# STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018

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# NARRATIVE REPORT

**An introduction to the City of Lincoln's 2017/18 Statement of Accounts by J Gibson, Chief Finance Officer, Section 151 Officer.**

**<u>The Statement of Accounts</u>**

The purpose of the Accounts, which follow, is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The Accounts show the financial performance for 2017/18 and the financial position at 31 March 2018. The Accounts present expenditure and income incurred by the Council in the financial year 2017/18 and highlight changes in the financial position of the Council over the course of the year.

The accounts of the Council are, by their nature, both technical and complex. The information contained within the Accounts for 2017/18 is presented as simply and clearly as possible and the Narrative Report explains some of the statements and provides a summary of the Council's financial performance as at 31st March 2018 and its financial prospects.

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK (the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Statement of Accounts consists of various sections and statements, which are briefly explained below:

**A Narrative Report** – this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year.

**The Statement of Responsibilities** – this details the responsibilities of the Council and the Section 151 Officer concerning the Council's financial affairs and the actual Statement of Accounts.

**The Audit Opinion and Certificate** – this is provided by KPMG LLP following the completion of the annual audit.

**The Accounting Policies** – this statement explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

**The Core Financial Statements,** comprising:

- **The Movements in Reserves Statement** – this statement shows the movement in year on the different reserves held by the Council, analysed into 'usable' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.

- **The Expenditure & Funding Analysis** – this statement shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates.

Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

- **The Comprehensive Income and Expenditure Statement (CIES) –** this statement shows the accounting cost in the year of providing services in accordance with accounting standards, rather than the amount funded from taxation. The Council raises taxation to cover the cost of expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

- **The Balance Sheet –** this statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) of the Council are matched by the reserves held by the Council.

- **The Cash Flow Statement –** this statement shows the changes in cash and cash equivalents of the Council during the year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

**The Notes to the Financial Statements** – these provide supporting and explanatory information on the Financial Statements.

**The Supplementary Statements,** comprising:

- **The Housing Revenue Income and Expenditure Statement -** this statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

- **The Movement on the HRA Statement –** this statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

- **The Collection Fund Statement -** this statement is an agent's statement that reflects the statutory obligation for billing authorities (such as the City of Lincoln Council) to maintain a separate Collection Fund. The statement shows the transactions of the Council in relation to the collection from Council Tax and Business Rate payers and distribution to Lincolnshire County Council, Police and Crime Commissioner for Lincolnshire (PCCL) and Government of Council Tax and National Non-Domestic Rates (NNDR).

**Financial Summary 2017/18**

In common with the rest of local government the Council has continued to face a large number of challenges during 2017/18 which have seen:

- the continuation of severe central government funding reductions, the distribution of which has not been uniform across the different types of authority with some being significantly more affected than others, this Council being one of those suffering a greater proportionate loss.

- an increased reliance on retained Business Rates and the levels of financial risk and uncertainty that this creates.

- the legacy of impacts from the last economic crisis that still persist, affecting jobs, housing and business growth, low returns on investments, these in turn create pressure on the generation of local income streams and increased demand for council services from customers who rely on the safety net provided by local government.

However in response to this environment the Council continues to deliver a track record of strong financial discipline. This means planning ahead, securing savings in advance, re-investing in more efficient ways of working, adopting a more commercial approach, prioritising resources for economic development measures, whilst making careful use of reserves to meet funding gaps and mitigate risks.

The Council's successful financial management to date has enabled the protection of core services, whilst at the same time ensured that resources are directed towards the priority areas in the Council's Vision 2020.

2017/18 has seen a significant level of delivery against these Vision 2020 priority areas, with the completion of the £30m Lincoln Transport Hub scheme, £3.2m investment in new Council Housing and the £1.4m renovation of Birchwood Leisure.

In summary, 2017/18 has seen the Council deliver spending within budget in both the General Fund and the Housing Revenue Account, whilst achieving £0.309m revenue savings in addition to those achieved in previous years; and has delivered £39.805m of capital investment, up from £27.949m in 2016/17. In addition, the Council's net worth has increased from £189.731m in 2016/17 to £200.738m in 2017/18, an increase of 5.8%.

**Performance**

Whilst maintaining sound financial management and delivering spending within budget the Council has continued to deliver high quality services to its residents and customers. A summary of the key financial and performance indicators for 2017/18 is provided below:

| 2016/17 | | 2017/18 |
|---|---|---|
| 99.4% | Business Rates collected | 98.9% |
| 97.1% | Council Tax collected | 97.2% |
| 99.3% | Housing rent collected | 99.7% |
| 97% | Invoices paid within 30 days | 95.2% |
| 4.15% | Interest rate payable on debt | 4.09% |
| 0.64% | Interest rate received on investments | 0.68% |
| 34.2% | Waste recycled | 33.7% |
| 226,582 | Users of Health & Recreation services | 218,181 |
| 97.4% | Housing repairs completed to target | 97.5% |
| 82.3% | Occupancy of allotments | 80.1% |
| 95.8% | Premises compliant with food health and safety inspection | 98% |
| 971 | Number of planning applications received | 1,022 |

**Revenue Income and Expenditure**

**General Fund**

The General Fund covers all net spending by the Council on services other than those accounted for in the Housing Revenue Account. General Fund services are partly paid for by government grants and contributions from Retained Business Rates, with the balance being funded from Council Tax and income from fees and charges.

For 2017/18, the approved net expenditure budget for General Fund services was £11.138m. After allowing for planned contributions of £0.702m from non-earmarked general reserves the total Net General Fund Budget for 2017/18 was £10.436m.

The Net General Fund Budget of £10.436m assumed the achievement of £0.279m further savings which were to be delivered in 2017/18 as part of the Council's Towards Financial Sustainability Programme. The Programme was successful in delivering total savings of £3.530m. Work is underway to accelerate existing projects in the programme and to continue to develop further new projects to secure the additional savings required in 2018/19 and future years.

The table that follows provides a summary of the final outturn position for the General Fund, against the net budget.

| | ACTUAL 2017/18 £'000 | BUDGET 2017/18 £'000 | VARIANCE 2017/18 £'000 |
|---|---|---|---|
| Chief Executive and Town Clerk | 3,465 | 3,757 | (292) |
| Directorate of Housing & Regeneration | 736 | 748 | (12) |
| Directorate of Communities & Environment | 5,408 | 5,402 | 6 |
| Directorate of Major Developments | 1,125 | 1,090 | 35 |
| Corporate | 1,429 | 1,472 | (43) |
| **Net Operational Expenditure** | **12,163** | **12,468** | **(306)** |
| Specific Grants | (1,663) | (1,647) | (16) |
| Savings Target | 0 | 30 | (30) |
| Earmarked Reserves | (711) | (1,862) | 1,151 |
| Capital Accounting Adjustment | 1,630 | 1,922 | (292) |
| Contingencies | 0 | 226 | (226) |
| **Total Expenditure** | **11,418** | **11,138** | **280** |
| **Contribution from General Balances** | **(702)** | **(702)** | **(0)** |
| **Total Net Budget** | **10,715** | **10,436** | **280** |
| Business Rates - | | | |
| Retained Business Rates Income | (16,295) | (17,084) | 789 |
| Tariff | 12,228 | 12,397 | (169) |
| Section 31 grant | (1,051) | 0 | (1,051) |
| Levy Payment | 336 | 184 | 152 |
| Revenue Support Grant | (981) | (981) | 0 |
| Council Tax | (6,145) | (6,145) | 0 |
| Council Tax Surplus | (38) | (38) | 0 |
| NNDR Deficit | 1,229 | 1,229 | 0 |
| **Total Resources** | **(10,715)** | **(10,436)** | **(280)** |

While total expenditure was £10.715m (£0.280m more than budget) this is fully offset by £0.280m additional net business rate income (primarily from a reduced tariff payment and additional section 31 grants). As a result the actual contribution from general balances was £0.702m compared to the approved budget of £0.702m, resulting in a nil variance overall.

As at 31 March 2018, the Council held £6.169m General Fund revenue reserves, comprising £4.559m earmarked reserves (to cover specific or potential financial risks and liabilities) and £1.610m non-earmarked general reserves. This latter balance represents 15.4% of the 2017/18 annual net service budget and provides an adequate level of reserves to cover unforeseen financial risks. General Balances are in line with the prudently assessed minimum requirements in the Council's Medium Term Financial Strategy.

**Housing Revenue Account**

The Housing Revenue Account has to be kept as a separate account for all the expenditure and income relating to the landlord functions associated with the provision, management and maintenance of Council owned dwellings.

For 2017/18, the approved net operating budget for the Housing Revenue Account was a deficit of £0.064m. Actual net expenditure for 2017/18 was £0.064m deficit, resulting in a nil variance against the budget.

The table that follows provides a summary of the final outturn position for the Housing Revenue Account, against the net budget.

| | ACTUAL 2017/18 £'000 | BUDGET 2017/18 £'000 | VARIANCE 2017/18 £'000 |
|---|---|---|---|
| Operational Expenditure | | | |
| Repairs & Maintenance | 8,465 | 7,498 | 967 |
| Supervision & Management | 6,233 | 6,653 | (420) |
| Provisions (including Bad Debt) | 286 | 187 | 99 |
| Capital Financing | (223) | 12,124 | (12,347) |
| **Sub Total** | **14,761** | **26,462** | **(11,701)** |
| Add: | | | |
| HRS – repatriation of surplus | (253) | 0 | (253) |
| Contribution to/(from) CMS (IAS19 & Insurance Fund) | 502 | 0 | 502 |
| Interest Payable & Similar Charges | 2,352 | 2,352 | 0 |
| **Total Expenditure** | **17,362** | **28,814** | **(11,452)** |
| Income | | | |
| Rents & Service Charges | (28,560) | (28,558) | (2) |
| Interest | (39) | (33) | (6) |
| **Net Expenditure** | **(11,237)** | **223** | **(11,460)** |
| Less: | | | |
| Capital Accounting Adjustment | 10,812 | 0 | 10,812 |
| Appropriation to/(from) Major Repairs Reserves | 765 | 0 | 765 |
| Appropriation to/(from) Pension Fund Liability | (492) | 0 | (492) |
| Appropriations to/(from) Earmarked Reserves | 216 | (159) | 375 |
| **Net HRA (Surplus)/Deficit** | **64** | **64** | **0** |

As at 31 March 2018, the Council held £2.595m HRA revenue reserves, comprising £1.572m earmarked reserves (to cover identified specific, potential financial risks and liabilities) and £1.023m non-earmarked general reserves.

