
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)	(78,704)
(2,256)	Other receipts from investing activities	(2,348)
(13,945)	Net cash flow from investing activities	70,645

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)
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
(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	3,342	2,086	2,307	7,735	(10)	(52)	(62)	7,673
Learn and Achieve	7,912	4,641	27,437	39,990	(1,218)	(3,008)	(4,226)	35,764
Readiness for Adult Life	4,667	2,825	2,035	9,527	(3,666)	(228)	(3,894)	5,633
Children are Safe and Healthy	29,364	19,543	16,890	65,797	(11,351)	(183)	(11,534)	54,263
Adult Safeguarding	1,490	262	1,369	3,121	(102)	(1)	(103)	3,018
Adult Frailty and Long Term Conditions	15,116	119,745	23,342	158,203	(27,605)	(34,951)	(62,556)	95,647
Carers	107	561	1,167	1,835	(100)	0	(100)	1,735
Adult Specialties	4,705	65,980	1,611	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	20,978	69,251	(5,004)	(7,282)	(12,286)	56,965
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	1,970	9,047	(533)	(205)	(738)	8,309
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	144,977	311,258	139,819	596,054	(119,347)	(58,940)	(178,287)	417,767
OTHER BUDGETS								
Capital Financing Charges	0	0	44,441	44,441	0	0	0	44,441
Other Budgets	13,012	231	725	13,968	(369)	0	(369)	13,599
TOTAL OTHER BUDGETS	13,012	231	45,166	58,409	(369)	0	(369)	58,040
SCHOOLS BUDGETS								
Delegated School Budgets	163,418	24,364	54,661	242,443	(4,498)	(5,794)	(10,292)	232,151
Central Services within the DSB	5,329	14,809	3,671	23,809	(2,538)	(433)	(2,971)	20,838
Dedicated Schools Grant	0	0	0	0	(248,801)	0	(248,801)	(248,801)
Schools Budgets (Other Funding)	9,490	220	8,756	18,466	(25,982)	(117)	(26,099)	(7,633)
TOTAL SCHOOLS BUDGETS	178,237	39,393	67,088	284,718	(281,819)	(6,344)	(288,163)	(3,445)
TOTAL EXPENDITURE	336,226	350,882	252,073	939,181	(401,535)	(65,284)	(466,819)	472,362
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								19,524

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	8,114	4,637	26,716	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	16,846	34,614	8,150	59,610	(5,009)	(4,027)	(9,036)	50,574
Protecting and Sustaining the Environment	3,199	21,919	3,569	28,687	(3,746)	(728)	(4,474)	24,213
Sustaining and Growing Business and the Economy	2,168	11	4,901	7,080	(3,975)	(1,280)	(5,255)	1,825
Protecting The Public	22,623	165	10,523	33,311	(5,231)	(1,064)	(6,295)	27,016
How We Do Our Business	5,590	2,521	2,234	10,345	(862)	(1,004)	(1,866)	8,479
Enablers and Support To Council's Outcomes	23,145	9,246	11,064	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	157,648	285,518	133,562	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 Councils agreed outcomes.
	Property Strategy & support (including County Farms)	
	People Management Strategy & support	
	Legal Advice	
	Commissioning Strategy & Support	
	Business support	
	Strategic Communications	
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)	19,524
0 Add: Net expenditure on services and support services not included in main analysis	0
Add: Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis (Note 29c)	155,591
Less: amounts reported to management in the analysis not included in the Comprehensive Income and Expenditure Account (Note 29c)	365,124
523,924 Net Cost of Services in the Comprehensive Income and Expenditure Statement	540,239

