

# Lincolnshire County Council

## Statement of Accounts 2011-12

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# **Statement of Accounts 2011-12**

## **Explanatory Foreword**

### **Introduction to the Accounts**

The Statement of Accounts for the year 2011-12 is set out on pages 11 to 15.

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 County Council's finances. It should answer such questions as:

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

## **Content**

### **The Explanatory Foreword**

This provides a general introduction to the accounts, focusing on explaining the more significant features of the County Council's financial activities during the period 1 April 2011 to 31 March 2012. It is based on the information contained in the Statement of Accounts and the County Council's Financial Performance Report for 2011-12.

### **Movement in Reserves Statement for the period 1 April 2011 to 31 March 2012**

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 County Council.

### **Comprehensive Income and Expenditure Statement for the period 1 April 2011 to 31 March 2012**

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 2012**

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 2011 to 31 March 2012**

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

### **Notes to the Accounts**

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

**The Statement of Responsibilities for the Statement of Accounts**

This details the financial responsibilities of the County Council, the Chairman of the County Council and the Executive Director - Resources and Community Safety.

**The Governance Statement**

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

**Audit Opinion**

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

**The Lincolnshire Pension Fund Account**

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

**The Lincolnshire Fire and Rescue Pension Fund Account**

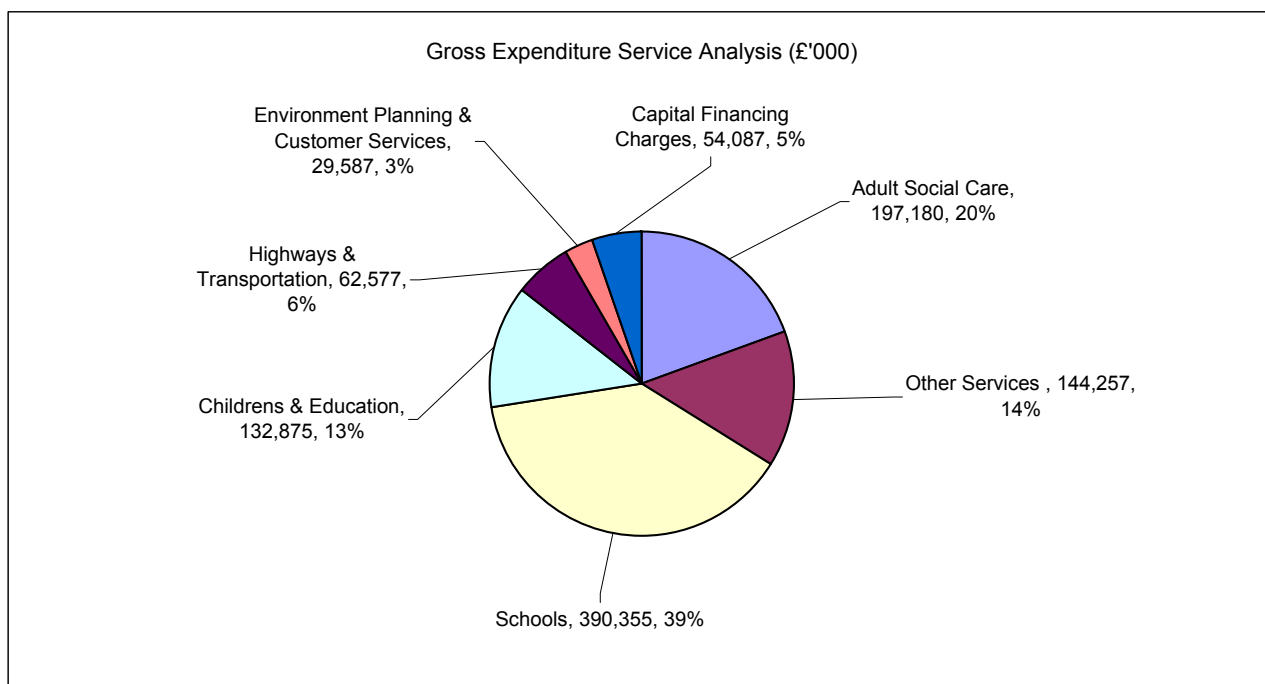
This shows the operation of the Lincolnshire County Council Fire and Rescue Pension Fund run by the County Council for its own Fire-fighter employees.

## **A review of financial performance in 2011-12 by the Executive Director - Resources and Community Safety**

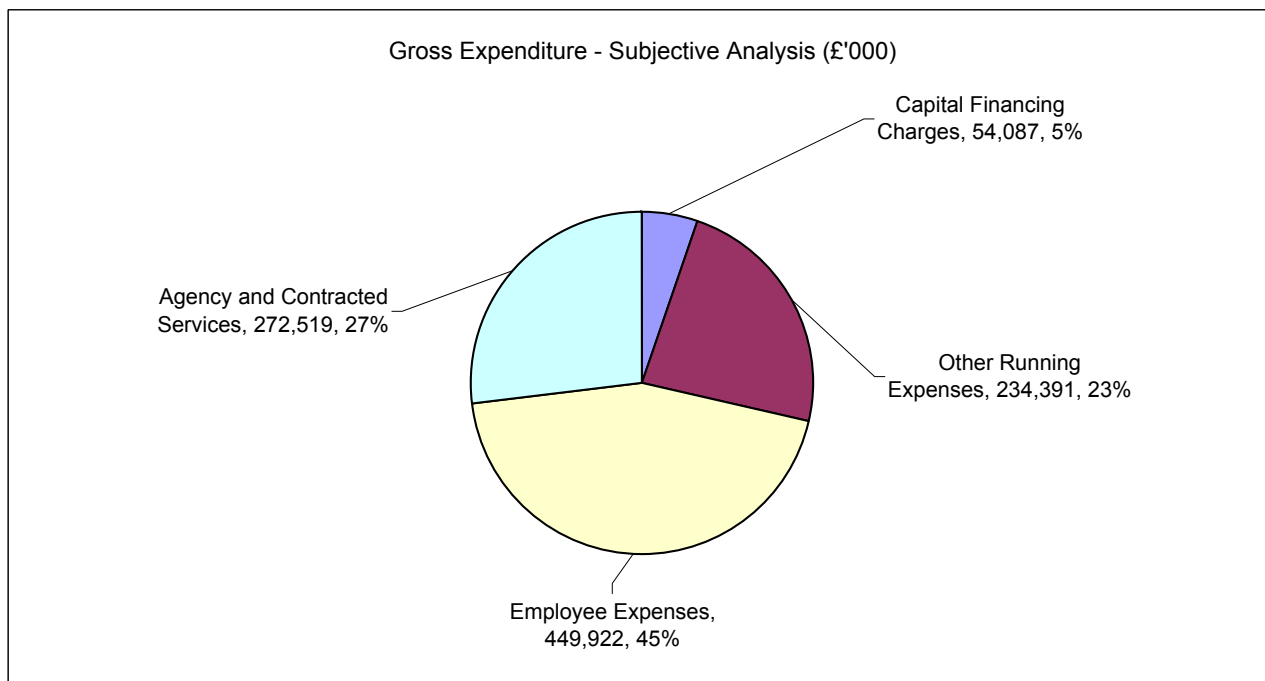
The Council spent £1,011m in 2011-12 in providing public services, or £1,419 for every person in Lincolnshire.

### **Annual 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.



Other services includes: Public Health, Economy & Culture, Fire & Rescue, Community Safety, Finance & Resources and Performance & Governance.

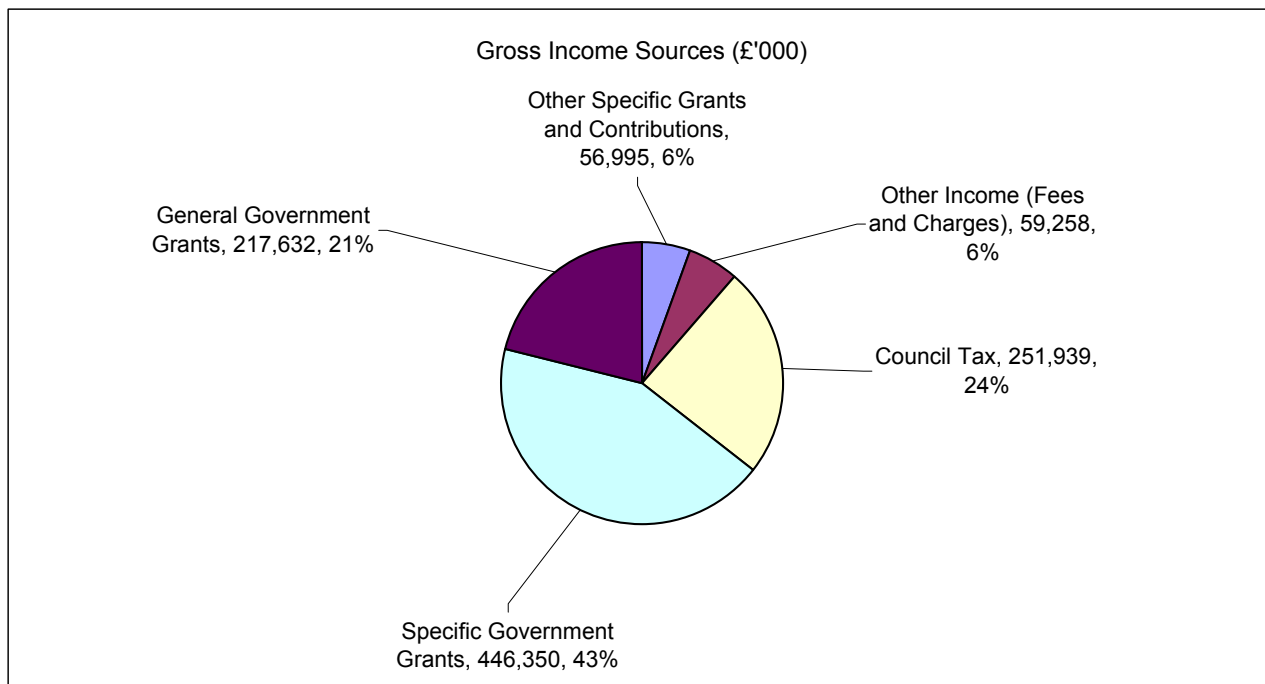


The distribution of expenditure by type differs significantly between different services. For example, salaries and wages comprises 71% of expenditure for schools. For services other than schools, salaries and wages comprises 28% of expenditure and contract payments comprises 40% of total expenditure. These differences reflect how Council services are provided.

Note 32 Amounts Reported for Resource Allocation Decisions provides further details on spending and the services which are provided to the public (page 80).

## Annual income

The Council's income in 2011-12 came from the following sources:



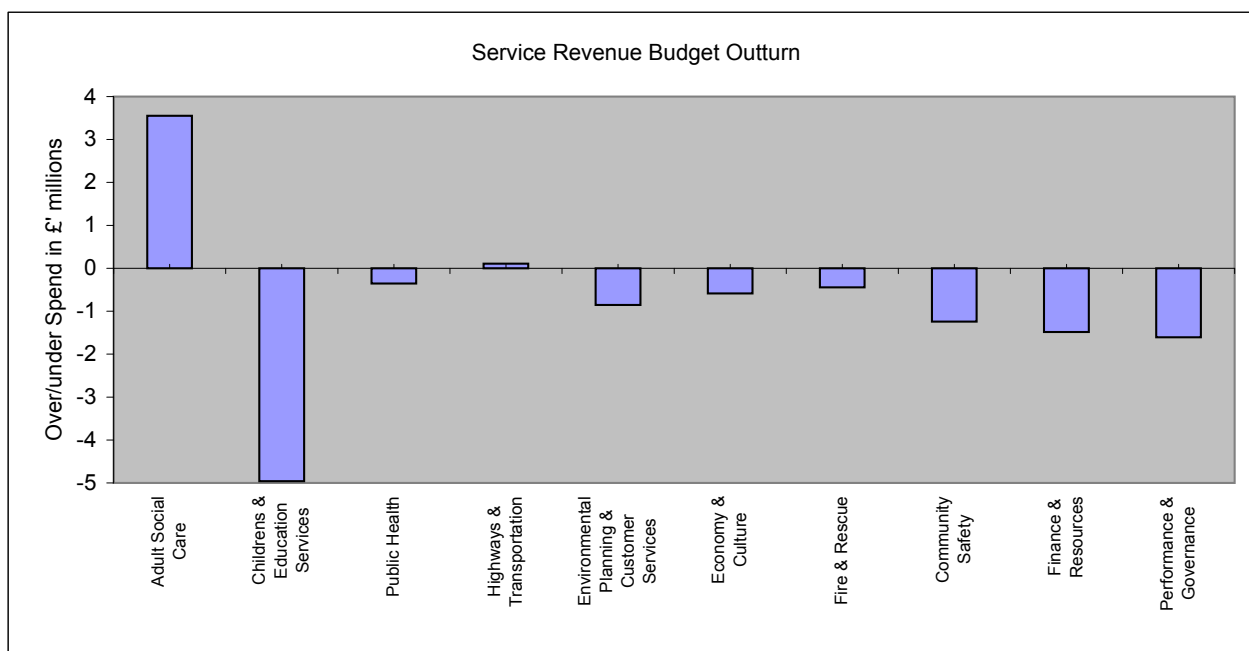
General Government Formula Grant decreased by 11.3% from 2010-11 (from £238.1m in 2010-11 to £211.3m in 2011-12). The Council chose not to increase Council Tax in 2011-12, but central government provided a Council Tax Freeze Grant equivalent to a 2.5% increase in Council Tax (worth £6.3m to Lincolnshire County Council). Specific Grants and Contributions include £362.6m Dedicated Schools Grant which is used for funding education in Lincolnshire.

## Revenue budget outturn 2011-12

The revenue budget outturn is summarised as below:

- Total service revenue spending (excluding schools), was underspent by £7.871m or 1.9%
- Schools budgets were underspent by £36.988m or 9.7% of the schools budget. Schools budgets are ring fenced and this money has been transferred into 2012-13 to be spent by schools in Lincolnshire.
- Other revenue budgets (including capital financing charges) was underspent by £15.526m. This reflects the Council's decision to use temporary internal balances to fund the capital programme during 2011-2012 which reduced the Council's borrowing costs.

The table below shows the outturn of service expenditure in 2011-12 compared with the budgets approved by the Council.

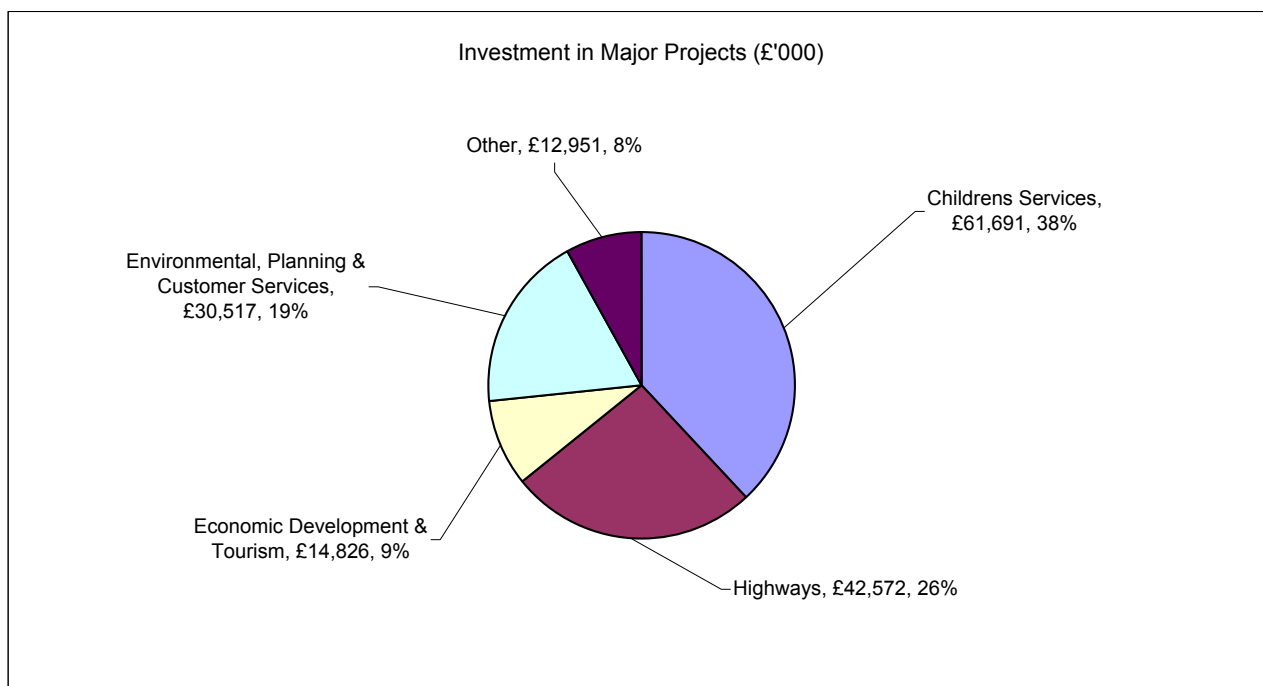


Further information on revenue budget spending and outturns can be found in the Review of Financial Performance 2011-12, which is available on the County Council's website.

#### Investment in major projects

The Council spent £162.557m on the County's assets, in particular on roads and schools. The net capital spend was £95.200m and there was an underspending of £24.228m or 20.0%. Explanations of the variances can be found in the Council's Review of Financial Performance Report for 2011-12.

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



Other Services includes: Property, IT, Libraries and Museums.

In 2011-12 expenditure was incurred on the following schemes:

- Construction of the Energy from Waste Plant, which will divert waste from landfill.
- Projects to improve the Council's road structure including various improvements throughout the county for road safety.
- Projects in schools to carry out remodelling, adding extensions to primary and secondary schools and academy schools.

Over half of the funding for the gross programme came from grants and contributions from other bodies (58%), a further 29% came from temporary internal borrowing. The remainder of the funding came from revenue (7%) and from capital receipts from the sale of surplus assets (6%).

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 2011-12 was 5.22%. 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 maintains general reserves 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 2012 are £15.900m or 3.5% of the total budget.

In addition, the Council maintains a number of other reserves earmarked for specific purposes (please refer to Note 10 for details.)

Government grants, the Council's main source of income, have been reduced substantially in increments from 2011-12 to 2014-15. The Council also faces pressures due to increased costs, including: increasing population (in particular, the impact on the Council's social care budgets of increasing numbers of older people), price increases and other costs such as annual increase of £8 per tonne in landfill tax. Some of these can be accommodated within existing budgets but some external pressures will add to the Council's costs. To address this reduction in income, substantial savings are necessary in order to bridge the funding gap between spending plus unavoidable cost pressures and the income available to the Council. Proposed savings of £125m were identified over the 2011-12 to 2014-15 period in a thorough review of all the Council's services and activities when setting the four year budget for 2011-12.

The programme of savings together with a prudent level of reserves means that the Council has a sound financial base from which to manage the challenges of a difficult medium to longer term out look for public sector finances.

#### Economic Climate and future revenue and capital budgets and future financing

The Government grant settlement for 2012-13 gives rise to a 7.6% reduction in formula grant for the County Council in line with expectations. Further reductions are expected, but not yet quantified for 2013-14 and 2014-15, but will be delivered via the proposed new funding regime based upon local retention of business rate income. This presents a significant challenge to the Council in balancing service delivery needs with the resources available. The 2012-13 budget therefore includes a reduction in total net expenditure of £30m. For the most part the areas that have been targeted to deliver these savings were identified last year as part of the 'core offer' process. Close monitoring of the delivery of these savings will be undertaken and, if necessary, corrective action will be initiated to examine alternative options. 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. In addition, a specific budget delivery risk assessment exercise started in 2011-12 will be continued into 2012-13.

#### The Council's Pension Fund liability

The Local Government Pension Scheme and the Fire-fighters' Pension Scheme both have a liability balance at year end. That is, the present value of fund obligations exceeds the fair value of employer assets in the fund. The total reported pension liability of the two schemes (which is off set in the Balance Sheet by the Pensions Reserve) has increased over the past year from £457.886m to £545.371m.

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. More information on the Council's pensions liabilities is contained in Note 54 Defined Benefit Pension Schemes.

#### Conversion of Schools into Academies

In 2011-12 a number of secondary and primary schools in the County converted to become Academies. These schools are independent of the Council. They receive funding from the Department of Education directly and incur their own expenditure. Before their conversion these Schools' income and expenditure formed part of the Council's net expenditure on schools. The effect of these schools becoming Academies has reduced the Council's gross expenditure on Education Services by £71.478m and income in this area by £73.882m. Further information is contained within Note 5 Exceptional Items.

In addition to the loss of income and expenditure on these schools, where the assets of a school becoming an Academy were owned by the County Council (i.e. Community and Voluntary Controlled Schools), the schools' land and buildings are leased to the Academy Trust. During 2011-12 seven secondary schools' and three primary schools' assets have been leased to Academy School Trustees on 125 year leases. The County Council have assessed these leases to be a finance lease for the buildings and an operating lease for the land. These assets have been valued as such and this has led to £61.017m being removed from the value of County Council's assets held on Balance Sheet as at 31 March 2012.

During 2011-12, the Council incurred £11.199m of capital expenditure on schools which have become academies. The Council has received funding through Framework Academy Grants from central government for the majority of this spend.

In 2012-13, there are a further eighteen school conversions planned by the end of September 2012. The value of assets associated with these schools in the balance sheet is £46.402m. On conversion to become Academies these assets will be transferred to the school on a 125 year lease and the assets will be written out of the County Council's balance sheet.



#### Heritage Assets - Adoption of New Accounting Standards

The Code of Practice on Local Authority Accounting in the United Kingdom for 2011-12 (the Code) has introduced a new standard FRS 30 for the treatment of Heritage Assets. The standard is fully adopted in 2011-12, with comparative figures for 2010-11 and an opening balance at 1 April 2010.

The adoption of the new standard requires that a new class of asset, heritage assets, to be disclosed separately on the face of the Council's Balance Sheet from 2011-12. The standard provides a definition of heritage assets as assets that are held by the County Council principally for their contribution to knowledge or culture. The heritage assets held by Lincolnshire County Council include: Windmills, Historic Buildings and Collections.

The effect of this change on the County Council's balance sheet at 1 April 2010, has been the movement of £6.285m of Community Assets to Heritage Assets, and recognition of an additional £20.964m of assets for the Collections not previously included on the balance sheet. Revaluations, plus a small amount of additions have taken the carrying value of heritage assets to £35.0m as at 31 March 2012.

Further information on the restatement of the accounts for Heritage Assets and the new disclosures can be found within Note 15.

## **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 Chairman's Responsibilities**

The Statement of Accounts was presented to Lincolnshire County Council Audit Committee and approved on 24 September 2012. The original documents were signed by Councillor B Young (Chairman Lincolnshire County Council Audit Committee) on 24 September 2012.

### **The Executive Director - Resources and Community Safety Responsibilities**

The Executive Director - Resources and Community Safety 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 - Resources and Community Safety 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 - Resources and Community Safety 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 2012 and of its expenditure and income for the year ended on that date.

The original documents were signed by Pete Moore, CPFA (Executive Director - Resources and Community Safety) on 24 September 2012.

## **Lincolnshire County Council: Movement in Reserves Statement for the period 1 April 2011 to 31 March 2012**

*This statement shows the movement in the year on the different reserves held by Lincolnshire County Council, 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 Councils 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 and Housing Revenue Account Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Council.*

		General Fund Balance	Earmarked GF Reserves (Note 10)	Capital Receipts Reserve (*1)	Capital Grants Unapplied	Total Usable Reserves (Note 27)	Unusable Reserves (Note 28) (*2)	Total Council Reserves
	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance as at 01 April 2011</b>		<b>16,645</b>	<b>109,257</b>	<b>0</b>	<b>37,648</b>	<b>163,550</b>	<b>422,833</b>	<b>586,383</b>
<b>Movement in Reserves during 2011-12</b>								
Surplus/(Deficit) on the provision of services		(46,289)	0	-	-	(46,289)	-	(46,289)
Other Comprehensive Income and Expenditure		-	-	-	-	0	(38,405)	(38,405)
Other Recognisable Gains			1,591			1,591		1,591
<b>Total Comprehensive Income and Expenditure</b>		<b>(46,289)</b>	<b>1,591</b>	<b>0</b>	<b>0</b>	<b>(44,698)</b>	<b>(38,405)</b>	<b>(83,103)</b>
Adjustments between accounting basis & funding basis under regulations	9	67,545	-	0	4,635	72,180	(72,180)	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>		<b>21,256</b>	<b>1,591</b>	<b>0</b>	<b>4,635</b>	<b>27,482</b>	<b>(110,585)</b>	<b>(83,103)</b>
Transfers to/from Earmarked Reserves	10	(22,001)	22,001	-	-	0	-	0
<b>(Increase)/Decrease in Year 2011-12</b>		<b>(745)</b>	<b>23,592</b>		<b>4,635</b>	<b>27,482</b>	<b>(110,585)</b>	<b>(83,103)</b>
<b>Balance as at 31 March 2012 Carried Forward</b>		<b>15,900</b>	<b>132,849</b>	<b>0</b>	<b>42,283</b>	<b>191,032</b>	<b>312,248</b>	<b>503,280</b>

(\*1) It is the Council's policy to fully utilise all capital receipts to finance capital expenditure in the year they are received.

(\*2) The opening balance as at 1 April 2011 has been restated for the adoption of FRS 30 on Heritage Assets. Further Information on the prior period restatement can be found in Note 15.

# Lincolnshire County Council: Movement in Reserves Statement for the period 1 April 2010 to 31 March 2011

		General Fund Balance	Earmarked GF Reserves (Note 10)	Capital Receipts Reserve (*1)	Capital Grants Unapplied	Total Usable Reserves (Note 27)	Unusable Reserves (Note 28) (*2)	Total Council Reserves
	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance as at 01 April 2010</b>		<b>14,803</b>	<b>98,869</b>	<b>0</b>	<b>36,968</b>	<b>150,640</b>	<b>158,378</b>	<b>309,018</b>
<u>Movement in Reserves during 2010-11</u>								
Surplus/(Deficit) on the provision of services		70,047	0	-	-	70,047	-	70,047
Other Comprehensive Income and Expenditure		-	-	-		0	207,440	207,440
Other Recognisable Gains			(122)			(122)		(122)
<b>Total Comprehensive Income and Expenditure</b>		<b>70,047</b>	<b>(122)</b>	<b>0</b>	<b>0</b>	<b>69,925</b>	<b>207,440</b>	<b>277,365</b>
Adjustments between accounting basis & funding basis under regulations	9	(57,695)	-	0	680	(57,015)	57,015	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>		<b>12,352</b>	<b>(122)</b>	<b>0</b>	<b>680</b>	<b>12,910</b>	<b>264,455</b>	<b>277,365</b>
Transfers to/from Earmarked Reserves	10	(10,510)	10,510	-	-	0	-	0
<b>(Increase)/Decrease in Year 2010-11</b>		<b>1,842</b>	<b>10,388</b>	<b>0</b>	<b>680</b>	<b>12,910</b>	<b>264,455</b>	<b>277,365</b>
<b>Balance as at 31 March 2011 Carried Forward</b>		<b>16,645</b>	<b>109,257</b>	<b>0</b>	<b>37,648</b>	<b>163,550</b>	<b>422,833</b>	<b>586,383</b>

(\*1) It is the Council's policy to fully utilise all capital receipts to finance capital expenditure in the year they are received.

(\*2) The opening balance as at 1 April 2010 has been restated for the adoption of FRS 30 on Heritage Assets. Further Information on the prior period restatement can be found in Note 15.

# Lincolnshire County Council: Comprehensive Income and Expenditure Statement for the period 1 April 2011 to 31 March 2012

*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.*

		Restated (*1) Year ended 31 March 2011 Net					Year ended 31 March 2012 Net
Gross Expenditure £'000	Income £'000	Expenditure £'000		Note	Gross Expenditure £'000	Income £'000	Expenditure £'000
<b>Cost of Services</b>							
663,008	(564,469)	98,539	Education Services	(5)	576,914	(475,319)	101,595
62,875	(10,701)	52,174	Children's Social Care		60,576	(11,170)	49,406
260,934	(73,214)	187,720	Adult Social Care		234,013	(71,559)	162,454
122,027	(21,035)	100,992	Highways, Roads and Transport Services		97,832	(7,691)	90,141
26,997	(3,854)	23,143	Cultural and Related Services		22,835	(3,076)	19,759
36,683	(3,055)	33,628	Environmental and Regulatory Services		31,523	(1,585)	29,938
22,774	(12,317)	10,457	Planning Services		14,809	(15,344)	(535)
30,666	(2,138)	28,528	Fire and Rescue Services		28,489	(3,131)	25,358
404	(48)	356	Housing Services - Travellers Sites		384	(61)	323
4,372	(1,206)	3,166	Central Services to the Public		4,249	(1,246)	3,003
3,853	0	3,853	Corporate and Democratic Core		3,807	(108)	3,699
1,596	0	1,596	Non Distributed Costs		(6,354)	0	(6,354)
(135,864)	0	(135,864)	Exceptional Items	(5)	0	0	0
<b>Cost of Services (excluding Continued and Discontinued Operations)</b>							
<b>1,100,325</b>	<b>(692,037)</b>	<b>408,288</b>		<b>(8)</b>	<b>1,069,077</b>	<b>(590,290)</b>	<b>478,787</b>
17,119	(16,594)	525	Surplus or Deficit on Continued and Discontinued Operations	(33)	205	(5)	200
<b>1,117,444</b>	<b>(708,631)</b>	<b>408,813</b>	<b>Cost of Services</b>		<b>1,069,282</b>	<b>(590,295)</b>	<b>478,987</b>
		20,716	Other Operating Expenditure	(11)			88,081
		31,028	Financing and Investment Income and Expenditure	(12)			14,871
		(530,604)	Taxation and Non-Specific Grant Income	(13,46)			(535,650)
		<b>(70,047)</b>	<b>(Surplus)/Deficit on Provision of Services</b>				<b>46,289</b>
		(33,475)	(Surplus)/Deficit on Revaluation of Non-Current Assets	(28)			(52,141)
			Impairment losses on Non-Current Assets charged to Revaluation Reserve				
			(Surplus)/Deficit on Revaluation of Available for Sale Financial Assets				
		(173,965)	Actuarial (Gains)/Losses on Pension Assets / Liabilities	(28, 54)			90,546
		122	Other Recognisable Gains				(1,591)
		<b>(207,318)</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>36,814</b>
		<b>(277,365)</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>83,103</b>

The presentation of Cost of Services has changed from the 2010-11 Statement of Accounts.