**Capital Expenditure**
(Note 39)

Capital expenditure on the provision of new or enhanced assets is largely met from capital receipts, government grants, contributions from third parties and revenue contributions.

The Council's capital spending in the year was £39.805m compared to the revised approved programme budget of £46.623m, representing an underspend of £6.818m against the profiled budget. The variance in 2017/18 is mostly due to the re-phasing of the Council's new build programme in addition to the re-profiling of a number of larger schemes within the general fund. The 2017/18 capital spending and funding position is summarised as follows:

| | **ACTUAL 2017/18 £'000** | **BUDGET 2017/18 £'000** | **VARIANCE 2017/18 £'000** |
|---|---|---|---|
| **Capital Expenditure** | | | |
| General Fund | 29,098 | 31,419 | (2,321) |
| Housing Revenue | 10,707 | 15,204 | (4,497) |
| **Total Expenditure** | **39,805** | **46,623** | **(6,818)** |
| | | | |
| **Financed by:** | | | |
| Long Term Borrowing | 22,439 | 24,638 | (2,199) |
| Capital Receipts | 4,674 | 4,383 | 291 |
| Capital Grants and Contributions | 3,016 | 3,284 | (268) |
| Major Repairs Reserve | 9,190 | 13,957 | (4,767) |
| Revenue Contributions | 486 | 361 | 125 |
| **Total Financing** | **39,805** | **46,623** | **(6,818)** |

Major Capital works carried out during 2017/18 are set out in the following table:

| | **£'000** |
|---|---|
| **Housing** | |
| Decent Homes improvements to Council dwellings | 5,164 |
| Health & Safety | 292 |
| Council house new build schemes | 3,242 |
| Land Acquisition Fund | 824 |
| Other major works to housing stock | 1,185 |
| **General Fund** | |
| Lincoln Transport HUB | 16,934 |
| Purchase of tenanted Car Parks | 6,965 |
| Purchase of Land and Buildings | 1,734 |
| Transformation of Birchwood Leisure Centre | 1,399 |
| Boultham Park Masterplan | 492 |
| Allotment Improvement Programme | 436 |
| CCTV Upgrade | 320 |
| Disabled Facilities Grants | 357 |
| Other Schemes | 461 |
| **Total** | **39,805** |

## Capital Financing

The Council's capital programme is funded by a number of sources including the application of capital receipts, capital grants, contributions from the revenue account and long term borrowing. A summary of significant transactions in capital funding in 2017/18 is provided below:

Capital Receipts (Note 9)

The Council received £1.370m of General Fund capital receipts in 2017/18 which will be used to support delivery of the General Fund Investment Programme.

The Council also received £3.301m of HRA receipts. These will be used to support the new build programme within the Housing Investment Programme and investment in the housing stock.

Major Repairs Reserve (Note 9)

The Council is required to maintain a Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Long Term Borrowing (Note 18)

The Council undertakes long term borrowing, for periods in excess of one year, in order to finance capital expenditure. An assessment of the use of borrowing to fund capital expenditure is made through the application of the CIPFA Prudential Code in the Council's annual Treasury Management Strategy. This approach provides a framework for decision making highlighting the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure activity remains affordable, prudent and sustainable.

The Council satisfies its long term borrowing requirement by securing external loans.

Although the Council requires long term borrowing in order to finance capital expenditure, it can temporarily defer the need to borrow externally by using cash set aside for longer term purposes (in line with its Treasury Management Strategy); this practice means that there is no immediate link between the need to borrow to pay for capital spend and the level of external borrowing. The effect of using the cash set aside is to reduce the level of cash that the Council has available for investment.

The Council's level of total debt outstanding, (excluding loans of £0.030m which the Council holds for local charities and Bonds worth £0.003m), as at 31 March 2018 was £77.354m.

**Total Long Term Borrowing Outstanding**

| 31/03/17 £'000 | Source of loan | 31/03/18 £'000 |
|---|---|---|
| 58,793 | Public Works Loan Board | 58,793 |
| 16,000 | Market and Other Long Term Loans | 18,000 |
| 561 | Other (3% stock) | 561 |
| **75,354** | **Total** | **77,354** |

Long-term borrowing of £2m and £3.75m of short term borrowing was taken during 2017/18 however the Council remains under borrowed by £27.817m (i.e. the Council's actual borrowing is £27.817m less than its borrowing requirement at 31 March 2018). Representing an increase of £15.252m on the actual position as at 31 March 2017 of £12.565m. This means that the borrowing need (CFR) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is considered prudent whilst investment returns are currently low and internal balances allow for this. Additional long-term borrowing will be taken in 2018/19 and future years to bring levels up to the Council's borrowing requirement, subject to liquidity requirements, if preferential interest rates are available.

**Pension Costs**
(Note 44)

The Council accounts for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. This means that:

- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities

The Balance Sheet presents an increase in the estimated Pension Fund Reserve net liability over the 2017/18 year of £0.337m, up from £85.521m at 1 April 2017 to £85.858m at 31 March 2018. This increase in the Pension Fund deficit resulted mainly from changes in financial assumptions. This is recognised as re-measurements on defined benefit obligation, which is shown in Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement.

The statutory arrangements for funding the remaining liability of £85.858m means that this deficit will be made good by the increased level of annual employer contributions payable to the

Pension Fund over the remaining estimated average working life of our employees in the Pension Scheme. The latest triennial revaluation of the Council's Pension Fund took place at 31 March 2017, the results at that time identified that there has been a slight improvement in the funding position since the last actuarial review from a 67% funding level to 70%.

Although the overall funding position has improved slightly, the employer contribution rates are still required to increase in order to improve the funding position further. Because of the guaranteed nature of Local Government Pension Scheme a stabilisation overlay mechanism is applied, whereby the employer's current contribution rate is capped at an affordable level. Without this in place the Council would be facing significantly higher contribution rates in order to increase the funding position.

This stabilisation approach has allowed the annual increase in the contribution rate to be capped at 1% p.a. over the period 2017/18 to 2019/20.

**Future Plans**

The Council's Vision 2020 sets out the Council's vision for the future of the city, strategic priorities and core values. Although the Vision looks ahead for up to 30 years it specifically includes a programme of activity up to 2020, which seeks to not only deal with the most pressing issues in the city, but also details how the Council will work, with others, to further grow Lincoln's economy.

The Council's vision for 2020 is;

**"Together, let's deliver Lincoln's ambitious future"**

Underpinning this vision are four strategic priorities, each with a number of supporting aspirations. The aspirations are in turn supported by groups of projects that will be delivered throughout the three year programme.

The four strategic priorities are:

- Let's drive economic growth
- Let's reduce inequality
- Let's deliver quality housing
- Let's enhance our remarkable place

Delivery of the Council's Vision 2020 provides the focus for the Council in terms of the projects it seeks to deliver and the high performing services that it provides.

## General Fund

Despite the financial challenges the Council has already faced, and successfully managed, local government is still set to experience significant funding reform from 2020.

The Fair Funding Review will re-establish the baseline need of every local authority, and, at the same time, business rates baselines will be reset for the first time. The government also intends to redesign the business rates retention system, moving to 75% local retention, while restructuring the system of risk and rewards. All this is due to come into effect in April 2020.

Ahead of this the Council's General Fund continues to face a significant financial challenge if it is to continue to deliver its Vision 2020 priorities and to deliver services to the public within a reduced, and more variable funding envelope.

Whilst the three year programme of activity set out in the Vision 2020 is fully resourced within the Council's Medium Term Financial Strategy, the Strategy also includes a savings target still to be achieved along with a number of significant financial risks which could affect the level of savings required.

Over the last 10 year period the Council has delivered savings in excess of £7.5m, a significant reduction in comparison to the overall net expenditure budget. However further savings of £0.102m are still to be delivered in order to achieve the current target by 2018/19.

The Towards Financial Sustainability (TFS) programme is and continues to be the vital element in ensuring that the Council maintains a sustainable financial position and delivers the required reductions in the net budget.

In order to refocus and maintain momentum the TFS programme has been re-aligned and there are now three agreed strands to achieve savings. These are:

- Commercialisation – generation of new income streams, and commercial trading opportunities
- Asset Rationalisation – optimisation of usage and commercial returns of the City's property and land portfolio
- Shared Services/ savings – ensure the provision of professional, high performing services

Alongside this programme the Council will continue to seek ways to maximise its tax bases through economic development measures, through its Vision 2020, which enhance the economic prosperity of the City.

## Housing Revenue Account (HRA)

HRA Self-financing was implemented from 1 April 2012 following a one-off settlement to the Treasury, in order to 'buy out' of the old subsidy system. The new system incentivised landlords to manage their assets well and yield efficiency savings. With this however also came the transfer of significant risks from Central Government to local authorities. The Council now bears the responsibility for the long term security and viability of council housing in Lincoln and has to fund all activity related to council housing from the income generated from rents, through long term business planning.

It was anticipated that there would be greater certainty about future income as councils were no longer subject to annual funding decisions by Central Government, enabling them to develop long-term plans, and to retain income for reinvestment.

A key element of the self-financing regime is for the Council to construct a 30 year Business Plan for the HRA. The Council's latest Housing Revenue Account Business Plan 2016-2046, was approved in February 2016 following a fundamental review of resources, investment requirements and priorities. The Business Plan reflects the impact of government policy changes, the results of stock condition surveys and financial assumptions at the time. The Business plan sets out:

- the long term plans for the Council's housing stock
- the finances to deliver plans
- how the Council will manage the income from its stock, demand for housing and stock condition, and:
- the Council's ambitious plans, alongside the resources to deliver, a significant number of new Council dwellings.

**Capital Expenditure**

The Council's capital programmes will deliver projects to the value of £92.904m over the next five years, with £40.014m estimated to be spent in 2018/19. This includes significant investment in the Council's key strategic projects which includes a significant land and property acquisition in addition to further investment on Council dwellings and Council buildings, including the construction of new council housing.

Capital resources for the next five years include capital receipts, government grants, contributions from third parties and revenue contributions.

The Housing element of the capital programme represents the largest element of capital expenditure over the next 5 years and is predominantly reliant upon revenue contributions from the Housing Revenue Account (HRA) through both depreciation charges and direct revenue contributions. The HRA Business Plan includes the release of capital resource to fund significant capital investment in new housing stock over the medium term. Given that revenue support is now the primary source of capital funding, it is recognised that it is critical that there is robust budget management of the HRA and that opportunities to achieve efficiencies and maintain/maximise income streams are actively pursued.

**Cash flows**

The future cash flows will be dependent on the outcome of a number of key assumptions in the Medium Term Financial Strategy and HRA Business Plan, of which the Council's has varying degrees of influence over the outcomes. Some of the key determinants will be:

- Actual Business Rates base in year compared to the assumed levels in the budget, and the ongoing risk of funding the backdated costs of any successful valuation office appeals by businesses within the city.