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 Cost of Service	Amounts not reported to Management	Amounts not included in CI&ES	Net Cost of Services	Corporate Amounts	(Surplus)/ Deficit on Provision of Services
	£'000	£'000	£'000	£'000	£'000	£'000
Other income (including fees and charges)	(65,284)	(5,153)	4,229	(66,208)	0	(66,208)
Income from Council Tax and NNDR	(338,652)	0	338,652	0	(338,982)	(338,982)
Specific Grants and Contributions	(515,721)	0	114,186	(401,535)	(190,315)	(591,850)
Interest and Investment Income Receivable	0	0	0	0	(8,036)	(8,036)
TOTAL Income	(919,657)	(5,153)	457,067	(467,743)	(537,333)	(1,005,076)
Employee Expenses	336,226	48,221	(41,387)	343,060	0	343,060
Agency and Contract Expenditure	350,882	0	0	350,882	0	350,882
Other Running Expenses	252,073	16,669	(50,556)	218,186	0	218,186
Depreciation, Amortisation and Impairment	0	95,854	0	95,854	18	95,872
Interest Payable and Similar Charges	0	0	0	0	20,314	20,314
Precepts and Levies	0	0	0	0	1,092	1,092
Gain or Loss on Disposal of Non-Current Assets	0	0	0	0	56,037	56,037
Pension Interest Cost	0	0	0	0	28,731	28,731
TOTAL Expenditure	939,181	160,744	(91,943)	1,007,982	106,192	1,114,174
Surplus/ Deficit on the Provision of Services	19,524	155,591	365,124	540,239	(431,141)	109,098

Reconciliation to Subjective Analysis 2014-15	Service Analysis Cost of Service	Amounts not reported to Management	Amounts not included in CI&ES	Net Cost of Services	Corporate Amounts	(Surplus)/ Deficit on Provision of Services
	£'000	£'000	£'000	£'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	141,320	(403,020)	(211,426)	(614,446)
Interest and Investment Income Receivable	0	0	0	0	(14,126)	(14,126)
TOTAL Income	(932,656)	(12,215)	473,541	(471,330)	(556,623)	(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
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	383,505	523,924	(466,995)	56,929

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 Better Care Fund (BCF) Section 75 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 Better Care Fund Section 75 is a stand alone Section 75 for Sexual Health which was signed in 2015-16 but will not commence until 2016-17.

a. Proactive Care

The Proactive Care Section 75's primary purpose is to support delivery of prevention and early intervention strategies and to secure the necessary shift from acute to community provision. Performance against the key national targets around Non-Elective Admissions (NEA) and Delayed Transfers of Care (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 (59,619) Gross Partnership Income	62,761 (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 through 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 of a number of long standing legal dispute in respect out of county placements by other Local Authorities within the County.

c) Corporate

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

2014-15	2015-16
£'000	£'000
0 Gross Partnership Expenditure 0 Gross Partnership Income	5,842 (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 Council 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 the Council entered into a Section 75 agreement with the four Lincolnshire CCG's for the provision of an Integrated Community Equipment 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 (CAMHS). 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 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 Council will be responsible for the contract but will receive a contribution from NHS England in respect of the HIV services. As such a Section 75 agreement has been agreed between the Council and NHS England 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		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 (*1)	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 (*2)	2015-16	9,435	1,132	0	10,567
	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

(*1) 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).

(*2) The Acting Chief Fire Officer costs are partial as appointed during the financial year.

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

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			492,049
Academy Figure Recouped for 2015-16			(243,384)
Total DSG after Academy Recoupment for 2015-16			<u>248,665</u>
Brought Forward from 2014-15			18,550
Agreed Initial Budgeted Distribution in 2015-16	27,740	239,475	267,215
In Year Adjustments	(42)	(23)	(65)
Final Budget Distribution for 2015-16	27,698	239,452	267,150
less Actual central expenditure	(25,883)	0	(25,883)
less Actual ISB deployed to schools	0	(227,392)	(227,392)
Total actual expenditure in 2015-16	(25,883)	(227,392)	(253,275)
Local Authority Contribution 2015-16	0	7	7
Carry forward to 2016-17	1,815	12,067	13,882

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.

Included within the In Year Adjustments are the 2015-16 Early Years Block adjustment which was received from the Department for Education in May 2016.