- Cultural, Environmental, Regulatory and Planning Services has been split over three headings: Cultural and Related Services; Environment and Regulatory Services; and Planning Services;
- Court Services, which included the Coroners Court is now shown under central services to the Public; and
- There are changes with the detailed analysis for Education Services and Children's Social Services (detail is shown in Note 8 Service Expenditure Analysis).

## Lincolnshire County Council: Balance Sheet as at 31 March 2012

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'.

Restated (1*) 1 April 2010 £'000	Restated (1*) 31 March 2011 £'000		Note	31 March 2012 £'000
1,260,020	1,269,195	Property, Plant and Equipment	(14)	1,251,784
27,249	31,157	Heritage Assets	(15)	35,022
40,941	50,908	Investment Properties	(16)	62,390
823	2,476	Intangible Assets	(17)	3,242
1,934	214	Long Term Investments (including Net Pension Assets)	(18)	214
4,145	4,463	Long Term Debtors	(21)	6,248
<b>1,335,112</b>	<b>1,358,413</b>	<b>Long Term Assets</b>		<b>1,358,900</b>
209,138	247,187	Short Term Investments	(18)	237,296
1,041	1,177	Assets Held for Sale	(23)	2,239
757	658	Inventories	(19)	820
1,652	1,459	Intangible Current Assets - LATs	(44)	0
62,557	57,679	Short Term Debtors	(21)	39,737
<b>275,145</b>	<b>308,160</b>	<b>Current Assets</b>		<b>280,092</b>
(10,441)	(8,019)	Cash and Cash Equivalents	(22)	(6,161)
(823)	(702)	Short Term Borrowing	(18)	(582)
(1,652)	(1,265)	Intangible Current Liabilities - LATs	(44)	0
(130,956)	(108,528)	Short Term Creditors	(24)	(102,355)
(2,976)	(19,046)	Provisions	(26)	(4,771)
<b>(146,848)</b>	<b>(137,560)</b>	<b>Current Liabilities</b>		<b>(113,869)</b>
(3,984)	(4,480)	Long Term Creditors	(18,24)	(4,623)
(4,574)	(4,339)	Provisions	(26)	(4,359)
(372,964)	(452,793)	Long Term Borrowing	(18)	(446,272)
(772,869)	(481,018)	Other Long Term Liabilities	(25)	(566,591)
<b>(1,154,391)</b>	<b>(942,630)</b>	<b>Long Term Liabilities</b>		<b>(1,021,845)</b>
<b>309,018</b>	<b>586,383</b>	<b>Net Assets</b>		<b>503,278</b>
150,640	163,550	Usable Reserves	(27)	191,032
158,378	422,833	Unusable Reserves	(28)	312,246
<b>309,018</b>	<b>586,383</b>	<b>Total Reserves</b>		<b>503,278</b>

(\*1) Opening Balance Sheet as at 1 April 2010 is required for the adoption of FRS 30 on Heritage Assets. All supporting notes affected by this change include an opening balance as at 1 April 2010. Further Information on the prior period restatement can be found in Note 15(B).

## **Lincolnshire County Council: Cashflow Statement as at 31 March 2012**

*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 Council.*

<b>31 March 2011 Direct Method £'000</b>	<b>Note</b>	<b>31 March 2012 £'000</b>
(35,075) Operating Activities	<b>29</b>	(35,632)
114,662 Investing Activities	<b>30</b>	28,337
(77,165) Financing Activities	<b>31</b>	9,153
<b>2,422 Net (Increase)/Decrease in cash and cash equivalents</b>		<b>1,858</b>
10,441 Cash and cash equivalents as at 1 April		8,019
8,019 Cash and cash equivalents as at 31 March		6,161

## **Note 1. Statement of Accounting Policies**

### **1. General Principles and Concepts**

The Statement of Accounts summarises the County Council's transactions for the financial year 2011-12 and the position at the year-end 31 March 2012. The Statement of Accounts has been prepared in accordance with the Accounts and Audit Regulations 2011. 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 2011-12 and Service Reporting Code of Practice 2011-12, 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 County 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/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 CI&ES (gain or loss on the disposal of non-current assets).

### **b) Measurement after Recognition – Valuation Approach**

The County 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 fair 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 fair value. These are determined to have short asset lives and historic cost is used as a proxy for fair value.
- 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 valued, measured and 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 fair 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 fair value.

#### Component Accounting for Property, Plant and Equipment

Assets included within property, plant and equipment are broken down into significant component parts (defined in terms of total asset value and differing expected useful life).

The Council has identified the following significant components within the property portfolio:

- DRC assets (including fire stations, schools, and 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.

### **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.

### Recognising a Revaluation Gain or Loss

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.

The revaluation reserve only contains revaluation gains recognised since 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 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. 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; and
- Surplus assets are depreciated in line with the operational asset class.

No depreciation is charged on: 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.

### **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 (CI&ES), on the Other Operating Expenditure line. Receipts from disposals are credited to the same line in the CI&ES, 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 CI&ES.

### **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.

### Recognising an Impairment

Impairment losses are initially recognised against the 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 CAA.

## **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 County 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, as a proxy for 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/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 CI&ES.

**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 CI&ES. The useful lives for intangible assets are between 2 and 7 years. Useful asset lives are determined by the ICT budget holder and reviewed and updated annually.

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

## **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.

**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, that is the amount that would be paid for the asset in its 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 CI&ES. 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 CI&ES. 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.

## **7. Heritage Assets**

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

- Historic Buildings including: Lincoln Castle and Temple Bruer;
- Historic Buildings – 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 County 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 will be 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 County 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 this value and then measured 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 CI&ES. 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.

**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 CI&ES, then transferred to the CAA through the Movement in Reserves Statement.

### **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 CAA 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 CAA 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 CI&ES;
- finance cost – an interest charge of 7.20% on the outstanding Balance Sheet liability, debited to Financing and Investment Income and Expenditure in the CI&ES;
- 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 CI&ES;
- 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 County 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 CI&ES (disclosed within Financing and Investment Income and Expenditure in the CI&ES) 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 CI&ES) 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 CI&ES to the CAA 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 CI&ES. A gain is also recognised on the same line in the CI&ES 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 CI&ES).

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 CAA 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 CI&ES 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 CI&ES.

### **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 CI&ES, 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 CI&ES 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 CI&ES, 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 CAA 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 CI&ES 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 CI&ES. 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 on Reserves Statement. When the expenditure is incurred, the grant shall be transferred from the Capital Grants Unapplied Account to the CAA 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 CI&ES 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 CI&ES after Net Cost of Services.

### **Community Infrastructure Levy (CIL)**

Community Infrastructure Levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council has no CIL in place in 2011-12.

## **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 or creditors, a de-minimis level of £1k for individual revenue items and £5k 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 debtors or creditors, a de-minimis level of £1k for individual revenue items and £5k 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;
- 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 CI&ES 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:**

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:**

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 Council's Average Yield Return on its Investments, are to be classed as Short Term Investments.



### c) Bank Overdrafts:

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 CI&ES 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 fair value in the accounts. When considering the fair value of long term provisions, the Council has set a £50k de minimis limit. Below this amount, the carrying value of the long term provisions will be used as a proxy for fair 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 £100k.

## **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 £100k.

## **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 County 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 County 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 County Council's financial performance.

## **28. Costs of Support Services**

The costs of overheads and support services are charged to services in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011-12 (SeRCOP). The costs are recharged to services on the following basis:

Costs	Basis of apportionment
Accommodation	area occupied
Accountancy services	estimated time
Business support	estimated time
Central support team	estimated time
Communications	gross expenditure and sales
Creditor payments	number of payments
Customer service centre	number and length of calls
Debtor services and income collection	number of debtor accounts and number of cash receipts
IT services	number of PC's
Payroll services	number of employees
Personnel services	number of employees
Programme Centre and Property Rationalisation Programme	gross expenditure and sales
Property services	number of properties
Adult Social Care (Assessments Team and associated Swift IT)	number of Adult Social Care clients

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 organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the CI&ES, 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 CI&ES, on the surplus or deficit on discontinued operations line. These items will not form part of the net cost of services in the CI&ES in the year they occur.

## **30. Value Added Tax (VAT)**

The Council's CI&ES 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 Income**

The collection of council tax is in substance an agency arrangement with the seven Lincolnshire District Council's (billing authorities) collecting council tax on behalf of the County Council.

The council tax income is included in the CI&ES on an accruals basis and includes the precept for the year plus Lincolnshire County Council's share of Collection Fund surpluses and deficits from the billing authorities.

The difference between the income reported in the CI&ES 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 Lincolnshire County Council's share of debtors (arrears and collection fund surpluses) and creditors (prepayments, overpayments and collection fund deficits).

### **32. 'Cap and Trade' Schemes**

#### **Landfill Allowance Trading Scheme – LATS**

LATS is the only 'cap and trade' scheme that currently affects Lincolnshire County Council. The LATS scheme is recorded in our accounts as:

- an asset for allowances held;
- LATS grant income (treated as a revenue government grant); and
- a liability for actual biodegradable municipal waste landfill usage.

Allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority, shall be recognised as current assets. They shall be measured initially at their fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial measurement, Authorities shall re-measure the value of landfill allowances as the lower of cost or net realisable value.

As landfill is used, a liability shall be recognised for actual landfill usage. The liability is discharged by using allowances to meet the liability or paying a cash penalty to DEFRA. The liability is measured as the best estimate of the expenditure required to meet the obligation at the reporting date (this will be the present market price of LATS at the balance sheet date).

#### **Carbon Reduction Commitment Scheme – CRC**

The County Council is required to participate in the CRC Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The County Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances.

The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Authority is recognised and reported in the costs of the Authority's services and is apportioned to services on the basis of energy consumption.

### **33. Reserves**

#### **a) Useable Reserves**

The County 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 CI&ES. 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.

### **34. Employee Benefits – Benefits Payable during Employment**

#### **a) 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.

#### **35. Employee Benefits – Termination Benefits**

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 when the obligation to pay these benefits arises. 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.

#### **36. Employee Benefits – Post Employment Benefits (Pensions)**

Lincolnshire County Council participates in three 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 CI&ES.
- **Uniformed Fire-fighters Pension Scheme (FPS):** From 1 April 2006, a new pension fund for Fire-fighters was set up. This scheme replaced the 1992 Fire-fighters scheme for new Fire-fighters. Both the 1992 and 2006 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 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 LGPS is accounted for as a defined benefits scheme:

- The liabilities of the Lincolnshire Pension Fund attributable to the County 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 4.7% (based on the indicative rate of return on high quality corporate bonds, determined by the actuary to be a basket of AA-rated bonds with long terms to maturity – the iBoxx Sterling Corporates AA over 15 Years Index).
- 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 the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CI&ES to the services for which the employees worked;

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CI&ES as part of Non Distributed Costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the CI&ES;
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the CI&ES;
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the CI&ES as part of Non Distributed Costs;
- 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; 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.

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 CI&ES.

### **37. Accounting for Schools Assets**

In Lincolnshire, local authority education is provided in: Foundation, Voluntary Aided, Voluntary Controlled and Community Schools.

Schools non-current assets will be accounted for by considering their substance and economic reality and not merely their legal form. The Code 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 County Council, or the future economic benefits are identified to sit with the County Council, then the non-current assets will be recorded in the balance sheet. Where the non-current assets and long term liabilities for a school are vested in the individual governing bodies, and it is assessed that the future economic benefits sit with the governing body of the school; no property, plant and equipment is recorded in the Council's balance sheet.

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

### **38. 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 £1million has been set for considering bodies to be included within group accounts.

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

### **39. 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 CI&ES 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 CI&ES 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 CI&ES in the year of repurchase/settlement and spread over future years under statutory regulation.

Where premiums and discounts have been charged to the CI&ES, 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 CI&ES 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 CI&ES 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 CI&ES 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 CI&ES (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 CI&ES 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 CI&ES 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 CI&ES or the relevant service (for receivables specific to that service). The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

### 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 CI&ES 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 CI&ES 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.

Where fair value cannot be measured reliably, the instrument is carried at cost (less impairment losses).

The Council holds a small equity holding of 14,000 of shares at £1 par value, in a company called 'Investors for Lincoln Ltd'. These shares do not have a quoted market price in an active market and therefore their 'fair value cannot be measured reliably, consequently they are shown in the Balance Sheet at cost.

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 CI&ES, 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 CI&ES. 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 derecognition of the asset are credited or debited to the Financing & Investment Income and Expenditure line in the CI&ES, 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 2011-12 accounts, the County Council is required to disclose the amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010).

### **IFRS 7 Financial Instruments: Disclosures**

The amendments to IFRS 7 - Financial Instruments: Disclosures relate to the transfer transactions of financial assets and the effect of those risks on an entity's financial position. The amendment requirements are intended to promote transparency in the reporting of transfer transactions of financial assets.

Under the amendments, an entity is required to provide the prescribed disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, regardless of when the transfer transaction occurred. Entities are also required to provide disclosures that enable users to understand the relationship between transferred assets that are not derecognised in their entirety and the related liabilities and to assess the nature of and risks associated with the continuing involvement in the derecognised assets.

For the County Council, securitisation of assets does not occur. Relevant circumstances would arise where an Authority retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership. The only example of where this could occur is factoring of our debts to a third party, the Council does not do this.

## **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:

### **PFI Contract**

-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 50 Private Finance Initiatives (PFI) and Similar Contracts.

### **Classification of Leases**

-The County Council has entered into numerous leases for property and equipment, both as lessee and lessor. All new arrangements are assessed on an annual basis using the Council's accounting policies on leasing. The most significant lease arrangement in place during 2011-12, relates to the contract with AssetCo Emergency Ltd, for the provision and maintenance of fire and rescue fleet vehicles, operational vehicles and equipment. The Council has assessed this contract to contain an embedded lease (the contract requires use of specific assets which the Council has the right to control). The embedded leased assets included within the contract have been assessed and accounted for in accordance with the Council's accounting policy on leasing. Details of all leases held by the Council are set out in Note 49 Leases.

### **Group Relationships**

- The County Council is one of seven local authority members of Eastern Shires Purchasing Organisation (ESPO). The relationship between the County Council and ESPO has been assessed to be a jointly controlled entity. ESPO has not been consolidated into the County Council's accounts as the relationship is not deemed to be material for the County Council. This relationship has been disclosed as a narrative note within the accounts. Full details of group relationships and other interests are detailed in Note 57.

### **School Assets**

- The County Council's accounting policies on accounting for schools assets states: 'The Code defines non-current assets as "a resource controlled by the Council as a result of a past event and from which future economic benefit or service potential are expected to flow". In applying this accounting policy, the following school assets have been included within the balance sheet as non-current assets: community school assets and voluntary controlled school assets. Voluntary aided and foundation school assets have not been included within the County Council's balance sheet as ownership, economic benefit and future service potential of these assets is deemed to be vested in the school's governing body.



#### 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 16.

#### **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 2012 contains the following entries for which there is a significant risk of material adjustments in the forthcoming financial year:

#### Property, Plant and Equipment (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 current 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 Comprehensive Income and Expenditure Statement. Note 1 on accounting policies and Note 14 Property, Plant and Equipment, details the current policy on valuation methods, asset lives and depreciation applied by the County Council.

#### Property, Plant and Equipment (Derecognition)

- When capital expenditure is incurred on replacing part of an existing asset, the carrying value of the existing asset being replaced must be identified and disposed of. Where the exact value of the replaced asset is not known, it must be estimated. The County Council uses the value of the replacement asset to calculate the element of the existing asset which has been replaced. Where the value of the replacement asset is over £0.500m, the asset is revalued at the end of the year. Where the value of the replacement asset is under £0.500m, the asset will be revalued at the next planned revaluation on the 5 year rolling programme.

- If the estimated amount disposed of is too much, then the carrying value of the asset will be understated in the balance sheet, as will associated annual depreciation charge. However, if the estimated amount disposed of is too little, then the carrying value of the asset will be overstated in the balance sheet.

#### 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 these assumptions may materially affect the value of the pension fund liability. Details of the pension fund liabilities are set out in Note 54 Defined Benefit Pension Schemes.

#### Provisions

- The County Council makes provisions for items it is obligated to pay, but where there is still some uncertainty about the exact value or timing of the payment to be made. At 31 March 2012, the Council has made provisions for £9.130m (see Note 26). The most significant provision relates to the Council's insurance fund (£6.284m). This represents all estimated outstanding claims under the excess clauses of the Council's external insurance policies.

#### 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 21 (debtors) and Note 24 (creditors). The most significant accrual as at 31 March 2012, is for pay which totals £11.524m (£8.705m of which is for employee leave earned but not taken).

## **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.

In 2011-12, an exceptional item has arisen due to the number of secondary and primary schools converting to Academy status. Academies are independent of the Council. They receive funding from the Department for Education directly and incur their own expenditure. Before their conversion to become an Academy School, this income and expenditure formed part of the Council's net expenditure on schools.

The effect of schools converting to Academies in 2011-12 on the Comprehensive Income and Expenditure Statement is:

	Reduction to Gross Expenditure £'000	Reduction to Income £'000	Effect on Net Expenditure £'000
Primary Schools	(10,143)	10,964	821
Secondary Schools	(61,335)	62,918	1,583
<b>Total Effect on Comprehensive Income &amp; Expenditure Statement</b>	<b>(71,478)</b>	<b>73,882</b>	<b>2,404</b>

These amounts have not been shown separately on the face of the Comprehensive Income and Expenditure Statement.

In addition to the loss of income and expenditure on these schools, where the assets of a school becoming an Academy were owned by the County Council (i.e. Community and Voluntary Controlled Schools), the school's land and buildings are leased to the Academy Trust. During 2011-12, seven secondary schools and three primary schools' assets have been leased to Academy School Trustees on 125 year leases. The County Council have assessed these leases to be finance leases for the buildings and operating leases for the land. These assets have been valued as such and this has led to £61.017m being removed from the value of County Council's assets held on Balance Sheet as at 31 March 2012.

In 2010-11, an exceptional item arose due to changes in the future increases in public sector pensions. The Chancellor announced in his UK budget statement on 22 June 2010, that with effect from 1 April 2011; future public service pensions increases would be linked to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). The effect of this change is to employees' future retirement benefits. The change has reduced the present value of the defined benefit obligation for employee service in prior periods, which has resulted in introducing of changes to post employment benefits in the current period.

This is shown in the accounts as a negative past service cost of £135.864m in the Comprehensive Income and Expenditure Statement. The reduction in past service cost for the Local Government Pension Scheme is £120.464m and £15.400m for the Fire-fighter Scheme (further information on the retirement benefits reported in the accounts can be found at Note 54).

## **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) not disclosed elsewhere in the accounts are:

A number of Lincolnshire schools have gained academy status during the 2011-12 financial year which has resulted in them no longer being owned by the Council. As a result, the value of these schools at the point of transfer to academy status has been recognised as a disposal of fixed assets in the accounts. This amounts to £61.017m in 2011-12.

Capital expenditure and grant income on projects at schools not on the Council's balance sheet (Academy, Foundation and Voluntary Aided schools) has been treated as Revenue Expenditure Funded from Capital Under Statute (REFCUS). In 2011-12, this amounted to £50.167m in expenditure and £32.833m in grant income and these amounts are shown as part of the total REFCUS

The transfer of schools to academy status has also had an impact on the pension fund. The assets relating to those schools gaining academy status have been transferred from the pension fund along with the associated liabilities. In 2011-12, the assets transferred amounted to £14.130m and the liabilities transferred amounted to £28.585m. This has also had an impact on the IAS 19 adjustment which is included in the net cost of services.

The Council holds investment properties (County Farms and Other General Fund Properties) at market value in the balance sheet. At the end of 2011-12, these were revalued upwards with £16.522m being recognised as a revaluation gain in the CI&ES .

The Council has received several grants exceeding £10m ; details of these can be found in Note 46.

## **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 - Resources and Community Safety) 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 (24 September 2012) 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 31 March 2012 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 31 March 2012 is set out here to provide information that is relevant to an understanding of the County Council's financial position but do relate to conditions at this date.

The Financial Statements and notes have not been adjusted for the following events which took place after 31 March 2012 as they provide information that is relevant to an understanding of the County Council's financial position but do not relate to conditions at that date.

### **Schools becoming Academies**

The property, plant and equipment line of the balance sheet includes valuations of £64.978m for twenty schools which are due to become Academies by the end of September 2012. On conversion to become Academies, these assets will be transferred to the school on a 125 year lease and the assets will be written out of the County Council's balance sheet.

## Note 8. Service Expenditure Analysis

The net cost of services is presented according to the service expenditure analysis detailed in the Service Reporting Code of Practice (SeRCOP) as issued by CIPFA. A further breakdown of the figures shown in the Comprehensive Income and Expenditure Statement is provided below:

2010-11			2011-12			
Gross Expenditure £'000	Income £'000	Restated (*1) Net Expenditure £'000		Gross Expenditure £'000	Income £'000	Net Expenditure £'000
EDUCATION SERVICES						
42,029	(34,410)	7,619	Early Years	38,801	(17,784)	21,017
248,606	(218,059)	30,547	Primary Schools	244,957	(236,651)	8,306
292,000	(267,300)	24,700	Secondary Schools	219,395	(169,596)	49,799
49,985	(40,607)	9,378	Special Schools	41,000	(39,203)	1,797
11,426	(1,402)	10,024	Services to Young People	14,139	(5,985)	8,154
18,962	(2,691)	16,271	Other School Related Education Functions	18,622	(6,100)	12,522
663,008	(564,469)	98,539	TOTAL	576,914	(475,319)	101,595
CHILDREN'S SOCIAL CARE						
19,862	(625)	19,237	Service Strategy	18,639	(2,380)	16,259
19,090	(824)	18,266	Children Looked After	19,785	(1,038)	18,747
13,724	(4,259)	9,465	Family Support Services	10,487	(2,875)	7,612
6,588	(3,935)	2,653	Youth Justice	5,429	(3,654)	1,775
193	(242)	(49)	Children's & Young People's Safety	487	(157)	330
944	(712)	232	Asylum Seekers	649	(825)	(176)
2,474	(104)	2,370	Other Children's and Families' Services	5,100	(241)	4,859
62,875	(10,701)	52,174	TOTAL	60,576	(11,170)	49,406
ADULT SOCIAL CARE						
992	(25)	967	Service Strategy	2,138	(27)	2,111
143,087	(35,495)	107,592	Older People (Aged 65 or Over) Including Older Mentally Ill	130,652	(39,197)	91,455
21,459	(1,890)	19,569	Adults Aged Under 65 with a Physical Disability or Sensory Impairment	18,390	(2,460)	15,930
63,057	(26,139)	36,918	Adults Aged Under 65 with Learning Disabilities	58,993	(24,261)	34,732
17,164	(6,011)	11,153	Adults Aged Under 65 with Mental Health Needs	14,617	(4,621)	9,996
15,175	(3,654)	11,521	Other Adult Services	9,223	(993)	8,230
260,934	(73,214)	187,720	TOTAL	234,013	(71,559)	162,454
HIGHWAYS, ROADS & TRANSPORT SERVICES						
13,121	(5,493)	7,628	Transport Planning, Policy & Strategy	9,011	(1,470)	7,541
14,108	(10,449)	3,659	Structural Maintenance	17,453	(1,007)	16,446
53,847	(2,691)	51,156	Capital Charges for Construction Projects	25,618	(48)	25,570
10,347	(562)	9,785	Environment, Safety & Routine Maintenance	10,904	(851)	10,053
4,978	(281)	4,697	Street Lighting (including energy costs)	5,764	(413)	5,351
7,022	(336)	6,686	Winter Service	5,861	(195)	5,666
6,953	81	7,034	Traffic Management and Road Safety	6,296	(1,913)	4,383
11,651	(1,304)	10,347	Public Transport	16,925	(1,794)	15,131
122,027	(21,035)	100,992	TOTAL	97,832	(7,691)	90,141
CULTURAL AND RELATED SERVICES						
9,551	(1,824)	7,727	Culture and Heritage	7,223	(1,749)	5,474
1,666	(68)	1,598	Recreation and Sport	1,703	(107)	1,596
452	(31)	421	Open Spaces	472	(21)	451
2,456	(1,230)	1,226	Tourism	953	(256)	697
12,872	(701)	12,171	Library Services	12,484	(943)	11,541
26,997	(3,854)	23,143	TOTAL	22,835	(3,076)	19,759
ENVIRONMENTAL AND REGULATORY SERVICES						
3	0	3	Coastal Protection	1	0	1
4,039	(268)	3,771	Community Safety (Crime Reduction)	3,132	(140)	2,992
54	0	54	Flood Defence and Land Drainage	45	0	45
0	0	0	Agricultural and Fisheries Service	0	0	0
5,987	(1,629)	4,358	Regulatory Services	4,576	(835)	3,741
21,552	(931)	20,621	Waste Disposal	18,777	(420)	18,357
151	(139)	12	Trade Waste	139	(131)	8
4,784	(3)	4,781	Recycling	4,817	(43)	4,774
113	(85)	28	Waste Minimisation	36	(16)	20
36,683	(3,055)	33,628	TOTAL	31,523	(1,585)	29,938
PLANNING SERVICES						
1,180	(396)	784	Development Control	945	(312)	633
930	(110)	820	Planning Policy	534	(78)	456
3,081	(966)	2,115	Environmental Initiatives	2,853	(497)	2,356
716	(65)	651	Economic Research	593	(60)	533
3,400	(684)	2,716	Business Support	2,657	(1,018)	1,639
10,880	(9,440)	1,440	Economic Development	5,318	(12,924)	(7,606)
2,587	(656)	1,931	Community Development	1,909	(455)	1,454
22,774	(12,317)	10,457	TOTAL	14,809	(15,344)	(535)

2010-11			2011-12			
Gross Expenditure £'000	Income £'000	Restated (*1) Net Expenditure £'000		Gross Expenditure £'000	Income £'000	Net Expenditure £'000
FIRE & RESCUE SERVICES						
2,091	(420)	1,671	Community Safety	2,206	(523)	1,683
28,575	(1,718)	26,857	Fire and Rescue Operations	26,283	(2,608)	23,675
0	0	0	Fire Service Emergency Planning	0	0	0
30,666	(2,138)	28,528	TOTAL	28,489	(3,131)	25,358
HOUSING SERVICES						
404	(48)	356	Travellers' Sites	384	(61)	323
404	(48)	356	TOTAL	384	(61)	323
CENTRAL SERVICES TO THE PUBLIC						
2,251	(952)	1,299	Registration of Births, Deaths and Marriages	2,336	(1,093)	1,243
0	0	0	Elections	10	0	10
886	(251)	635	Emergency Planning	639	(133)	506
1,235	(3)	1,232	Coroner's Court	1,264	(20)	1,244
4,372	(1,206)	3,166	TOTAL	4,249	(1,246)	3,003
CORPORATE & DEMOCRATIC CORE						
2,605	0	2,605	Democratic Representation and Management	2,489	(7)	2,482
1,248	0	1,248	Corporate Management	1,318	(101)	1,217
3,853	0	3,853	TOTAL	3,807	(108)	3,699
NON DISTRIBUTED COSTS						
1,596	0	1,596	Non distributed costs	(6,354)	0	(6,354)
(135,864)	0	(135,864)	Exceptional Items			
(134,268)	0	(134,268)	TOTAL	(6,354)	0	(6,354)
1,100,325	(692,037)	408,288	TOTAL NET COST OF SERVICES	1,069,077	(590,290)	478,787

The presentation of Services Expenditure Analysis has changed from the 2010-11 Statement of Accounts.

- Cultural, Environmental, Regulatory and Planning Services has been split over three headings:
  - Cultural and Related Services;
  - Environment and Regulatory Services; and
  - Planning Services.
- Court Services, which included the Coroners Court is now shown under central services to the Public; and
- Changes within the detailed analysis for Education Services and Children's Social Services:
  - Nursery Schools division has been renamed Early Years;
  - Three new service divisions created: Services to Young People, Other School Related Education Functions, and Children's and Young People's Safety;
  - Non-School Funding service division has been removed; and
 There are changes to subdivisions of service.

## **Note 9. Adjustments between accounting basis and funding basis under regulations.**

This note details the adjustments that are made to total comprehensive income and expenditure 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 County Council are required to be paid and out of which all liabilities of the County 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 County Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the County 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 County 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.