- Collection rates for Council Tax, Business Rates and Rents
- Income received compared to income targets (e.g. car parking, planning and building control)
- Interest rates achieved on investments and secured on new borrowing
- Timescale for payment of invoices and collection of debts.
- Profile of capital spending and funding over the MTFS.

## Summary

Whilst addressing the financial challenges it faces in the forthcoming years the Council will also continue to maintain the correct balance between these challenges and ensuring that its limited resources are directed towards its strategic priorities.

Vision 2020 is supported by a programme of activity, resourced through the Medium Term Financial Strategy, that seeks to not only deal with the most pressing issues in the city, but also how the Council will work, with others, to embrace and maximise Lincoln's economy through schemes such as the Transport Hub and New Council House Building Programme.

This investment in growth and the local economy alongside the Council's savings programme, with a key focus on income generation, forms the foundations of the Council's approach to financial planning over the medium term, seeking to enhance its financial resilience and to continue to focus its resources towards achieving its aspirations in its Vision 2020.

## Group Accounts

The increasing scope and scale of local authorities moving away from traditional ways of providing services makes it increasingly difficult for the Council's own financial statements to present fairly all the aspects of control over service provision and accountability for all resources and exposure to risks that the Council has taken on. A consolidated set of group accounts can make a vital contribution towards giving users a full picture of the Council's sphere of control and influence.

The Council has a collaborative arrangement with North Kesteven and West Lindsey District Councils to provide the Central Lincolnshire Joint Planning Unit. This arrangement is hosted by North Kesteven District Council. The Council contributed £99k to the service which is contained within the Communities and Environment line of the CIES. The Council also has a collaborative arrangement with North Kesteven to provide a shared Revenues and Benefits Service. This shared service is hosted by the City of Lincoln Council. The Council contributed £1.198K to the service which is contained within the Chief Executive's Directorate line in the CIES. Both of these arrangements are governed through a Joint Committee representing each of the partner authorities. Under these arrangements the ventures use their own resources to undertake an activity subject to joint control, and as such do not require consolidation into the Council's accounts. The Council's proportion of activity is accounted for separately within the Core Financial Statements.

**Further Information**

Further information about the accounts is available on request from the Chief Finance Officer, City Hall, Beaumont Fee Lincoln LN1 1DB. In addition, local electors have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised on the Council's website.

*J Gibson*

J Gibson ACCA
Chief Finance Officer
(Section 151 Officer)

# COUNCIL APPROVAL

The Statement of Accounts for the year 1 April 2017 to 31 March 2018 has been prepared and I confirm that these Accounts were approved by the City of Lincoln Council, at the meeting held on 24th July 2018

Sue Burke

Councillor Sue Burke
Vice Chair of Council

Date: 24th July 2018

# THE STATEMENT OF ACCOUNTS

**The Authority's Responsibilities**

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;

- to manage its affairs to ensure economic, efficient and effective use of resources and safeguard its assets;

- to approve the Statement of Accounts.

**The Chief Finance Officer Responsibilities**

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the UK ('the Code').

In preparing this Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with the Code of Practice.

The Chief Finance Officer has also:

- kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounts present a true and fair view of the financial position of the Authority at 31 March 2018 and its income and expenditure for the year ended on that date.

J Gibson

J Gibson ACCA
Chief Finance Officer
Date: 24th July 2018

# EXPENDITURE AND FUNDING ANALYSIS

| 31 March 2017 | | | | | 31 March 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| **Net Expenditure Chargeable to General Fund and HRA Balances £'000** | **Movement of Trading A/C's & Levies etc. £'000** | **Adjustments Between the Funding and Accounting Basis £'000** | **Net Expenditure in the Comprehensive Income and Expenditure Statement £'000** | | **Net Expenditure Chargeable to General Fund and HRA Balances £'000** | **Movement of Trading A/C's & Levies etc. £'000** | **Adjustments Between the Funding and Accounting Basis £'000** | **Net Expenditure in the Comprehensive Income and Expenditure Statement £'000** |
| 1,373 | (1,721) | 2,607 | 5,701 | Chief Executive's Directorate | 3,464 | (967) | 1,367 | 5,798 |
| 562 | 0 | 581 | 1,143 | Housing and Regeneration | 736 | 0 | 274 | 1,010 |
| (1,037) | 0 | (53,345) | (54,382) | Housing Revenue Account (HRA) | (9,953) | 0 | (3,224) | (13,177) |
| 726 | (6) | 7,063 | 7,795 | Communities and Environment | 5,408 | (2) | 3,302 | 8,712 |
| (509) | 0 | 2,475 | 1,966 | Major Developments | 1,124 | 0 | 4,221 | 5,345 |
| 1,492 | 795 | (736) | (39) | Corporate Services | 1,430 | 803 | (896) | (269) |
| **2,607** | **(932)** | **(41,355)** | **(37,816)** | **Net Cost Of Services** | **2,209** | **(166)** | **5,044** | **7,419** |
| (2,192) | 932 | (15,357) | (18,481) | Other Income and Expenditure | (947) | 166 | (12,520) | (13,633) |
| **415** | **0** | **(56,712)** | **(56,297)** | **(Surplus) or Deficit on Provision of Services** | **1,262** | **0** | **(7,476)** | **(6,214)** |
| **GF** | | **HRA** | **Total** | | **GF** | | **HRA** | **Total** |
| (9,957) | | (4,522) | (14,480) | **Opening Balance** | (9,330) | | (4,730) | (14,060) |
| 627 | | (207) | 419 | **Less/ Plus Surplus or (Deficit) in Year** | 1,388 | | (126) | 1,262 |
| **(9,330)** | | **(4,730)** | **(14,057)** | **Closing Balance at 31 March** | **(7,942)** | | **(4,856)** | **(12,798)** |

This analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by Councils in comparison with those resources consumed or earned by Councils in accordance with generally accepted practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's different categories of expenditure and income. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further analysis can be found in Note 8.

# MOVEMENT IN RESERVES STATEMENT

| | General Fund Balance £'000 | Earmarked Reserves £'000 | Housing Revenue Account £'000 | HRS £'000 | Major Repair Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Council Reserves £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2016** | **2,010** | **11,463** | **1,005** | **0** | **6,609** | **5,325** | **533** | **26,945** | **121,849** | **148,794** |
| **Movement in reserves during 2016/17** | | | | | | | | | | |
| Surplus or (deficit) on provision of services | 2,741 | 0 | 53,552 | 0 | 0 | 0 | 0 | **56,293** | **0** | **56,293** |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **(15,362)** | **(15,362)** |
| **Total Comprehensive Expenditure and Income** | **2,741** | **0** | **53,552** | **0** | **0** | **0** | **0** | **56,293** | **(15,362)** | **40,931** |
| Adjustments between accounting basis & funding basis under regulations (Note 9) | (3,368) | 0 | (53,345) | 0 | 1,097 | 4,073 | (133) | **(51,676)** | **51,676** | **0** |
| Other adjustments | 0 | 0 | 0 | 0 | 2,974 | 0 | 0 | **2,974** | **(2,974)** | **0** |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(627)** | **0** | **207** | **0** | **4,071** | **4,073** | **(133)** | **7,591** | **33,341** | **40,932** |
| Transfers (to)/from Earmarked Reserves | 929 | (890) | (128) | 89 | 0 | 0 | 0 | **0** | **0** | **0** |
| **Increase/Decrease in 2016/17** | **302** | **(890)** | **80** | **89** | **4,071** | **4,073** | **(133)** | **7,591** | **33,341** | **40,932** |
| **Balance at 31 March 2017 carried forward*** | **2,312** | **10,573** | **1,087** | **89** | **10,680** | **9,398** | **400** | **34,539** | **155,191** | **189,731** |

## MOVEMENT IN RESERVES STATEMENT

| | General Fund Balance £'000 | Earmarked Reserves £'000 | Housing Revenue Account £'000 | HRS £'000 | Major Repair Reserve £'000 | Capital Receipts Reserve £'000 | Capital Grants Unapplied £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Council Reserves £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Movement in reserves during 2017/18** | | | | | | | | | | |
| Surplus or (deficit) on provision of services | (4,889) | 0 | 11,103 | 0 | 0 | 0 | 0 | **6,214** | **0** | **6,214** |
| Other Comprehensive Expenditure and Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **4,795** | **4,795** |
| **Total Comprehensive Expenditure and Income** | **(4,889)** | **0** | **11,103** | **0** | **0** | **0** | **0** | **6,214** | **4,795** | **11,009** |
| Adjustments between accounting basis & funding basis under regulations (note 9) | 3,476 | 0 | (10,950) | 0 | 639 | (153) | (14) | **(7,003)** | **7,003** | **0** |
| Other adjustments | 0 | 0 | 0 | 0 | 1,523 | 0 | 0 | **1,523** | **(1,523)** | **0** |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(1,413)** | **0** | **153** | **0** | **2,162** | **(153)** | **(14)** | **736** | **10,273** | **11,009** |
| Transfers (to)/from Earmarked Reserves | 710 | (493) | (217) | 0 | 0 | 0 | 0 | **0** | **0** | **0** |
| **Increase/Decrease in Year** | **(703)** | **(493)** | **(64)** | **0** | **2,162** | **(153)** | **(14)** | **735** | **10,277** | **11,009** |
| **Balance at 31 March 2018 carried forward** | **1,609** | **10,080** | **1,023** | **89** | **12,842** | **9,245** | **386** | **35,274** | **165,464** | **200,739** |