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 £'000	a) Credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement	2015-16 £'000
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
2,412	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
6,752	DfE Schools Condition Capital Maintenance Grant	5,421
5,816	DfT Integrated Transport Grant	3,312
1,848	Adult Care Capital Grant	1,875
0	Community Capacity Grant	1,848
1,423	Devolved Formula Grant	1,338
4,753	Heritage Lottery Fund	1,105
1,085	DfE Universal Infant Free School Meals Capital Grant	1,100
5,430	DfT Pothole Fund	0
2,246	DfT Additional Maintenance Grant	0
2,164	DfE Targeted Basic Need Grant	0
1,593	DfE School Kitchen Capital Grant	0
1,421	ERDF Grant	0
1,363	DfT Pinchpoint Funding	0
3,907	Other Capital Grants and Contributions	968
213,839	Total	190,315

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 Grant	30,723
13,541	Pupil Premium	13,310
8,072	Department of Culture, Media and Sport Broadband Grant	5,867
3,574	Universal Infant Free School Meals	4,765
5,646	YPLA 16-19 Funding	4,473
0	Disabled Facilities Grant	2,971
2,176	Adult Safeguarding Learning	1,479
1,914	EFA and Sport Grant	1,892
1,557	Troubled Families Grant	1,787
1,330	Fire New Burdens	1,187
1,158	The Private Finance Initiative	1,158
871	Asylum Seekers	1,094
1,023	ERDF Grant Income	1,071
1,966	Skills Funding Agency	0
1,775	Local Welfare Provision	0
1,300	Local Sustainable Transport Fund (LSTF) - DfT	0
8,004	Other Revenue Grants	7,198
343,445		327,846

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.

Four 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 £0.001m 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 £108.739m 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.

2014-15 £'000		2015-16 £'000
567,826	Opening Capital Financing Requirement	561,065
	<u>Capital Investment:</u>	
83,298	Property, Plant and Equipment	83,708
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	(66,085)
(12,215)	Government Grants and Contributions funding REFCUS	(11,935)
	<u>Sums set aside from Revenue:</u>	
(6,790)	Direct Revenue Contributions	(7,259)
(23,813)	Minimum Revenue Provision/Loans fund principal	(22,196)
561,065	Closing Capital Financing Requirement	559,751
(6,761)	Movement in Year:	(1,314)
	<u>Explanation of movement in year:</u>	
	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)	(1,534)
64	Assets acquired under finance leases	31
0	Assets acquired under PFI/PPP contracts	189
(6,761)	Increase/(Decrease) in Capital Financing Requirement	(1,314)

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
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
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)
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)
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 £1.118m.

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 136 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 117.

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 137 to 139.

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)
Service cost:			
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)
Net Interest:			
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)
Cash flows:			
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)
Remeasurements:			
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
	£'000	£'000	liability/asset £'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
Future Pensioners (*1)	24.5	26.8	31.2	33.2

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

g. Sensitivity Analysis

The sensitivity analyses below have been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimation in the sensitivity analysis have followed the accounting policies of the scheme, i.e. on a actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in a previous period.

Change in assumptions in year ended 31 March 2013	Local Government Pension Scheme		Fire Fighters' Pension Scheme	
	Approximate % Change to Employer Liability	Approximate monetary Amount £000	Approximate % Change to Employer Liability	Approximate monetary Amount £000
0.5% decrease in Real Discount rate	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 (liability)/asset	% of pay
	£000	£000	£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)
Net returns on investments		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	24,570
Other Investment Balances	18	473	2,021
		1,744,152	1,744,141
Current Assets and Liabilities			
Cash Balances		7,855	9,328
Debtors	19	4,005	7,417
Long Term Debtors	19	2,132	1,706
Creditors	19	(1,861)	(3,536)
		12,131	14,915
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.

Following the EU Referendum on 23rd June 2016, and the vote to leave the EU (Brexit), assurance has been gained from the Fund's Actuary that the approach to the 2016 valuation will progress as normal. It will continue to be transparent about measurement but take a long term view of the management of the investments. Measurement will not be impacted as market conditions as at 31 March 2016 are used.

It is impossible to predict what will happen in the medium term with any degree of accuracy. However, LGPS funds have the advantage of being long term investors and are therefore better equipped to ride out short term volatility.