2010-11				2011-12			
General Fund	Usable Reserves	Capital	Capital	General Fund	Usable Reserves	Capital	Capital
Balance	Receipts	Grants	Movements in	Balance	Receipts	Grants	Movements in
£'000	Reserve	Unapplied	Unusable	£'000	Reserve	Unapplied	Unusable
£'000	£'000	£'000	Reserves	£'000	£'000	£'000	Reserves
			£'000				£'000
<b><u>Adjustments primarily involving the Capital Adjustment Account:</u></b>							
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
(79,084)			79,084	Charges for depreciation and impairment of non-current assets	(59,125)		59,125
(168)			168	Revaluation losses on Property Plant and Equipment	(19,934)		19,934
				Revaluation losses on Heritage Assets	(77)		77
				Revaluation losses on Held for Sale Assets	(710)		710
11,123			(11,123)	Movements in the market value of Investment Properties	16,482		(16,482)
(1,469)			1,469	Amortisation of intangible assets	(2,188)		2,188
10,745			(10,745)	Capital grants and contributions applied	33,623		(33,623)
0			0	Movement in the Donated Assets Account	0		0
(43,330)				Revenue expenditure funded from capital under statute (net of Grants and Contributions)	(22,327)		22,327
(21,285)			21,285	Amounts of property, plant & equipment written off on disposal or sale as part of the gain/loss on disposal to the C I & E S	(90,215)		90,215
				Amounts of assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the C I & E S	(590)		590
				Amounts of investment properties written off on disposal or sale as part of the gain/loss on disposal to the C I & E S	(5,289)		5,289

2010-11				2011-12			
Usable Reserves		Capital Movements in		Usable Reserves		Capital Movements in	
General Fund	Capital	Grants	Unusable	General Fund	Capital	Grants	Unusable
Balance	Receipts	Unapplied	Reserves	Balance	Receipts	Unapplied	Reserves
£'000	Reserve	£'000	£'000	£'000	Reserve	£'000	£'000
<b><u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u></b>							
21,272			(21,272)	Statutory provision for the financing of capital investment	24,678		(24,678)
11,688			(11,688)	Capital expenditure charged against the General Fund	13,939		(13,939)
<b><u>Adjustments primarily involving the Capital Grants Unapplied Account:</u></b>							
27,310		(27,310)		Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	31,146		(31,146)
		26,630	(26,630)	Application of grants to capital financing transferred to the Capital Adjustment Account		26,511	(26,511)
<b><u>Adjustments primarily involving the Capital Receipts Reserve:</u></b>							
1,766	(1,766)			Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	9,424	(9,424)	
	1,766		(1,766)	Use of the Capital Receipts Reserve to finance new capital expenditure		9,424	(9,424)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals							
Transfer from Deferred Capital Receipts Reserve upon receipt of cash							
<b><u>Adjustments primarily involving the Deferred Capital Receipts Reserve</u></b>							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement							



2010-11				2011-12			
Usable Reserves		Capital Grants Unapplied	Movements in Unusable Reserves	Usable Reserves		Capital Grants Unapplied	Movements in Unusable Reserves
General Fund Balance	Capital Receipts Reserve			General Fund Balance	Capital Receipts Reserve		
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b><u>Adjustment primarily involving the Financial Instruments</u></b>							
<b><u>Adjustment Account:</u></b>							
			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				
226			(226)	30			(30)
<b><u>Adjustments primarily involving the Pensions Reserve:</u></b>							
			Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 52)				
67,185			(67,185)	(39,609)			39,609
			Employer's pensions contributions and direct payments to pensioners payable in the year				
48,754			(48,754)	42,670			(42,670)
<b><u>Adjustments primarily involving the Collection Fund</u></b>							
<b><u>Adjustment Account:</u></b>							
			Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements				
418			(418)	(292)			292
<b><u>Adjustment primarily involving the Accumulated Absences Account:</u></b>							
			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				
2,543			(2,543)	819			(819)
<b>57,694</b>	<b>0</b>	<b>(680)</b>	<b>(57,014)</b>	<b>(67,545)</b>	<b>0</b>	<b>(4,635)</b>	<b>72,180</b>

## Note 10. 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 2011-12.

Balance at 01 April 2010 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2011 £'000		Balance at 01 April 2011 £'000	Additions in Year £'000	Used in Year £'000	Balance at 31 March 2012 £'000
2,587		(2,587)	0	<b>Capital Programme reserve</b>	0	0	0	0
1,957		(1,957)	0	<b>Capital Funding reserve</b>	0	0	0	0
				<b>Balances from dedicated schools budget including those held by schools under a scheme of delegation</b>				
13,559	8,350		21,909		21,909	36,988	(12,192)	46,705
				<b>Other Earmarked Reserves:</b>				
4,630	560	(4,630)	560	Other Services	560	2,232	(560)	2,232
16			16	Children's Fund	16	0	(16)	0
0	2,000	(947)	1,053	Adverse Weather	1,053	0	0	1,053
438			438	Other Economic Regeneration	438	0	(438)	0
1,210	1,000	(187)	2,023	Insurance	2,023	1,000	0	3,023
185			185	Invest to Save	185	0	(71)	114
254		(254)	0	Boarding	0	0	0	0
575	112		687	School's Sickness Insurance Scheme	687	256	0	943
140	5		145	Purchase of Museums Exhibits	145	0	(6)	139
192	130		322	Salix Carbon Management	322	35	(154)	203
49			49	Carbon Management	49	0	(49)	0
19,742	5,703		25,445	Waste Disposal	25,445	0	(13,700)	11,745
3,466	912	(1,014)	3,364	Development	3,364	0	(1,904)	1,460
0	350		350	Legal Services	350	832	(350)	832
0	50		50	Teal Park	50	0	0	50
0	194		194	Landfill Allowance Credits'	194	0	(194)	0
7,652	287	(1,509)	6,430	Health and Well Being	6,430	161	(1,279)	5,312
1,495	148		1,643	Safer Communities Development Fund	1,643	0	(475)	1,168
500	185		685	Community Development Fund	685	0	0	685
0	0	0	0	Fire Fleet	0	9,000	0	9,000
0	0	0	0	Support Services contract	0	500	0	500
0	0	0	0	Financial volatility	0	4,356	0	4,356
0	0	0	0	Corby Glen/South Lincolnshire Sports fund	0	171	0	171
0	0	0	0	Roads Maintenance	0	2,000	0	2,000
0	0	0	0	Youth Service	0	400	0	400
0	0	0	0	Temporary Service Reserve	0	3,634	0	3,634
				<b>Local Public Service Agreements Reward Grant Reserves:</b>				
4,294		(4,294)	0		0	0	0	0
				<b>Revenue Grants and Contributions Unapplied Reserves</b>				
5,568	1,752	0	7,320	Growth Points - Lincoln	7,320	0	(274)	7,046
4,084	1,205	0	5,289	Growth Points - Grantham	5,289	0	(1,500)	3,789
13,921	16,808	(13,866)	16,863	Children Services	16,863	1,952	(16,456)	2,359
421	6,829	(406)	6,844	Highways and Transport	6,844	360	(6,469)	735
47	853	0	900	Adult Social Care	900	7,015	(900)	7,015
0	0	0	0	Growing Places	0	9,801	0	9,801
11,887	4,842	(10,236)	6,493	Other Grants and Contributions	6,493	1,430	(1,545)	6,378
<b>98,869</b>	<b>52,275</b>	<b>(41,887)</b>	<b>109,257</b>	<b>Total</b>	<b>109,257</b>	<b>82,123</b>	<b>(58,532)</b>	<b>132,848</b>

The **Capital Programme** reserve represents specific capital funding set aside to fund future capital expenditure. This was fully utilised in 2010-11.

The **Capital Funding** reserve is used to finance future capital expenditure. This was fully utilised in 2010-11.

The balance held by **schools under the scheme of delegation**, represents the net underspending of school budget shares in 2011-12. 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 2011-12 on services other than schools (i.e. Children's Services, Communities, Development, Corporate Services, Central Services within the Dedicated Schools Budget and Other Budgets) which will be carried forward for use in 2012-13.

The reserve for the **Children's Fund** (CF) represents the amount of interest that has accrued in relation to grant income paid in advance by the Children and Young Person's Unit (CYPU). The interest will either be paid back to the CYPU or used for funding part of the CF project depending on the decision by the CYPU.

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 **Other Economic Regeneration** was established to provide match funding for projects attracting objective 2 grant. Although this grant has now ceased this reserve will match fund similar projects in 2012-13.

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 **Invest to Save** reserve provides funding for the implementation costs of initiatives which will produce future savings and pay back the initial investment over a period of years.

The **Boarding** reserve was earmarked for capital expenditure on Boarding Houses. The reserve was fully utilised in 2010-11.

The reserve for **Schools Sickness Insurance Scheme** represents the unspent balance of amounts set aside by schools to provide cover for staff absences.

The reserve for the **Purchase of Museum Exhibits** is earmarked for this purpose in future years. This also includes the reserve for the Tennyson Collection, which is earmarked for the preservation & expansion of the collection of Tennyson's works held at Lincoln's central library.

**Salix Carbon Management** is a reserve to provide Lincolnshire County Council match funding for Salix compliant carbon management projects.

The **Carbon Management** reserve is to provide funding for non Salix carbon management projects.

The **Waste Disposal** reserve will contribute to the funding of future investment in waste disposal.

The **Development** reserve will be used to fund one off service developments and improvements.

The **Teal Park** reserve was created for a bond that has been put in place for the development of this site.

The **Landfill Allowance 'Credits'** reserve has been set up to meet future liabilities of the Landfill Allowance Trading Scheme.

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 **Legal Services** represents what the Practice carried forward from 2010-11 (£0.348m) plus the surplus achieved in 2011-12 (£0.484m). The Legal Services Management Board will agree on what proportion of the surplus should be distributed to the shared service partners in 2012-13.

The **Safer Communities Development Fund** was set up from a planned underspend of Area Based Grant in 2008-09. The reserve will enable the commissioning process to continue as the Government grant reduces.

**Community Development Fund** was set up from an underspend of development funding in 2008-09 to be used for the implementation of the Positive Futures and Neighbourhood Management Projects.

The **Fire Fleet reserve** will be used to fund the purchase of the fire and rescue vehicles when the Council take on ownership of the fleet.

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 **Financial Volatility reserve** has been established to help the Council deal with the future uncertainties around local government funding.

**Corby Glen South Lincolnshire Sports Fund** has been established to recycle a capital receipt from the sale of playing field land in Corby Glen back into sports facilities in the Corby Glen area of the county.

The **Roads Maintenance reserve** will be used for key road maintenance schemes including that relating to drought damage to the highways.

The **Youth Service Positive Activities Development reserve** has been established to support a small grants scheme to transform the traditional Youth Services to a community delivery model.

The **Temporary Service** reserve will be used to fund a number of service projects to be undertaken in 2012-13.

The **Public Service Agreements Performance Reward Grant** was discontinued in 2010-11 by the government, these reserves were fully utilised in 2010-11.

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 11. Other operating expenditure.**

Other operating expenditure in the Comprehensive Income and Expenditure Statement is made up of:

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
1,029 - Precepts paid to non-principal authorities and levies	1,108
19,687 - Gain or Loss on the disposal of non-current assets	86,973
<b>20,716 TOTAL</b>	<b>88,081</b>

### **Note 12. Financing and Investment Income and Expenditure**

Financing and investment income and expenditure included in the Comprehensive Income and Expenditure Statement is made up of:

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
19,995 - Interest payable and similar charges	20,298
25,395 - Pensions Interest Cost and Expected Return on Pensions Assets	14,052
(2,202) - Interest receivable and similar income	(2,291)
(12,160) - Income, expenditure and changes in the fair values of investment properties	(17,188)
<b>31,028 TOTAL</b>	<b>14,871</b>

### **Note 13. Taxation and Non Specific Grant Income.**

Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement is made up of:

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
(249,983) Council tax income	(251,648)
(167,715) Contribution from National Non-Domestic Rates	(161,438)
<u>Non-ringfenced government grants</u>	
(24,354) - Revenue Support Grant	(49,901)
(50,497) - Area Based Grant	0
0 - Council Tax freeze Grant	(6,293)
0 - Local Services Support Grant	(1,601)
(38,055) - Capital grants and contributions	(64,769)
<b>(530,604) TOTAL</b>	<b>(535,650)</b>

Further details can be found in Note 46 Grant Income.

## Note 14. Property, Plant and Equipment.

### a) Movement on Non-Current Assets

Movement in Property, Plant & Equipment As at 31 March 2012	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infra-structure £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000	PFI Assets Included in Property, Plant & Equipment £'000
<b>Cost or Valuation</b>								
At 1 April 2011	792,805	173,589	568,683	688	31,042	55,646	1,622,453	32,741
Additions	14,000	7,138	37,796	0	8	49,947	108,889	38
Revaluation Increase to RR	48,460	0	0	0	423	0	48,883	0
Revaluation Decrease to RR	(6,047)	0	0	0	(297)	0	(6,344)	0
Revaluation Increase/(Decrease) to SDPS	(19,466)	0	0	0	(314)	0	(19,780)	0
Derecognition - Disposals	(79,400)	(2,252)	0	(124)	(8,091)	0	(89,867)	0
Derecognition to RR	(1,159)	0	0	0	0	0	(1,159)	(2)
Derecognition to SDPS	(10,639)	0	0	0	0	0	(10,639)	(24)
Reclassified to/from Heritage Property	0	0	0	0	0	(152)	(152)	
Reclassified to/from Held for Sale	(1,858)	0	0	0	(739)	0	(2,597)	0
Reclassified to/from Investment Property	0	0	0	0	(14)	(1)	(15)	0
Reclassifications - Other	(5,821)	4,727	7,743	0	12,165	(21,634)	(2,820)	0
<b>At 31 March 2012</b>	<b>730,875</b>	<b>183,202</b>	<b>614,222</b>	<b>564</b>	<b>34,183</b>	<b>83,806</b>	<b>1,646,852</b>	<b>32,753</b>
<b>Depreciation and Impairment</b>								
At 1 April 2011	(44,886)	(137,540)	(167,360)	0	(3,471)	0	(353,257)	(1,501)
Depreciation Charge for 2011-12	(17,628)	(14,425)	(26,794)	0	(576)	0	(59,423)	(456)
Depreciation written out on upward revaluation	4,880	0	0	0	114	0	4,994	0
Depreciation written out on downward revaluation	2,716	0	0	0	30	0	2,746	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	5,642	1,622	0	0	2,009	0	9,273	0
Derecognition to RR	58	0	0	0	0	0	58	0
Derecognition - SDPS	541	0	0	0	0	0	541	1
Reclassified to/from Heritage Property	0	0	0	0	0	0	0	0
Reclassifications to Asset Held for Sale	0	0	0	0	0	0	0	0
Reclassifications to/from Investment Property	0	0	0	0	2	0	2	0
Reclassifications - Other	1,578	0	0	0	(1,582)	0	(4)	0
<b>At 31 March 2012</b>	<b>(47,099)</b>	<b>(150,343)</b>	<b>(194,154)</b>	<b>0</b>	<b>(3,474)</b>	<b>0</b>	<b>(395,070)</b>	<b>(1,956)</b>
<b>Net Book Value</b>								
<b>At 31 March 2012</b>	<b>683,776</b>	<b>32,859</b>	<b>420,068</b>	<b>564</b>	<b>30,709</b>	<b>83,806</b>	<b>1,251,782</b>	<b>30,797</b>
At 01 April 2011	747,920	36,049	401,322	688	27,570	55,647	1,269,196	31,241

RR - Revaluation Reserve

SDPS - Surplus or Deficit on the Provision of Services

<b>Movement in Property, Plant &amp; Equipment As at 31 March 2011</b>	<b>Land &amp; Buildings £'000</b>	<b>Vehicles, Plant, Furniture &amp; Equipment £'000</b>	<b>Infra-structure £'000</b>	<b>Restated Community Assets (*1) £'000</b>	<b>Surplus Assets £'000</b>	<b>Assets Under Construction £'000</b>	<b>Total (*1) £'000</b>	<b>PFI Assets Included in Property, Plant &amp; Equipment £'000</b>
<b>Cost or Valuation</b>								
At 1 April 2010	759,662	154,884	487,641	373	27,332	121,214	<b>1,551,106</b>	32,539
Additions	25,794	12,970	33,668	105	78	38,414	<b>111,029</b>	191
Revaluation Increase to RR	27,942	0	0	0	2,608	0	<b>30,550</b>	(3)
Revaluation Decrease to RR	(2,134)	0	0	0	(366)	0	<b>(2,500)</b>	0
Revaluation Increase/(Decrease) to SDPS	(13,586)	0	0	0	0	0	<b>(13,586)</b>	0
Derecognition - Disposals	(15,156)	(256)	0	0	(70)	0	<b>(15,482)</b>	0
Derecognition to RR	(154)	0	0	0	0	0	<b>(154)</b>	0
Derecognition to SDPS	(6,279)	0	0	0	0	0	<b>(6,279)</b>	0
Reclassified to/from Held for Sale	(170)	0	0	0	(520)	0	<b>(690)</b>	0
Reclassified to/from Investment Property	0	0	0	0	145	0	<b>145</b>	0
Reclassifications - Other	16,887	5,987	47,373	210	1,834	(103,981)	<b>(31,690)</b>	14
<b>At 31 March 2011</b>	<b>792,806</b>	<b>173,585</b>	<b>568,682</b>	<b>688</b>	<b>31,041</b>	<b>55,647</b>	<b>1,622,449</b>	<b>32,741</b>
<b>Depreciation and Impairment</b>								
At 1 April 2010	(24,274)	(122,918)	(141,191)	0	(2,703)	0	<b>(291,086)</b>	(986)
Depreciation Charge for	(24,296)	(14,889)	(26,169)	0	(406)	0	<b>(65,760)</b>	(514)
Depreciation written out on upward revaluation	3,717	(5)	0	0	0	0	<b>3,712</b>	0
Depreciation written out on downward revaluation	(2,034)	0	0	0	(3)	0	<b>(2,037)</b>	0
Depreciation written out to the SDPS	286	0	0	0	(24)	0	<b>262</b>	0
Derecognition - Disposals	1,129	139	0	0	0	0	<b>1,268</b>	0
Derecognition - SDPS	798	0	0	0	0	0	<b>798</b>	0
Reclassifications to Asset Held for Sale	0	0	0	0	111	0	<b>111</b>	0
Reclassifications - Other	(212)	137	0	0	(446)	0	<b>(521)</b>	0
<b>At 31 March 2011</b>	<b>(44,886)</b>	<b>(137,536)</b>	<b>(167,360)</b>	<b>0</b>	<b>(3,471)</b>	<b>0</b>	<b>(353,253)</b>	<b>(1,500)</b>
<b>Net Book Value</b>								
<b>At 31 March 2011</b>	<b>747,920</b>	<b>36,049</b>	<b>401,322</b>	<b>688</b>	<b>27,570</b>	<b>55,647</b>	<b>1,269,196</b>	<b>31,241</b>
At 31 March 2010	735,389	31,965	346,450	373	24,629	121,214	<b>1,260,020</b>	31,554

(\*1) The opening balance as at 1 April 2010 has been restated for the adoption of FRS 30 on Heritage Assets. The effect of this has been the transfer of £6.285m of assets from Community Assets to Heritage Assets. Further Information on the prior period restatement can be found in Note 15(B).

## b) Depreciation and Asset Lives

The County Council's depreciation policies are set out in the Statement of Accounting Policies (Note 1). All non-current assets that are subject to depreciation are dealt with in accordance with these policies. All assets are assigned a useful economic life, over which they are depreciated. For assets subject to revaluation, this life is reviewed whenever an asset is revalued. For assets carried at cost, this is considered on an annual basis.

The following useful lives and depreciation rates have been used in the calculation of depreciation:

	Useful Economic Life (Years)
<b>Land</b>	999
<b>Buildings</b>	
<u>Specialist Buildings</u> , including Schools, Youth Centres, Residential Homes, Day Centres, Family Centres, Libraries, Museums, Highways Maintenance Depots	15 to 70
<u>Non-Specialist Buildings</u>	40
<u>Siteworks</u> , including playground, hardstanding, car parks etc	
- associated with specialist buildings	5 to 55
- associated with non-specialist buildings	20
<b>Infrastructure</b>	
Structures (Bridges)	120
Major Road Construction	60
Street Lighting, Kerbing	40
Drainage	30
Safety Fencing	25
Traffic Signals, Other Street Furniture (Signs, Ornamental structures), Junction Improvements, Bus Stop Infrastructure, Carriageway Works, Footways, Materials Testing, Verges, Rights of Way	20
Reactive Signs	15
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
<b>Vehicles, Furniture &amp; Equipment</b>	
IT Equipment	4
Furniture and Equipment	5
Vehicles	3 to 18



c) Capital Commitments

At 31 March 2012, the County Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012-13 and future years budgeted to cost £104.5m.

	<b>Detail</b>	<b>Gross £'000</b>
<b>Children's Services</b>		
Sleaford St George's Academy	Construction of Academy	2,500
Skegness Academy	Construction of Academy	8,200
Boston Hawthorn Tree Primary School	Extension and Remodelling of School	800
Boston West Primary School	Expansion and Modernisation of School	1,000
Skegness Seathorne Primary School	Extension and Remodelling of School	2,500
Lincoln St Christopher's School	Construction of new 'Eco Block'	1,000
<b>Environmental Management</b>		
Energy from Waste	Construction of a Plant which will divert waste from landfill	78,600
Energy from Waste	Construction of Sleaford Transfer Station	1,500
<b>Highways &amp; Transportation</b>		
Teal Park	Employment Site Servicing	7,300
Kesteven Street Offices	Construction of New Offices	1,100

#### 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 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 1st April.

The significant assumptions applied in estimating the fair values are:

- Existing Use Value (EUV) has been used where there was sufficient evidence of market transactions for that use (e.g. office accommodation).
- Depreciated Replacement Cost (DRC) has been used where the asset is of a specialised nature, or where there is no evidence of market value or suitably comparable properties (e.g. schools).

The following table shows a breakdown of fixed asset values, and the year in which they were last valued.

<b>Non-Current Assets carried at current cost</b>	<b>Land and Buildings £'000</b>	<b>Surplus Assets £'000</b>
Valued at fair value as at:		
01 April 2011	122,478	3,705
01 April 2010	159,204	9,131
01 April 2009	164,943	4,109
01 April 2008	153,610	6,297
01 April 2007	83,543	7,468
<b>Total Cost of Valuation</b>	<b>683,778</b>	<b>30,710</b>

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

<b>Non-Current Assets carried at historic cost</b>	<b>2010-11 £'000</b>	<b>2011-12 £'000</b>
Vehicles, Plant, Furniture and Equipment	36,049	32,859
Infrastructure	401,322	420,068
Community Assets	6,972	564
Assets Under Construction	55,647	83,806
<b>Total Cost of Valuation</b>	<b>499,990</b>	<b>537,297</b>

## **Note 15(a). 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 County Council, which have been classed as Heritage Assets fall into three categories:

### **1) Windmills**

The County Council is responsible for four windmills:

- Alford five sail windmill
- Burgh le Marsh windmill
- Ellis Mill in Lincoln
- 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) Other Historic Buildings**

The County 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 County 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 County 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**

	<b>Windmills</b>	<b>Other Historic Buildings</b>	<b>Collections</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost or Valuation</b>				
At 1 April 2011	4,367	2,566	24,224	31,157
Additions - In House construction/Improvement	52	57		109
Additions - Purchase/Acquisition				0
Additions - Donations				0
Revaluations recognised in the Revaluation Reserve	215		3,580	3,795
Revaluations recognised in the CI&ES			(77)	(77)
Impairment Losses/(reversals) recognised in the Revaluation Reserve				0
Impairment Losses/(reversals) recognised in the CI&ES				0
Disposals	(114)			(114)
Reclassifications	79	73		152
<b>At 31 March 2012</b>	<b>4,599</b>	<b>2,696</b>	<b>27,727</b>	<b>35,022</b>

	Windmills	Other Historic Buildings	Collections	Total
	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>				
At 1 April 2010	441	2,271	24,223	26,935
Additions - In House construction/Improvement	19	295	1	315
Additions - Purchase/Acquisition				0
Additions - Donations				0
Revaluations recognised in the Revaluation Reserve	3,907			3,907
Revaluations recognised in the CI&ES				
Impairment Losses/(reversals) recognised in the Revaluation Reserve				0
Impairment Losses/(reversals) recognised in the CI&ES				0
Disposals				0
<b>At 31 March 2011</b>	<b>4,367</b>	<b>2,566</b>	<b>24,224</b>	<b>31,157</b>

**b) Valuation**

The Heritage Assets held by the Council are valued using an appropriate basis:

- Windmills are valued on an existing use basis, as at the 31 March each year. These valuations are carried out by the County Council's appointed Valuers (Mouchel Ltd).
- Other Historic Buildings are carried at historic cost. No current cost valuation is applied to these properties.
- The Collections are valued at their insurance valuation as at 31 March each year. These valuations are provided by the County Council's insurers. Valuations for the Collections are reviewed and updated annually.

**c) Depreciation**

Depreciation is not charged on Heritage Assets

**d) Additions to Heritage Assets**

There have been no material Heritage assets purchased during 2011-12. Additions to Other Historic Buildings represent improvements to walkways, renovations to the café at Lincoln Castle and additions to Windmills represents replacement of sails.

**e) Disposals**

There have been no material disposals of Heritage Assets during 2011-12.

**f) Heritage Assets Five Year Summary of Transactions**

The Local Authority Accounting Code of Practice stipulates that a five year summary of transactions on Heritage Assets should be included here, if such information is available.

The County Council hold this information available from 2010-11 onwards. This is set out in the tables above. It is intended that such information will be built up over the next three years, to complete a five year analysis by 2014-15.

### **Note 15(b). Effect of Restatement for Heritage Assets.**

The Financial Reporting Standard for Heritage Assets (FRS 30) has been adopted by the County Council for the 2011-12 Statement of Accounts. The adoption of this standard constitutes a change in Accounting Policy, which requires restatement of the Prior Year figures included in these Financial Statements.

The most significant effects of this change are a movement of £6.285m Community Assets to Heritage Assets on the Balance Sheet, and recognition of an additional £20.650m of value in 2010-11 for the Collections.

The effect of this restatement on the prime Statements of the County Council is shown below:

#### **a) The Balance Sheet**

	<b>01 April 2010</b>	<b>31 March 2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Long Term Assets</b>		
Property Plant & Equipment - Community Assets	(6,285)	(6,285)
Heritage Assets	26,935	31,157
	<u>20,650</u>	<u>24,872</u>
<b>Unusable Reserves</b>		
Revaluation Reserve	(21,053)	(25,275)
Capital Adjustment Account	403	403
	<u>(20,650)</u>	<u>(24,872)</u>
<b>Total Effect of Restatement on the Balance Sheet</b>	<b>0</b>	<b>0</b>

## **Note 16. Investment Properties.**

Investment properties are assets held for either capital appreciation or income generation, or both. For these purposes the County 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 County Council) and leasehold (rented by the County Council) properties.

### **a) Investment Properties Income and Expenditure**

The following items of income and expenditure have been accounted for in the financing and investment income and expenditure in the Comprehensive Income and Expenditure Statement:

<b>County Farm Estates</b>	<b>2010-11 £'000</b>	<b>2011-12 £'000</b>
Rental Income from Investment Property	(1,903)	(1,777)
Direct Operating Expenses arising from Investment Property	918	1,098
<b>Net (Income)/Expenditure</b>	<b>(985)</b>	<b>(679)</b>

<b>Other General Fund Properties</b>	<b>2010-11 £'000</b>	<b>2011-12 £'000</b>
Rental Income from Investment Property	(60)	(43)
Direct Operating Expenses arising from Investment Property	6	16
<b>Net (Income)/Expenditure</b>	<b>(54)</b>	<b>(27)</b>

There are no restrictions on the County Council's ability to realise the value inherent in its investment property, or on the County Council's right to the remittance of income and the proceeds of disposal. The County Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

### **b) Movement on Investment Properties**

The following table summarises the movement in the fair value of investment properties over the year:

	<b>County Farm Estates £'000</b>	<b>Other General Fund Properties £'000</b>
Balance at 1 April 2011	50,246	662
Additions - Acquisitions (Purchase and Construction)		
Additions - Subsequent expenditure	235	0
Disposals	(5,288)	0
Net Gains/(Losses) from fair value adjustments	16,582	(60)
Transfers to/from Property, Plant and Equipment	1	12
<b>Balance at 31 March 2012</b>	<b>61,776</b>	<b>614</b>

<b>Nature of asset holding</b>		
Owned	61,728	614
Leased	48	0
Wayleaves		
<b>Balance at 31 March 2012</b>	<b>61,776</b>	<b>614</b>

	County Farm Estates £'000	Other General Fund Properties £'000
Balance at 1 April 2010	40,042	898
Additions - Acquisitions (Purchase and Construction)		
Additions - Subsequent expenditure	303	0
Disposals	(1,313)	0
Net Gains/(Losses) from fair value adjustments	11,214	(91)
Transfers to/from Property, Plant and Equipment	0	(145)
<b>Balance at 31 March 2011</b>	<b>50,246</b>	<b>662</b>
<b>Nature of asset holding</b>		
Owned	50,220	662
Leased	26	0
Wayleaves		
<b>Balance at 31 March 2011</b>	<b>50,246</b>	<b>662</b>

#### c) Revaluations

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

## **Note 17. Intangible Assets.**

The Council accounts for its software and licences as intangible assets. The IT systems are accounted for as part of Property, Plant and Equipment, under the heading Vehicles, Plant, Furniture and Equipment. Intangible assets recognised by the County Council include both purchased software, licenses and internally generated software.

### **a. Movement on intangible assets :**

	<b>Software £'000</b>	<b>Software Licenses £'000</b>	<b>Other Intangibles £'000</b>	<b>Total £'000</b>
Balance at 1 April 2011				
- Gross carrying amount	6,947	3,609	41	10,597
- Accumulated amortisation	(4,818)	(3,262)	(41)	(8,121)
<b>Net carrying amount at 1 April 2011</b>	<b>2,129</b>	<b>347</b>	<b>0</b>	<b>2,476</b>
Additions:				
- Purchases	997	266	0	1,263
Amortisation for the period	(1,927)	(260)	0	(2,187)
Other changes - reclassifications	1,671	19	0	1,690
<b>Net carrying amount at 31 March 2012</b>	<b>2,870</b>	<b>372</b>	<b>0</b>	<b>3,242</b>
Comprising:				
- Gross carrying amounts	9,615	3,894	41	13,550
- Accumulated amortisation	(6,745)	(3,522)	(41)	(10,308)
<b>Balance Sheet amount at 31 March 2012</b>	<b>2,870</b>	<b>372</b>	<b>0</b>	<b>3,242</b>

### **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:

	<b>Useful Economic Life (Years)</b>	
	<b>From</b>	<b>To</b>
- Software	4	7
- Software Licenses	1	7
- Other Intangibles	4	4

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £2.187m (£1.469m in 2010-11) charged to revenue in 2011-12 was charged to the IT cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure on 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 2012, the County Council has not capitalised any material items of software (with a value over £1m).



#### d. Capital Commitments

At 31st March 2012, the County Council has entered into a number of contracts for the purchase of intangible assets for 2012-13 and for future years budgeted to cost £2.960 million. The major commitments are:

<b>Detail</b>	<b>Gross £'000</b>
<b>Next Generation Platform (NGP)</b> - to simplify and streamline ICT Service Provision and Implement a modern, flexible and cost effective ICT Infrastructure	1,660
<b>Wide Area Network Replacement (WAN)</b> - To implement a consolidated Wide Area Network serving both corporate and schools connectivity needs when existing contracts expire in 2012.	1,300

#### 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 18. Financial Instruments and the Nature and Extent of Risks Arising from Financial Instruments**

### **a. Financial Instruments Balance**

The following categories of financial instruments are disclosed in the Balance Sheet:

	Long-Term		Current	
	31 March 2011	31 March 2012	31 March 2011	31 March 2012
	£'000	£'000	£'000	£'000
<b>Borrowings</b>				
Financial Liabilities At Amortised Cost	452,793	446,272	702	582
Financial Liabilities at Fair Value Through Profit and Loss	0		0	0
<b>Total Borrowings</b>	<b>452,793</b>	<b>446,272</b>	<b>702</b>	<b>582</b>
<b>PFI &amp; Finance Lease Liabilities</b>				
PFI and Finance Lease Liabilities	23,132	21,220	0	0
<b>Total PFI &amp; Finance Lease Liabilities</b>	<b>23,132</b>	<b>21,220</b>	<b>0</b>	<b>0</b>
<b>Creditors</b>				
Financial Liabilities at Amortised Cost	0	0	10,515	10,443
Financial Liabilities Carried at Contract Amount	4,480	4,623	93,422	86,448
<b>Total Creditors</b>	<b>4,480</b>	<b>4,623</b>	<b>103,937</b>	<b>96,891</b>
<b>Investments</b>				
Loans and Receivables	200	200	192,882	159,546
Available for Sale Financial Assets (*1)	0	0	54,305	77,750
Unquoted Equity Investments At Cost	14	14	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0	0	0
<b>Total Investments</b>	<b>214</b>	<b>214</b>	<b>247,187</b>	<b>237,296</b>
<b>Debtors</b>				
Loans and Receivables	4,463	6,248	0	0
Financial Assets Carried at Contract Amount	0	0	48,446	23,486
<b>Total Debtors</b>	<b>4,463</b>	<b>6,248</b>	<b>48,446</b>	<b>23,486</b>

(\*1) The Available for Sale Financial Assets for 31 March 2012 are investments held in Stable Net Asset Value Money Market Funds.