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2017/18

| 31 March 2017 Gross* Expenditure £'000 | Gross* Income £'000 | Net Expenditure £'000 | | Note | 31 March 2018 Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
|---|---|---|---|---|---|---|---|
| 43,173 | (37,471) | 5,701 | Chief Executive's Directorate | | 43,342 | (37,544) | 5,798 |
| 1,657 | (513) | 1,144 | Housing and Regeneration | | 1,938 | (928) | 1,010 |
| 17,134 | (29,131) | (11,997) | Housing Revenue Account (HRA) | | 15,463 | (28,640) | (13,177) |
| (42,385) | 0 | (42,385) | Exceptional Item: Change in Social Housing Discount Factor | | 0 | 0 | 0 |
| 16,981 | (9,186) | 7,796 | Communities and Environment | | 18,002 | (9,290) | 8,712 |
| 2,810 | (844) | 1,966 | Major Developments | | 5,523 | (178) | 5,345 |
| 839 | (878) | (39) | Corporate Services | | 150 | (419) | (270) |
| **40,209** | **(78,023)** | **(37,815)** | **Cost Of Services** | | **84,419** | **(77,001)** | **7,418** |
| | | 5,404 | Other Operating Expenditure | 11 | | | 348 |
| | | 3,570 | Financing and Investment Income and Expenditure | 12 | | | 3,000 |
| | | (27,454) | Taxation and Non-Specific Grant Income | 13,37 | | | (16,980) |
| | | **(56,294)** | **(Surplus) or Deficit on Provision of Services** | | | | **(6,214)** |
| | | (2,596) | (Surplus) or deficit on revaluation of non-current assets | 14,16,22 | | | (1,057) |
| | | 0 | Impairment Losses on Non-Current Assets charged to the Revaluation Reserve | | | | 0 |
| | | 3 | (Surplus) or deficit on revaluation of available for sale financial assets | 26e | | | (58) |
| | | 17,955 | Total re-measurements on defined benefit obligation | 44 | | | (3,682) |
| | | **15,362** | **Other Comprehensive Income and Expenditure** | | | | **(4,797)** |
| | | **(40,932)** | **Total Comprehensive Income and Expenditure** | | | | **(11,011)** |

*Restated to be comparable with 2017/18 figures

# BALANCE SHEET AS AT 31 MARCH 2018

| 31 March 2017 £'000 | | Notes | 31 March 2018 £'000 |
|---|---|---|---|
| 312,454 | Property, Plant & Equipment | 4,14,39,41 | 332,979 |
| 5,478 | Heritage Assets | 15 | 6,091 |
| 8,519 | Investment Property | 14,16 | 16,224 |
| 629 | Intangible Assets | 14,39 | 568 |
| 416 | Long Term Investments | 18,47 | 473 |
| 141 | Long Term Debtors | | 133 |
| **327,637** | **Long Term Assets** | | **356,468** |
| 2,525 | Assets Held for Sale | 22 | 4,575 |
| 20,823 | Short Term Investments | 18,47 | 15,616 |
| 324 | Inventories | 19 | 220 |
| 241 | Cash at Bank | 21 | 876 |
| 17,974 | Short Term Debtors | 18,20,47 | 10,241 |
| **41,887** | **Current Assets** | | **31,528** |
| 0 | Cash and Cash Equivalents | 21 | 0 |
| (1,376) | Short Term Borrowing | 18 | (5,135) |
| (13,377) | Short Term Creditors | 18,23 | (15,364) |
| **(14,753)** | **Current Liabilities** | | **(20,499)** |
| (576) | Long Term Creditors | 18 | (342) |
| (3,589) | Provisions | 24 | (3,205) |
| (75,354) | Long Term Borrowing | 18 | (77,354) |
| (85,521) | Other Long Term Liabilities | 4,44 | (85,858) |
| **(165,040)** | **Long Term Liabilities** | | **(166,759)** |
| **189,731** | **Net Assets** | | **200,738** |

# BALANCE SHEET AS AT 31 MARCH 2018

| 31 March 2017 £'000 | | Notes | 31 March 2018 £'000 |
|---|---|---|---|
| **34,539** | **Usable reserves** | | **35,274** |
| 2,312 | General Fund | MIRS | 1,610 |
| 7,018 | Earmarked Reserves | 10 | 6,131 |
| 1,087 | Housing Revenue Account | MIRS | 1,023 |
| 89 | HRS | MIRS | 89 |
| 10,680 | Major Repairs Reserve | MIRS/HRA4 | 12,841 |
| 9,398 | Capital Receipts Reserve | MIRS | 9,245 |
| 398 | Capital Grants Unapplied | MIRS | 385 |
| 3,557 | Insurance Fund | 10 | 3,950 |
| | | | |
| **155,192** | **Unusable Reserves** | | **165,464** |
| 22,723 | Revaluation Reserve | 26a | 22,145 |
| (85,521) | Pensions Reserve | 26,44 | (85,858) |
| 219,275 | Capital Adjustment Account | 26b | 228,813 |
| 57 | Deferred Capital Receipts | 26c | 57 |
| (60) | Financial Instruments Adjustment Account | 26d | (58) |
| 400 | Available-for-Sale Financial Instruments Reserve | 26e | 458 |
| (1,257) | Collection Fund Adjustment Account | 26f | 342 |
| (425) | Accumulated Absences Account | 26g | (435) |
| | | | |
| **189,731** | **Total Reserves** | | **200,738** |

# CASH FLOW STATEMENT

| 31 March 2017 £'000 | | Notes | 31 March 2018 £'000 |
|---|---|---|---|
| 56,294 | Net surplus or (deficit) on the provision of services | | 6,214 |
| (26,539) | Adjustments to net (surplus) or deficit on the provision of services for non-cash movements | 28 | 11,001 |
| (20,328) | Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities | 29 | (7,673) |
| **9,427** | **Net cash flows from Operating Activities** | | **9,542** |
| (11,021) | Investing Activities | 30 | (15,660) |
| 1,692 | Financing Activities | 31 | 6,753 |
| **98** | **Net (increase) or decrease in cash and cash equivalents** | | **635** |
| 143 | Cash and cash equivalents at the beginning of the reporting period | | 241 |
| **241** | **Cash and cash equivalents at the end of the reporting period** | 21 | **876** |

# INDEX OF NOTES

# NOTES TO THE ACCOUNTS

The values held within the proceeding Notes to the Accounts may vary slightly when compared to the main Statements or other Notes. This is due to amounts being rounded. It is not expected that a difference would be in excess of £2,000 in any single case.

## Note 1 – Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Statement of Accounts has been prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the Accounts and Audit Regulations 2015.

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

The accounts are prepared on a going concern basis which assumes that the functions of the Council will continue in operational existence for the foreseeable future.

### 2. Accruals of Income and Expenditure

The revenue accounts of the Council are maintained on an accruals basis meaning that activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks 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.
- 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.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature within three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### 4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

### 5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## 6. Charges to Revenue for Non-Current Assets

Service revenue accounts, central support services and trading accounts are charged with the following amounts to reflect the cost of holding fixed assets during the year:

- depreciation of the assets used by the service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which losses can be written off
- amortisation of intangible fixed assets used by the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. This is referred to as the Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP). The Council's policy on MRP is approved by Council in March each year as part of the Treasury Management Strategy. Depreciation, revaluation and impairment losses and amortisation are replaced by the MRP and VRP, by way of an adjusting transaction between the Capital Adjustment Account and the General Fund Balance in the Movement in Reserves Statement, for the differences between the two.

## 7. Council Tax and Non-Domestic Rates

The Council (as the billing authority) acts as an agent, collecting council tax and non-domestic rates (NDR) on behalf of Lincolnshire County Council and Lincolnshire Police (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, all share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## 8. Employee Benefits

### Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements or time off in lieu, earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which employees take the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs of restructuring.

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

### Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Lincolnshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme.

The liabilities of the Lincolnshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the protected 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 forecasts of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate determined by the pension scheme actuary (based on the yield of UK Government Bonds plus a 'credit spread' allowance to reflect the extra risk involved in using AA corporate bond yields).

The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value.

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- Net interest cost on the net defined benefit liability (asset), i.e net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

  - the return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions

– charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Local Government Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

**Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## 9. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 10. Financial Instruments

**Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and carried at their amortised cost. Annual charges for interest payable are shown in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, and 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.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable, with accrued interest due within one year shown under short term borrowings; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, any premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the unexpired life of the original loan. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**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
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

**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. They are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, with interest receivable within one year shown under short term investments and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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 and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. 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 de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**Available-for-Sale Assets**

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

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

- Instruments with quoted market prices in active markets for identical assets – the market price

- Other instruments with fixed and determinable payments in active markets for identical assets – discounted cash flow analysis

- Equity shares with no quoted market prices – independent appraisal of company valuation or most recent price at which the shares changed hands.

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the asset.

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 Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

## 11. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where material amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses, if material, are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## 12. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and the third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### Business Improvement Districts

A Business Improvement District (BID) scheme applies across the whole of the Council. The scheme is funded by BID levy paid by non-domestic ratepayers. The Council acts as a principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

## Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable development for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure, however a proportion of the charges may be used to fund revenue expenditure

## 13. Intangible Assets

Intangible assets are assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences). Expenditure on intangible assets is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council for a period of more than one year.

Internally generated intangible assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of the Council's website is not capitalised as the website is primarily intended to promote or advertise the Council's services.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost.

Intangible assets are amortised over their useful life and charged to the relevant service lines in the Comprehensive Income and Expenditure. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## 14. Interests in Companies and other Entities

Councils are required to produce Group Accounts to include services offered to Council Tax payers by organisations other than the Council itself but in which the Council has an interest. There are a number of criteria set out by which the Council must determine whether the value of the company and the Council's interest is significant enough for Group Accounts to be produced. The Council has complied with the Code of Practice on Local Authority Accounting, and while it has identified a company over which it has joint control, it has concluded that the company does not meet the criteria that would require consolidation into the Council's accounts.

## 15. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using either the FIFO or weighted average costing formula.

Long term contracts are accounted for on the basis of charging the Surplus and Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

## 16. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset. Investment properties are not depreciated but are re-valued annually according to market conditions to ensure that they are held at the highest and best use value on the Balance Sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## 17. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other ventures that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity. If and when these exist the Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure

Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other ventures, with the assets being used to obtain benefits for the ventures. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

**18. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

**<u>The Council as Lessee</u>**

**Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- A financing charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution (Voluntary Revenue Provision - VRP) is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by the VRP in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from use of the leased asset. Charges are made on a straight-line basis over the term of the lease.

**The Council as Lessor**

**Finance Leases**

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain and loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a long-term lease debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipt Reserve in the Movement in Reserves Statement. Where the amount due in relation to the leased asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing.

Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserve Statement.

**Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

**19. Overheads and Support Services**

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

**20. Non-Current Assets – Property, Plant and Equipment**

Assets that have physical substance and are held for use in the supply of services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

**Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant or Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. Repairs and maintenance) is charged as an expense when it is incurred.

**Measurement**

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Investment properties and surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. However, in exceptional circumstances, gains may be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to services.

When decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the amount of the accumulated gains.

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

**Impairment**

Assets are reviewed at each year-end for evidence of reductions in value i.e. impairment. Where impairment is identified, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

When impairment losses are identified, they are accounted for as follows:

- Where there is a balance in the revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance, up to the amount of the accumulated gains.