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 Management Expenses and are identified in Note 12 of 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 last year's 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	2015-16
	£000	£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	2015-16
	£000	£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	Restatement	Restated	2015-16
	£000	£000	2014-15	£000
			£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
	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	842	4,907
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	842	5,194

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
	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				24,570
Other Investment Balances	473				2,021
Current Assets & Liabilities	12,131				14,915
	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	24,570	0	0	24,570
Other	0	0	0	0
Total	566,985	460,359	714,776	1,742,120

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 £000	2015-16 £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 £6.982m 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	24,570	0.0	24,570	24,570
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	1,744,141		1,968,348	1,519,934

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		1,917,461	1,570,843

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	24,570
Cash balances	7,855	9,328
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	24,570	24,816	24,324
Cash balances	9,328	9,421	9,235
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 2015 and 31 March 2016.

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	734,793

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

Forward currency contracts are undertaken by the Fund's two currency overlay managers - Record and HSBC Trinkaus & Burkhardt. The responsibility for these deals therefore rests with the appointed managers. Full due diligence was undertaken prior to the appointment of these managers and they are regularly monitored and reviewed. Both managers are FSA regulated and meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009.

The Pension Fund's bank account is held at Barclays, which holds an A long term credit rating (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 £24.6m 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

Billinghay 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 Bernard's 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 Hugh's Academy
Woodhall Spa Academy

Making Space
Magna Vitae
New Linx Housing
Sercio
Vinci Construction UK Ltd

G4S
Lincoln Arts Trust
Lincoln BIG
Lincs HIA
Lincs Sports Partnership
Kier Group (May Gurney)

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 Government's Actuary's Department. During 2015-16 the contribution rates for the 2006 scheme were a minimum of 20.5% of pensionable pay (12% employers and tiered contribution of 8.5% to 12.5%, based on employees' pensionable pay banding). The contribution rates for the 1992 scheme were a minimum of 32.7% of pensionable pay (21.7% employers and tiered contribution of 11% to 17%, based on employees' pensionable pay banding). The contribution rates for the 2015 scheme were a minimum of 31.7% of pensionable pay (21.7% employers and tiered contribution of 10.0% to 14.5%, based on employees' pensionable pay banding). Contribution tiers for part time and retained firefighters to be based on whole time equivalent pay for their role.

Contributions, by the employer for fire-fighters who retire due to ill health are also paid into the Pension Fund in accordance with the regulations. This also applies to protected rights whole time equivalent compensatory payments paid to retained firefighters who were employed from 6th April 2006 and who had been ill health retired due to a qualifying injury.

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.

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 6th July 2016 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.

What is Corporate Governance?

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

² Robert Tricker. An expert in Corporate Governance.

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

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

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

Figure 1 - Our governance framework



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.

Each year the Council is required to reflect on how its governance arrangements have worked – identifying any significant governance issues (key risks) that it feels should be drawn to the attention of the public – in the interests of accountability and transparency. We do this through this 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.

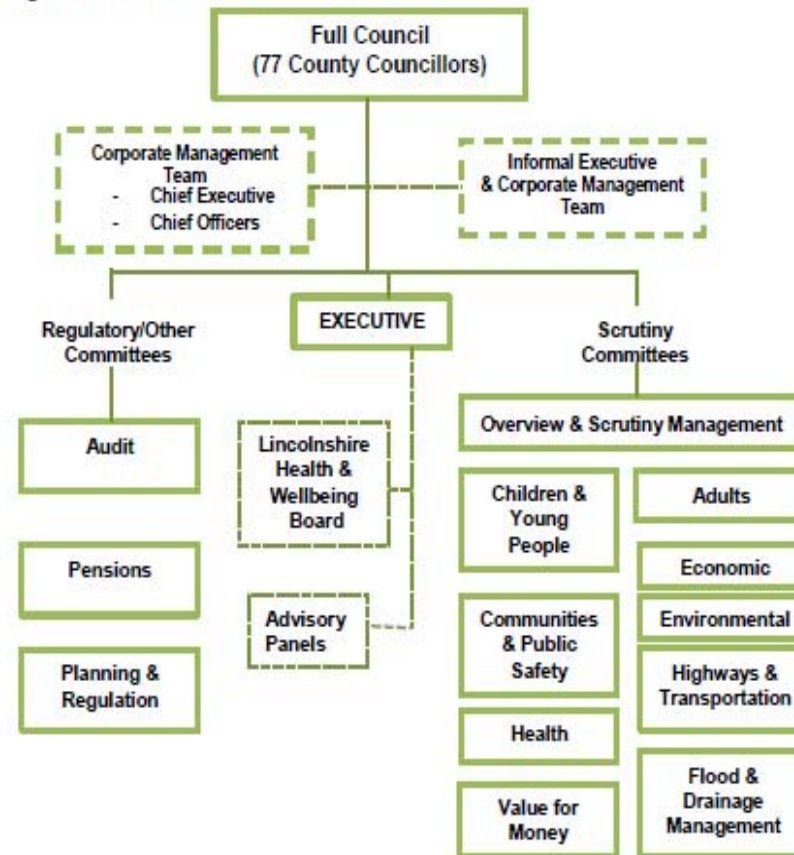
In times motivated by change we are committed to sharing as much information about our plans and programmes as possible. Meetings are therefore normally open to the public and we undertake extensive consultation on major changes to the way we propose to deliver our services.