### **b. Financial Instruments Income, Expense, Gains or Losses**

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

The Council's Financial Assets are predominantly loans and receivables valued at amortised cost; although it's investments held in Stable Net Asset Value Money Market Funds are classed as Available for Sale Financial Assets which are valued at fair value that equates to the carrying value, as 1 unit held in these funds = £1 fair value. The Council has a small share holding in Investors In Lincoln Ltd, a company established to promote economic regeneration and the development and expansion of industry, commerce and enterprise in and around the city of Lincoln. Shares are held to the nominal value of £14,000. These are classed as Unquoted Equity Investments and are valued at cost. No income is received from this investment.

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.

The interest received or incurred in relation to the financial instruments held by the Council is shown in the following table:

	2010-11 £'000	2011-12 £'000
Financial Liabilities At Amortised Cost	18,275	18,761
Financial Liabilities at Fair Value Through Profit and Loss	0	0
<b>Total Interest Expense</b>	<b>18,275</b>	<b>18,761</b>
Total Fee Expense	46	1
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>18,321</b>	<b>18,762</b>
Loans and Receivables at Amortised Cost	(1,646)	(1,748)
Available for Sale Financial Assets	(419)	(516)
Unquoted Equity Investments At Cost	0	0
Financial Assets at Fair Value Through Profit and Loss	0	0
<b>Total Interest Income</b>	<b>(2,065)</b>	<b>(2,264)</b>
<b>Total Fee Income</b>	<b>0</b>	<b>0</b>
<b>Interest Received</b>	<b>(2,065)</b>	<b>(2,264)</b>

#### 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 cashflows 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 2012 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 2011		31 March 2012	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB Debt (Long Term > 12 Months)	442,684	403,882	436,207	453,732
Non PWLB Debt (Long Term > 12 Months)	10,108	9,915	10,065	9,010
PWLB Debt (Short Term < 12 Months)	6,524	5,964	6,531	6,802
Non PWLB Debt (Short Term < 12 Months)	746	745	625	624
Long-Term Creditors	4,480	4,480	4,623	4,623
<b>Total Financial Liabilities at Amortised Cost</b>	<b>464,542</b>	<b>424,986</b>	<b>458,051</b>	<b>474,791</b>

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 2011 to 31 March 2012, highlights the reduction or increase in market rates over this period.

Loans and Receivables	31 March 2011		31 March 2012	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Loans and Receivables (Long Term > 12 Months)	200	200	200	200
Loans and Receivables (Short Term < 12 Months)	192,372	192,372	159,220	159,220
Long-Term Debtors	4,463	4,463	6,248	6,418
<b>Financial Assets at Amortised Cost</b>	<b>197,035</b>	<b>197,035</b>	<b>165,668</b>	<b>165,838</b>

The fair value is greater than the carrying amount, because 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.

#### d. Nature and Extent of Risks Arising From Financial Instruments and How the Authority Manages those Risks

##### (i) Key Risks

The County 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 County 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: AA- Money Market Fund: AAA UK Government: Not Applicable
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Minimum Acceptable Sovereign (Country) Credit Rating:	AAA
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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.

Deposits With Banks and Financial Institutions	Amount at 31 March 2011		Amount at 31 March 2012	
	£'000	%	£'000	%
AAA Rated Counterparties	54,305	22.00%	77,750	32.78%
AA Rated Counterparties	154,722	62.67%	79,220	33.40%
A Rated Counterparties**	0	0.00%	80,000	33.73%
Other Counterparties*	37,864	15.33%	214	0.09%
<b>Total Investments</b>	<b>246,891</b>	<b>100.00%</b>	<b>237,184</b>	<b>100.00%</b>

\*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.

\*\*A Rated Counterparties at 31 March 2012 comprise investments to part-nationalised banks, who do not meet the AA-Long Term Minimum Requirements, but due to their status are viewed as the same low credit risk to the Council as UK Government.'

At the time of making the investment, the financial institutions fully met the Council's minimum investment criteria and all the total outstanding investments at the reporting date still meet this 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 Councils customers at the 31 March 2012 can be analysed by age as follows:

Analysis of Debts by Age	Amount at 31 March 2011		Amount at 31 March 2012	
	£'000	%	£'000	%
Less than 3 months	1,504	27.21%	2,802	39.13%
3 to 6 months	797	14.43%	864	12.07%
6 months to 1 year	1,217	22.02%	1,133	15.83%
More than 1 year	2,008	36.34%	2,360	32.97%
<b>Total Outstanding Debt</b>	<b>5,526</b>	<b>100.00%</b>	<b>7,159</b>	<b>100.00%</b>

#### (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:

<b>Debt Outstanding- Financial Liabilities</b>	<b>31 March 2011 £'000</b>	<b>31 March 2012 £'000</b>
Less than one year	11,217	11,025
Between one and two years	6,564	3,593
Between two and five years	26,635	48,607
Between five and ten years	95,666	91,295
Between ten and fifteen years	44,779	40,010
Between fifteen and twenty-five years	41,599	40,218
Between twenty-five and thirty-five years	39,439	34,439
Between thirty-five and forty-five years	100,213	138,110
Maturing in more than forty-five years	97,897	50,000
<b>Total</b>	<b>464,009</b>	<b>457,297</b>

<b>Investments Outstanding - Financial Assets</b>	<b>31 March 2011 £'000</b>	<b>31 March 2012 £'000</b>
Less than one year	247,187	237,296
Between one and two years	0	0
Between two and three years	0	0
Maturing in more than three years	214	214
<b>Total</b>	<b>247,401</b>	<b>237,510</b>

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 County 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.

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.

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 percentage point movement in average interest rates would be equivalent to a £2.145m 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:

<b>Financial Impact of the Interest Rate Risk</b>	<b>Amount at 31 March 2012 £'000</b>
Increase in interest payable on variable rate borrowings	6
Increase in interest receivable on variable rate investments	(2,151)
<b>Impact on Income and Expenditure Account</b>	<b>(2,145)</b>

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:

	<b>Fair Value 31 March 2012 £'000</b>	<b>Fair Value at 1% Higher £'000</b>	<b>Fair Value at 1% Lower £'000</b>
County Council	467,031	412,626	536,664
Schools	2,450	2,309	2,606
<b>Long Term Fixed Borrowing:</b>	<b>469,481</b>	<b>414,935</b>	<b>539,270</b>

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. Fair values have been calculated using the same methodology/assumptions as outlined on page 54 Fair Value of Assets and Liabilities Carried at Amortised Cost.

### **Price Risk**

The Council, excluding the pension fund, does not generally invest in equity shares and is therefore not exposed to losses arising from movements in the price of shares.

The Council has a small equity holding of £14,000 shares (£1 par value) in a company called Investors in Lincoln Ltd, received in connection with the Council's economic regeneration policies.

These shares are classed as 'Unquoted Equity Investments' valued at cost and do not represent a price risk for the Council.

### **Foreign Exchange Risk**

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.



## **Note 19. Inventories.**

The County Council held the following inventory items at 31 March 2012:

	Balance outstanding at 1 April 2011 £'000	Purchases £'000	Recognised as an expense in the year £'000	Written off balances £'000	Reversals of write-off in previous years £'000	Balance outstanding at 31 March 2012 £'000
Highways and Transportation	625	1,216	(1,021)	0	0	820
Other Committees	33	0	0	(33)	0	0
<b>Total Inventories</b>	<b>658</b>	<b>1,216</b>	<b>(1,021)</b>	<b>(33)</b>	<b>0</b>	<b>820</b>

The Highways and Transportation stock comprises salt stores for winter maintenance.

The County Council's accounting policies on inventories includes a de-minimis of £100k for inventories (applicable from 31 March 2011).

## **Note 20. Construction Contracts.**

The County Council does not undertake construction contracts.

## **Note 21. Debtors.**

The County Council held the following debtors at 31 March 2012:

<b>31 March 2011 Amounts falling due in one year: £'000</b>	<b>31 March 2012 £'000</b>
25,056 Central government bodies	10,298
4,920 Other local authorities	3,354
1,286 NHS bodies	3,766
0 Public corporations and trading funds	0
10,859 Bodies external to general government	7,754
9,233 Council tax agency arrangements	9,817
6,325 Payments in advance	4,748
<b>57,679</b>	<b>39,737</b>
<b>Total Short Term Debtors</b>	<b>39,737</b>

<b>31 March 2011 Amounts falling due after one year: £'000</b>	<b>31 March 2012 £'000</b>
0 Central government bodies	1,719
468 Other local authorities	530
0 NHS bodies	6
3,995 Bodies external to general government	3,993
<b>4,463</b>	<b>6,248</b>
<b>Total Long Term Debtors</b>	<b>6,248</b>

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

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

## **Note 22. Cash and Cash Equivalents.**

The County Council balance of cash and cash equivalents is made up of the following elements:

<b>31 March 2011</b>	<b>31 March 2012</b>
<b>£'000</b>	<b>£'000</b>
(7,966) Cash & Cash Equivalents held by the County Council	(6,161)
(53) Cash Overdrawn	0
<b>(8,019)</b>	<b>(6,161)</b>

## **Note 23. Assets Held for Sale.**

The County Council held the following assets for sale at 31 March 2012:

	<b>Current</b>		<b>Non-Current</b>	
	<b>2010-11</b>	<b>2011-12</b>	<b>2010-11</b>	<b>2011-12</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance outstanding at 1 April	1,041	1,177	0	0
Assets newly classified as held for sale:				
- Property, Plant and Equipment	579	2,739	0	0
Revaluation losses	(168)	(1,453)	0	0
Revaluation gains		135		
Assets Sold	(275)	(359)	0	0
<b>Balance Outstanding at 31 March</b>	<b>1,177</b>	<b>2,239</b>	<b>0</b>	<b>0</b>

## **Note 24. Creditors.**

The County Council had the following creditors at 31 March 2012:

<b>31 March 2011 Amounts falling due in one year:</b>	<b>31 March 2012</b>
<b>£'000</b>	<b>£'000</b>
(21,937) Central government bodies	(20,515)
(3,054) Other local authorities	(3,090)
(188) NHS bodies	(3,572)
(268) Public corporations and trading funds	(74)
(51,922) Other entities and individuals	(49,491)
(4,559) Council tax agency arrangements	(5,434)
(10,084) Receipts in advance	(6,962)
(16,516) Employee benefits accrual	(13,217)
<b>(108,528) Total Short Term Creditors</b>	<b>(102,355)</b>

<b>31 March 2011 Amounts falling due after one year:</b>	<b>31 March 2012</b>
<b>£'000</b>	<b>£'000</b>
(4,480) Other entities and individuals	(4,623)
<b>(4,480) Total Long Term Creditors</b>	<b>(4,623)</b>

The Council Tax Agency Arrangements figure represents the County Council's share of council tax prepayments, overpayments and our share of any deficit owed to the Collection Funds held by the District Council's in Lincolnshire.

## **Note 25. Other Long Term Liabilities**

The County Council had the following long term liabilities at 31 March 2012:

<b>31 March 2011</b>	<b>31 March 2012</b>
<b>£'000</b>	<b>£'000</b>
(23,132) Outstanding Liabilities on PFI and Finance Leases	(21,220)
(457,886) Pension Reserve	(545,371)
<b>(481,018)</b>	<b>(566,591)</b>

## Note 26. Provisions.

The County Council made the following provisions during 2011-12:

<b>Summary of Provisions</b>	<b>Balance at 1 April 2011 £'000</b>	<b>Additional Provisions made in 2011-12 £'000</b>	<b>Amounts Used in 2011-12 £'000</b>	<b>Unused amounts reversed in 2011-12 £'000</b>	<b>Unwinding of discounting in 2011-12 £'000</b>	<b>Balance at 31 March 2012 £'000</b>
Social Services - Section 117	(562)	0	255	0	0	(307)
Waste Disposal Claims	(856)	(24)	24	24	0	(832)
Retained Fire-fighter's part time pay regs	(322)	0	322	0	0	0
Insurance Claims	(5,879)	(322)	0	0	(83)	(6,284)
Redundancy payments	(11,927)	0	11,927	0	0	0
Pension Strain	(2,814)	0	2,814	0	0	0
Carbon Reduction Scheme	0	(931)	0	0	0	(931)
Property Dilapidation Costs	0	(220)	0	0	0	(220)
Voluntary Aided Schools VAT	0	(99)	0	0	0	(99)
Onerous Contracts Property Leases	0	(457)	0	0	0	(457)
Onerous Contracts	(1,025)	0	274	751	0	0
<b>TOTAL</b>	<b>(23,385)</b>	<b>(2,053)</b>	<b>15,616</b>	<b>775</b>	<b>(83)</b>	<b>(9,130)</b>

0

<b>Short Term Provisions</b>	<b>Balance at 1 April 2011 £'000</b>	<b>Additional Provisions made in 2011-12 £'000</b>	<b>Amounts Used in 2011-12 £'000</b>	<b>Unused amounts reversed in 2011-12 £'000</b>	<b>Unwinding of discounting in 2011-12 £'000</b>	<b>Balance at 31 March 2012 £'000</b>
Waste Disposal Claims	(25)	(24)	24	0	0	(25)
Retained Fire-fighter's part time pay regs	(322)	0	322	0	0	0
Insurance Claims	(2,933)	(106)	0	0	0	(3,039)
Redundancy payments	(11,927)	0	11,927	0	0	0
Pension Strain	(2,814)	0	2,814	0	0	0
Carbon Reduction Scheme	0	(931)	0	0	0	(931)
Property Dilapidation Costs	0	(220)	0	0	0	(220)
Voluntary Aided Schools VAT	0	(99)	0	0	0	(99)
Onerous Contracts Property Leases	0	(457)	0	0	0	(457)
Onerous Contracts	(1,025)	0	274	751	0	0
<b>TOTAL</b>	<b>(19,046)</b>	<b>(1,837)</b>	<b>15,361</b>	<b>751</b>	<b>0</b>	<b>(4,771)</b>

<b>Long Term Provisions</b>	<b>Balance at 1 April 2011 £'000</b>	<b>Additional Provisions made in 2011-12 £'000</b>	<b>Amounts Used in 2011-12 £'000</b>	<b>Unused amounts reversed in 2011-12 £'000</b>	<b>Unwinding of discounting in 2011-12 £'000</b>	<b>Balance at 31 March 2012 £'000</b>
Social Services - Section 117	(562)	0	255	0	0	(307)
Waste Disposal Claims	(831)	0	0	24	0	(807)
Insurance Claims	(2,946)	(216)	0	0	(83)	(3,245)
<b>TOTAL</b>	<b>(4,339)</b>	<b>(216)</b>	<b>255</b>	<b>24</b>	<b>(83)</b>	<b>(4,359)</b>

The County Council's accounting policy on provisions includes a de-minimis of £100k.

**Social Services - Section 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 January 2012, a review of the provision was carried out and a number of Service Users were identified as deceased and their estates are now unlikely to claim. The provision for these cases, plus cases where the value is under £10k have been released back to revenue.

The **Waste Disposal** provision has been established for claims against Lincolnshire County Council for necessary remedial work on waste disposal sites sold by the Council.

**Retained Fire-fighters part time pay regulations** provision has been made for the costs of settlement of a case brought under the Part Time Worker (less favourable treatment) Regs 2000. Agreement has been reached nationally, on the settlement figure for Retained Duty Service employee's in relation to less favourable treatment by Fire Authorities in terms and conditions of employment, since the introduction of the regulations.

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 £'000	Maximum for all such claims £'000
Public & employer's liability	150	2,500
School property	150	500
Other property	10	100

The **Redundancy Provision** represents the estimate of the cost of redundancy payments because of the recent restructuring of the County Council.

The **Pension Strain** provision is the estimate of the costs of the long term pension payments due to the recent restructuring of the County Council.

The provision for **Carbon Reduction Scheme** has been set up because, although the energy data relating to carbon emissions during 2011-12 has been collated, the details of the amount will not be available until 2012-13.

The **Property Dilapidation Costs** provision is an estimate of the costs associated with terminating property leases and handing back properties to the landlord. These costs have arisen as result of the Council reshaping its property portfolio and moving out of leasehold into freehold accommodation.

The **Voluntary Aided Schools VAT** provision relates to an investigation by HM Revenue and Customs into the reclaiming of VAT by Voluntary Aided schools on capital expenditure. Under HM Revenue & Customs rules, Voluntary Aided schools are not able to reclaim this VAT and it is likely that this will need to be repaid.

The provision for the **Onerous Contracts** is the estimate of the costs of reducing the service contracts for Centre For British Teachers (CFBT) and Lincolnshire Partnership Foundation Trust (LPFT) and is the agreed share of the redundancy costs to be met by the County Council.

The Council have and will continue to vacate properties as part of the reductions to funding and services. The lease costs and costs associated with leaving these properties will be provided for as an onerous contract.

**Note 27. Usable Reserves.**

The Council's usable reserves include: the General Fund, Earmarked Reserves, (including revenue grants and contributions unapplied), and Capital Grants Unapplied.

<b>Reserve</b>	<b>Balance at</b>	
	<b>31 March 2011</b>	<b>Balance at 31 March 2012</b>
	<b>£'000</b>	<b>£'000</b>
Capital Grants Unapplied	(37,648)	(42,284)
Usable Capital Receipts (*1)	0	0
Earmarked Reserves	(109,257)	(132,848)
General Fund	(16,645)	(15,900)
<b>Total</b>	<b>(163,550)</b>	<b>(191,032)</b>

Please refer to the Movement on General Reserves Statement, Note 9 Adjustments Between Accounting Basis and Funding Basis Under Regulations and Note 10 Transfer To/From Earmarked Reserves for further details.

(\*1) It is the County Council's policy to fully utilise all Capital Receipts to finance capital expenditure in the year they are received.

## **Note 28. Unusable Reserves.**

<b>Balance at 31 March 2011 £'000</b>	<b>Note</b>	<b>Balance at 31 March 2012 £'000</b>
(210,557) Revaluation Reserve	(28a)	(240,194)
(675,025) Capital Adjustment Account	(28b)	(621,730)
14 Financial Instruments Adjustment Account	(28c)	(16)
457,886 Pension Reserve	(28d)	545,371
(4,674) Collection Fund Adjustment Account	(28e)	(4,383)
9,524 Accumulated Absences Account	(28 f)	8,705
<b>(422,832) Total</b>		<b>(312,247)</b>

### **a. Revaluation Reserve.**

The Revaluation Reserve contains the gains made by the County 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.

<b>2010-11 Restated (*1) £'000</b>	<b>2011-12 £'000</b>	<b>£'000</b>
<b>(181,480) Balance at 1 April</b>		(210,557)
(38,167) Upward revaluation of assets	(58,455)	
4,692 Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	6,314	
(33,475) Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(52,141)	
3,150 Difference between fair value depreciation and historical cost depreciation	4,131	
1,248 Accumulated gains on assets sold or scrapped	18,373	
4,398 Amount written off to the Capital Adjustment Account	22,504	
<b>(210,557) Balance at 31 March</b>		<b>(240,194)</b>

(\*1) The opening balance as at 1 April 2010 and the upward revaluation of assets during 2010-11 have been restated for the adoption of FRS 30 on Heritage Assets. Further Information on the prior period restatement can be found in Note 15.

### **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 County Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

<b>Restated (*1) 2010-11 £'000</b>	<b>2011-12 £'000</b>
<b>(732,739) Balance at 1 April</b>	<b>(675,025)</b>
<b><u>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</u></b>	
79,084 - Charges for depreciation and impairment of non-current assets	59,125
168 - Revaluation losses on Property, Plant and Equipment	20,721
1,469 - Amortisation of intangible assets	2,188
43,330 - Revenue expenditure funded from capital under statute (net of Grants and Contributions)	22,327
21,285 - 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	96,095
(4,398) Adjusting amounts written out of the Revaluation Reserve	(22,504)
<b>140,938</b> Net written out amount of the cost of non-current assets consumed in the year	<b>177,952</b>
<b><u>Capital financing applied in the year:</u></b>	
(1,766) - Use of the Capital Receipts Reserve to finance new capital expenditure	(9,424)
(10,745) - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(33,623)
(26,630) - Application of grants to capital financing from the Capital Grants Unapplied Account	(26,511)
(21,272) - Statutory provision for the financing of capital investment charged against the General Fund	(24,678)
(11,688) - Capital expenditure charged against the General Fund	(13,939)
<b>(72,101)</b>	<b>(108,175)</b>
(11,123) Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(16,482)
0 Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	0
<b>(675,025) Balance at 31 March</b>	<b>(621,730)</b>

(\*1) The opening balance as at 1 April 2010 have been restated for the adoption of FRS 30 on Heritage Assets. Further Information on the prior period restatement can be found in note 15.



#### c. Financial Instruments 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 County 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.

2010-11 £'000	2011-12 £'000
<b>240 Balance at 1 April</b>	<b>14</b>
0 Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	
15 Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	15
(241) 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	(45)
<b>14 Balance at 31 March</b>	<b>(16)</b>

#### 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 County 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 County 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 County 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.

2010-11 £'000	2011-12 £'000
<b>747,790 Balance at 1 April</b>	<b>457,886</b>
(173,965) Actuarial gains or losses on pensions assets and liabilities	90,546
(67,185) Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	39,609
(48,754) Employer's pensions contributions and direct payments to pensioners payable in the year	(42,670)
<b>457,886 Balance at 31 March</b>	<b>545,371</b>

e. Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2010-11 £'000	2011-12 £'000
<b>(4,256) Balance at 1 April</b>	<b>(4,674)</b>
Amount by which council tax income credited to the Comprehensive Income and (418) Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	291
<b>(4,674) Balance at 31 March</b>	<b>(4,383)</b>

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.

2010-11 £'000	2011-12 £'000	2011-12 £'000
<b>12,067 Balance at 1 April</b>		<b>9,524</b>
Settlement or cancellation of accrual made at the end of the preceding year	(9,524)	
Amounts accrued at the end of the current year	<u>8,705</u>	
(2,543) 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		(819)
<b>9,524 Balance at 31 March</b>		<b>8,705</b>

## **Note 29. Operating Activities.**

The cashflow operating activities include the following items:

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
Taxation	
(249,564) - Council Tax	(251,939)
(167,715) - National Non-Domestic Rates	(161,438)
(678,091) Grants	(544,157)
(114,414) Sale of Goods and Rendering of Services	(132,943)
(2,180) Interest Received	(2,488)
0 Other Receipts from Operating Activities	0
<b>(1,211,964) Cash Inflows generated from Operating Activities</b>	<b>(1,092,965)</b>
420,312 Cash paid to and on behalf of employees	374,710
563,763 Cash paid to Suppliers of Goods and Services	575,916
19,367 Interest Paid	20,363
173,447 Other Payments for Operating Activities	86,344
<b>1,176,889 Cash Outflows generated from Operating Activities</b>	<b>1,057,333</b>
<b>(35,075) Net Cash Flows from Operating Activities</b>	<b>(35,632)</b>

## **Note 30. Investing Activities.**

The cashflow investing activities include the following items:

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
112,851 Purchase of Property, Plant & Equipment, Investment Property and Intangible Assets	108,832
1,771,571 Purchase of Short-term and Long-term investments	1,103,775
925 Other Payments for Investing Activities	1,113
(1,766) Proceeds from the sale of Property, Plant & Equipment, Investment Property and Intangible Assets	(9,424)
(1,735,241) Proceeds from Short-term and Long-term investments	(1,113,667)
(33,678) Other Receipts from Investing Activities	(62,292)
<b>114,662 Net Cash Flows from Investing Activities</b>	<b>28,337</b>

## **Note 31. Financing Activities.**

The cashflow financing activities include the following items:

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
(102,688) Cash Receipts of Short- and Long-Term Borrowing	(82)
0 Other Receipts from Financing Activities	0
2,543 Cash Payments for the Reduction of the Outstanding Liability relating to finance leases and on-Balance Sheet PFI Contracts	2,512
22,980 Repayments of Short- and Long-Term Borrowing	6,723
0 Other Payments for Financing Activities	0
<b>(77,165) Net Cash Flows from Financing Activities</b>	<b>9,153</b>

### **Note 32. 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 set out by CIPFA. However, decisions about resource allocation are taken by the County Council's Executive on the basis of budget reports analysed across Directorates, 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 (whereas 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 Resources and Chief Executive Offices' 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 County Council's accounting policies (Note 1).

a. Income and Expenditure analysed over the Council's directorates 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.

<b>Service Analysis 2011-12</b>	<b>Employee Expenses £'000</b>	<b>Agency and Contract Payments £'000</b>	<b>Other Running Expenses £'000</b>	<b>Gross Expenditure £'000</b>	<b>Specific Grants and Contributions £'000</b>	<b>Other Income (inc. Fees and Charges) £'000</b>	<b>Total Income £'000</b>	<b>Cost of Services £'000</b>
CfBT Managed Service	10,344	395	4,992	15,731	(1,745)	(756)	(2,501)	13,230
Home to School Transport	903	0	24,551	25,454	(107)	(1,011)	(1,118)	24,336
Children's Social Care	25,613	8,536	11,621	45,770	(4,930)	(271)	(5,201)	40,569
Education Services	23,870	8,196	13,912	45,978	(2,264)	(421)	(2,685)	43,293
Early Intervention Grant	0	0	0	0	(24,307)	0	(24,307)	(24,307)
Adult Social Care	35,856	134,710	26,614	197,180	(33,577)	(34,467)	(68,044)	129,136
Public Health	2,303	17,099	3,182	22,584	(1,910)	(309)	(2,219)	20,365
Highways & Transportation	11,195	42,882	7,610	61,687	(4,197)	(2,611)	(6,808)	54,879
Environment Planning & Customer Services	6,069	20,902	2,514	29,485	(964)	(380)	(1,344)	28,141
Economy & Culture	10,958	1,752	10,201	22,911	(15,856)	(2,364)	(18,220)	4,691
Fire & Rescue	18,013	34	6,850	24,897	(2,222)	(553)	(2,775)	22,122
Community Safety	11,717	27	6,094	17,838	(2,344)	(1,120)	(3,464)	14,374
Finance & Resources	3,562	5,575	15,973	25,110	(2,299)	(5,437)	(7,736)	17,374
Performance & Governance	7,246	10,346	6,612	24,204	(364)	(171)	(535)	23,669
<b>TOTAL SERVICE BUDGETS</b>	<b>167,649</b>	<b>250,454</b>	<b>140,726</b>	<b>558,829</b>	<b>(97,086)</b>	<b>(49,871)</b>	<b>(146,957)</b>	<b>411,872</b>
<b>OTHER BUDGETS</b>								
Capital Financing Charges	0	0	53,285	53,285	0	(2,291)	(2,291)	50,994
Contingency	0	0	0	0	0	0	0	0
Council Tax Freeze Grant	0	0	0	0	(6,293)	0	(6,293)	(6,293)
Other Budgets	4,078	(751)	3,202	6,529	(2,267)	0	(2,267)	4,262
<b>TOTAL OTHER BUDGETS</b>	<b>4,078</b>	<b>(751)</b>	<b>56,487</b>	<b>59,814</b>	<b>(8,560)</b>	<b>(2,291)</b>	<b>(10,851)</b>	<b>48,963</b>
<b>SCHOOLS BUDGETS</b>								
Delegated School Budgets	271,600	1,116	77,966	350,682	(37,472)	(6,923)	(44,395)	306,287
Central Services within the DSB	2,357	1,749	9,805	13,911	(3,516)	(112)	(3,628)	10,283
Dedicated Schools Grant	0	0	0	0	(362,630)	0	(362,630)	(362,630)
CfBT Managed Services (in DSB)	4,238	19,950	3,491	27,679	(372)	(60)	(432)	27,248
<b>TOTAL SCHOOLS BUDGETS</b>	<b>278,195</b>	<b>22,815</b>	<b>91,262</b>	<b>392,272</b>	<b>(403,990)</b>	<b>(7,095)</b>	<b>(411,085)</b>	<b>(18,812)</b>
<b>TOTAL EXPENDITURE</b>	<b>449,922</b>	<b>272,518</b>	<b>288,475</b>	<b>1,010,916</b>	<b>(509,636)</b>	<b>(59,257)</b>	<b>(568,893)</b>	<b>442,023</b>
<b>INCOME</b>								
Government Support				0	(211,339)		(211,339)	(211,339)
County Precept				0		(251,939)	(251,939)	(251,939)
<b>TOTAL INCOME</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(211,339)</b>	<b>(251,939)</b>	<b>(463,278)</b>	<b>(463,278)</b>
<b>Use/(Contribution) to Reserves</b>								<b>(21,255)</b>

Service Analysis 2010-11 (*1)	Employee Expenses £'000	Agency and Contract Payments £'000	Other Running Expenses £'000	Gross Expenditure £'000	Specific Grants and Contributions £'000	Other Income (inc. Fees and Charges) £'000	Total Income £'000	Cost of Services £'000
CfBT Managed Service	10,823	313	9,734	20,870	(1,299)	(845)	(2,144)	18,726
Home to School Transport	1,042	23,290	3,219	27,551	(98)	(928)	(1,026)	26,525
Children's Social Care	23,607	9,397	12,680	45,684	(7,300)	(334)	(7,634)	38,050
Education Services	44,001	27,880	26,157	98,038	(72,296)	(511)	(72,807)	25,231
Early Intervention Grant	7,625	1,836	5,232	14,693	(5,863)	(2,272)	(8,135)	6,558
Adult Social Care	36,512	138,057	19,011	193,580	(25,883)	(31,654)	(57,537)	136,043
Public Health	2,914	20,439	4,105	27,458	(5,400)	(245)	(5,645)	21,813
Highways & Transportation	12,959	29,883	9,117	51,959	(5,273)	(2,457)	(7,730)	44,229
Environment Planning & Customer Services	6,856	19,417	4,472	30,745	(267)	(1,932)	(2,199)	28,546
Economy & Culture	13,351	1,560	14,873	29,784	(9,241)	(2,582)	(11,823)	17,961
Fire & Rescue	13,820	89	6,691	20,600	(1,979)	5,038	3,059	23,659
Community Safety	14,009	86	6,752	20,847	(2,847)	(1,014)	(3,861)	16,986
Finance & Resources	3,963	20,696	1,157	25,816	(2,504)	(7,041)	(9,545)	16,271
Performance & Governance	8,801	15,948	5,120	29,869	(135)	(1,342)	(1,477)	28,392
<b>TOTAL SERVICE BUDGETS</b>	<b>200,283</b>	<b>308,891</b>	<b>128,320</b>	<b>637,494</b>	<b>(140,385)</b>	<b>(48,119)</b>	<b>(188,504)</b>	<b>448,990</b>
<b>OTHER BUDGETS</b>								
Capital Financing Charges	0	0	49,724	49,724	0	(2,201)	(2,201)	47,523
Contingency	0	0	0	0	0	0	0	0
Council Tax Freeze Grant	0	0	0	0	0	0	0	0
Other Budgets	20,277	1,025	683	21,985	(45,951)	0	(45,951)	(23,966)
<b>TOTAL OTHER BUDGETS</b>	<b>20,277</b>	<b>1,025</b>	<b>50,407</b>	<b>71,709</b>	<b>(45,951)</b>	<b>(2,201)</b>	<b>(48,152)</b>	<b>23,557</b>
<b>SCHOOLS BUDGETS</b>								
Delegated School Budgets	320,419	0	75,208	395,627	(33,306)	(8,169)	(41,476)	354,151
Central Services within the DSB	2,759	515	8,314	11,588	(37,082)	(98)	(37,180)	(25,592)
Dedicated Schools Grant	0	0	0	0	(363,504)	0	(363,504)	(363,504)
CfBT Managed Services (in DSB)	5,359	17,828	2,976	26,163	(1,898)	(52)	(1,951)	24,212
<b>TOTAL SCHOOLS BUDGETS</b>	<b>328,537</b>	<b>18,343</b>	<b>86,498</b>	<b>433,378</b>	<b>(435,790)</b>	<b>(8,319)</b>	<b>(444,111)</b>	<b>(10,733)</b>
<b>TOTAL EXPENDITURE</b>	<b>549,097</b>	<b>328,259</b>	<b>265,225</b>	<b>1,142,581</b>	<b>(622,126)</b>	<b>(58,639)</b>	<b>(680,767)</b>	<b>461,814</b>
<b>INCOME</b>								
Government Support					(192,069)		(192,069)	(192,069)
County Precept						(249,564)	(249,564)	(249,564)
<b>TOTAL INCOME</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(192,069)</b>	<b>(249,564)</b>	<b>(441,633)</b>	<b>(441,633)</b>
<b>Use/(Contribution) to Reserves</b>								20,181

A description of the services provided and the sources of funding for these areas is set out below:

**CfBT Managed Services** - CFBT are contracted to manage Lincolnshire Council Council's (LCC) birth to five service, music service, additional needs, workforce development, 14-19 reform, school leadership, elective home education and secondary curriculum. Funding comes from LCC contributions and specific grants.