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings – straight-line allocation over the replacement lives of the major components as identified within the Housing Investment Programme
- Other buildings – straight-line allocation over the useful life of the property as estimated by the Valuer
- Vehicles, plant, furniture and equipment – straight-line allocation over the useful life of each class of asset

Where an item of property, plant or equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. A major component is defined as comprising at least 20% of the value and having a useful life of 50% or less of that of the parent asset.

Council dwellings are separated into their principal components, which are depreciated separately. The components are defined by reference to the Building & Construction Industry Standard (BCIS) and the Housing Investment Programme elements. The replacement life cycles as recommended by BCIS and the Housing Investment Programme are used for the purposes of depreciation. Components are depreciated based on the existing Use Social Housing value.

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

**21. Heritage Assets**

The Council holds a number of Heritage Assets, which can be grouped into the following categories:

- Civic Insignia
- Art and Sculptures
- Musical Instruments
- Vehicles
- Ancient Monuments and War Memorials
- Miscellaneous

These are not held in a single collection but in a number of appropriate locations, where they are considered to contribute to increasing the knowledge, understanding and appreciation of the Council's history and local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

- **Civic Insignia**

  The collection of civic insignia includes the Mayor's and Sheriff's badges and chains of office, mace and ceremonial swords. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are subject to periodic reviews by a specialist valuer. The civic insignia are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

- **Art and Sculptures**

  This category includes paintings and a number of public art works such as statues and sculptures. Where a valuation is available e.g. an insurance valuation, the asset is reported in the balance sheet at this valuation. However, for a number of public art sculptures and statues, no cost or valuation information is available and consequently, these assets are not recognised in the balance sheet. Where artworks are recognised, they are deemed to have indeterminate lives and the Council does not consider it appropriate to charge depreciation.

- **Musical Instruments**

  The Council holds a Steinway grand piano at the Drill Hall and a Stradivarius violin, which is on loan to the Halle orchestra. These items are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are subject to periodic reviews by a specialist valuer. The instruments are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

- **Vehicles**

  The Council holds one diesel locomotive as a heritage asset. This is reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are subject to periodic reviews by a specialist valuer. The vehicle is deemed to have indeterminate lives as it is not in operation but is on display; hence the Council does not consider it appropriate to charge depreciation.

- **Ancient Monuments and War Memorials**

  This category includes various roman ruins and ancient structures and four war memorials. The Council does not consider that reliable cost or valuation information can be obtained for the items in this category. This is because of the nature of the assets held and the lack of market values. Consequently, these assets are not recognised in the Balance Sheet.

- **Miscellaneous**

  This category includes any other assets which are being held for their contribution to knowledge and culture but do not readily fall into the above categories. One example is the collection of Books of Remembrance held at the City crematorium. These items are reported in the Balance Sheet at either cost or insurance valuation where material. No depreciation is charged on these assets.

**<u>Heritage Assets – General</u>**

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's accounting policies on impairment. The Council may occasionally dispose of heritage assets which are unsuitable for public display or to an appropriate body which will ensure the asset is maintained and displayed within a suitable collection e.g. to a museum or historical trust. The proceeds of such items are accounted for in accordance with the Council's accounting policy on disposal of Property, Plant and Equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

## 22. Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. These should be:

- Immediately available for sale
- Sale is highly probable
- Actively marketed
- Expected to be sold within 12 months

The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus and Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from the disposal (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are transferred to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account in the General Fund Balance in the Movement in Reserves Statement.

## 23. Provisions, Contingent Liabilities and Contingent Assets

**Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that the reimbursement will be received if the Council settles the obligation.

**Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

**Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits.

## 24. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

## 25. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## 26. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

## 27. Fair Value

The Council measures some of its non-financial assets, such as surplus assets and investment properties, and some of its financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing an asset or liability (assuming they were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses appropriate valuation techniques, which takes into account the three levels of inputs to valuations for fair value assets:

- Level 1 – quoted prices
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

## Note 2 – Accounting Standards Issued, Not Adopted

The Code of Practice on Local Council Accounting in the United Kingdom 2018/19 (the Code) has introduced new and amended accounting standards as follows:

- IFRS 9 Financial Instruments - which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets.

- IFRS 15 Revenue from Contracts with Customers – which presents new requirements for the recognition of revenue, based on a control-based revenue recognition model.

- Amendment IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses - applies to deferred tax assets related to debt instruments measured at fair value.

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative – which will potentially require some additional analysis of Cash Flows from Financing Activities

These accounting changes which will be required from 1 April 2018.

The adoption of these new and amended standards is not expected to have a material impact on the Council's statement of accounts.

## Note 3 – Critical Judgements in Applying Accounting Policies

In applying the accounting policies in Note 1, the 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 are:

- **Local Government funding** - There is a high degree of uncertainty about the future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities or reduce levels of service provision.

- **Group Boundaries** - The Council has a collaborative arrangement with the Lincolnshire County Council, North Kesteven and West Lindsey District Councils to provide the Central Lincolnshire Joint Planning Unit. This arrangement is hosted by North Kesteven District Council. The Council also has a collaborative arrangement with North Kesteven to provide a shared Revenues and Benefits Service. This shared service is hosted by the City of Lincoln Council. Both of these arrangements are governed through a Joint Committee representing each of the partner authorities. These arrangements are considered as a Jointly Controlled Operation, where ventures use their own resources to undertake an activity subject to joint control, and as such do not require consolidation into the Council's accounts. The Council's proportion of activity is accounted for separately within the Core Financial Statements.

- **Investment properties** - Investment properties have been estimated using the identifiable criteria under IFRS of being held for rental income or for capital appreciation. These properties have been assessed using these criteria, which are subject to interpretation.

- **Leases** - The Council has examined its leases, and classified them as either operational or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. In reassessing the lease the Council has estimated the implied interest rate within the lease to calculate interest and principal payments.

- **Investments** - Investment in banks and other financial institutions are secure and will not suffer impairments.

## Note 4 – Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet as at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| **Business Rates**<br><br>Balance Sheet 31 March 2018 – Provision for Business Rate Appeals £3.057m) | Since the introduction of the Business Rates Retention Scheme effective from April 2013, local authorities are liable for successful appeals against business rates charges to businesses in 2017/18 and earlier financial years in their proportionate share. Therefore a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to the 31st March 2018. A third-party independent specialist has been used to estimate the required provision using the latest Valuation Office ratings list of appeals and an analysis of successful appeals to date. | The Council's share of the balance of business rates appeals at 31 March 2018 amounted to £3.057m, a decrease of £0.257m/7.8% from the previous year. An increase or reduction of 10% of the estimated provision would increase/decrease the Council's share of NNDR appeals provision by £0.306m. |
| **Property, Plant and Equipment (PPE)**<br><br>(Balance Sheet 31 March 2018 – PPE £333m) | Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets. | If the useful lives of the assets reduce, depreciation increases and the carrying amount of the assets falls.<br>It is estimated that the annual depreciation charge for buildings would increase by £0.64m for every year that the useful lives had to be reduced. |
| **Assets held for sale and investment properties**<br><br>(Balance Sheet 31 March 2018<br>- assets held for sale £4.6m<br>- Investment properties £16.2m) | Assets classified as Held for Sale or as Investment Property are carried at fair value based on a recently observed market price. Market prices can fluctuate considerably due to global events. The value of these assets was current at the Balance Sheet date, but it cannot be determined for how long this value will be correct. | A 1% reduction in the value of investment properties would result in a charge to the Comprehensive Income & Expenditure Statement of £0.21m; a 1% increase in value would result in the recognition of a gain of £0.21m in the Comprehensive Income & Expenditure Statement. |
| **Arrears**<br><br>Balance Sheet 31 March 2018 - Debtors total of £10.2m includes £5.7m debtors (subject to arrears) | As at 31 March 2018, the Council had a balance on current debtors of £5.654m. A review of significant balances suggested that an impairment of doubtful debts of £1.849m was required. | If collection rates were to deteriorate by 5% the amount of the impairment of doubtful debts would require an additional £0.283m to be set aside as an allowance. |
| **Pension Liability**<br><br>Balance Sheet 31 March 2018 - | 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 | The effects on the net pensions' liability of changes in individual assumptions can be measured. For instance, a |

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
| --- | --- | --- |
| pensions liability £85.9m) | salaries are projected to increase, changes in retirement ages, mortality rates and the expected return on pension fund assets. A firm of consulting actuaries (Hymans Robertson LLP) is engaged to provide the Council with expert advice about the assumptions to be applied. For more information on the Defined Benefit Pension Scheme please refer to note 44. | 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £20.590. |
| **Investments**<br><br>Balance Sheet 31 March 2018<br>- Short term investments £15.6m<br>- Long term investments £0.4m) | At 31 March 2018, the Council held £15.616m of short term investments. These comprise £6.602m invested in AAA-rated instant access Money Market Funds; £8.012m invested in A rated UK banks and £1.001m invested in local authorities, all for periods of up to 1 year. | As most of the investments are either in AAA-rated MMF's or short term deposits in A rated UK banks, the risk of impairment is considered to be minimal. Also there is a short term deposit with a local authority, which is again very low risk. |

## Note 5 – Prior Period Adjustment

There were no prior period adjustments in 2017/18.

## Note 6 – Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 31st May 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## Note 7A – Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

**ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS**

| 2016/17 | | | | | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| **Adjustments for Capital Purposes** | **Net Change for the Pensions Adjustments** | **Other Differences** | **Total Adjustments** | **Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts** | **Adjustments for Capital Purposes** | **Net Change for the Pensions Adjustments** | **Other Differences** | **Total Adjustments** |
| **£'000s** | **£'000s** | **£'000s** | **£'000s** | | **£'000s** | **£'000s** | **£'000s** | **£'000s** |
| 2,229 | 362 | 16 | **2,607** | Chief Executive's Directorate | 330 | 1,009 | 28 | **1,367** |
| 550 | 83 | (51) | **582** | Housing and Regeneration | 2 | 262 | 10 | **274** |
| (54,096) | 752 | (1) | **(53,345)** | Housing Revenue Account (HRA) | (4,595) | 1,381 | (10) | **(3,224)** |
| 6,759 | 301 | 3 | **7,063** | Communities and Environment | 2,471 | 843 | (12) | **3,302** |
| 2,450 | 10 | 15 | **2,475** | Major Developments | 4,172 | 55 | (6) | **4,221** |
| 0 | (736) | 0 | **(736)** | Corporate | 0 | (896) | 0 | **(896)** |
| **(42,108)** | **771** | **(18)** | **(41,355)** | **Net Cost of Services** | **2,380** | **2,654** | **10** | **5,044** |
| (16,244) | 1,363 | (476) | (15,357) | Other Income & Expenditure from the Funding Analysis | (12,286) | 1,365 | (1,599) | (12,520) |
| **(58,352)** | **2,134** | **(494)** | **(56,712)** | **Difference between General Fund Surplus/ Deficit and CIES Income & Expenditure Statement Surplus/ Deficit** | **(9,906)** | **4,019** | **(1,589)** | **(7,476)** |