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



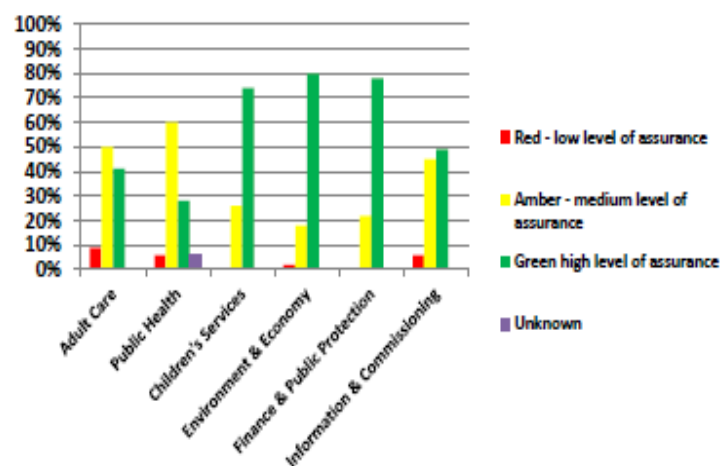
How do we know our arrangements are working?

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>	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 help secure Government funding in</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 Council meeting in</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>future years.</p>	<p>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 21 signatories.	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>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 Issue	Lead Officer(s)	Key Delivery Milestones – 2016/17	Implementation Date
Governance Arrangements			
<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

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.

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Regulatory and Other Committee

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

Report to:	Audit Committee
Date:	26 September 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 2017.
2. Review the outstanding actions designed to improve the effectiveness of the Committee.

Background

- 1 The Audit Committee's work plan has been developed by the Chairman and Vice Chairman of the Committee, having considered:
 - the terms of reference
 - best practice
 - information and knowledge on the Council's governance, risk and control environment – particularly areas of relevance for the Annual Governance Statement - 2017
 -(see Appendix A – work plan to March 2017).
- 2 There is an Audit Committee Forum Meeting planned for the 11th October 2016 at North Kesteven District Council. The Agenda includes:
 - Update on latest Governance & Audit issues
 - Information sharing:
 - Agenda topics and ways of working
 - Hot Topics
 - Risk Management – the basics and hot topics
 - Partnership risks and assurance

3 Appendix B shows the Committee’s action plan – which helps keep track of actions agreed during meetings

4

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.

Appendix A

Audit Committee Work Plan – 2016/17		
26 th September 2016	Assurances Required/Being Sought	Relevancy – Terms of Reference
Core Business		
Internal Audit Progress Report	Gain an understanding of the level of assurances being provided by the Head of Internal Audit over the Council's governance, risk and internal control arrangements and why.	<p>To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:</p> <ul style="list-style-type: none"> a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme. c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement. <p>To consider summaries of specific internal audit reports as requested.</p>
Update on Payroll and Pensions Systems	<p>Seek Assurance that the control environment of the Payroll and Pensions systems has improved with Internal Audit recommendations being implemented.</p> <p>Consider the level of confidence over the completeness and accuracy of the payroll and pension systems.</p>	To consider summaries of specific internal audit reports as requested.