**Home to School Transport** offers home to school transport for mainstream children and special schools. Funding comes from post 16 pupils i.e. 6th form or college.

**Children's Social Care** provides services such as child protection and looked after services (including: frontline social workers and adoption/fostering services). Funding comes from LCC contributions and specific grants.

**Education Services** includes school improvement, youth services, targeted early intervention services and career guidance. Funding comes from LCC contributions and specific grants.

**Early Intervention Grant** - This is the early intervention grant income which replaced a number of specific grants such as sure start and this income is ringfenced.

**Adult Social Care** includes:

*Older People & Physical Disabilities* These two services are managed through one management structure focussing on 18-64 year olds with Physical Disabilities and over 65s with a variety of social care needs. Team members offer support, advice, information and guidance to enable these groups of people in Lincolnshire to live more independently. This is increasingly through Personal Budgets either by Direct Payment or by LCC commissioning services on behalf of the people assessed as needing support. Funding comes from LCC contributions, specific grants from government departments, funding from LPCT for specific work or projects and fees and charges for services.

*Learning Disabilities* This is a joint funded service in conjunction with LPCT under a section 75 agreement. Additional funding comes from LCC contributions and joint partnership funding with the Department of Health, plus specific grants from government departments, fees and charges for services (including: Fairer Charging Policy and Charges for Residential Accommodation Guidance). It offers support, advice, information and guidance to enable people in Lincolnshire, over the age of 18 with learning disabilities to live more independently providing services such as Residential and Day Care, Home Support, Supported Living, equipment and telecare services. This is provided through personalisation of direct payments and direct provision.

*Adult Social Care Operations* offers support, advice, information and guidance to enable people in Lincolnshire, over the age of 18, to live more independently providing services such as Residential and Day Care, Home Support, Extra Care Housing, equipment and telecare services. Funding comes from LCC contributions and joint partnership funding with the Department of Health, plus specific grants from government departments, and fees and charges for services (including: Fairer Charging Policy and Charges for Residential Accommodation Guidance).

**Public Health** provide information and services to enable people to live independently in their own homes providing services such as Supporting People Housing Related Support, Supported Employment Services and Local Involvement Networks (LINKs). Funding comes from LCC contributions, specific grants (including Supporting People) and joint partnership funding with the Department of Health.

**Highways and transportation** are responsible for maintaining Lincolnshire's road network (including winter maintenance), bus subsidies and transport planning. Funding comes from LCC contributions, plus smaller amounts from government grants and developer contributions.

**Environment, Planning and Customer services** includes waste disposal, spatial and environmental planning and the Council's Customer Service Centre. Funding comes primarily from LCC contributions.

**Economy & Culture** are responsible for investing to create regeneration opportunities in Lincolnshire. Funding comes from regional, national and European funding, in addition to LCC contributions.

**Fire & Rescue** including: fire prevention, protection and emergency response, as well as leading on the County's emergency planning. Funding comes from LCC contributions plus some specific grants (including: urban search and rescue grant) and from other Local Authority contributions.

**Community Safety** provides the following services to the public; Trading Standards, Registration & Coroners, Youth Offending and Rehabilitation Programmes. In addition, it provides the central Business Support function to the County Council.

**Finance & Resources** provide the following functions for the authority: Legal, Audit, Procurement, Corporate Property and Treasury & Financial Strategy.

**Performance & Governance** provides support services including: HR, ICT, communications and scrutiny functions and support for Councillors and the democratic process. Funding comes from LCC contributions.

**Other budgets** include: expenditure of capital financing charges which include the annual revenue costs of funding the Council's capital programme e.g. payment of principal and interest on amounts borrowed; insurance and county wide joint projects including council tax second homes and the sustainable community strategy. Income here is government grants - area based grant (non-ring fenced government grant) and supporting people grant. Other budgets also contains a contingency budget which is set aside to pay for unforeseen events that occur during the year.

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.

	2010-11 £'000	2011-12 £'000
Net Expenditure in the directorate analysis (Use of Reserves)	20,181	(21,256)
Add: Net expenditure on services and support services not included in main analysis	0	0
Add: Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis (Note 32c)	(20,236)	128,751
Less: amounts reported to management in the analysis not included in the Comprehensive Income and Expenditure Account (Note 32c)	408,867	371,492
<b>Net Cost of Services in the Comprehensive Income and Expenditure Statement</b>	<b>408,812</b>	<b>478,987</b>



### 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.

<b>Reconciliation to Subjective Analysis 2011-12</b>	<b>Service Analysis Cost of Service £'000</b>	<b>Amounts not reported to Management £'000</b>	<b>Amounts not included in CI&amp;ES £'000</b>	<b>Net Cost of Services £'000</b>	<b>Corporate Amounts £'000</b>	<b>(Surplus)/Deficit on Provision of Services £'000</b>
Other income (including fees and charges)	(59,257)	(33,408)	2,291	(90,374)		(90,374)
Income from Council Tax	(251,939)		251,939	0	(251,647)	(251,647)
Specific Grants and Contributions	(720,975)		219,234	(501,741)	(219,234)	(720,975)
Interest and Investment Income Receivable			1,819	1,819	(20,593)	(18,774)
<b>TOTAL Income</b>	<b>(1,032,171)</b>	<b>(33,408)</b>	<b>475,283</b>	<b>(590,296)</b>	<b>(491,474)</b>	<b>(1,081,770)</b>
Employee Expenses	449,922	24,737	(42,670)	431,989		431,989
Agency and Contract Expenditure	272,518			272,518		272,518
Other Running Expenses	288,475	(46)	(58,937)	229,492	21	229,513
Support Service Recharges				0		0
Depreciation, Amortisation and Impairment		137,467		137,467	(64,769)	72,698
Interest Payable and Similar Charges			(2,184)	(2,184)	21,391	19,207
Precepts and Levies				0	1,108	1,108
Gain or Loss on Disposal of Non-Current Assets				0	86,973	86,973
Pension Interest Cost				0	14,052	14,052
<b>TOTAL Expenditure</b>	<b>1,010,915</b>	<b>162,158</b>	<b>(103,791)</b>	<b>1,069,282</b>	<b>58,776</b>	<b>1,128,058</b>
<b>Surplus/ Deficit on the Provision of Services</b>	<b>(21,256)</b>	<b>128,750</b>	<b>371,492</b>	<b>478,986</b>	<b>(432,698)</b>	<b>46,288</b>

<b>Reconciliation to Subjective Analysis 2010-11</b>	<b>Service Analysis Cost of Service £'000</b>	<b>Amounts not reported to Management £'000</b>	<b>Amounts not included in CI&amp;ES £'000</b>	<b>Net Cost of Services £'000</b>	<b>Corporate Amounts £'000</b>	<b>(Surplus)/Deficit on Provision of Services £'000</b>
Other income (including fees and charges)	(58,640)	(49,980)	2,202	(106,418)	(2,201)	(108,619)
Income from Council Tax	(249,564)		249,564	0	(249,983)	(249,983)
Government Grants and Contributions	(814,195)		210,033	(604,162)	(242,686)	(846,848)
Interest and Investment Income Receivable			1,933	1,933	(13,057)	(11,124)
<b>TOTAL Income</b>	<b>(1,122,399)</b>	<b>(49,980)</b>	<b>463,732</b>	<b>(708,647)</b>	<b>(507,927)</b>	<b>(1,216,574)</b>
Employee Expenses	549,097	(279,753)		269,344		269,344
Agency and Contract Expenditure	328,259			328,259		328,259
Other Running Expenses	265,225	135,623	(53,940)	346,908	1,020	347,928
Support Service Recharges				0		0
Depreciation, Amortisation and Impairment		173,874		173,874	(37,935)	135,939
Interest Payable and Similar Charges			(925)	(925)	20,900	19,975
Precepts and Levies				0		0
Gain or Loss on Disposal of Non-Current Assets				0	19,687	19,687
Pension Interest Cost				0	23,395	23,395
<b>TOTAL Expenditure</b>	<b>1,142,581</b>	<b>29,744</b>	<b>(54,865)</b>	<b>1,117,460</b>	<b>27,067</b>	<b>1,144,527</b>
<b>Surplus/ Deficit on the Provision of Services</b>	<b>20,182</b>	<b>(20,236)</b>	<b>408,867</b>	<b>408,813</b>	<b>(480,860)</b>	<b>(72,047)</b>

### **Note 33. Acquired and Discontinued Operations.**

The following table shows the amount of income and expenditure within the County Council's accounts which relates to its acquired and discontinued operations:

	Year ended 31 March 2012		
	Gross Expenditure £'000	Income £'000	Net Expenditure £'000
Flood and Water Risk Management	205	(5)	200
<b>Surplus or Deficit on Acquired and Discontinued Operations</b>	<b>205</b>	<b>(5)</b>	<b>200</b>

#### **Flood and Water Risk Management**

The Flood and Water Management Act 2010 received Royal Assent on 8 April 2010. The Act introduced legislation to address the threat of flooding and water scarcity, both of which are predicted to increase with climate change. The Act requires a lead local flood authority to develop, maintain, apply and monitor a strategy for local flood risk management in its area. The lead flood authority for Lincolnshire is Lincolnshire County Council. The Local Authority is able to use all its normal powers (in planning, regeneration, local investment, highways and to provide information and guidance) to support its new roles under the Act.

The County Council has taken over the Environment Agency's role in deciding whether to allow works by third parties that may affect water flows to take place. It will also continue to be a member of Regional Flood and Coastal Committees. These Committees will decide on the local levy raised and how this is spent and will be consulted on all relevant Environment Agency proposals. In 2011-12, Lincolnshire County Council set a base budget of £200k to meet its obligations under the Act.

### **Note 34. Trading Activities.**

The County Council has no trading activities to report for 2011-12.

### **Note 35. Agency Services.**

#### **a. Nursing Care**

The 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 Primary Care Trusts.

The Council paid £5.142m (£5.299m in 2010-11) acting as an agent of the Primary Care Trusts in order to simplify the payment arrangements to the homes. The total amount paid is recovered from the Primary Care Trusts.

### **Note 36. Road Charging Schemes Under the Transport Act 2000.**

The County Council has no road charging schemes under the Transport Act 2000.

### **Note 37. 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.

The County Council is the host authority for the pooled budgets relating to Learning Disabilities and Integrated Community Equipment Service and is responsible for their financial administration.

The NHS Trust is the host authority for the pooled budgets relating to Mental Health services and Substance Misuse and is responsible for their financial administration.

#### **a. Learning Disability**

In 2001-02 Lincolnshire County Council and Lincolnshire Primary Care Trusts established a pooled budget Partnership Arrangement for the provision of Learning Disability services.

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
54,630 Gross Partnership Expenditure	51,711
(52,010) Gross Partnership Income	(47,263)
<b>2,620 Surplus(-)/Deficit</b>	<b>4,448</b>
<b>28,191 Contribution from Lincolnshire County Council</b>	<b>25,583</b>

The Overspend for 2011-12 is £4.448m. This overspend occurred due to a number of reasons, including demographic pressures resulting from increased life expectancy, the increasing needs of service users, and the additional cost borne as transition cases transfer from Children's Services. Legislative changes around Ordinary Residence also lead to additional cost pressures. Whilst significant savings were achieved in the service, delays in achieving the full savings required to contribute fully to the national and local savings requirements, meant 2011-12 savings targets were not fully achieved. Subject to the Section 75 agreement, Lincolnshire County Council are responsible for any overspend in this area.

#### **b. Integrated Community Equipment Service (ICES)**

In 2004-05 Lincolnshire County Council and Lincolnshire Primary Care Trust established a pooled budget Partnership Arrangement for the provision of the Integrated Community Equipment Service.

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
1,686 Gross Partnership Expenditure	1,736
(1,686) Gross Partnership Income	(1,730)
<b>0 Surplus(-)/Deficit</b>	<b>6</b>
<b>843 Contribution from Lincolnshire County Council</b>	<b>871</b>

This is a 50:50 shared responsibility budget between the Council and the Primary Care Trust, hence any overspend is shared. The £6k shortfall relates to one-off costs to be picked-up by the County Council in 2011-12

#### c. Mental Health

In 2002-03 Lincolnshire County Council and Lincolnshire Partnership NHS Foundation Trust established a pooled budget Partnership Arrangement for the provision of Mental Health Services.

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
42,979 Gross Partnership Expenditure	41,400
(42,979) Gross Partnership Income	(41,400)
<b>0 Surplus(-)/Deficit</b>	<b>0</b>
<b>7,842 Contribution from Lincolnshire County Council</b>	<b>7,092</b>

The Council had a set budget in 2011-12 of £7.092m for this pooled budget. The host Authority of this pooled budget is the Health Trust (LPFT), and any overspend on this budget is their responsibility.

#### d. Substance Misuse

In 2008-09 Lincolnshire County Council and Lincolnshire Partnership Foundation Trust established a pooled budget partnership arrangement for the provision of services relating to Drug and Alcohol problems.

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
2,116 Gross Partnership Expenditure	2,102
(2,116) Gross Partnership Income	(2,102)
<b>0 Surplus(-)/Deficit</b>	<b>0</b>
<b>234 Contribution from Lincolnshire County Council</b>	<b>194</b>

There is a risk sharing agreement in place between the parties interested in the Drug and Alcohol Action Team (DAAT) budget. The agreement states that under or overspending on the DAAT budget will be shared between these parties at year end. Lincolnshire's share of the risk is 51%.

### **Note 38. Members Allowances**

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

<b>2010-11</b>	<b>2011-12</b>
<b>£'000</b>	<b>£'000</b>
<u>Members Allowances:</u>	
634 Basic Allowances	632
365 Special Responsibility Allowances	365
999	997
111 Expenses	114
<b>1,110 TOTAL</b>	<b>1,111</b>

## Note 39. Officers' Remuneration

### a. Officers' remuneration bandings

The table below shows the total number of staff employed by Lincolnshire County Council whose actual remuneration exceeded £50,000 per annum, shown in £5,000 bands. A breakdown of the numbers between schools and other services can be found at Appendix A at the back of this document. 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:

2010-11 Number of Staff Re-Styled			2011-12 Number of Staff		
Remuneration received (excl those receiving termination payments)	Staff who received termination payments	Pay Band	Remuneration received (excl those receiving termination payments)	Staff who received termination payments	
		<b>TOTAL</b>			
0	0	£180,000- £184,999	0	0	
0	0	£175,000- £179,999	0	0	
0	1	£170,000- £174,999	0	0	
0	0	£165,000- £169,999	0	0	
0	0	£160,000- £164,999	0	0	
0	0	£155,000- £159,999	0	0	
0	0	£150,000- £154,999	0	1	
0	2	£145,000- £149,999	0	1	
0	3	£140,000- £144,999	0	0	
0	1	£135,000- £139,999	0	4	
0	0	£130,000- £134,999	0	0	
0	0	£125,000- £129,999	1	0	
0	0	£120,000- £124,999	0	1	
0	1	£115,000- £119,999	0	3	
0	1	£110,000- £114,999	0	0	
0	0	£105,000- £109,999	0	5	
1	0	£100,000- £104,999	0	2	
2	2	£95,000- £99,999	2	3	
5	2	£90,000- £94,999	4	2	
13	2	£85,000- £89,999	8	6	
9	2	£80,000- £84,999	10	6	
9	1	£75,000- £79,999	3	6	
19	3	£70,000- £74,999	21	13	
32	4	£65,000- £69,999	31	16	
71	0	£60,000- £64,999	47	16	
126	2	£55,000- £59,999	115	26	
195	3	£50,000- £54,999	138	21	
<b>482</b>	<b>30</b>	<b>Total</b>	<b>380</b>	<b>132</b>	

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.

As a result of reductions in central government funding, the County Council is undertaking a major reshaping of its services; this has led to a number of staff taking early retirement or being made redundant. As part of this, the County Council has re-structured its senior management, which resulted in a reduction in senior employee numbers and an increase in the number of employees receiving termination benefits in 2011-12. Please refer to 'Note 41 - Termination Benefits' for further details on termination benefits paid.

The number of employees within schools has shown a significant reduction from 2010-11 to 2011-12, which is attributable to schools becoming academies during the year.

## 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 £	Other Emoluments £	Total £
<u>Senior Officers with a salary over £150,000</u>					
<b>Tony McArdle</b> - Chief Executive	2011-12	173,226	32,740	1,412	207,378
	2010-11	173,226	32,740	1,147	207,113
<u>Senior Officers with a salary over £50,000 and less than £150,000</u>					
Executive Director - Adult Service Group	2011-12	0	0	0	0
	2010-11(*1)	47,074	8,897	1,147	57,118
Executive Director - Children's Group	2011-12	135,400	25,417	581	161,398
	2010-11	130,983	24,755	1,200	156,938
Executive Director - Resources and Community Safety	2011-12	125,983	23,957	595	150,535
	2010-11	125,983	23,957	595	150,535
Executive Director - Communities	2011-12	125,983	23,811	1,528	151,322
	2010-11	125,983	23,811	1,101	150,895
Executive Director - Performance & Governance	2011-12	133,983	25,323	943	160,249
	2010-11	118,000	22,302	737	141,039
Director of Customer Strategies	2011-12	0	0	0	0
	2010-11(*1)	74,667	14,112	62,023	150,802
Chief Fire Officer	2011-12	108,173	20,320	0	128,493
	2010-11(*2)	113,691	22,891	657	137,239

Job Title	Year	Salary £	Employer's Pension Contribution £	Other Emoluments £	Total £
<u>Head teachers with a salary over £150,000</u>					
	2011-12	185,950	26,219	0	212,169
<b>Adrian Reed</b> Executive Head Teacher	2010-11	169,821	23,945	0	193,766

(\*1) Employee left the Council's employment part way through the year.

(\*2) Employee left the Council's employment part way through the year and has been replaced in the same year.

Other Emoluments include the profit element of car hire and medical insurance.

## **Note 40. 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	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11 £	2011-12 £
<b>£0 - £20,000</b>	268	454	53	305	321	759	1,442,763	6,069,038
<b>£20,001 -£40,000</b>	46	87	19	141	65	228	1,821,874	6,421,668
<b>£40,001 - £60,000</b>	15	27	15	73	30	100	1,522,563	4,854,793
<b>£60,001 - £80,000</b>	11	12	4	17	15	29	1,004,077	1,935,540
<b>£80,001 - £100,000</b>	7	8	8	7	15	15	1,280,933	1,267,452
<b>£100,001 -£150,000</b>	4	3	4	6	8	9	911,091	1,074,773
<b>£150,001 - £200,000</b>	1	0	2	0	3	0	499,097	-
<b>Total</b>	<b>352</b>	<b>591</b>	<b>105</b>	<b>549</b>	<b>457</b>	<b>1,140</b>	<b>8,482,398</b>	<b>21,623,264</b>

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). At the end of 2010-11, the Council made a provision for redundancy and pension strain costs which they were committed to make, but where the individual employee had not been selected; these costs are included within this note when an individual is selected not when the cost was included in the accounts. Details of the costs included within the Council's income and expenditure is set out below in Note 41 Termination Benefits.

## **Note 41. Termination Benefits.**

As a result of the central government cuts, the County Council has been through a process of reshaping services during the past two financial years. In 2011-12 the County Council has incurred liabilities of £6.720m (£23.281m in 2010-11) in relation to termination benefits:

- £5.523m for redundancy payments (£18.755m in 2010-11); and
- £1.197m for pension strain (£4.525m in 2010-11).

Termination benefits are included within the accounts as:

- £4.994m of actual expenditure incurred in the year (net of provisions and accruals set aside at the end of 2010-11); and
- £1.726m of accruals for payments to be made to people in the new financial year. These costs mainly relate to the closure of a further three care homes in 2012-13.

Further information on termination benefits can be found in Note 40 on Exit Packages; Note 55 provides details of the contingent liability disclosed for the Community Supported Living review underway at the year end; and Note 41 on Retirement Benefits details the effect termination benefits have had on pensions in 2011-12.



## **Note 42. External Audit Costs.**

Lincolnshire County Council incurred the following fees in relation to external audit and inspection work:

<b>2010-11 £'000</b>	<b>2011-12 £'000</b>
251 Fees payable to the Audit Commission with regards to external audit services carried out by the appointed auditor	219
0 Fees payable to the Audit Commission in respect of statutory inspection	0
<b>251 Audit and Inspection Fee</b>	<b>219</b>
23 Fees payable to the Audit Commission for the certification of grant claims and returns	4
0 Fees payable in respect of other services provided by the appointed auditor	0
<b>274 Total</b>	<b>223</b>

## **Note 43. Expenditure on Publicity**

The County Council's expenditure on publicity includes: staff advertising, including advertising for teaching and other staff in schools; advertising of statutory notices in relation to highways work and publicity for services such as museums and libraries.

<b>2010-11 £'000</b>	<b>2011-12 £'000</b>
435 Staff Advertising	486
1,116 Other Advertising	1,205
24 Public Relations	9
41 Lincolnshire Show	29
344 Inside Lincolnshire	201
241 Other Publicity	136
<b>2,201</b>	<b>2,066</b>

Other Advertising includes: general advertising for Children's Services (£0.095m), Schools (£0.128m), Environment Planning and Transport (£0.309m) and Economic Regeneration promotions (£0.220m).

#### **Note 44. Landfill Allowances Trading Scheme (LATS).**

In 2011-12 the Council was given 102,130 tonnes of landfill allowances. These allowances are recognised as a current asset on the balance sheet at a fair market value which is calculated as a national average of all trades carried out within 2011-12 (£nil per tonne.)

The Council has estimated that it has deposited 101,620 tonnes of landfill (£nil) of biodegradable municipal waste in 2011-12. This estimated use is treated as a liability until it is confirmed in the following year and matched to allowances available.

	2010-11 Restated (*1) Tonnes	2011-12 Tonnes	£0.00 per Tonne £'000
Allowances received	116,753	102,130	0
	<b>116,753</b>	<b>102,130</b>	<b>0</b>
<b>Biodegradable Municipal Waste usage</b>	<b>101,030</b>	<b>101,620</b>	<b>0</b>
<b>Estimated Unused Allowance at 31 March 2012</b>	<b>15,723</b>	<b>510</b>	<b>0</b>

(\*1) The opening balance as at 1 April 2010 has been restated because last year's published figures were estimates, where as the figures shown above are the actuals for 2010-11.

No allowances have been purchased or sold relating to 2011-12.

As financial year 2012-13 is a designated "Target Year", no allowances can be carried forward out of 2011-12. Any unused allowances are worthless and will be written off to the Comprehensive Income and Expenditure Statement.

	Tonnes	Value
Landfill Credits Reserve opening balance 1 April 2011 (estimated unused tonnes) @ £12.50 per Tonne	15,523	£194,038
Adjustment re verified usage 2010-2011 @ £12.50 per Tonne	200	£2,500
Unused 2010-2011 allowances	15,723	£196,538
Unused 2011-2012 allowances	510	£0
Write down unused allowances to zero.	(16,233)	(£196,538)
<b>Landfill Credits Reserve Closing Balance 31 March 2012</b>	<b>0</b>	<b>0</b>

## **Note 45. Dedicated Schools Grant.**

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for 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 School Finance (England) Regulations 2008. 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 2011-2012 are as follows :

<b>Schools Budget Funded by Dedicated Schools Grant</b>	<b>Central Expenditure £'000</b>	<b>Individual Schools Budget £'000</b>	<b>Total £'000</b>
Brought forward from 2010-11	8,120	9,433	17,553
Final DSG for 2011-12	47,900	314,730	362,630
<b>Agreed budget distribution in 2011-12</b>	<b>56,020</b>	<b>324,163</b>	<b>380,183</b>
Actual central expenditure	(41,723)	0	(41,723)
Actual ISB deployed to schools	0	(314,713)	(314,713)
Local Authority Contribution 2011-12	792	1,407	2,199
<b>Carry Forward to 2012-13</b>	<b>15,089</b>	<b>10,857</b>	<b>25,946</b>

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 under ear-marked reserves.

## Note 46. Grant Income

The County Council credited the following grants and contributions and donations to the Comprehensive Income and Expenditure Statement in 2011-12 for grants & contributions where the conditions have been met, or no conditions existed:

Credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement		
2010-11 £'000		2011-12 £'000
50,497 Area Based Grant		0
167,715 Contribution from National Non-Domestic Rates		161,438
24,354 Revenue Support Grant		49,901
0 Council Tax Freeze Grant		6,293
0 Local Services Support Grant		1,602
<u>Capital Grants and Contributions</u>		
0 DfT Asset Protection Grant 2011-12		25,067
0 DfE Capital Maintenance Grant		13,095
0 DfE Basic Need Grant		9,352
0 DfT Integrated Transport Grant 2011-12		4,523
2,038 Other Capital Grants and Contributions		2,357
2,751 Devolved Formula Grant		2,320
0 ASC Social Care Capital Grant		1,745
0 Partnership for Schools: Food Technology Grant		1,523
0 CLG Fire Capital Grant 2011-12		1,139
0 ERDF Grant		1,099
0 EMDA Grant		570
0 Extra Care Housing (PCT LD Grant)		426
0 DfE Short Breaks for Disabled Children Grant		394
0 Museums, Libraries & Archives		258
0 DEFRA Flood and Water Risk		235
1,447 Targeted Capital Fund Kitchen Grant		224
0 DfE Secure Unit Grant 2011-12		154
0 YPLA 16-18 Learner Responsive Grant		148
0 DfE Environmental Improvements Grant 2011-12		140
6,763 Framework academies grant		0
6,181 DfE Primary Capital Programme		0
4,785 Department for Transport S31 Grant A1073		0
3,421 DfE Harnessing Technology Grant		0
2,526 DfT Detrunking Grant		0
1,908 DfE Modernisation Grant		0
1,827 CAF Demonstrator Grant		0
1,481 Community Infrastructure fund (CIF)		0
1,249 Homes and Communities Agency Grant		0
1,224 Fire -Estate Improvement grant		0
454 Waste Infrastructure		0
<b>280,621 Total</b>		<b>284,003</b>

Details of capital grants unapplied during the financial year and transferred to reserves can be found in The Movement on Reserves Statement and Note 27.

<b>Credited to Revenue Service Accounts in the Comprehensive Income and Expenditure Statement</b>		
<b>2010-11</b>		<b>2011-12</b>
<b>£'000</b>		<b>£'000</b>
363,504 Dedicated Schools Grant		362,630
24,675 Department for Education Framework Academies Grants		32,265
0 Early Intervention Grant Income		24,330
34,548 Sixth Form Funding		21,620
26,877 Other Revenue Grants		17,769
0 Department for Communities and Local Government - Growing Places Fund (DCLG)		9,801
0 Learning Disabilities Health Reform Grant		5,755
0 Pupil Premium		4,449
2,746 East Midland Development Agency (SRP Grant)		1,104
3,777 Social Care Reform Grant		400
15,181 Young People Learning Agency 16-18 Learner Responsive Funding (YPLA)		314
5,200 Department For Education Devolved Formula Grant		8
48,374 Standards Fund (Children's)		0
17,847 Schools Standards Funding		0
8,997 Winter Damage		0
4,230 Primary Control Programme grant		0
4,008 Supporting People		0
3,573 Trent Valley Academy Fees & Expenditure Grant		0
3,170 Grantham Growth Points		0
3,148 Schools Standards Funding Personalisation		0
1,418 Local Public Services A2 Reward Grant		0
45 Learner Support Fund		(2)
20,453 General Sure Start		(36)
<b>591,771 Total</b>		<b>480,407</b>

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

In addition to these grants, contributions and donations, the County Council has received grants, contributions and donations which have not been recognised as income as they have conditions attached to them that have not been met and monies or property may have to be returned to the giver. The balances at the year-end are as follows:

<b>2010-11</b>	<b>Capital Grants and Contributions Receipts in Advance</b>	<b>2011-12</b>
<b>£'000</b>		<b>£'000</b>
92 Salix Energy Conservation Grant		45
1,655 Other		6
3,168 TCF Kitchen Grant 2010-11		0
426 Adult Social Care Transformation Grant		0
<b>5,341 Total</b>		<b>51</b>

2010-11 £'000	Revenue Grants and Contributions Receipts in Advance	2011-12 £'000
	0 Department of Health Warm Homes	257
161	Other Revenue Receipts in Advance	248
	0 Pupil Premium	215
	0 Adult Safeguarding Grant for 2012-13	110
	0 Leaving Care Grant 2011-2012	69
	0 Adult Social Care Efficiency Programme Grant	20
285	Learning Skills Council Adult Learning Grant	18
104	Sure start, Early Years & Childcare/ Aim higher for disabled children	0
	53 New Burdens Regional Control Centre	0
826	Transformation Grant	0
<b>1,429 Total</b>		<b>937</b>

2010-11 £'000	Donated Assets Receipts in Kind	2011-12 £'000
	83 Horncastle St Lawrence Animal Centre	0
	25 Lincoln Monks Abbey Fitness Suite	0
<b>108 Total</b>		<b>0</b>

## **Note 47. 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).

The Council receives general revenue grants from central government (including: formula grant and contributions from NNDR), these are credited to taxation and non-specific grant income line in the Comprehensive Income and Expenditure Statement. Specific revenue grants are included in the income figures within the net cost of services in the Comprehensive Income and Expenditure Statement. Further details of the grants received by the County Council in 2011-12 are set out in Note 13 Taxation and Non Specific Grant Income and Note 46 Grant Income.