## Note 7B – Segmental Income Analysis

Income received on a segmental basis is analysed below:

| Services | Income from Services 2016/17 | Income from Services 2017/18 |
|---|---|---|
| | £'000s | £'000s |
| | | |
| Chief Executive's Directorate | (4,424) | (4,759) |
| Housing & Regeneration | (498) | (588) |
| Housing Revenue Account (HRA) | (29,232) | (28,990) |
| Communities & Environment | (8,925) | (9,027) |
| Major Developments | (591) | 0 |
| Corporate | (208) | (11) |
| **Total Income analysed on a Segmental Basis** | **(43,878)** | **(43,374)** |

## Note 8 – Expenditure and Income Analysed by Nature

The Authority's expenditure and income is analysed as follows:

| | 2016/17 | 2017/18 |
|---|---|---|
| | £'000s | £'000s |
| **Expenditure/ Income** | | |
| **Expenditure** | | |
| Employee Benefit Expenses | 21,746 | 23,026 |
| Other Services Expenses | 66,912 | 66,111 |
| Support Service Recharges | 2,750 | 3,054 |
| Depreciation, Amortisation, and Impairment | (35,994) | 4,743 |
| Interest Payments | 7,823 | 9,569 |
| Precepts and Levies | 795 | 803 |
| Payments to Housing Capital Receipts Pool | 534 | 529 |
| Gain/(loss) on Disposal of Assets | 4,076 | (985) |
| **Total Expenditure** | **68,642** | **106,851** |
| **Income** | | |
| Fees, Charges and other Service Income | (60,496) | (59,631) |
| Interest and Investment Income | (2,555) | (3,493) |
| Income from Council Tax and Non-Domestic Rates | (9,916) | (10,283) |
| Government Grants and Contributions | (51,969) | (39,658) |
| **Total Income** | **(124,936)** | **(113,065)** |
| **Surplus or Deficit on the Provision of Services** | **(56,294)** | **(6,214)** |

## Note 9 – Adjustment between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council 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 an authority are required to be paid and out of which all liabilities of the authority 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 the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year (the balance is not available to be applied to funding HRA services).

### Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

### Major Repairs Reserve

The Authority is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

### Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

### Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the 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.

| 2017/18 | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movement In Unusable Reserves |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| ***Adjustments to Revenue Resources*** | | | | | | |
| **Amounts by which income and expenditure included in the Comprehensive Income Statement are different from revenue for the year calculated in accordance with statutory requirements:** | | | | | | |
| Pensions costs (transferred to (or from) the Pensions Reserve) | 2,638 | 1,381 | 0 | 0 | 0 | **4,019** |
| Financial Instruments (transferred to the Financial Instruments Adjustments Account) | (2) | 0 | 0 | 0 | 0 | **(2)** |
| Council Tax and NNDR transfers to (or from) the Collection Fund Adjustment Account | (1,599) | 0 | 0 | 0 | 0 | **(1,599)** |
| Holiday Pay (transferred to the Accumulated Absences Reserve) | 20 | (10) | 0 | 0 | 0 | **10** |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 4,104 | (7,728) | 0 | 0 | 3,002 | **(622)** |
| **Total Adjustments to Revenue Resources** | **5,161** | **(6,357)** | **0** | **0** | **3,002** | **1,806** |
| ***Adjustments between Revenue and Capital Resources*** | | | | | | **0** |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (1,370) | (3,830) | 5,200 | 0 | 0 | **0** |
| Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve) | 529 | 0 | (529) | 0 | 0 | **0** |
| Posting of HRA resources to the Major Repairs Reserve | 0 | (765) | 0 | 639 | 0 | **(126)** |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | (484) | 0 | (150) | 0 | 0 | **(634)** |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | (360) | 0 | 0 | 0 | 0 | **(360)** |
| **Total Adjustments between Revenue and Capital Resources** | **(1,685)** | **(4,595)** | **4,521** | **639** | **0** | **(1,120)** |

| 2017/18 | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movement In Unusable Reserves |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| ***Adjustments to Capital Resources*** | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | 0 | 0 | (4,674) | 0 | 0 | **(4,674)** |
| Use of the Major Repairs Reserve to finance capital expenditure | 0 | 0 | 0 | 0 | 0 | **0** |
| Application of Capital grants to finance capital expenditure | 0 | 0 | 0 | 0 | (3,016) | **(3,016)** |
| **Total Adjustments to Capital Resources** | **0** | **0** | **(4,674)** | **0** | **(3,016)** | **(7,690)** |
| **Total Adjustments** | **3,476** | **(10,952)** | **(153)** | **639** | **(14)** | **(7,004)** |

| 2016/17 | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movement In Unusable Reserves |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| ***Adjustments to Revenue Resources*** | | | | | | |
| **Amounts by which income and expenditure included in the Comprehensive Income Statement are different from revenue for the year calculated in accordance with statutory requirements:** | | | | | | |
| Pensions costs (transferred to (or from) the Pensions Reserve) | 1,382 | 752 | 0 | 0 | 0 | **(2,134)** |
| Financial Instruments (transferred to the Financial Instruments Adjustments Account) | (2) | 0 | 0 | 0 | 0 | **2** |
| Council Tax and NNDR (transfers to (or from) the Collection Fund Adjustment Account) | (476) | 0 | 0 | 0 | 0 | **476** |
| Holiday Pay (transferred to the Accumulated Absences Reserve) | (18) | (1) | 0 | 0 | 0 | **19** |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | (924) | (48, 045) | 0 | 0 | 13,548 | **35,421** |
| **Total Adjustments to Revenue Resources** | **(38)** | **(47,294)** | **0** | **0** | **13,548** | **33,784** |
| ***Adjustments between Revenue and Capital Resources*** | | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (2,362) | (4,954) | 7,316 | 0 | 0 | **0** |
| Payments to the Government Housing Receipts Pool (funded by a transfer from the Capital Receipts Reserve) | 534 | 0 | (534) | 0 | 0 | **0** |
| Posting of HRA resources to the Major Repairs Reserve | 0 | (1,097) | 0 | 1,097 | 0 | **0** |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | (1,044) | 0 | 0 | 0 | 0 | **1,044** |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | (458) | 0 | 0 | 0 | 0 | **458** |
| **Total Adjustments between Revenue and Capital Resources** | **(3,330)** | **(6,051)** | **6,782** | **1,097** | **0** | **1,502** |

| 2016/17 | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movement In Unusable Reserves |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| ***Adjustments to Capital Resources*** | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | 0 | 0 | (2,708) | 0 | 0 | **2,708** |
| Use of the Major Repairs Reserve to finance capital expenditure | 0 | 0 | 0 | 0 | 0 | **0** |
| Application of Capital grants to finance capital expenditure | 0 | 0 | 0 | 0 | (13,681) | **13,682** |
| **Total Adjustments to Capital Resources** | **0** | **0** | **(2,708)** | **0** | **(13,681)** | **16,390** |
| **Total Adjustments** | **(3,368)** | **(53,345)** | **4,073** | **1,097** | **(133)** | **51,675** |

## Note 10 – Movements in Earmarked Reserves

These amounts are held to meet expenditure in future financial years. The movements on these Revenue Reserve Accounts during the year have been as follows:

| | Balance @ 31.03.16 £'000 | Appropriations Transfers In £'000 | Appropriations Transfers Out £'000 | Balance @ 31.03.17 £'000 | Movements | Appropriations Transfers In £'000 | Appropriations Transfers Out £'000 | Balance @31.03.18 £'000 |
|---|---|---|---|---|---|---|---|---|
| **General Fund** | | | | | | | | |
| Business Rates Volatility | 1,684 | 92 | (1,067) | 709 | 0 | 450 | (621) | 539 |
| Strategic Projects | 867 | 504 | 0 | 1,371 | 0 | 0 | (875) | 496 |
| Budget Carry Forwards | 445 | 88 | (193) | 340 | (115) | 231 | (133) | 324 |
| Grants & Contributions | 408 | 161 | (206) | 363 | 0 | 483 | (59) | 787 |
| Invest to Save (GF) | 397 | 401 | (602) | 196 | (5) | 171 | (53) | 307 |
| Mercury Abatement | 319 | 88 | (61) | 346 | 0 | 91 | (60) | 378 |
| Strategic Growth (GF) | 290 | 224 | (90) | 424 | 0 | 100 | (423) | 100 |
| Unused DRF | 239 | 333 | (295) | 277 | 125 | 172 | (352) | 221 |
| Backdated Rent Review | 220 | 0 | 0 | 220 | 0 | 0 | 0 | 220 |
| Funding for Strategic Priorities | 206 | 0 | (85) | 121 | 60 | 0 | (153) | 28 |
| IT Reserve | 161 | 112 | (53) | 220 | (64) | 100 | (39) | 217 |
| LAMS Interest | 158 | 41 | (199) | 0 | 0 | 0 | 0 | 0 |
| Revenues & Benefits Shared Service | 156 | 0 | (22) | 134 | 0 | 50 | (21) | 163 |
| Asset Improvement | 140 | 373 | (423) | 90 | 0 | 0 | (18) | 72 |
| Transport Hub Mitigation | 124 | 0 | 0 | 124 | 0 | 0 | (124) | 0 |
| Benefits - Subsidy Adjustment | 100 | 0 | (100) | 0 | 0 | 0 | 0 | 0 |
| Tree Risk Assessment | 99 | 20 | (22) | 97 | 0 | 20 | (11) | 106 |
| The Terrace R&M | 62 | 0 | (62) | 0 | 0 | 0 | 0 | 0 |
| MA Reserve | 61 | 0 | (9) | 52 | 0 | 0 | 0 | 51 |
| Organisational Development | 60 | 81 | (94) | 47 | 0 | 0 | (39) | 8 |
| Mayoral Car | 50 | 3 | (6) | 47 | 0 | 0 | 0 | 47 |
| Yarborough Leisure Centre | 45 | 0 | (43) | 2 | 0 | 0 | 0 | 2 |
| Private Sector Stock Condition Survey | 39 | 12 | 0 | 51 | 0 | 12 | 0 | 63 |
| Property Searches | 36 | 0 | 0 | 36 | 0 | 0 | 0 | 36 |
| Managed Workspace | 35 | 0 | 0 | 35 | 0 | 0 | 0 | 35 |

