

Lincolnshire County Council - Accounting Policies within Disclosure Notes

NOTE 12. USABLE 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.

(TABLE)

NOTE 13. 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.

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

(TABLE)

NOTE 16. HERITAGE ASSETS

Heritage assets are **defined as** assets with historical, artistic, scientific, technological, geophysical or environmental qualities; that are held and maintained principally for their contribution to knowledge and culture.

The assets held by the Council which have been classed as Heritage Assets fall into three categories:

1) Windmills

The Council is responsible for four windmills: Alford Five Sail Windmill, Burgh le Marsh Windmill, Ellis Mill in Lincoln, and Heckington Windmill. All four windmills are operational, open to the public on a managed basis and usually staffed by volunteers. Each windmill provides value to the cultural heritage of the County, preserving unusual or even unique features such as Heckington Mill, which is the only surviving eight sailed mill in the country.

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

2) Historic Buildings

The Council owns various historic buildings, the most famous of which is Lincoln Castle. The Castle was constructed by William the Conqueror on the site of a pre-existing Roman fortress. The Castle is open to the public and guided tours are available to give an insight into the history of Lincoln and Lincolnshire. Various cultural and entertainment events are also held at the Castle each year.

Also, the 12th century Temple Bruer Preceptory Tower, which was built to house the military order formed to guard the shrines of the Holy Land and protect pilgrims on the road. This site is managed by Heritage Lincolnshire on behalf of the Council.

Lincoln Castle and Temple Bruer will continue to be carried at historic cost. This is the capital expenditure on enhancements recognised since records began as the Council does not consider that a reliable valuation can be obtained for these assets. This is because of the nature of the assets held and the lack of comparable market values.

3) Collections

The Council owns and is responsible for more than three million items in its collections (held across libraries, museums and archives). These include physical and digital collections from all periods of Lincolnshire's history. **Collections include Fine Art Collection; the Tennyson Collection; Local Studies and Archive Collections; Lincolnshire Regiment, Militaria and Arms and Armour Collections; and Agriculture Collections.**

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

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

The Council's collections bring a wealth of enjoyment and education to those living in Lincolnshire and beyond. The Council is legally obliged to protect significant elements of these collections but, importantly, their management and development ensures that the cultural heritage and life of the County are preserved for future generations and are available to the current generation.

The management and development of the collections is governed by the Council's Policy on Collection Management, which can be found on the Council's website in the Decision details area

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

Depreciation is not charged on Heritage Assets.

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

(TABLE)

(TABLE)

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

- b) Additions to Heritage Assets

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

c) Impairment and Disposals are accounted for in line with the Council's policy on non-current assets – Property, Plant and Equipment (accounting policy for Disposal of Property, Plant and Equipment and Impairment of non-current assets). There have been no material disposals of Heritage Assets during 2021-22.

NOTE 17. INVESTMENT PROPERTIES

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

For these purposes, the Council holds the County Farms estates and a small number of other general fund properties. The County Farms estate includes both freehold (owned by the Council) and leasehold (rented by the Council) properties.

a) Investment Properties Income and Expenditure

(TABLE)

There are no restrictions on the Council's right to the remittance of income for its investment properties. **Rental income received in relation to Investment Properties are credited to the Financing and Investment Income line and results in a gain for the General Fund Balance.** The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

Depreciation is not charged on Investment Properties.

b) Movement on Investment Properties

(TABLE)

(TABLE)

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

d) Measurement after Recognition. Investment Properties will be measured at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, Investment Properties are measured at highest and best use using the current market conditions and recent sales prices and other relevant information for similar assets in the local area. The fair value of Investment Property held under a lease is the lease interest in the asset.

e) Revaluation Gains and Losses and Disposal of Investment Properties. A gain or loss arising from a change in the fair value of Investment Property shall be recognised in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. These are not

permitted by statute to impact on the General Fund Balance therefore these gains or losses are reversed out of the General Fund Balance in the Movement on Reserves and posted to the Capital Adjustment Account.

f) Revaluations

The Council revalue investment properties annually to ensure that they are carried at fair value. All valuations are carried out by the Council's appointed Valuers - Savills (L&P Ltd) for the County Farms Estate and Kier Services for other general fund Investment Properties. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations are carried out as at 31 March each year to ensure all Investment Properties are carried at fair value at the Balance Sheet date.

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

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

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

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

NOTE 20. DEBTORS

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

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

If settlement is over a year this is accounted for as long term debtor. When considering the amortised cost of long term debtors, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term debtor will be used as a proxy for amortised cost.

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

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

(TABLE)

NOTE 21. ASSETS HELD FOR SALE

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

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

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

(TABLE)

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

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

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed. It is Council policy to utilise these receipts to fund the capital programme in the year they are received or to carry them forward to be used in future years. ~~however the Council may use the flexibility to apply capital receipts to fund certain types of revenue expenditure as described in accounting policy 4e.~~ **These receipts are transferred from the General Fund Balance via the Movement in Reserves.** ~~to be utilised to fund the capital programme or set aside within the capital receipts reserve for future use to reduce the underlying need to borrow.~~

NOTE 22. CASH AND CASH EQUIVALENTS

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

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

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

Bank Overdrafts are to be shown separately from Cash and Cash Equivalents where they are not an integral part of an Authority's cash management. Where a bank overdraft is assessed as part of the Council's cash management it will be included within Cash and Cash Equivalents.

(TABLE)

NOTE 23. CREDITORS

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

Creditors are initially recognised and measured at fair value in the accounts. If payment is deferred to over a year, this is accounted for as a long term creditor. When considering the amortised cost of long term creditors, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term creditors will be used as a proxy for amortised cost.

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

(TABLE)

NOTE 24. PROVISIONS

The Council sets aside provisions for future expenses where:

- a past event has created a current obligation (legal or constructive) to transfer economic benefit.
- it is probable that an outflow of economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation

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

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

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

Provisions are recognised and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

(TABLE)

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

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

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

Lincolnshire - Schools PFI Arrangement

a) Background

On 27 September 2001 Lincolnshire County Council entered into a 31 year PFI contract with Focus Education (Lincolnshire), for the construction and provision of seven fully serviced school premises across the county. The school sites were completed, and became operational, on a phased basis, as shown in the following table:

(TABLE)

The contractor is required to provide the school facilities to the specified standard (including school buildings and educational equipment). The school must operate within the policies of the Local Education Authority. The school facilities must be available and ready for use as a school during term time and the school day is specified as 8am to 7pm.

The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards.

The Council is required to pay compensation to the contractor if the contract is terminated early to cover: the senior debt, any redundancy costs incurred by the provider, and any future profit elements set out in the contractor's financial model.

The contract ends in 2032, at which time the school premises will transfer to the ownership of the Council at no further cost. The contract specifies the physical condition in which the premises must be transferred.

b) Property, Plant and Equipment Held under the PFI Contract

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

(TABLE)

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

c. Liabilities Outstanding under the PFI Contract – Finance Lease Element

The following table shows the outstanding liability on the PFI Finance Lease, and the movement during 2021-22:

(TABLE)

d. PFI Contract Liabilities

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

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

The following table shows a breakdown of the estimated contract costs over the remaining life of the PFI contract, split into the different elements of the total cost.

(TABLE)

NOTE 37. TERMINATION BENEFITS

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

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

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

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

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

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

NOTE 42. CONTINGENT LIABILITIES

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

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

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

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

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