Capital grants of £64.77m have also been received by the Council in 2011-12, these are recorded in Note 13 Taxation and Non Specific Grant Income and Note 46 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 2011-12 is shown in Note 38. 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, Newland, Lincoln, during normal office hours. Also, 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.

During 2011-12 the following have been declared:

- Two Councillors have provided services to the Council to the value of £9,103;
- Three Councillors are members of voluntary organisations which received grants to the value of £28,425;
- A number of Councillors are members of other organisations such as district/parish councils, school governors, other public bodies and charities who have provided services for, or received services from the Council;
- One Councillor is a Director of Investors in Lincoln Ltd;
- Two Councillors are on the Management Board of ESPO;
- One Councillor is a Non-Executive for Lincolnshire Home Improvement Agency;
- One Councillor is on the Board of Urban Challenge; and
- One Councillor is on the Board of Lincolnshire Economic Action Partnership.

During 2011-12 there are no declarations to report for the Chief Officers of Lincolnshire County Council.

#### c. Other public bodies

The County Council has received precepts collected by the District Councils. These are identified in the Comprehensive Income and Expenditure Statement and Note 13 Taxation and Non Specific Grant Income.

The Council also paid precepts of £1.107m to the Environment Agency for Flood Defence Levies (£0.596m) and Eastern Inshore Fisheries Conversation Authority (£0.511m). These payments are included in the Comprehensive Income and Expenditure Statement and Note 11 Other Operating Expenditure.

The Council has entered into Pooled Budget arrangements with NHS Lincolnshire for Learning Disabilities and Integrated Community Equipment, and Lincolnshire (foundation) Partnership Trust for Mental Health services.

The County Council is the administrator of the Lincolnshire Pension Fund and has control of the fund within the overall statutory framework. During the financial year £0.991m was recharged from the County Council to the pension fund for scheme administration and management. The pension fund earned a total for interest of £0.117m 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 County Council

The Council does not aggregate any subsidiaries, associated companies or joint ventures and therefore is not required to prepare group accounts. However, the Council has disclosed under the group account note our interest in Eastern Shires Purchasing Organisation (ESPO) (Note 57)

## **Note 48. Capital Expenditure and Capital Financing.**

The table below shows the financing of the £165.128m 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 2011-12 expenditure is provided in the Explanatory Foreword, with details of the assets acquired.

<b>2010-11 £'000</b>	<b>2011-12 £'000</b>
<b>415,856 Opening Capital Financing Requirement</b>	<b>469,332</b>
<u>Capital Investment:</u>	
111,028 Property, Plant and Equipment	109,000
303 Investment Property	235
728 Intangible Assets	1,263
63,432 Revenue Expenditure Funded from Capital Under Statute	54,630
<u>Sources of Finance:</u>	
(1,766) Capital Receipts	(9,424)
(87,289) Government Grant and Contributions	(93,664)
Sums set aside from Revenue:	
(11,688) Direct Revenue Contributions	(13,939)
(21,272) MRP/Loans fund principal	(24,678)
<b>469,332 Closing Capital Financing Requirement</b>	<b>492,755</b>
<b>53,476 Movement in Year:</b>	<b>23,423</b>
<b>Explanation of movement in year:</b>	
Increase in underlying need to borrowing (supported by government financial assistance)	0
Increase in underlying need to borrowing (unsupported by government financial assistance)	22,823
569 Assets acquired under finance leases	600
0 Assets acquired under PFI/PPP contracts	0
<b>53,476 Increase/decrease (-) in Capital Financing Requirement</b>	<b>23,423</b>



## **Note 49 Leases.**

### **a. Lincolnshire County Council as Lessee**

#### **i) Finance Leases**

The County Council has acquired the following assets under finance leases:

##### Land and Buildings:

County Farms - the County Council hold a small number of holdings under lease which are then sub-let as part of the County Farms estate. Details are included within Note 16 Investment Properties.

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 £1.24m (£1.078m in 2010-11) were made during the year. £0.239m was charged to the Comprehensive Income and Expenditure Statement as interest payable and £1.001m written down to deferred liabilities.

The following amounts are included within Note 14 for the property, plant and equipment held under finance leases:

	<b>Land and Buildings £'000</b>	<b>Vehicles, Plant &amp; Equipment £'000</b>
Valuation at 01 April 2011	14,648	6,672
Additions	468	606
Revaluations	3,224	0
Depreciation	(455)	(1,938)
Disposals	(1,162)	0
Derecognition	(416)	0
Reclassifications	62	0
<b>Net Book Value at 31 March 2012</b>	<b>16,369</b>	<b>5,340</b>
Valuation at 01 April 2010	16,968	7,816
Additions	610	569
Revaluations	1,089	0
Depreciation	(407)	(1,817)
Disposals	0	0
Reclassifications	(3,612)	104
<b>Net Book value as at 31 March 2011</b>	<b>14,648</b>	<b>6,672</b>

The County 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:	2010-11		2011-12	
	Minimum Lease	Finance Lease	Minimum Lease	Finance Lease
	Payments	Liabilities	Payments	Liabilities
	£'000	£'000	£'000	£'000
Not later than one year	0	32	1	13
Between one year and not later than five years	2	127	3	51
Later than five years	271	1,604	95	366
<b>Total Committed Liabilities as at 31 March</b>	<b>273</b>	<b>1,763</b>	<b>99</b>	<b>430</b>

Vehicles, Plant & Equipment:	2010-11		2011-12	
	Minimum Lease	Finance Lease	Minimum Lease	Finance Lease
	Payments	Liabilities	Payments	Liabilities
	£'000	£'000	£'000	£'000
Not later than one year	1,538	531	1,225	448
Between one year and not later than five years	2,735	1,157	2,433	973
Later than five years	3,412	901	3,087	744
<b>Total Committed Liabilities as at 31 March</b>	<b>7,685</b>	<b>2,589</b>	<b>6,745</b>	<b>2,165</b>

The County Council sub-lets County Farm holdings held under finance leases. At 31 March 2012 the minimum payments expected to be received under non-cancellable sub-leases was £0.292m.

#### **i) Operating Leases**

The County 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 2011-12 amounted to £2.347m (£2.324m in 2010-11). This includes £1.574m for central office accommodation which is managed by Mouchel and charged to the Council as part of a monthly service charge.

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 £1.594m in 2011-12 (£2.451m in 2010-11).

As at 31 March 2012, the Council is committed to making payments of £19.005m under operating leases, comprising the following elements:

	2010-11	2011-12
	£'000	£'000
Not later than one year	4,146	3,289
Between one year and not later than five years	7,574	8,104
Later than five years	3,721	7,612
<b>Total Committed Liabilities as at 31 March</b>	<b>15,441</b>	<b>19,005</b>

#### **b. Lincolnshire County Council as Lessor**

##### **i) Finance Leases**

The Council has granted a small number of long-term leases for office accommodation, adult social care properties and children's services properties to charities and other local authorities, which are accounted for as finance leases. There are no significant lease payments and no debtors accrued.

The Council does not acquire assets specifically for the purpose of letting under finance leases.

## **ii) Operating Leases**

The Council acts as lessor (landlord) for the County Farms estate and received income from tenants of £1.804m in 2011-12 (£1.798m in 2010-11). The Council also received rental income from other properties; where the value of the lease is material, the income amounted to £1.151m in 2011-12 (£0.943m in 2010-11).

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

	<b>2010-11</b>	<b>2011-12</b>
	<b>£'000</b>	<b>£'000</b>
Not later than one year	684	574
Between one year and not later than five years	1,738	1,153
Later than five years	3,554	764
<b>Total future minimum lease payments receivable as at 31 March</b>	<b>5,976</b>	<b>2,491</b>

## **Note 50. 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:

<b>Buildings: Description</b>	<b>Occupied from</b>
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 County 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 property, plant and equipment held by the Council, and the movement in their values during 2011-12. These assets are included in the fixed assets shown in Note 14 Property, Plant and Equipment.

	<b>Land &amp; Buildings £'000</b>	<b>Furniture &amp; Equipment £'000</b>
Valuation at 01 April 2011	31,021	220
Additions	38	14
Revaluations	0	0
Depreciation	(455)	(77)
Disposals	0	0
Reclassifications	0	0
De-recognition	(26)	0
<b>Net Book Value at 31 March 2012</b>	<b>30,578</b>	<b>157</b>

	<b>Land &amp; Buildings £'000</b>	<b>Furniture &amp; Equipment £'000</b>
Valuation at 01 April 2010	31,435	118
Additions	34	157
Revaluations	(3)	0
Depreciation	(459)	(55)
Disposals	0	0
Reclassifications	14	0
<b>Net Book Value at 31 March 2011</b>	<b>31,021</b>	<b>220</b>

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 2011-12:

	<b>PFI Lease Liability 2010-11 £'000</b>	<b>PFI Lease Liability 2011-12 £'000</b>
Liability as at 1 April	15,886	15,166
Principal Repayments	(720)	(661)
<b>Liability as at 31 March</b>	<b>15,166</b>	<b>14,505</b>

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.

	<b>Principal Lease Repayments £'000</b>	<b>Financing Costs (Interest) £'000</b>	<b>Service Charges £'000</b>	<b>Total Estimated Payments £'000</b>
Payable in 2012-13	567	1,026	1,687	<b>3,280</b>
Payable between 2013-14 and 2016-17	2,558	3,627	7,166	<b>13,351</b>
Payable between 2017-18 and 2021-22	3,749	3,474	9,997	<b>17,220</b>
Payable between 2022-23 and 2026-27	3,932	2,068	11,382	<b>17,381</b>
Payable between 2028-29 and 2031-32	3,561	550	10,101	<b>14,212</b>
Payable between 2032-33	138	3	650	<b>791</b>
<b>Total Committed Liabilities as at 31 March 2012</b>	<b>14,505</b>	<b>10,748</b>	<b>40,983</b>	<b>66,235</b>

**Note 51. Impairment Losses.**

Lincolnshire County Council has not recognised any material impairments in the 2011-12 accounts.

**Note 52. Capitalisation of Borrowing Costs.**

The County Council does not capitalise any borrowing costs.

## **Note 53. Pension Schemes Accounted for as Defined Contribution Schemes.**

### **Teachers' Pension Scheme**

Teachers employed by Lincolnshire County 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 County 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 County 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 2011-12 Lincolnshire County Council paid £21.314m to the administrators of the TPS in respect of employer's pension contributions. This represents 14.1% of teachers' pensionable pay during 2011-12. 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 £3.566m in 2011-12 and have an ongoing liability to the Council.

## **Note 54. Defined Benefit Pensions Schemes.**

### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the County Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the County Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The County 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 County Council and employees pay contributions into the fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Lincolnshire County Council paid employer's contributions of £28.779m into the Lincolnshire Pension Fund in 2011-12, based on 18.9% of scheme employees' pensionable pay. Under the Council's early retirement policy, additional contributions of £4.435m 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 £1.911m. Further information can be found on pages 119 - 147 and in the County Council's Pension Fund Annual Report which is available on request.

#### ii. Fire-fighters' (Uniformed) Pension Scheme (FPS)

In 2011-12, Lincolnshire County Council paid employer's contributions of £3.9m to the Lincolnshire Fire and Rescue Pension Fund. There are currently two schemes: the 1992 scheme, where the contribution rate is 21.3% and a new scheme established in 2006, where the contribution rate is 11%. A further £0.9m was paid in respect of ill health retirements and £0.25m in respect of injury benefits. Further information on the Lincolnshire Fire and Rescue Pension fund can be found on pages 148 - 150.

### 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 as movements to the General Fund.

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. Recognition in the Comprehensive Income and Expenditure Statement

	2010-11	2010-11	2011-12	2011-12
Comprehensive Income and Expenditure Statement	Local Government Pension Scheme £'000	Fire-fighters' Pension Scheme £'000	Local Government Pension Scheme £'000	Fire-fighters' Pension Scheme £'000
<u>Cost of Services</u>				
- Current Service Cost	37,524	4,600	28,779	3,900
- Past Service Cost / (Gain)	(120,192)	(15,400)		1,500
- Past Service Cost / (Gain) Injury Benefits				
- Losses / (Gains) on Curtailments and Settlements	888		(8,622)	
<u>Financing and Investment Income and Expenditure</u>				
- Interest	64,258	7,100	58,051	7,300
- Expected Return on Employer Assets	(45,963)		(51,299)	
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>(63,485)</b>	<b>(3,700)</b>	<b>26,909</b>	<b>12,700</b>
<u>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</u>				
- Actuarial gains and losses	(173,165)	(800)	87,946	2,600
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(236,650)</b>	<b>(4,500)</b>	<b>114,855</b>	<b>15,300</b>

	2010-11	2010-11	2011-12	2011-12
Movement in Reserves Statement	Local Government Pension Scheme £'000	Fire-fighters' Pension Scheme £'000	Local Government Pension Scheme £'000	Fire-fighters' Pension Scheme £'000
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	63,485	3,700	(26,909)	(12,700)

	2010-11	2010-11	2011-12	2011-12
Actual amount charged against the General Fund Balance for pensions in the year:	Local Government Pension Scheme £'000	Fire-fighters' Pension Scheme £'000	Local Government Pension Scheme £'000	Fire-fighters' Pension Scheme £'000
- Employer's Contributions payable to the Pension Scheme	44,455	4,300	38,770	3,900



**b. Assets and Liabilities in relation to post-employment benefits (Reconciliation of the present value of the scheme liabilities - defined benefit obligation).**

	2010-11	2010-11	2011-12	2011-12
	Local Government Pension Scheme	Fire-fighters' Pension Scheme	Local Government Pension Scheme	Fire-fighters' Pension Scheme
	£'000	£'000	£'000	£'000
Opening Defined Benefit Obligation (1 April)	1,255,124	141,000	1,078,590	132,200
- Current Service Cost	37,524	4,600	28,779	3,900
- Government Grant (Fire-fighters only)				
- Interest Cost	64,258	7,100	58,051	7,300
- Contributions by Members	11,669	1,000	9,746	900
- Actuarial Losses / (Gains)	(132,340)	(800)	46,814	2,600
- Past Service Cost / (Gain)	(120,192)	(15,400)		1,500
- Past Service Cost / (Gain) Injury Benefits				
- Losses / (Gains) on Curtailments	888		6,446	
- Unfunded Benefits Paid	(5,726)		(5,433)	
- Benefits Paid	(32,614)		(36,308)	
- Liabilities Assumed on Business Combination			(29,196)	
- Pensions and Lump Sum Expenditure		(5,200)		(4,800)
- Transfers in from/out to other authorities		(100)		0
<b>Closing Defined Benefit Obligation (31 March)</b>	<b>1,078,591</b>	<b>132,200</b>	<b>1,157,489</b>	<b>143,600</b>

**c. Reconciliation of fair value of employer assets.**

	2010-11	2010-11	2011-12	2011-12
	Local Government Pension Scheme	Fire-fighters' Pension Scheme	Local Government Pension Scheme	Fire-fighters' Pension Scheme
	£'000	£'000	£'000	£'000
Opening Fair Value of Employer Assets (1 April)	648,334		752,904	
- Expected Return on Assets	45,963		51,299	
- Contributions by Members	11,669	1,000	9,746	900
- Contributions by the Employer	38,729	4,300	33,337	3,900
- Contributions in respect of Unfunded Benefits	5,726		5,433	
- Actuarial Gains / (Losses)	40,824		(41,132)	
- Unfunded Benefits Paid	(5,726)		(5,433)	
- Benefits Paid	(32,615)		(36,308)	
- Assets gained on Business Combination			(14,128)	
- Transfers in from/out to other authorities		(100)		0
- Pensions and Lump Sum Expenditure		(5,200)		(4,800)
<b>Closing Fair Value of Employer Assets (31 March)</b>	<b>752,904</b>	<b>0</b>	<b>755,718</b>	<b>0</b>

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.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The estimated return on scheme assets in the year was 1.5% (2011-12).

#### d. Pension Fund Assets and Liabilities (Scheme History)

The table below shows the estimated assets and liabilities for retirement benefits attributable to Lincolnshire County Council as at 01 April 2011.

	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000	2011-12 £'000
<u>Present Value of Liabilities:</u>					
- Local Government Pension Scheme	(774,803)	(771,449)	(1,255,124)	(1,078,590)	(1,157,489)
<u>Fair Value of assets in the Local Government Pension Scheme</u>	574,231	481,488	648,334	752,904	755,718
<u>Surplus/(deficit) in the schemes</u>					
- Local Government Pension Scheme	(200,572)	(289,961)	(606,790)	(325,686)	(401,771)
- Fire-fighters' Pension Scheme	(100,889)	(99,300)	(141,000)	(132,200)	(143,600)
<u>Total Surplus/(deficit) in the schemes</u>	<b>(301,461)</b>	<b>(389,261)</b>	<b>(747,790)</b>	<b>(457,886)</b>	<b>(545,371)</b>

The liabilities show the underlying commitments that Lincolnshire County Council has to pay retirement benefits in the future. The total liability of £545.4m has a substantial impact on the net worth of the Council as recorded in the balance sheet.

The liability comprises approximately £28.2m of LPGS unfunded benefits and £67.2m of Teachers unfunded benefits.

Statutory arrangements for funding the LGPS deficit mean that the financial position of the County Council remains relatively healthy. Under the LGPS regulations, the contribution rates for 2011-12 were set at 18.9% of employees' pensionable pay/over time, to meet in full the estimated liabilities of the fund. The triennial LGPS actuarial valuation at 31 March 2010, following an improvement in world equity markets, identified that assets held at that date were sufficient to cover 77% of accrued liabilities.

In assessing liabilities for retirement benefits at 31 March 2012 for the 2011-12 Statement of Accounts, the actuary assumed a discount rate of 2.2% real (4.8% actual) a rate based on the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities is to be used.

The total contributions expected to be made to the Local Government Pension Scheme by the County Council in the year to 31 March 2012 are £33.3 million. Expected contributions for the Fire-fighters' scheme in the year to 31 March 2012 are £4.8 million.

#### e. 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 Hyman Roberts, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1 April 2011.

The principal assumptions used by the actuary have been:

	2010-11	2010-11	2011-12	2011-12
	Local Government Pension Scheme	Fire-fighters' Pension Scheme	Local Government Pension Scheme	Fire-fighters' Pension Scheme
	%	%	%	%
Price Increases	3.6	3.6	3.3	3.3
Salary Increases (*1)	5.1	4.6	4.8	3.5
Pension Increases (CPI)	2.8	2.8	2.5	2.5
Discount Rate	5.5	5.5	4.8	4.8
Take up of option to convert annual pension to lump sum prior to 1 April 2009	25	N/A	25	N/A
Take up of option to convert annual pension to lump sum post 1 April 2009	63	N/A	63	N/A

(\*1) Salary increases are 1% p. a. nominal for the year to 31 March 2015 reverting to the long term assumption thereafter.

The table below shows the expected returns on the assets in the Council LGPS Fund and the allocation of investments valued at fair value. The Fire-fighters' scheme is an unfunded scheme and as a result has no assets.

Asset Class	2010-11 £'000	2010-11 %	2011-12 £'000	2011-12 %
Equities	572,207	76.0	559,232	74.0
Bonds	90,349	12.0	98,243	13.0
Property	82,820	11.0	90,686	12.0
Cash	7,529	1.0	7,557	1.0
<b>Total</b>	<b>752,905</b>	<b>100</b>	<b>755,718</b>	<b>100</b>

The table below shows the life expectancy of future and current pensioners and is based on the PFA92 and PMA92 tables; this is projected to the calendar year 2033 for non pensioners and 2017 for pensioners. 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
	Males	Females	Males	Females
Current Pensioners	21.2 years	23.4 years	27.9 years	30.8 years
Future Pensioners	23.7 years	25.7 years	29.5 years	32.3 years

The discretionary Benefits arrangements have no assets to cover its liabilities.

f. Actuarial Gains and Losses (Scheme History)

The actuarial gains and losses, identified as movements on the Pension Reserve in 2011-12, can be analysed into the following categories, measured as a percentage of assets or liabilities as at 01 April 2011.

<b>Local Government Pension Scheme</b>	<b>2007-08</b> %	<b>2008-09</b> %	<b>2009-10</b> %	<b>2010-11</b> %	<b>2011-12</b> %
Difference between the expected and actual return on assets	-15.90%	-31.81%	17.41%	5.42%	-5.44%
Experience Gains / Losses on Liabilities	-0.14%	0.00%	-0.12%	-2.33%	-1.41%

<b>Fire-fighters' Pension Scheme</b>	<b>2007-08</b> %	<b>2008-09</b> %	<b>2009-10</b> %	<b>2010-11</b> %	<b>2011-12</b> %
Experience Gains / Losses on Liabilities	5.10%	9.30%	-24.60%	0.60%	-1.80%

g. Projected Pension expense for the year to 31 March 2013

<b>Year Ended:</b>	<b>31 March 2013</b>		<b>31 March 2013</b>
	<b>Local Government Pension Scheme</b>		<b>Fire-fighters' Pension Scheme</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>
Projected Current Service Cost	27,076	19.4%	4,100
Interest on Obligation	55,691	39.8%	6,900
Expected Return on Plan assets	(43,052)	-30.8%	
Past Service Costs			
Losses / (Gains) on Curtailments and Settlements			
<b>Total</b>	<b>39,715</b>	<b>28.4%</b>	<b>11,000</b>

Employer's contributions for the year to 31 March 2013 for the LGPS will be approximately £26.4 million.

h. Sensitivity Analysis

<b>Change in assumptions in year ended 31 March 2012</b>	<b>Local Government Pension Scheme</b>		<b>Fire Fighters' Pension Scheme</b>	
	<b>Approximate % Change to Employer Liability</b>	<b>Approximate monetary Amount</b>	<b>Approximate % Change to Employer Liability</b>	<b>Approximate monetary Amount</b>
0.5% decrease in Real Discount rate	9.0%	108,117	2.0%	2,600
1 year increase in member life expectancy	3.0%	34,725	3.0%	4,300
0.5% increase in the Salary Increase Rate	3.0%	29,944	2.0%	2,300
0.5% increase in the Salary Increase Rate	7.0%	77,476	8.0%	11,000

## **Note 55. Contingent Liabilities.**

At 31 March 2012 the County Council has the following material contingent liabilities:

### **a. Insurance**

Lincolnshire County Council obtained public and employer's liability insurance cover from the Independent Insurance Company between 1995 and 1998. The company has gone into liquidation and the extent to which it will be able to meet current and future claims for incidents which occurred during the period 1995 to 1998 is not presently known. The Council is only liable for up to the first £150k of every claim of this type. The position is independently reviewed bi-annually by the insurance reserve actuary to ensure that reserves are sufficient to cover the total liability.

To date the actuary is satisfied as to the sufficiency of current reserves in this regard. The Council has an insurance reserve and the surplus on this reserve is sufficient to cover the potential liability.

Municipal Mutual Insurance Limited, the Council's former insurers, ceased writing insurance business in September 1992. They have made a scheme of arrangements with creditors in the event of the company becoming insolvent. Claims are currently being paid in full and it is hoped that the Company's assets will enable all liabilities to be met. It should be noted that there is a contingent liability if the Council is: a) unable to recover all of the outstanding claims in ensuing years, b) if a clawback arrangement has to be implemented.

### **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. Lincoln Southern Bypass Blight Payments**

The preferred route for the Lincoln Southern bypass was adopted during 2007-08. It is at this time of adoption that legal blight will apply on any land or property sited on this route. In addition, other nearby properties may not trigger blight but may be accepted for purchase under the Council's discretionary powers held under Section 246(2) of the Highways Act 1980.

However, it is unlikely that the road will be constructed within the near future. Potentially, other owners of land and property affected by the road can claim blight at any stage between now and construction. If these claims are upheld, then the Council will have to purchase the properties or land in advance of construction. This could, excluding any discretionary purchases amount to approximately £1.000m.

### **d. 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 (Extra Contractual Referrals – ECRs). Over the years with the closure of those hospitals the individuals have moved into places in the community or in some cases their previous accommodation has become community provision. With our pooled budget arrangements with Lincolnshire Health, we have hitherto paid for the care of these individuals and invoiced the other Local Authorities with the cost.

Using the argument of ordinary residence some of these other Local Authorities are now seeking to reduce their costs by saying these people are now the responsibility of Lincolnshire County Council. However, as these people were placed in Lincolnshire as hospital in-patients, we have an expectation that upon discharge from long stay hospital care an amount of health funding (dowry payments) should have followed them into the community.

The matter is the subject of legal discussions between Lincolnshire and other Local Authorities.

There is a range of possible financial outcomes depending on the eventual conclusion of these discussions. Any liability is likely to be in the range of nil to £0.300m.

#### e. Ordinary Residency

There has been a recent increased incidence of other Authorities exercising “Ordinary Residents Rights” in relation to people living within Lincolnshire. This arises where people receiving social care in Lincolnshire following relocation from outside the County, have continued to have their care-package funded by the Local Authority where they have in the past resided.

These Local Authorities have become active in claiming that the liability for these costs lies with the County Council. This has resulted in significant additional costs to the County Council and, in some cases, retrospective charges have been levied. There has been a large increase in the number of these cases being presented over the past 18 months.

Where cases and costs have been quantified and verified, these have been included within the Accounts. However, given the significant number of people living in the County, and placed by other Authorities, the full potential liability may not be fully reflected within the Accounts and at present it is very difficult to reliably measure the potential total liability. However, a prudent estimate is likely to be in the range of nil to £0.175k

#### f. Kinship Care

The Local Authority may place a child under Section 20 of the Children Act 1989 who appears to them to require accommodation. There is a potential for some historic cases to require financial resolution under this duty, which have previously been provided for via other means. The extent of any financial liability is unclear, if any sums are due they will individually be relatively small. The maximum liability to resolve any potential cases is estimated at £0.500m.

#### g. Community Supported Living Changing Service Delivery

The Council resolved in March 2012 that as part of its personalisation agenda, it would seek a new approach to the delivery of support to Learning Disability service users. This will lead to the cessation of the in-house Community Supported Living service from the middle of 2012-13. Any resulting redundancy costs will be met from corporate funding. Whilst other costs may be incurred, it is estimated these will be in the range of nil to £100k

#### h. Service User Contributions

The Council are currently investigating the possibility that a small number of service users have been assessed for charges towards the cost of their care on an incorrect basis. This may have resulted in services users historically paying more towards their service than would otherwise be required. Work is ongoing to identify those individuals and to confirm whether the charges which have been made are appropriate in the circumstances and if not what any potential liability the Council may have. There are a range of potential financial outcomes depending on the result of this analysis. Any potential liability to the Council is likely to be in the range of nil to £1.37m.

### **Note 56. Contingent Assets.**

#### a. A1073 Spalding to Eye Major Road Improvement Scheme

The A1073 Car Dyke Embankment was constructed for the County Council. Unfortunately, the structure has experienced two failures and resulted in necessary remedial works at an additional costs of £4.571m. Legal opinion has been sought and a claim for the additional cost has been made to the geotechnical designer. The County Council are now following the legal process to recover these costs.

## **Note 57. Group Relationships and Other Interests.**

Local Authorities may decide for a variety of legal, regulatory and other reasons to conduct their activities with other organisations. For this reason, the Financial Statement of Lincolnshire County Council alone may not give a full picture of the economic activity and financial position.

On an annual basis, the Council is required to consider all activities which it has undertaken with other bodies to assess whether these should be included within the Council's Financial Statements. This exercise has been completed for the Council for 2011-12 and no group relationships have been identified to be included within the Council's Statement of Accounts. However, in the interests of transparency and accountability, the Council has chosen to disclose its interest in the purchasing consortia Eastern Shires Purchasing Organisation (ESPO) and the Fire and Rescue Control Centre.

### **a) Interests in Joint Ventures - Eastern Shires Purchasing Organisation (ESPO)**

ESPO is a purchasing consortium established in 1988 for the purchase of goods and supplies and the provision of agreed services to their mutual benefit in accordance with Section 1 of the Local Authorities (Goods and Services) Act 1970. ESPO is constituted as a Joint Committee and Lincolnshire County Council is one of seven constituted members.

ESPO's accounting year end is 31st March and the latest (unaudited) accounts are for the year ended 31st March 2012, these showed net assets of £8.499m in 2011-12 (£6.184m in 2010-11) and a surplus of £1.101m in 2011-12 (a surplus of £2.513m in 2010-11).

Under the terms of the ESPO agreement, if the operations of ESPO were discontinued then the distribution of surplus or deficits will be divided amongst the Member Authorities in direct proportion to the use made of ESPO facilities. Turnover between Lincolnshire County Council and ESPO totalled £23.214m for 2011-12 (£22.827m for 2010-11) in respect of stores issues, direct orders and period contracts (or 10.3% of ESPO's total relevant turnover in 2011-12). In effect the County Council would be entitled to approximately 10.3% of ESPO's assets and liabilities; these have not been included in the County Council's balance sheet.

In 2005-06 a PWLB loan was taken out by Leicestershire County Council acting on behalf of ESPO, the six other consortium member Authorities, including the County Council, have provided an indemnity to meet the conditions of this loan should ESPO ever fail to make payments. A contingent liability has been declared within the Financial Statement for this.