| | Balance | Appropriations | | Balance | Movements | Appropriations | | Balance |
|---|---|---|---|---|---|---|---|---|
| | @ 31.03.16 | Transfers In | Transfers Out | @ 31.03.17 | | Transfers In | Transfers Out | @31.03.18 |
| | £'000 | £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| County Wide Broadband Initiative | 34 | 0 | 0 | 34 | 0 | 0 | (34) | 0 |
| Boston Audit Contract | 14 | 0 | 0 | 14 | 0 | 0 | 0 | 14 |
| Section 106 Interest | 14 | 0 | 0 | 14 | 0 | 18 | 0 | 32 |
| Christmas Decorations | 14 | 3 | 0 | 17 | 0 | 0 | 0 | 17 |
| Electric Van Replacement | 13 | 4 | 0 | 17 | 0 | 4 | 0 | 22 |
| Christmas Market | 0 | 25 | 0 | 25 | 0 | 0 | (25) | 0 |
| Air Quality Initiatives | 11 | 6 | 0 | 17 | 0 | 6 | 0 | 23 |
| Commons Parking | 10 | 4 | 0 | 14 | 0 | 13 | 0 | 27 |
| Tank Memorial | 10 | 0 | 0 | 10 | 0 | 0 | 0 | 10 |
| Income Volatility Reserve | 0 | 0 | 0 | 0 | 0 | 178 | 0 | 178 |
| City Hall Sinking Fund | 0 | 0 | 0 | 0 | 0 | 36 | 0 | 36 |
| **Total General Fund Earmarked Reserves** | **6,521** | **2,575** | **(3,632)** | **5,464** | **0** | **2,135** | **(3,040)** | **4,559** |
| **HRA** | | | | | | | | |
| HRA Strategic Growth | 399 | 0 | (250) | 149 | 0 | 178 | (150) | 178 |
| HRA Invest to Save | 164 | 0 | 0 | 164 | 0 | 3 | (26) | 140 |
| Capital Fees Equalisation | 278 | 0 | (37) | 241 | 0 | 0 | (3) | 238 |
| HRA Strategic Priority | 240 | 0 | 0 | 240 | 0 | 0 | 0 | 240 |
| De Wint Court | 0 | 73 | 0 | 73 | 0 | 0 | 0 | 73 |
| HRA Repairs Account | 500 | 8,193 | (8,083) | 611 | 0 | 8,394 | (8,381) | 624 |
| HRA Survey Works | 51 | 3 | 0 | 54 | 0 | 3 | 0 | 57 |
| Stock Retention | 22 | 0 | 0 | 22 | 0 | 0 | 0 | 22 |
| Municipal House Building | 60 | 0 | (60) | 0 | 0 | 0 | 0 | 0 |
| **Total HRA Earmarked Reserves** | **1,714** | **8,266** | **(8,430)** | **1,554** | **0** | **8,578** | **(8,560)** | **1,572** |
| **Total Earmarked Reserves** | **8,235** | **2,762** | **(3,983)** | **7,018** | **0** | **10,713** | **(11,600)** | **6,131** |
| Insurance Fund | 3,228 | 567 | (238) | 3,558 | 0 | 468 | (75) | 3,950 |
| **Total Earmarked Reserves** | **11,463** | **3,329** | **(4,221)** | **10,576** | **0** | **11,181** | **(11,675)** | **10,081** |

### Insurance Reserve

The insurance fund has been set up to ensure adequate funding for the insurance risk covered by the City of Lincoln Council. In 2017/18 the risk in respect of Public Liability Insurance had an excess of £100,000 (per claim) with no cap ceiling. The movements on the fund are as follows:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 3,228 | **Opening Balance** | 3,557 |
| (124) | Funding of claims/losses | (82) |
| 452 | Contributions from revenue | 475 |
| **3,557** | **Closing Balance** | **3,950** |

## Note 11 – Other Operating Expenditure

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 795 | Levies | 803 |
| 534 | Payments to the Government Housing Capital Receipts Pool | 529 |
| 4,075 | (Gains)/losses on the disposal of non-current assets | (985) |
| **5,404** | **Total** | **348** |

## Note 12 - Financing and Investment Income and Expenditure

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 3,203 | Interest payable and similar charges | 3,195 |
| 2,285 | Net interest on the net defined liability | 2,245 |
| (1,719) | (Surplus)/Deficit on Trading Operations | (2,332) |
| (199) | Interest Receivable and similar income | (108) |
| **3,570** | **Total** | **3,000** |

## Note 13 – Taxation and Non-Specific Grant Income

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| (5,969) | Council Tax income | (6,176) |
| (3,947) | Retained Business Rates income and expenditure | (5,158) |
| (3,990) | Non ring-fenced government grants | (2,644) |
| (13,548) | Capital grants and contributions | (3,002) |
| **(27,454)** | **Total** | **(16,980)** |

## Note 14 – Non-Current Assets including Property, Plant & Equipment and Intangible Assets

The movement in the Council's Fixed Assets during the year was as follows:

| Movements in 2017/18 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Council Dwellings | Land & Buildings | Vehicles Plant & Equip | Infra-Structure Assets | Community Assets | Surplus Assets | Assets Under Con-struction | Property Plant & Equip Subtotal | Intangible Assets | Investment Properties | TOTAL |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation** | | | | | | | | | | | |
| **At 1 April 2017** | **223,233** | **69,026** | **9,603** | **0** | **3,333** | **4,289** | **12,281** | **321,765** | **2,416** | **8,519** | **332,700** |
| Additions | 7,528 | 1,745 | 40 | 0 | 974 | 46 | 16,969 | **27,301** | 151 | 6,965 | **34,418** |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | 20 | (80) | 0 | 0 | 2 | 180 | 0 | **123** | 0 | 0 | **123** |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | 19 | (466) | 0 | 0 | (3) | 0 | 0 | **(450)** | 0 | (248) | **(698)** |
| De-recognition and disposals | (2,377) | | (16) | 0 | 0 | (160) | 0 | **(2,553)** | (686) | 0 | **(3,239)** |
| Other movements in cost or valuation | 173 | 22,319 | 720 | 0 | 0 | (1,491) | (24,352) | **(2,631)** | 0 | 988 | **(1,644)** |
| **At 31 March 2018** | **228,597** | **92,544** | **10,346** | **0** | **4,306** | **2,864** | **4,898** | **343,555** | **1,882** | **16,225** | **361,662** |
| | | | | | | | | | | | |
| **Depreciation** | | | | | | | | | | | |
| **At 1 April 2017** | **(23)** | **(1,454)** | **(7,709)** | **0** | **(119)** | **(9)** | **0** | **(9,314)** | **(1,787)** | **0** | **(11,101)** |
| Depreciation for year | (10,367) | (1,179) | (445) | 0 | 0 | (4) | 0 | **(11,995)** | (212) | 0 | **(12,207)** |
| Depreciation written out to the Revaluation Reserve | 6 | 301 | 0 | 0 | 0 | 8 | 0 | **315** | 0 | 0 | **315** |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Movements in 2017/18** | | | | | | | | | | | |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 10,258 | 0 | 0 | 0 | 0 | 0 | 0 | **10,258** | 0 | 0 | **10,258** |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | 0 | 0 | 0 | 0 | 0 | 7 | 0 | **7** | 0 | 0 | **7** |
| De-recognition – disposals | 116 | 0 | 0 | 0 | 0 | 0 | 0 | **116** | 0 | 0 | **116** |
| De-recognition – other | 0 | 0 | 16 | 0 | 0 | 0 | 0 | **16** | 686 | 0 | **702** |
| Other movements in cost or valuation | 0 | 28 | 0 | 0 | 0 | (7) | 0 | **21** | 0 | 0 | **21** |
| **At 31 March 2018** | **(10)** | **(2,304)** | **(8,138)** | **0** | **(119)** | **(5)** | **0** | **(10,576)** | **(1,313)** | **0** | **(11,889)** |
| | | | | | | | | | | | |
| **Net book value of assets at 31.03.18** | **228,587** | **90,240** | **2,208** | **0** | **4,187** | **2,859** | **4,898** | **332,979** | **569** | **16,225** | **349,772** |
| **Net book value of assets at 31.03.17** | **223,210** | **67,572** | **1,894** | **0** | **3,214** | **4,280** | **12,281** | **312,451** | **629** | **8,519** | **321,599** |
| | | | | | | | | | | | |
| Owned | 228,587 | 90,240 | 1,633 | 0 | 4,187 | 2,859 | 4,898 | **332,404** | 569 | 16,225 | **349,198** |
| Finance lease | 0 | 0 | 575 | 0 | 0 | 0 | 0 | **575** | **0** | **0** | **575** |

| Movements in 2016/17 | Council Dwellings | Land & Buildings | Vehicles Plant & Equip | Infra-Structure Assets | Community Assets | Surplus Assets | Assets Under Con-struction | Property Plant & Equip Subtotal | Intangible Assets | Investment Properties | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Cost or Valuation** | | | | | | | | | | | |
| **At 1 April 2016** | **177,586** | **71,171** | **8,974** | **0** | **2,994** | **4,580** | **2,438** | **267,743** | **2,179** | **9,664** | **279,586** |
| Additions | 7,628 | 5,515 | 16 | 0 | 339 | 270 | 10,015 | **23,783** | 65 | 0 | **23,848** |
| Revaluation increases/ decreases) recognised in the Revaluation Reserve | 0 | 699 | 0 | 0 | 0 | 341 | 0 | **1,040** | 0 | 10 | **1,050** |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | 40,197 | (108) | 0 | 0 | 0 | 0 | 0 | **40,089** | 0 | 776 | **40,865** |
| De-recognition - disposals | (2,178) | (6,138) | 0 | 0 | 0 | (1,046) | 0 | **(9,362)** | 0 | (1,226) | **(10,588)** |
| De-recognition - other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| Other movements in cost or valuation | 0 | (2,113) | 613 | 0 | 0 | 144 | (172) | **(1,528)** | 172 | (695) | **(2,051)** |
| **At 31 March 2017** | **223,233** | **69,026** | **9,603** | **0** | **3,333** | **4,289** | **12,281** | **321,765** | **2,416** | **8,529** | **332,710** |
| **Depreciation & Impairments** | | | | | | | | | | | |
| **At 1 April 2016** | **(17)** | **(1,427)** | **(7,270)** | **0** | **(119)** | **(7)** | **0** | **(8,840)** | **(1,613)** | **0** | **(10,453)** |
| Depreciation for year | (10,824) | (1,221) | (439) | 0 | 0 | (2) | 0 | **(12,486)** | (174) | 0 | **(12,660)** |
| Depreciation written out to the Revaluation Reserve | 0 | 929 | 0 | 0 | 0 | 0 | 0 | **929** | 0 | 0 | **929** |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 10,710 | 0 | 0 | 0 | 0 | 0 | 0 | **10,710** | 0 | 0 | **10,710** |