Audit Committee Work Plan – 2016/17

<p>Update of Financial Procedure 7 – Audit and Inspection and the Internal Audit Charter</p>	<p>Confirm that the Audit and Inspection Financial Procedure and Internal Audit Charter adequately promotes and support effective Internal and External Audit processes.</p>	<p>To approve the internal audit charter</p>
<p>Approval of the Annual Governance Statement 2016</p>	<p>Confirm that the final Annual Governance Statement accurately reflects the Committees understanding of how the Council is run and any comments made on the draft have been acted upon.</p>	<p>To monitor the effective development and operation of risk management and corporate governance in the Council.</p> <p>To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.</p>
<p>External Audit ISA 260 Governance Report on the Council's Financial Statements and the Value for Money conclusion.</p>	<p>Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements.</p> <p>Ensure any issues / risks identified are being effectively managed.</p>	<p>To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.</p> <p>To consider specific reports as agreed with the external auditor</p>
<p>Approve the Statement of Accounts 2016 – County Council and Pension financial statements.</p>	<p>Consider the outcome of the External Audit and the appropriateness of management responses.</p> <p>Ensure that the explanatory forewords to their accounts help the public understand the authority's financial management of public funds.</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>To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.</p> <p>Duty to approve the authority's statement of accounts, income and expenditure and balance sheet.</p>

Audit Committee Work Plan – 2016/17

		To comment on the scope and depth of external audit work and to ensure it gives value for money
21st November 2016	30 January 2017	27 March 2017
Core Business	Core Business	Risk Management Training – PM
Outcome of the Internal Audit External Assessment	Internal Audit Progress Report	Core Business
Whistleblowing Annual Report	External Audit Progress Report and Plan	Internal Audit Progress Report
Risk Management Progress Report	Risk Management Progress Report – Strategic Risk Register Updated Financial Procedure 7 – Risk Management Updated Risk Management Strategy	External Audit Progress Report and Plan
Counter Fraud Progress Report	Other Assurance	Draft Internal Audit Plan 2017/18
Other Assurance	Invite to Corporate Management Team to provide briefing Combined Assurance Status Reports	Draft Counter Fraud Plan 2017/18 Updated Counter Fraud Strategy
21st November 2016	30 January 2017	27 March 2017
KPMG – Post Implementation Review of the	Information Management Team (SERCO) – linked to low assurance levels provided by Management and Annual Governance Statement. Include handover arrangements in light of restructure	International Audit Standards on the risks associated with the impact of potential fraud and error on the Financial Statements
		Update on Accounting policy changes

Appendix B

Audit Committee Action Plan – 2016/17			
Action	Terms of Reference Outcome	Key Delivery Activities	When
1. Clarify who should attend the Audit Committee and expectations on the information being presented.	<p>Ensure that relevant and focussed reports are presented. Provide more certainty that assurance is relevant and reliable</p> <p>Promote constructive challenge during meetings</p> <p>Strengthen accountability arrangements and the effectiveness of the Audit Committee</p>	Develop reporting protocol	30 th September 2016
2. Develop Action plan following self assessment workshop considering the following:	Improve effectiveness of the committee	Work with Councillor Development Group to develop a person spec with key attributes for people on an Audit Committee	31 st January 2017
		Recruit an additional 'independent' member	30 th June 2017
		Review the meeting cycle and agenda content with Democratic Services and the Chairman	1 st March 2017

		Deliver risk management training and awareness for members and staff	Arranged for March 2017
		Ensure that there is a private meeting with External Auditor at least once a year.	Agree with KPMG – November or January
		End of meeting debrief / lunch	Chairman to arrange as required
		Briefing / update on key risks between meetings	Noted
		Arrange informal meeting with CMB	Completed – formal meeting agreed Chairman – January 2017

Potential Agenda Items

Governance and Control of Trading Companies
Records Management – social care case files
County Farms
Joint Commissioning Board - Partnerships
Reviewing and encouraging transparency in partnership decision making
Understand and seek assurance over the governance and risks associated with our key partners -via Combined Assurance Status Reports
Compliance with the Transparency Code

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