A copy of ESPO's Statement of Accounts and Annual Report is available from: ESPO, Barnsdale Way, Grove Park, Enderby, Leicester. LE19 1ES. Telephone 0116 265 7878.

### **b) Interests in Subsidiary - Fire and Rescue Control Centre.**

Lincolnshire County Council is one of five members that jointly own the Regional Fire and Rescue Control Centre established in the East Midlands. The Regional Control Centre is a Local Authority controlled company. The original intent was to provide the regional control centre to serve the whole of the East Midlands.

The Regional Control Centre was formed on 17 November 2006. It took ownership of a leased building at Castle Donnington in June 2007 and planned to operate from here for the next 25 years. The first members of staff were employed from September 2007. The Department for Communities and Local Government (DCLG) had determined a timetable for each region and each Authority to commence their control operations from the regional control centre. Lincolnshire was due to move over in January 2012.

The Regional Control Centre accounting year end is 31 March and the latest accounts are for the year ended 31 March 2012. The Directors have exercised the options available to a small sized company under the Companies Act 1985 and therefore the company is exempt from the requirement to appoint an auditor or to present audited Accounts. The Accounts show gross assets of £1.275m and gross liabilities of £1.275m at 31 March and that the company broke even in 2012.

Turnover between Lincolnshire County Council and the Regional Control Centre totalled £nil for 2011-12. The Council has made no financial investment in the company and has received no dividends. There is no indebtedness between the company and the Council as at 31 March 2012. Group accounts have not been prepared on the basis that the transactions and balances are not material.

On Monday 20 December 2010 Central Government announced that the National Fire and Rescue Control Centre project was to be terminated. The board met on 10th January 2011 and agreed to initiate a process of winding up the company and this saw the existing directors resign and a new director structure put in place. The lease for the RCC Control Room was transferred to DCLG on the 28th March 2012.

DCLG have agreed to continue to meet the running costs of the company until such time as the company is wound up. Any residual balance of funding will be repaid to DCLG.

A copy of the Statement of Accounts for the Regional Control Centre is available from: Leicestershire Fire and Rescue Service, Headquarters, Anstey Frith, Leicester Road, Glenfield, Leicester. LE3 8HD.

Lincolnshire County Council have now entered into a new partnership arrangement with Humberside, Norfolk and Hertfordshire to improve control room function resilience. No legal entity exists for this arrangement in 2011-12.



## **Note 58. Trust Funds**

The County Council acts as sole administrator for 54 trust funds related to specific services, principally Education and Social Services. Funds are invested either in external marketable securities or held on deposit. They are not included in the Balance Sheet.

The principal trusts are as follows:

	<b>Balance at 31 March 2011 £'000</b>	<b>Income £'000</b>	<b>Expenditure £'000</b>	<b>Balance at 31 March 2012 £'000</b>
Education Trusts	253	(12)	27	214
Children's Social Care Trusts	273	(8)	16	249
Adult Social Care Trusts	233	(2)	3	228
Other Trusts	102	(1)	0	101
<b>Total</b>	<b>861</b>	<b>(23)</b>	<b>46</b>	<b>792</b>

The Education funds relate principally to legacies left by individuals over a period of years in order to provide annual prizes at specified schools or colleges.

The Social Care funds represent monies held in trust either for children in care until such time as they are required or funds for the benefit of the elderly in Council homes.

## Lincolnshire County Council's Pension Fund

Pension Fund Account - For the year ended 31 March 2012

	See Note	2010-11 £'000	2011-12 £'000
<b>Contributions and Benefits</b>			
Contributions Receivable	8	85,672	78,564
Transfers in	9	8,587	8,231
		<b>94,259</b>	<b>86,795</b>
Benefits Payable	10	61,771	77,744
Leavers	11	6,829	5,666
Administrative expenses	12	1,123	997
		<b>69,723</b>	<b>84,407</b>
<b>Net additions from dealings with fund members</b>		<b>24,536</b>	<b>2,388</b>
<b>Returns on Investments</b>			
Investment Income	13	22,015	21,806
Profit (Loss) on Forward Deals & Currency Deals	17	(4,137)	(3,275)
Change in Market Value of Investments	15	75,706	831
Investment management expenses	12	(3,185)	(4,012)
<b>Net returns on investments</b>		<b>90,399</b>	<b>15,350</b>
Net increase in the Fund during the year		114,935	17,738
Opening net assets of the Fund		1,203,367	1,318,302
<b>Closing net assets of the Fund</b>		<b>1,318,302</b>	<b>1,336,040</b>
<b>Net Assets statement as at 31 March 2012</b>			
<b>Investments</b>	15		
Equities		781,950	779,938
Pooled Investments:			
Property		145,272	152,538
Private Equity		95,206	90,949
Fixed Interest		136,352	143,166
Index Linked Bonds		23,621	26,895
Alternatives		92,064	96,798
Cash Deposits		20,190	28,409
Other Investment Balances	18	969	3,279
		<b>1,295,624</b>	<b>1,321,972</b>
<b>Current Assets and Liabilities</b>			
Cash Balances		11,880	5,752
Debtors	19	8,666	7,617
Long Term Debtors	19	3,837	3,410
Creditors	19	(1,705)	(2,711)
		<b>22,678</b>	<b>14,068</b>
<b>Net Assets of the Fund at 31st March</b>		<b>1,318,302</b>	<b>1,336,040</b>

## Notes to the Pension Fund Account

### **1. Pension Fund Account**

The Lincolnshire County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme and is administered by Lincolnshire County Council.

The following information is a summary only, and further detail can be found in the Lincolnshire County Council Pension Fund Annual Report 2011-12 (available on the Fund's website at [www.lincolnshire.gov.uk/pensions](http://www.lincolnshire.gov.uk/pensions)), and in the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme Regulations.

#### **General**

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined 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 Fire-fighters are not included as they come within other national pension schemes.

The Fund is overseen by the Lincolnshire County Council Pensions Committee.

#### **Membership**

Membership of the LGPS is automatic for eligible employees, but they are able to opt out 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 138 employer organisations in the Fund including the County Council (a list of scheduled employers is shown at PF Note 28) and the membership numbers are shown below:

	<b>31 March 2011</b>	<b>31 March 2012</b>
Number of employers with active members	132	138
Number of employees in the scheme		
Lincolnshire County Council	11,287	11,424
Other employers	7,756	7,963
Total	19,043	19,387
Number of pensioners		
Lincolnshire County Council	8,434	9,343
Other employers	5,431	5,793
Total	13,865	15,136
Number of deferred pensioners		
Lincolnshire County Council	16,459	17,286
Other employers	6,472	7,015
Total	22,931	24,301

## **Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2010, and employer contribution rates were set ranging from 11.9% to 30.5% of pensionable pay.

## **Benefits**

Pensions benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	<b>Service pre 1 April 2008</b>	<b>Service post 31 March 2008</b>
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 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.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

## **2. Basis of Preparation**

Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12, based on International Financial Reporting Standards (the Code), and relevant statute, and the 2007 Statement of Recommended Practice (Financial Reports of Pension Schemes). The Code includes guidance on how to apply International Financial Reporting Standards (IFRS's) and International Accounting Standards (IAS's) to local authority accounts.

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 period end. 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**

Contributions receivable are included in the accounts in the year to which they relate. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

#### **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.

#### **Administrative expenses**

These are accrued appropriately to ensure charges are incurred within the relevant accounting period. The costs of the Pensions Administration team are charged to the Fund.

## **Investment expenses**

These are accrued appropriately to ensure charges are incurred within the relevant accounting period.

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)
- Goodhart Partners - Absolute Return Bonds
- Morgan Stanley Investment Management Ltd - Alternative Investments

Where an investment manager's fee invoice has not been received by the financial year end, an estimate based upon the market value of their mandate is used for inclusion in the Fund accounts.

The costs of the Council's in-house fund management team are charged to the Pension Fund and a proportion of the Council's costs representing management time spent by officers on investment management are also charged to the Fund.

## **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 have been determined as follows:

- UK listed securities are stated at bid price.
- Overseas listed securities are stated at bid price.
- Unit Trusts are stated at bid price from the most recent official valuation.

Other investments are stated at fair value, as estimated by the manager of the particular investment. These valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

Transaction costs are included in the purchase and sale costs of investments and are identified in the Notes to the Accounts.

### **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.

### **Cash and cash equivalents**

Cash comprises of cash in hand and deposits. 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.

### **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 2012 are shown in PF Note 29.

### **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 2010 indicated that the Fund's assets were £1,203.4m and covered 76% of the Funds liabilities. This compared with assets of £1,145.5m at the valuation as at 31 March 2007, which covered 86% of the Fund's liabilities. The main actuarial assumptions for the 2010 valuation were as follows:

	<b>Nominal per annum %</b>	<b>Real per annum %</b>
Investment Return		
- Equities	6.1	2.8
- Bonds	4.5	1.2
Rate of Pensionable pay inflation	5.3	2.0
Rate of Price inflation	3.3	

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 2010 were effective from April 2011. 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 20 years. The next actuarial valuation will be undertaken as at 31 March 2013. 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.

### **Pension Fund Accounts Reporting Requirement**

#### **Introduction**

CIPFA's Code of Practice on Local Authority Accounting 2011-12 requires administering authorities of LGPS funds that prepare Pension Fund Accounts to disclose what IAS 26 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 IAS 19. 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, IAS 26 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 IAS 19 and not the Pension Fund's funding assumptions.

In order for the Administering Authority to comply, I have provided the information required below.

Balance sheet

<b>Year ended</b>	<b>31 March 2011</b>	<b>31 March 2012</b>
	<b>£m</b>	<b>£m</b>
Present value of Promised retirement benefits	1,765	1,942

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2012 comprises £946m in respect of employee members, £321m in respect of deferred pensioners and £675m in respect of pensioners. 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 FRS 17/ IAS 19 report as required by the Code of Practice. These are given below. I estimate the impact of the change of assumptions to 31 March 2012 to increase the actuarial present value by £34.0m.



## Financial Assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2011 % p.a.	31 March 2012 % p.a.
Inflation/Pension Increase rate	2.8%	2.5%
Salary Increase Rate	5.1%**	4.8%*
Discount Rate	5.5%	4.8%

\* Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter.

\*\* Salary increases were 1% p.a. nominal for the period to 31 March 2012, reverting to the long term rate thereafter.

## Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the fund's Vitacurves with improvements from 2007 in line with the Medium Cohort and a 1% p.a. underpin.

Based in these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	females
Current Pensioners	21.2 years	23.4 years
Future Pensioners	23.7 years	25.7 years

\* Future pensioners are assumed to be currently aged 45 as at 31 March 2010

This assumption is the same as at 31 March 2011.

## 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.

## **6. Assumptions Made and Major Sources of Uncertainty**

The accounts contain estimated figures that are based on assumptions made by the Council and other Professionals, about the future or factors that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances can not be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the accounts for the year ended 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
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 £174m.</p> <p>2) a 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £28m.</p> <p>3) a 0.5% increase in the pension increase rate would increase the value of liabilities by approximately £134m.</p> <p>4) a one-year increase in assumed life expectancy would increase the liability by approximately £58m.</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 £91m. There is a risk that these may be over - or understated in the accounts.

## 7. Pension Fund Investments 2011/12

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%
	<b>100.0%</b>

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 2011		31 March 2012	
	£m	%	£m	%
<b>EXTERNALLY MANAGED</b>				
Invesco	260	20	271	21
Neptune	81	6	75	6
Schroders	90	7	85	6
Threadneedle	92	7	93	7
Morgan Stanley	92	8	107	8
Blackrock	78	6	88	7
Goodhart	81	7	82	6
<b>INTERNALLY MANAGED</b>				
Pooled Investments:				
Property	146	11	153	11
Private Equity	96	7	93	7
UK Equity	268	21	273	21

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
<b>EXTERNALLY MANAGED</b>	
Invesco	Bid
Neptune	Bid
Schroders	Bid
Threadneedle	Bid
Morgan Stanley	Bid
Blackrock	Bid
Goodhart	Bid
<b>INTERNALLY MANAGED</b>	
Pooled Investments:	
Property	Bid/Fair Value
Private Equity	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 £49,975m 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 £59,496m which represented 113% of the value of securities on loan.

Income received from stock lending activities, before costs, was £233k for the year ending 31 March 2012 and is included within the 'Investment Income' figure detailed on the Pension Fund Account.

## **8. Contributions Receivable**

Contributions receivable are analysed below:

	2010-11 £'000	2011-12 £'000
<b>Employers</b>		
Normal	45,027	46,735
Deficit Funding	17,373	8,413
Additional - Augmentation	3,502	5,292
<b>Members</b>		
Normal	19,477	17,918
Additional years	293	206
	<b>85,672</b>	<b>78,564</b>

These contributions are analysed by type of Member Body as follows:

	2010-11 £'000	2011-12 £'000
Lincolnshire County Council	46,984	43,817
Scheduled Bodies	34,529	31,534
Admitted Bodies	4,159	3,213
	<b>85,672</b>	<b>78,564</b>

## **9. Transfers In**

During the year individual transfers in from other schemes amounted to £8.231m (£8.587m in 2010-11).

There were no material outstanding transfers due to or from the Pension Fund as at 31 March 2012.

## **10. Benefits Payable**

	2010-11 £'000	2011-12 £'000
Pensions	48,108	52,619
Commutations & Lump Sum Retirement Benefits	12,137	23,877
Lump Sum Death Benefits	1,526	1,248
	<b>61,771</b>	<b>77,744</b>

These benefits are analysed by type of Member Body as follows:

	2010-11 £'000	2011-12 £'000
Lincolnshire County Council	32,955	45,987
Scheduled Bodies	26,570	29,550
Admitted Bodies	2,246	2,207
	<b>61,771</b>	<b>77,744</b>

### **11. Payments to and on account leavers**

	2010-11 £'000	2011-12 £'000
Individual transfers to other schemes	6,820	5,662
Refunds to members leaving service	9	4
	<b>6,829</b>	<b>5,666</b>

### **12. Administrative and Investment Management Expenses**

The Local Government Pension Scheme Regulations permit costs incurred in connection with the management of the investments and benefit administration to be charged against the Fund. Breakdowns of these costs are set out in the table below. The external Audit fee for the year was £36k and is included within the administrative expenses shown below:

	2010-11 £'000	2011-12 £'000
Benefit Administration Expenses	995	947
Actuarial & other Professional Charges	128	50
<b>Administrative expenses</b>	<b>1,123</b>	<b>997</b>
Investment, Management & Custody	3,094	3,906
Performance Measurement and	91	106
Other advisory charges		
<b>Investment Management expenses</b>	<b>3,185</b>	<b>4,012</b>

### **13. Investment Income**

	2010-11 £'000	2011-12 £'000
Fixed Interest Securities	(533)	0
Equities	20,196	20,959
Index Linked Securities	257	0
Pooled Investments		
Property	1,510	616
Private Equity	1	(10)
Alternatives	116	(116)
Cash deposits	361	124
Stock Lending	106	233
Underwriting / Commission Recapture	1	0
	<b>22,015</b>	<b>21,806</b>

### **14. Taxes on Income**

	2010-11 £'000	2011-12 £'000
Withholding tax - Equities	n/a	823
	<b>n/a</b>	<b>823</b>

The Fund moved its investment accounting to the Custodian, JPMorgan, on 1 April 2012. This has enabled the analysis of withholding tax, which was unavailable from the accounting software used in 2010-11.

## 15. Investments

	Value at 31 March 2011 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31 March 2012 £'000
Equities	781,950	272,076	255,361	(18,727)	779,938
Pooled Investments					
Property	145,272	4,940	2,032	4,358	152,538
Private Equity	95,206	9,518	17,434	3,659	90,949
Fixed Interest	136,352	4,286	4,286	6,814	143,166
Index Linked Bonds	23,621	0	0	3,274	26,895
Alternatives	92,064	31,324	28,043	1,453	96,798
	<b>1,274,465</b>	<b>322,144</b>	<b>307,156</b>	<b>831</b>	<b>1,290,284</b>
Cash Deposits	20,190				28,409
Other Investment Balances	969				3,279
Current Assets & Liabilities	22,678				14,068
	<b>1,318,302</b>	<b>322,144</b>	<b>307,156</b>	<b>831</b>	<b>1,336,040</b>

	Value at 31 March 2010 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31 March 2011 £'000
Fixed Interest Securities	150,664	35,790	189,497	3,043	0
Equities	712,573	434,275	413,682	48,784	781,950
Index Linked Securities	61,252	21,080	82,507	175	0
Pooled Investments					
Property	135,929	4,294	834	5,883	145,272
Private Equity	82,780	14,617	10,501	8,310	95,206
Emerging Markets	21,923	0	22,493	570	0
Fixed Interest	0	134,036	17	2,333	136,352
Index Linked Bonds	0	22,366	0	1,255	23,621
Alternatives	0	98,236	11,525	5,353	92,064
	<b>1,165,121</b>	<b>764,694</b>	<b>731,056</b>	<b>75,706</b>	<b>1,274,465</b>
Cash Deposits	13,931				20,190
Other Investment Balances	794				969
Current Assets & Liabilities	23,521				22,678
	<b>1,203,367</b>	<b>764,694</b>	<b>731,056</b>	<b>75,706</b>	<b>1,318,302</b>

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £498,793 (£631,301 in 2010-11). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme.

A further analysis of the market value of investments is given below:

	31 March 2011		31 March 2012	
	£'000	%	£'000	%
<b>Equities</b>				
UK Quoted	301,112	23	294,868	22
Overseas Quoted	480,838	37	485,070	37
<b>Total Equities</b>	<b>781,950</b>	<b>60</b>	<b>779,938</b>	<b>59</b>
<b>Pooled Investments</b>				
Property	118,546	9	124,819	10
Private Equity	3,061	0	2,061	0
Fixed Interest	54,875	4	60,918	5
Index Linked Bonds	23,621	2	26,895	2
Alternatives	92,064	8	96,798	7
<b>Total UK Pooled</b>	<b>292,167</b>	<b>23</b>	<b>311,491</b>	<b>24</b>
Property	26,726	2	27,719	2
Private Equity	92,145	7	88,888	7
Fixed Interest	81,477	6	82,248	6
<b>Total Overseas Pooled</b>	<b>200,348</b>	<b>15</b>	<b>198,855</b>	<b>15</b>
<b>Total Pooled Investments</b>	<b>492,515</b>	<b>38</b>	<b>510,346</b>	<b>39</b>
<b>Cash</b>				
Short Term Loans/External Deposits	20,190	2	28,409	2
<b>Total</b>	<b>1,294,655</b>	<b>100</b>	<b>1,318,693</b>	<b>100</b>

An analysis of the type of pooled investment vehicles is given below:

	2010-11	2011-12
	£'000	£'000
Property		
Unit Trusts	95,282	100,953
Other managed funds (LLP's)	49,990	51,585
Private Equity		
Other managed funds (LLP's)	95,206	90,949
Fixed Interest		
Other managed funds	136,352	143,166
Index linked gilts		
Other managed funds	23,621	26,895
Alternatives		
Other managed funds	92,064	96,798
<b>Total Pooled Vehicles</b>	<b>492,515</b>	<b>510,346</b>

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 two investments that fall into this category are as follows:

Investment	2010-11		2011-12	
	Value (£'000)	% of net assets	Value (£'000)	% of net assets
Goodhart Absolute Return Bond Fund	81,477	6.1	82,248	6.2
Morgan Stanley Alternative Investments	100,337	7.6	96,798	7.2



## 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
Over one month	GBP	10,025	CHF	(14,200)	171	
	GBP	53,631	EUR	(63,200)	849	
	GBP	58,195	JPY	(7,217,000)	3,182	
	GBP	340,029	USD	538,700	2,602	
Over one month	CHF	9,500	GBP	(6,711)		(125)
	EUR	43,900	GBP	(37,382)		(721)
	JPY	5,935,000	GBP	47,836		(2,611)
	USD	462,700	GBP	293,270		(3,469)
<b>Total</b>					<b>6,804</b>	<b>(6,926)</b>
<b>Net forward currency contracts at 31 March 2012</b>						<b>(122)</b>
<b>Prior year comparative</b>						
<b>Open forward currency contracts at 31 March 2011</b>					<b>8,175</b>	<b>(11,235)</b>
<b>Net forward currency contracts at 31 March 2011</b>						<b>(3,060)</b>

## 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 £0.1m (loss of £3.1m in 2010-11) from the Fund's two Currency Overlay Managers.

## 18. Other Investment Balances

	2010-11 £'000	2011-12 £'000
Dividends Receivable	2,683	2,833
Recoverable Tax	761	634
Outstanding Foreign Exchange	(3,060)	(122)
Unsettled Trades Purchases	(7,030)	(1,256)
Sales	7,615	1,190
	<b>969</b>	<b>3,279</b>

## 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 £3.7m for contributions due from employers (2010-11 £4.2m). 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:

	2010-11 £'000	2011-12 £'000
<b>Debtors</b>		
Central Government Bodies	649	878
Other Local Authorities	6,617	5,951
NHS Bodies	0	0
Public Corporations and Trading Funds	207	200
Other Entities and individuals	1,193	588
	<b>8,666</b>	<b>7,617</b>
<b>Long Term Debtors</b>		
Central Government Bodies	3,837	3,410
Other Local Authorities	0	0
NHS Bodies	0	0
Public Corporations and Trading Funds	0	0
Other Entities and individuals	0	0
	<b>3,837</b>	<b>3,410</b>
<b>Creditors</b>		
Central Government Bodies	(559)	(1,164)
Other Local Authorities	0	(200)
NHS Bodies	0	0
Public Corporations and Trading Funds	(992)	(1,308)
Other Entities and individuals	(154)	(39)
	<b>(1,705)</b>	<b>(2,711)</b>

## **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 24 investment vehicles amounted to £47.3m.

## **21. Contingent Assets**

Two admitted body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds 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 recognised an impairment loss of £400k for possible non-payment of a cessation value where the employer was not backed by a guarantee.

## **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 amounted to £8.5m and member contributions of £1.0m were received by the Prudential in the year to 31<sup>st</sup> March. The value of AVC funds and contributions received in the year are not included in the Fund Account and Net Assets Statement.

<b>AVC Fund</b>	<b>With Profits Cash Acc Fund</b>	<b>Deposit Fund</b>	<b>Unit Linked Funds</b>	<b>Total</b>
Opening value at 31 March 2011	7,537,539	724,403	790,861	9,052,803
<b>Income</b>				
Contributions	581,259	267,855	232,480	1,081,594
Transfers In	69,357	0	15,882	85,239
Interest & Bonuses	449,023	3,444	0	452,467
<b>Expenditure</b>				
Benefits	1,629,962	312,266	212,227	2,154,455
Transfers out	38,876	6,806	9,076	54,758
Charges	0	0	5,737	5,737
Market movement			66,456	66,456
<b>Closing Value 31 March 2012</b>	<b>6,968,340</b>	<b>676,630</b>	<b>878,639</b>	<b>8,523,609</b>

## **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. The total value of the claims is £793k and relates to both 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 £714k 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 £278k. No additional claims were made in this area in 2011-12. 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 HM Revenue and Customs for the recovery of withholding tax suffered on overseas dividends from France and Germany, covering the periods from 2007-2010. The value of the claim is approximately £266k. As with the tax claims detailed in the paragraphs above, the County Council is participating with other pension funds in progressing a legal test case to support the claims.

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 are entitled to join the Scheme. No Members of the Pensions Committee currently receive pension benefits from the Fund.

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 £12.4m and interest of £117k was earned over the year.

Lincolnshire County Council paid contributions of £33.9m into the Pension Fund during the year and all payments were received within agreed timescales.

Disclosures for officer remuneration and member allowances in relation to the Pension Fund are not apportioned for the Pension Fund accounts, but are presented in the County Council's main Statement of Accounts in Note 47. This can be found on the County Council's website at [www.lincolnshire.gov.uk](http://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.

	2010-11			2011-12		
	Designated as fair value through profit & loss £'000	Loans & receivables £'000	Financial liabilities at amortised cost £'000	Designated as fair value through profit & loss £'000	Loans & receivables £'000	Financial liabilities at amortised cost £'000
<b>Financial Assets</b>						
Equities	781,950			779,938		
Pooled Investments:						
Property	145,272			152,538		
Private Equity	95,206			90,949		
Fixed Interest	136,352			143,166		
Index Linked Bonds	23,621			26,895		
Alternatives	92,064			96,798		
Cash		32,070			34,161	
Other Investment Balances	19,234			11,461		
Debtors		12,503			11,027	
	<b>1,293,699</b>	<b>44,573</b>	<b>-</b>	<b>1,301,745</b>	<b>45,188</b>	<b>-</b>
<b>Financial Liabilities</b>						
Other Investment Balances	(18,265)			(8,182)		
Creditors			(1,705)			(2,711)
	<b>(18,265)</b>	<b>-</b>	<b>(1,705)</b>	<b>(8,182)</b>	<b>-</b>	<b>(2,711)</b>
	<b>1,275,434</b>	<b>44,573</b>	<b>(1,705)</b>	<b>1,293,563</b>	<b>45,188</b>	<b>(2,711)</b>

### Net gains and losses on financial instruments

	2010-11 £'000	2011-12 £'000
<b>Financial Assets</b>		
Fair value through profit & loss	75,706	831
Loans and receivables		
Financial liabilities measured at amortised cost		
<b>Financial Liabilities</b>		
Fair value through profit & loss		
Loans and receivables		
Financial liabilities measured at amortised cost		
	<b>75,706</b>	<b>831</b>

## 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 2012.

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 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Fair value through profit & loss	961,460	152,538	187,747	1,301,745
Loans and receivables	45,188			45,188
Financial liabilities measured at amortised cost				-
<b>Total Financial Assets</b>	<b>1,006,648</b>	<b>152,538</b>	<b>187,747</b>	<b>1,346,933</b>
<b>Financial Liabilities</b>				
Fair value through profit & loss		(8,182)		(8,182)
Loans and receivables				-
Financial liabilities measured at amortised cost	(2,711)			(2,711)
<b>Total Financial Liabilities</b>	<b>(2,711)</b>	<b>(8,182)</b>	<b>-</b>	<b>(10,893)</b>
<b>Net Financial Assets</b>	<b>1,003,937</b>	<b>144,356</b>	<b>187,747</b>	<b>1,336,040</b>

Values at 31 March 2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Fair value through profit & loss	961,157	145,272	187,270	1,293,699
Loans and receivables	44,573			44,573
Financial liabilities measured at amortised cost				
<b>Total Financial Assets</b>	<b>1,005,730</b>	<b>145,272</b>	<b>187,270</b>	<b>1,338,272</b>
<b>Financial Liabilities</b>				
Fair value through profit & loss		(18,265)		(18,265)
Loans and receivables				
Financial liabilities measured at amortised cost	(1,705)			(1,705)
<b>Total Financial Liabilities</b>	<b>(1,705)</b>	<b>(18,265)</b>		<b>(19,970)</b>
<b>Net Financial Assets</b>	<b>1,004,025</b>	<b>127,007</b>	<b>187,270</b>	<b>1,318,302</b>

## **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 cashflows.

### **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 in consultation with WM, a performance measurement company that is part of State Street Global Services; the Fund has determined that the following movements in market price are reasonably possible for the 2012-13 reporting period.

<b>Asset Type</b>	<b>Potential market movements (+/-)</b>
UK Equities	14.7%
Overseas Equities	14.6%
UK Bonds	5.5%
UK Index Linked	6.4%
Overseas Bonds	7.7%
Private Equity	14.6%
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 2012 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	28,409	0.0	28,409	28,409
UK Equities	294,868	14.7	338,214	251,522
Overseas Equities	485,070	14.6	555,890	414,250
UK Bonds	60,918	5.5	64,268	57,568
UK Index Linked	26,895	6.4	28,616	25,174
Overseas Bonds	82,248	7.7	88,581	75,915
Private Equity	90,949	14.6	104,228	77,670
Alternative Investments	96,798	10.0	106,478	87,118
Property	152,538	5.8	161,385	143,691
Dividends Accrued	2,833	0.0	2,833	2,833
Recoverable Tax	634	0.0	634	634
Outstanding FX	(122)	0.0	(122)	(122)
Unsettled Purchases	(1,256)	0.0	(1,256)	(1,256)
Unsettled Sales	1,190	0.0	1,190	1,190
<b>Total assets available to pay benefits</b>	<b>1,321,972</b>		<b>1,479,348</b>	<b>1,164,596</b>

Asset Type	Value at 31 March 2011 £000	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash deposits	20,190	0.0	20,190	20,190
UK Equities	301,112	14.7	345,375	256,849
Overseas Equities	480,838	14.6	551,040	410,636
UK Bonds	54,875	5.5	57,893	51,857
UK Index Linked	23,621	6.4	25,133	22,109
Overseas Bonds	81,477	7.7	87,751	75,203
Private Equity	95,206	14.6	109,106	81,306
Alternative Investments	92,064	10.0	101,270	82,858
Property	145,272	5.8	153,698	136,846
Dividends Accrued	2,683	0.0	2,683	2,683
Recoverable Tax	761	0.0	761	761
Outstanding FX	(3,060)	0.0	(3,060)	(3,060)
Unsettled Purchases	(7,030)	0.0	(7,030)	(7,030)
Unsettled Sales	7,615	0.0	7,615	7,615
<b>Total assets available to pay benefits</b>	<b>1,295,624</b>		<b>1,452,426</b>	<b>1,138,822</b>

### 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 cashflows 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 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair values.

Asset Type	31 March 2011 £000	31 March 2012 £000
Cash deposits	20,190	28,409
Cash balances	11,880	5,752
Pooled Fixed Interest Securities	159,973	170,061
<b>Total</b>	<b>192,043</b>	<b>204,222</b>

### 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 March 2012	+1%	-1%
	£000	£000	£000
Cash deposits	28,409	284	(284)
Cash balances	5,752	58	(58)
Pooled Fixed Interest Securities	170,061	1,701	(1,701)
<b>Total</b>	<b>204,222</b>	<b>2,042</b>	<b>(2,042)</b>

Asset Type	Value at	Change in Year	
	31 March 2011	+1%	-1%
	£000	£000	£000
Cash deposits	20,190	202	(202)
Cash balances	11,880	119	(119)
Pooled Fixed Interest Securities	159,973	1,600	(1,600)
<b>Total</b>	<b>192,043</b>	<b>1,920</b>	<b>(1,920)</b>

### Currency risk

Currency risk represents the risk that the fair value of future cashflows 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 2012 and 31 March 2011.

Currency Exposure - Asset Type	31 March 2011	31 March 2012
	£000	£000
Overseas Equities (quoted)	480,838	485,070
<b>Pooled Investments:</b>		
Overseas Property	26,726	27,719
Overseas Private Equity	92,145	88,888
Overseas Fixed Interest	81,477	82,248
<b>Total</b>	<b>681,186</b>	<b>683,925</b>

### Currency risk - sensitivity analysis

Following analysis of historical data in consultation with WM, a performance measurement company that is part of State Street Global Services, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

A 10% fluctuation in the currency is considered reasonable based on WM's analysis of long term historical movements in month-end exchange rates. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% 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 March 2012	+10%	-10%
	£000	£000	£000
Overseas Equities (quoted)	485,070	533,577	436,563
<b>Pooled Investments:</b>			
Overseas Property	27,719	30,491	24,947
Overseas Private Equity	88,888	97,777	79,999
Overseas Fixed Interest	82,248	90,473	74,023
<b>Total</b>	<b>683,925</b>	<b>752,318</b>	<b>615,533</b>

Currency Exposure - Asset Type	Value at	Change in Year	
	31 March 2011	+10%	-10%
	£000	£000	£000
Overseas Equities (quoted)	480,838	528,922	432,754
<b>Pooled Investments:</b>			
Overseas Property	26,726	29,399	24,053
Overseas Private Equity	92,145	101,360	82,931
Overseas Fixed Interest	81,477	89,625	73,329
<b>Total</b>	<b>681,186</b>	<b>749,305</b>	<b>613,067</b>

### Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The 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 Berkhart & Trinkaus. 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 HSBC, which holds a AA long term credit rating (or equivalent) across three ratings agencies 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 2012, these assets totalled £1,290.2m, with a further £28.4m 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 Mouchel, alongside a Council wide contract. In addition to the contract management that the Council undertakes, regular meetings are held between Fund Officers and the Pensions Manager at Mouchel. The Pension Fund is also a member of the CIPFA benchmarking club for Pensions Administration, to allow service comparisons to be made with other Funds.

### **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 \$17.9 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 Custodians 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 Contributing to the Fund**

### **County and District Councils**

Lincolnshire County Council  
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

### **Police and Probation**

Lincolnshire Police Authority  
Lincolnshire Probation Service

### **Internal Drainage Boards**

Black Sluice Internal Drainage Board  
Lindsey Marsh Drainage Board  
North East Lindsey Internal Drainage Board  
South Holland Internal Drainage Board  
Upper Witham Internal Drainage Board  
Welland and Deeping Internal Drainage Board  
Witham First Internal Drainage Board  
Witham Fourth Internal Drainage Board  
Witham Third Internal Drainage Board

### **Parish and Town Councils**

Aubourn & Haddington Town Council  
Bourne Town Council  
Crowland Parish Council  
Deeping St James Parish Council  
Gainsborough Town Council  
Greetwell Parish Council  
Heighington Parish Council  
Horncastle Town Council  
Ingoldmells Parish Council  
Langworth Parish Council  
Louth Town Council  
Mablethorpe and Sutton Town Council  
Market Deeping Town Council  
Metheringham Parish Council  
Nettleham Parish Council  
North Hykeham Town Council  
Saxilby & Ingleby Parish Council  
Skegness Town Council  
Skellingthorpe Parish Council  
Sleaford Town Council  
Stamford Town Council  
Sudbrooke Parish Council  
Washingborough Parish Council  
Woodhall Spa Parish Council

### **Further Education Establishments**

Boston College  
Grantham College  
Lincoln College  
Stamford College

### **Academies**

Alford Queen Elizabeth Selective Academy  
Bourne Abbey C of E Academy  
Bourne Academy  
Bourne Grammar  
Bourne Westfield Primary Academy  
Branston Community Academy  
Caistor Grammar  
Caistor Yarborough Academy  
Ermine Primary Academy  
Fosse Way Academy  
Giles Academy  
Grantham Kings School  
Grantham Walton Girls  
Hartsholme Academy  
Heighington Millfield Primary Academy  
John Spendluffe Technology College  
Kesteven & Sleaford High School  
Lincoln Castle Academy  
Lincoln Christs Hospital School  
Lincoln Westgate Academy  
Market Rasen De Aston School  
Mount Street Academy  
North Kesteven School  
Priory Federation of Academies  
Sir Robert Pattinson Academy  
Skegness Academy  
Sleaford Carres Grammar School  
Sleaford St Georges Academy  
Sleaford William Alvey  
St John's Primary Academy  
Stamford Malcolm Sargent Primary  
Stamford Queen Eleanor School  
The Deepings Academy  
Tower Road Academy  
Trent Valley Academy  
University Academy Holbeach  
Welton William Farr CE Comprehensive  
West Grantham Federation

### **Admitted Bodies**

Acis Group  
Active Nation  
Adults Supporting Adult  
Bishop Grosseteste College  
Boston Mayflower  
Compass Point  
Edwards & Blake  
Heritage Trust for Lincolnshire  
Lincoln Arts Trust  
Lincoln Business Improvement  
Lincolnshire Home Improvements Agency  
Lincs Partnership Trust  
Lincs Sports Partnership  
May Gurney  
Mouchel Connexions  
National Child Minding Association  
New Linx Housing  
Sports & Leisure Management

## **29 Exchange Rates Applied**

The exchange rates used at 31st March 2012 per £1 sterling were:

Australian Dollar	1.5423
Brazilian Real	2.9148
Canadian Dollar	1.5969
Swiss Franc	1.4441
Danish Krone	8.9259
Euro	1.1998
Hong Kong Dollar	12.4049
Indonesian Rupiah	14,609.7851
Israeli Shekel	5.9245
Japanese Yen	131.4868
Korean Won	1,810.3306
Mexico Peso	20.4680
Malaysian Ringgit	4.8947
Norwegian Krone	9.1136
New Zealand Dollar	1.9498
Polish Zloty	4.9831
Swedish Krona	10.6016
Singapore Dollar	2.0089
Thai Baht	49.2906
Taiwan Dollar	47.1568
US Dollar	1.5977
South African Rand	12.2620

## Lincolnshire Fire & Rescue Pensions Fund for the year ended 31 March 2012

2010-11 £'000	Fund Account	Note	2011-12 £'000
<b>Contributions Receivable</b>			
From employer:			
(1,699) - normal		2	(1,600)
(148) - other (ill health)		2	(148)
(983) From members		2	(929)
0 From CLG ( commutations special income)			0
<b>Transfers in:</b>			
(34) individual transfers from other schemes		7	(2)
<b>Benefits payable:</b>			
3,595 pension		5	3,870
1,557 commutations and lump sum retirement benefits		5	957
<b>Payments to and on account of leavers:</b>			
142 individual transfer out to other schemes		7	0
<b>2,430 Sub Total Net amount payable for the year before top up grant receivable</b>			<b>2,148</b>
(2,430) Top up grant receivable from sponsoring department		6	(2,148)
<b>0 net amount payable/receivable</b>			<b>0</b>
31 March 2011 £'000	Net Asset Statement as at:		31 March 2012 £'000
<b>Current Assets</b>			
309 Pensions paid in Advance			328
0 Amounts due from LCC			0
1,426 Pensions top up grant due			548
<b>Current liabilities</b>			
(1,735) Amounts payable to LCC			(876)
0 Pension payable to central government			0
<b>0 Total</b>			<b>0</b>

## **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 54 to the 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 both the 1992 and 2006 Fire-fighters Pension Schemes. It was established by the Fire fighters Pension Scheme (Amendment) (England) Order 2006 (SI2006 No1810) 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.

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.

No provision is made in the accounts for contributions on pay awards not yet settled .

#### **Benefits**

Benefits include recurring payments that are paid in advance of the month for which they relate. An accrual is made at year end so that the payments are accounted for in the year to which they relate and this is shown in the net asset statement. Lump Sum payments are paid as they become due.

The accounts do not take account of liabilities to pay pensions and other benefits after the year end.

#### **Transfer Values**

The value of accrued benefits transferred from or to another pension arrangement, including Fire-fighters' pension schemes outside England, are recorded in the accounts on a receipts and payments basis.

#### **Top up Grant**

Central Government pay an instalment of top up grant during the year based on estimated activity. The balance is included within the amount of grant receivable and identified in the Net asset statement under current assets or liabilities.

The accounts do not take account of liabilities to pay pensions and other benefits after the year end.

### **4 Contribution Rates**

Under the Fire-fighters' pension regulations, the contribution rates are set nationally and are subject to triennial revaluation by the Governments Actuary's Department. During 2010-11, the contribution rates for the 2006 scheme were 19.5% of pensionable pay (11% employers and 8.5% employees) and the contribution rates for the 1992 scheme were 32.3% of pensionable pay (21.3% employers and 11% employees). 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.



## 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.

## **Independent Auditor's Report to the Members of Lincolnshire County Council**

### **Opinion on the Authority and firefighters' pension fund financial statements**

I have audited the financial statements and the firefighters' pension fund financial statements of Lincolnshire County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The firefighters' pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011-12.

This report is made solely to the members of Lincolnshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Executive Director of Resources and Community Safety and auditor**

As explained more fully in the Statement of the Executive Director of Resources and Community Safety Responsibilities, the Executive Director of Resources and Community Safety is responsible for the preparation of the Authority's Statement of Accounts, which include the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Resources and Community Safety; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Lincolnshire County Council as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;

- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

### **Opinion on the pension fund financial statements**

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Lincolnshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Executive Director of Resources and Community Safety and auditor**

As explained more fully in the Statement of the Executive Director of Resources and Community Safety Responsibilities, the Executive Director of Resources and Community Safety is responsible for the preparation of the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Resources and Community Safety; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the Pension Fund Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Pension Fund Annual Report and Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Lincolnshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

#### **Certificate**

I certify that I have completed the audit of the accounts of Lincolnshire County Council and the Lincolnshire County Council Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Tony Crawley  
Officer of the Audit Commission

Unit 10 Whitwick Business Centre  
Whitwick Business Park  
Stenson Road  
Coalville  
Leicestershire  
LE67 4JP

26 September 2012

# **Annual Governance Statement for Lincolnshire County Council 2012**

## **Scope of Responsibility**

1.1 Lincolnshire County Council is responsible for making sure that its business is conducted in a lawful and proper way. Public money needs to be protected and properly used economically, efficiently and effectively. We therefore, have a duty under the Local Government Act 1999, to ensure secure continuous improvement in the way our role is carried out, having regard to economy, efficiency and the effectiveness of what we do.

1.2 As we carry out this overall responsibility, we need to put in place good arrangements to manage our business effectively to deliver services to the people of Lincolnshire. This includes arrangements for the management of any risks we may face.

1.3 To help with these responsibilities, we have put together and adopted a governance and assurance structure which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. This statement explains how we have followed the code and also meets the requirements of the latest Accounts and Audit Regulations in relation to the publication of a statement of internal control.

## **2 The purpose of the governance framework**

2.1 Each local government body operates through a Governance Framework which brings together a set of legislative requirements. As we follow the framework, it helps us to ensure accountability for the proper conduct of our business, through the publication of an annual governance statement.

2.2 The Framework consists of the systems and processes, cultures and values by which the Council is directed and controlled. It sets out how we account to and engage with the people of Lincolnshire. It's about **Community Leadership**. It helps us monitor our progress in achieving our goals and whether or not those goals are leading to effective and top quality services.

## **3 The governance framework**

3.1 We have put in place assurance arrangements that help us test and gain confidence that the governance framework is operating as intended and that we are:

*"doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner"*

3.2 The Executive and senior managers have approved the governance framework and they have accepted responsibility for its implementation.

3.3 An officer governance group is in place that is responsible for monitoring the framework's effectiveness and make sure that any concerns raised during the year are acted upon.

3.4 Through the Audit Committee, elected Members oversee our financial processes, audit and risk management including the effectiveness of the corporate governance framework.

3.5 Our Governance Framework is defined by the six principles of good governance as shown below:

### **3.6 Engaging with local people to raise the profile of the Council and demonstrate public accountability.**

We continue to put the public first in how we work, looking and seeking their views to help determine decisions on how we use public money, demonstrating clear accountability to the public. The Constitution gives clarity to all staff and the community to whom we are accountable to and what for.

Clear communication and consultation is in place with all sections of the community and operates effectively. The outcomes of inspections are published on our website <http://www.lincolnshire.gov.uk/>

We have built and will continue to build strong relationships with our partners. Our long term vision sets out the overall strategic direction for the economic, social and environmental wellbeing of Lincolnshire. This demonstrates strong collaboration in delivering services to the County and our priority to build and maintain strong, good relationships.

We have responded to the requirements to deliver significant funding reductions and continue to deliver a high quality of service by reviewing how we manage ourselves and provide services to the citizens of Lincolnshire.

We comply with the transparency initiative promoted by Government and publish details of relevant salaries and expenses together with all payments of £500 or more. This commenced in January 2011.

### **3.7 Focusing on the purpose of the Council and improving future outcomes for the whole county.**

Our Organisational Strategy sets out the principles upon which our future development of services and operations should be based.

We communicate the vision and purpose of the Authority to the public by setting out our objectives and priorities for the year within our Business Plan.

We make sure the public receive high quality services by measuring our success and publically reporting our overall financial position in our Statement of Accounts. We continually seeking to provide world class customer service learning from what our customers tell us as shown by our Community Engagement Strategy and our Customer Service Charter.

We will continue to make sure the Council delivers excellent value for money as we review our Financial Strategy and by using our Financial Strategy to set out how we will respond to the economic challenges we are facing whilst ensuring top rate services.

### **3.8 Members and officers working together to achieve a shared purpose and being clear about roles and responsibilities**

We make roles and responsibilities within the Council clear to ensure effective leadership through showing how the Council operates and how decisions are made to make sure we are accountable to local people. The following all help us to achieve this

The Constitution  
Code of Conduct  
Role of Standards Committee  
Codes and Protocols

Roles of staff are set out in our Employment manual along with conditions of employment including Members Allowance in order to make sure that strong working relationships exist between elected Members and Officers.

Ensuring that relationships between the Authority and the public are clear is vital to us and helps us to establish what to expect from each other. In order to do this we open Council Meetings to the public and effectively monitor the way services are delivered as shown in the Role of Monitoring Officer. The Council also has a Consultation Strategy which we use to ensure that the Council's vision, aims, and priorities are carried out in consultation with the public.

### **3.9 Demonstrating the values of the Council through excellent standards of conduct and behaviour**

We have a commitment to making sure that both our members and our officers display the highest possible standards or behaviour and conduct. A Code of Conduct has been adopted to ensure and promote good conduct in officers.

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.

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. Our Complaints policy is being reviewed in 2012-13.

Our Standards Committee was set up in 2002 to make sure that the Council's leadership sets a tone for the organisation by creating an atmosphere of respect, openness and support. The Committee makes sure that the Council promotes good ethical conduct of Councillors and non elected staff and also ensures we maintain a commitment to Equality and Diversity when making decisions to help develop positive, trusting relationships. The way we deal with formal complaints about members will change from 1st July 2012.

### **3.10 Taking informed transparent decisions and demonstrating clear accountability**

As a Local Authority, we must be clear about how decisions are taken and also listen and act upon constructive scrutiny. The Audit Committee was established in 2006. It promotes and maintains high standards of good governance including making sure an adequate risk management and control environment exist and that financial performance and accounting is properly and lawfully monitored. Reports and minutes of the Audit Committee meetings are available on Audit Committee Records.

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

The Executive Director – Performance and Governance is the designated Monitoring Officer with the responsibility for ensuring the lawfulness of decisions taken by us as detailed in the Constitution part3,

The Executive Director – Resources and Community Safety leads and directs the Financial Strategy of the Council. They are a member of the Councils' Management Board and have a key responsibility to ensure that the Council controls and manages its money well. To show that they are able to operate effectively and perform their core duties we comply with the CIPFA Statement on the role of the Chief Financial Officer.

Risk Management is about taking measured risks when making decisions or where we need to encourage innovation in times of major change. 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 Corporate Risk Register is regularly reviewed and more details can be found in our Risk Management Strategy

### **3.11 Developing the capability of members and officers to be effective in their work**

Making sure that members and officers have the skills, training, experience and support to perform well is one of our key priorities. Our People Strategy helps us to achieve this. The People Strategy is one of our most important strategies as it helps us to effectively engage with our staff and ensure their commitment to achieving our vision, aims and values.

We ensure that skills required by Members and staff are assessed and developed to enable roles to be carried out more effectively through our Competency Framework and our Competency Policy

The Councillor Learning and Development Group co-ordinates activities and training for our members to ensure they are effective in their roles.

In recognition to our commitment as an employer that achieves the most by getting the best from its people we attained the Investors in People award

During the year the Council has undertaken significant workforce change. Our employment policies have supported our staff through these difficult times.

## **4 Review of Effectiveness**

4.1 The County Council should carry out an annual review of how effective its governance framework is. This is informed by the:

- Executive managers
- Head of Internal Audit's annual report
- Strategic Risk Management arrangements
- Combined Assurance Model
- By comments made by external auditors and other agencies.

## **5 Our Assurance Arrangements**

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

### **5.1 Corporate Governance Group**

The Corporate Governance Officer group was set up to help ensure the Council adopts good governance in running its business and making sure we are '*doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner*'.

### **5.2 Internal Audit**

Internal Audit exists to provide assurance that the Council maintains an effective control environment that enables it to manage its business well and deliver effective services to the public. It helps the Council achieves its objectives, ensure that effective and efficient operations are maintained, and it safeguards its resources. It provides constructive and independent challenge to management on the way things are done.

### **5.3 External Audit**

The Councils Financial Statements and annual governance statement are an important way we account for our stewardship of Public funds.

The Audit Commission, our External Auditors, audit our Financial Statements and gives an opinion on these.

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

### **5.4 Audit Committee**

The Audit Committee is a vital overseeing group that promotes good governance, ensures accountability and reviews the way things are done. The Audit Committee examines areas such as audit, risk management, counter fraud and financial accountability. The Committee exists to challenge the way things are being done and making sure the right processes are in place. It works closely with our Internal Audit team.

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.

We have appointed a non-elected member to 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 Records

#### **5.5 Risk Management**

Good risk management is part of the way we work. Our strategic risk management team supports management to help them take measured risks and create an environment of 'no surprises'.

For more information go to: Risk Management Strategy

#### **5.6 Standards Committee**

The Standards Committee maintains high standards of conduct by councillors and non-elected members. The Committee seeks to promote an open and honest system of Local Government by making sure members follow their Code of Conduct.

Our independent non-elected members offer different perspectives and constructive suggestions to the way we work. For more information go to: Standards Committee

#### **5.7 Performance Management and Data Quality**

The Council is committed to continuously improving the way we work and the services we provide for the people of Lincolnshire. Each year we set out plans for improvement in the Council's Business Plan, Statement of Accounts and Best Value Performance Plan

For more information go to: Performance



## Governance Issues

As a result of our review we have identified the following areas where further work is required to improve systems or monitor how the key risks facing the Council are being managed. These are

Governance Issue	Lead Officer(s)	Key Delivery Milestones	Date
<p><b>Adult Social Care</b></p> <p>It is acknowledged that there is still a lot of work to do in this area to achieve the vision – ‘Our primary purpose is to work with vulnerable adults, to help them achieve more, stay at home and keep them safe from abuse. We understand the value of working together with the people who need our advice and support, their families, their wider community, statutory partners and organisations providing support. The resources we have including our people and money will be directed to achieving this.’</p> <p>We have strengthened our programme and project arrangements in this area to help achieve success with our focus being on the following four principles:</p> <ul style="list-style-type: none"> <li>Personalisation</li> <li>Alignment with Health</li> <li>Integrity of our operational processes</li> <li>Balanced budget</li> </ul>	<p>Tony McArdle Glen Garrod Kirsteen Murray</p>	<p>Adult Social Care continues to face a substantial change programme grouped here into 3 headings. Each has relevance to the 4 priorities identified for the Department.</p> <p>1. Transformation Programme – led by Kirsteen Murray (Strategic Advisor) and reports to the Transformation Board and the Portfolio Holders for Resources and Adult Social Care. This programme seeks to design a new blueprint for the department.</p> <p>2. Performance Improvement Projects – led by Glen Garrod (Assistant Director) there are a number of these all of which are intended to enhance performance or deliver savings but cross over several years worth of activity. Each has a programme based analysis with target dates. Reports as above.</p> <p>3. Adult Social Care organisational realignment – led by Glen Garrod. This is intended to deliver closer alignment to the 4 Clinical Commissioning Groups.</p>	<p>Preliminary date of Autumn 2012</p> <p>September 2012</p>
<p><b>Health and Wellbeing</b></p> <p>Working with Primary Care Trusts to lead and deliver the new integrated public health system to improve the health and well being of the people of Lincolnshire.</p> <p>Taking the opportunity to transform our service, ensuring that there is a robust transition plan in place which includes delegated responsibilities for delivery, sign off of financial plans, understanding of transition and delivery risks and working with partners for the best realignment of services.</p>	<p>Tony Hill</p>	<p>Agree transition plan with NHS and LCC bodies.</p> <p>Develop project infrastructure and plans.</p> <p>Deliver draft and final finance and performance plans for 2013/4 to LCC</p> <p>Deliver successful consultation and transfer of NHS Staff into LCC</p>	<p>Done</p> <p>Done</p> <p>November 2012</p> <p>March 2012</p>

Governance Issue	Lead Officer(s)	Key Delivery Milestones	Date
<p><b>Commissioning Organisation</b> Working to influence and support sustainability and resilience of our providers – suppliers, partnerships and voluntary sector. We recognise that our commissioning and contract management skills need strengthening across the Council as we move to different delivery models. We need to improve our management oversight and rigour over our commercial relationships. Further work and resources are needed to ensure that we develop and implement an integrated commissioning strategy across public sector bodies in Lincolnshire.</p>	David O'Conner	<p>The Council has expressed an intention to 'become a commissioning council'. A project (Phase 1) has been set up to define and design the Council's approach to Commissioning, securing buy-in from key stakeholders and appropriate informal and formal decisions. The key deliverables of this project are:</p> <ul style="list-style-type: none"> <li>Definition for Commissioning in Lincolnshire</li> <li>Core process for Commissioning with opportunities for outcome specific shaping</li> <li>Clear accountability framework</li> <li>Understanding of new payment models and when to use them</li> <li>Skills needed / skills in place / gap analysis and plan to address gaps</li> <li>Information / technology requirements to facilitate the approach.</li> <li>Costed Implementation / transition plan (taking account of work in progress and Members priorities)</li> </ul>	<p>Report for Informal Exec in July 2012 Recommendations on deliverables available for Exec by 31 December 2012 Implementation plan to ensure commissioning approach starts to inform the budget from autumn 2013 onwards with full adoption by autumn 2014 for the 2015-16 budget. (Timetable to enable advance preparation for next Comprehensive Spending Review)</p>
<p><b>Working with our Communities</b> We will update our engagement strategy with customers, consumers and stakeholders to ensure that we listen and act on what we are being told.</p>	Richard Wills	<p>Introduce mechanisms for testing citizens' opinions.</p>	Commence Summer 2012
<p>This will include clarifying how we will get the best value for services in an environment of reduced resources.</p>		<p>Publish Corporate Communities' Engagement Strategy</p>	December 2012
<p><b>Working with our Communities</b> Our commitment to providing good public services – locally – is set out in our Big Society Strategy. We will continue to work with our communities to empower them to do things their way whilst looking at different delivery models for our services.</p>	Tony Hill	<p>Agree strategy for external consultation with Executive.</p>	Done
<p>We will seek to strengthen existing Councillor routes to raising and resolving issues whilst balancing local aspirations with our Business Plan Strategies.</p>		<p>Consult widely on consultation draft and return final version to Executive.</p>	September 2012
		<p>Develop detailed joint action plans with key partners.</p>	December 2012

Governance Issue	Lead Officer(s)	Key Delivery Milestones	Date
<p><b>Reviewing our Governance and Assurance Arrangements</b></p> <p>The people of Lincolnshire need to have confidence in the way we work, we need to show high standards in public life. It's about how we do business – it's about good governance.</p> <p>The Council continues to face some significant challenges – how we deliver services to the people of Lincolnshire will change. The Councils governance framework and assurance arrangements will need to adapt and respond to these changes and different ways of working - less prescriptive in style, with balancing of risk &amp; accountability. Good progress has been made on our Combined Assurance Model which provides assurance and insight on the operation of our critical activities and key risks. The outcome of which needs to be assessed by the Management Board and Audit Committee for any gaps.</p> <p>There continues to be some uncertainty over our accountability framework given the changes in Senior Management.</p>	David O'Connor	<p>We will assess our Governance and Assurance arrangements against the latest best practice, including:</p> <ul style="list-style-type: none"> <li>CIPFA / SOLACE Delivering Good Governance in Local Government</li> <li>Grant Thornton Survey of Local Government governance arrangements</li> <li>Centre of Public Scrutiny</li> </ul>	February 2013
<p><b>Maintaining Financial Resilience</b></p> <p>We have been successful in delivering our savings agenda for 2010/11. However, we recognise that more still needs to be done to ensure we have the capability and capacity required to ensure this momentum is maintained to meet our medium and long term financial strategy.</p> <p>There are indications for further reductions in local government spending beyond the current Spending Review period of March 2015.</p>	Pete Moore	<p>The Council is likely to undertake a further fundamental review of its budget during 2013/14 in anticipation of the outcome of the next Spending Review. Implementation of actions arising from that work will be largely determined by the timing of the next Spending Review which may be in autumn 2013 or autumn 2014.</p> <p>The 2011/12 outturn position has allowed the Council to make another substantial contribution to its Financial Volatility Reserve (£4.4m) which provides a temporary buffer to any adverse impact on the funding position of the Council.</p>	Autumn 2013

Governance Issue	Lead Officer(s)	Key Delivery Milestones	Date
In addition, a new funding regime based upon localisation of both business rate income and support for the Council Tax is due to commence from April 2013. These changes will introduce new levels of annual volatility into the income base of the Council. We are therefore making prudent provision in the reserves of the Council at this stage and are attempting to model the financial impact of both increased volatile and reduced funding as details emerge from Government over the coming months. We are also working constructively with our partner public bodies in the County to optimise the impact of these changes on the wider County.		Constructive dialogue is underway with the Lincolnshire Districts to develop appropriate policies that will minimise the impact on all Lincolnshire authorities of currently planned changes to the funding for local government in England. In that context the minimisation of funding gaps arising from the new system of support for the council tax from April 2013 is critical. Local scheme will be approved in autumn 2012.	Autumn 2012

#### 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.

The original documents were signed on 24 September 2012 by Pete Moore, CPFA (Executive Director - Resources and Community Safety), Tony McArdle (Chief Executive) and Councillor M Hill OBE (Leader, Lincolnshire County Council).

**Appendix A - Officer Remuneration split between staff employed in Schools and All Other Parts of the County Council.**

SCHOOLS	2010-11		2011-12	
	Number of Staff		Number of Staff	
	Re-Styled			
	Remuneration	Staff who	Remuneration	Staff who
	received (excl	received	received (excl	received
	those receiving	termination	those receiving	termination
	termination	payments	termination	payments
Pay Band	payments)		payments)	
£180,000- £184,999	0	0	0	0
£175,000- £179,999	0	0	0	0
£170,000- £174,999	0	0	0	0
£165,000- £169,999	0	0	0	0
£160,000- £164,999	0	0	0	0
£155,000- £159,999	0	0	0	0
£150,000- £154,999	0	0	0	1
£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	1
£100,000- £104,999	1	0	0	1
£95,000- £99,999	2	0	2	0
£90,000- £94,999	4	1	2	0
£85,000- £89,999	7	1	4	3
£80,000- £84,999	5	1	6	1
£75,000- £79,999	8	1	2	1
£70,000- £74,999	16	1	15	2
£65,000- £69,999	17	2	13	0
£60,000- £64,999	34	0	25	1
£55,000- £59,999	80	0	78	0
£50,000- £54,999	140	3	97	2
<b>Total</b>	<b>314</b>	<b>10</b>	<b>244</b>	<b>13</b>

OTHER SERVICES	2010-11		2011-12	
	Number of Staff		Number of Staff	
	Re-Styled			
Pay Band	Remuneration received (excl those receiving termination payments)	Staff who received termination payments	Remuneration received (excl those receiving termination payments)	Staff who received termination payments
£170,000- £174,999	0	1	0	0
£165,000- £169,999	0	0	0	0
£160,000- £164,999	0	0	0	0
£155,000- £159,999	0	0	0	0
£150,000- £154,999	0	0	0	0
£145,000- £149,999	0	2	0	1
£140,000- £144,999	0	3	0	0
£135,000- £139,999	0	1	0	4
£130,000- £134,999	0	0	0	0
£125,000- £129,999	0	0	1	0
£120,000- £124,999	0	0	0	1
£115,000- £119,999	0	1	0	3
£110,000- £114,999	0	1	0	0
£105,000- £109,999	0	0	0	4
£100,000- £104,999	0	0	0	1
£95,000- £ 99,999	0	2	0	3
£90,000- £94,999	1	1	2	2
£85,000- £89,999	6	1	4	3
£80,000- £84,999	4	1	4	5
£75,000- £79,999	1	0	1	5
£70,000- £74,999	3	2	6	11
£65,000- £69,999	15	2	18	16
£60,000- £64,999	37	0	22	15
£55,000- £59,999	46	2	37	26
£50,000- £54,999	55	0	41	19
<b>Total</b>	<b>168</b>	<b>20</b>	<b>136</b>	<b>119</b>

## **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 BVACOP. 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.

### **Area Based Grant (ABG)**

A general grant allocated directly to local authorities as additional revenue funding for areas. This is a non-ring fenced grant.

### **Assets**

An item having value to the County 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 County 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 County 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 County 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 County Council is responsible for, and demonstrates how that cost has been financed.

**Contingent Liability**

Potential costs that the County 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 County 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 County 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 County 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 County 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 BVACOP. Discontinued operations are those operations of the County 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 County 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 County Council in exchange for service rendered by employees.

**Exceptional Items**

Events which are material in terms of the Council 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 County 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 County 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 County 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 County 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 County 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 County 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.

**Landfill Allowance Trading Scheme (LATS)**

Cap and trade scheme aimed at reducing the level of waste taken to landfill and encouraging alternative refuse processes.

**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 County 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 County 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 County 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. Water authorities also precept on the County 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 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 County Council intends to hold in perpetuity, that have no determinable useful life and may have restrictions on their disposal (e.g. works of art, windmills and picnic sites).
- Surplus assets are non-current assets held by the County 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 County 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 County Council. Some capital reserves such as the fixed asset restatement 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 County 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 County 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 County 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 County Council in its current state.

**Value Added Tax (VAT)**

VAT is an indirect tax levied on most business supplies of goods and services.