| Movements in 2016/17 | Council Dwellings | Land & Buildings | Vehicles Plant & Equip | Infra-Structure Assets | Community Assets | Surplus Assets | Assets Under Con-struction | Property Plant & Equip Subtotal | Intangible Assets | Investment Properties | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| De-recognition - disposals | 108 | 265 | 0 | 0 | 0 | 0 | 0 | **373** | 0 | 0 | **373** |
| De-recognition - other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| Other movements in cost or valuation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| | | | | | | | | | | | |
| **At 31 March 2017** | **(23)** | **(1,454)** | **(7,709)** | **0** | **(119)** | **(9)** | **0** | **(9,314)** | **(1,787)** | **0** | **(11,101)** |
| | | | | | | | | | | | |
| **Net book value of assets at 31.03.17** | **223,210** | **67,572** | **1,894** | **0** | **3,214** | **4,280** | **12,281** | **312,451** | **629** | **8,519** | **321,599** |
| **Net book value of assets at 31.03.16** | **177,569** | **69,744** | **1,704** | **0** | **2,875** | **4,573** | **2,438** | **258,903** | **566** | **9,664** | **269,133** |
| | | | | | | | | | | | |
| Owned | 223,210 | 67,572 | 1,128 | 0 | 3,214 | 4,280 | 12,281 | **311,685** | 629 | 8,519 | **320,833** |
| Finance lease | 0 | 0 | 766 | 0 | 0 | 0 | 0 | **766** | 0 | 0 | **766** |

## Fixed Asset Valuation

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment and Investment Properties required to be measured at fair value are revalued at least every five years. The statement below shows the progress of the Council's rolling programme of fixed asset revaluations.

| | Council Dwellings | Operational Land & Buildings | Vehicles Plant & Equip. | Investment Properties |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Valuation at historical cost** | | 15,585 | 3,408 | |
| **Valued at current value as at:** | | | | |
| 01/04/17 | 225,338 | 68,102 | | 8,519 |
| 01/04/16 | 222,519 | 71,210 | | 9,665 |
| 01/04/15 | 176,438 | 67,587 | | 11,621 |
| 01/04/14 | 174,971 | 66,679 | | 11,219 |
| 01/04/13 | 170,075 | 64,752 | | 10,065 |

The valuations of the Council's freehold and leasehold properties have been carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors. All valuations are either undertaken by the following Council Officers, or by the District Valuer.

| | | |
|---|---|---|
| Principal Property Surveyor | Mr P Clifton | MRICS |
| Senior Property Surveyor | Mr A Wiswould | MRICS |

## Fixed Assets Depreciation

<u>Tangible Fixed Assets</u>

Depreciation, as stated in the Accounting Policies, is calculated on a straight-line basis. Non-operational assets are treated as investment properties and as such are not depreciated. The standard useful lives of assets, used for depreciation purposes (unless overwritten by asset valuations), are as follows:

| <u>**Category Of Asset**</u> | <u>**Useful Economic Life**</u> |
|---|---|
| **Council Dwellings** | Various – average based on major components |
| **Other Land & Buildings** | |
| - Council Buildings | 50 years |
| - Car Parks | 60 years |
| - Cemeteries | 50 years |
| - Crematorium | 21 years |
| - Community Centres | 50 years |
| - Offices | 50 years |
| - Depots & Workshops | 50 years |

| Category Of Asset | Useful Economic Life |
|---|---|
| - Public Conveniences | 50 years |
| - Recreation Grounds | 50 years |
| - Sports Centres | 50 years |
| | |
| **Vehicles, Plant & Equipment** | |
| - Computers | 5 years |
| - Equipment | 10 years |
| - Fixtures and Fittings | 5 years |
| - Plant | 7/10 years |
| - Vehicles | 5/7 years |
| | |
| **Infrastructure Assets** | 50 years |

Intangible Assets

Intangible fixed assets are amortised in the Income and Expenditure Account on a straight-line basis, as stated in the Accounting Policies. The standard useful life, used for amortisation purposes is:

| Category Of Asset | Useful Economic Life |
|---|---|
| **Intangible Asset** | |
| - Software | 5 years |

## Note 15 – Heritage Assets

### Reconciliation of the Carrying Value of Heritage Assets Held by the Council

| | Heritage Vehicles £'000 | Musical Instruments £'000 | Civic Insignia £'000 | Other £'000 | Total Assets £'000 |
|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | |
| At 1 April 2016 | 140 | 2,570 | 2,357 | 276 | 5,343 |
| Additions | 0 | 0 | 0 | 133 | 133 |
| Revaluations | 0 | 0 | 2 | 0 | 2 |
| **At 31 March 2017** | **140** | **2,570** | **2,359** | **409** | **5,478** |
| | | | | | |
| **Cost or Valuation** | | | | | |
| At 1 April 2017 | 140 | 2,570 | 2,359 | 409 | 5,478 |
| Additions | | | | | 0 |
| De-recognitions | (103) | 0 | 0 | 0 | (103) |
| Revaluations | 1 | 715 | 0 | 0 | 716 |
| **At 31 March 2018** | **38** | **3,285** | **2,359** | **409** | **6,091** |

### Heritage Vehicles

The Council's heritage vehicles are reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are reviewed annually and revalued every five years by an appropriately qualified external valuer.

### Musical Instruments

This category contains a donated asset, a violin by Antonio Stradivari of Cremona dated 1695, which is on loan to the Halle Orchestra. The violin was last valued at the end of 2017/18 by external valuers, Ingles and Hayday, at £3.2m.

### Civic Insignia

The collection of civic insignia includes the Mayor's and Sheriff's badges and chains of office and mace. All items are on display at the Guildhall, Lincoln. It also includes four ceremonial and fighting swords of considerable historical significance, which together are valued at £2.4m. The Council's collection of civic insignia is reported in the Balance Sheet at insurance valuation which is based on market values. These insurance valuations are reviewed annually and revalued every five years by an appropriately qualified external valuer. These were revalued at 31st March 2017 by external valuers Bamfords.

### Other Heritage Assets

This category includes artwork and paintings and miscellaneous assets recognised in the Balance Sheet, such as the Books of Remembrance kept on display at the City Crematorium. These are reported at insurance valuation which is based on market values and are subject to periodic revaluation by an appropriately external qualified valuer. These were revalued at 31st March 2017 by external valuers Bamfords.

### Heritage Assets not recognised in the Balance Sheet

In addition to the assets recognised in the Balance Sheet and disclosed in the above table, the Council holds a number of assets which are by their nature heritage assets but are not recognised in the Balance Sheet. The Council does not consider that reliable cost or valuation information can be obtained for these assets due to the nature of the assets and the lack of market values. Examples of this type of asset are ancient structures and ruins, War memorials and public art. These are listed below.

| **Scheduled Ancient Monuments** | |
|---|---|
| St Paul in the Bail | Walls & Well |
| Saltergate Roman Wall and Posterngate | Wall & Gate |
| Mint Wall, West Bight | Wall |
| Pottergate | Arch |
| Lower West Gate & Wall, City Hall | Gate & Wall |
| St Marys Conduit | Conduit |
| Temple Gardens, Close Wall | Wall |
| Roman Wall, Mary Sookias House, Cecil street | Wall |

| **Memorials** | |
|---|---|
| High Street | War memorial |
| Dixon Street | War memorial |
| Birchwood Avenue | War memorial |
| Newark Road/Maple Street | War memorial |

**Public Art**

| | |
|---|---|
| **Scheduled Ancient Monuments** | |
| The Chimes, Brayford Wharf North | Artwork |
| Empowerment, Waterside | Artwork |
| Exotic Cone I and II | Artwork |
| Lilies, Altham Terrace | Artwork |
| Lion, Arboretum | Artwork |
| Love Seat, The Lawn | Artwork |
| Dr Charlesworth Statue, The Lawn | Artwork |
| Mother and Child, The Lawn | Artwork |
| St Marks Obelisk | Artwork |
| Light Sculpture, Wigford Bridge | Artwork |

## Note 16 – Investment Properties and Surplus Assets

Movements in the value of Investment Properties are shown in note 14.

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

| 2016/17* £'000 | | 2017/18 £'000 |
|---|---|---|
| 916 | Rental income from investment property | 1,012 |
| (185) | Direct operating expenses arising from investment property | (180) |
| **731** | **Net gain/(loss)** | **832** |

*Restated to be comparable with 2017/18

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

The movements in the value of investment properties are analysed below:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **9,664** | **Balance at 1 April** | **8,519** |
| 0 | Additions | 6,965 |
| (1,226) | Disposals | 0 |
| 776 | Net gain/loss from Fair Value Adjustment | (248) |
| (695) | Transfers (to)/from Other Land and Buildings | 988 |
| **8,519** | **Balance at 31 March** | **16,224** |

**Fair Value Hierarchy**

The Council's Investment Properties have been assessed as being Level 2 on the Fair Value Hierarchy (See Note 1 Accounting Policies, point 20 for an explanation of fair value levels).

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

An income-investment approach has been used to determine the fair value of Investment Properties. This technique involves an assessment of potential future net incomes flowing from the property. In the case of the majority of properties that are currently let, this reflects terms of the existing lease including passing rents and any scheduled rent reviews and, if later, ultimate reversion to full market rental value. In the case of properties that are currently vacant, it is assumed that a letting is immediately sought at full market rental value and otherwise on optimum letting terms from the perspective of a market participant. Potential future net income flows are then capitalised using market all-risks term and reversionary yields to derive a present value, thus representing Market Value.

There has been no change in the valuation techniques used during the year for Investment Properties.

**Highest and Best Use of Investment Properties**
In estimating the fair value of the Council's investment properties, the highest and best use of the properties is deemed to be their current use.

**Valuers**
The Investment Properties that were valued at 31 March 2018 were valued in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

**Surplus Assets**

Movements in the value of Surplus Assets are shown in note 14.

The current value measurement base for surplus assets is fair value, estimated at highest and best use from a market participant's perspective. There have been no transfers between the levels of the hierarchy during the year. A transfer would occur when more detailed market information becomes available.

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

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

The Council's surplus assets are all valued using level three inputs due to their latent value or specialist nature.

## Note 17 – Intangible Assets

Movements in the value of Intangible Assets are shown in note 14. No internally generated intangible assets are recognised in the Balance Sheet. The carrying amount of intangible assets is amortised on a straight-line basis. Amortisation of £212k was charged to service headings in the Cost of Services.

## Note 18 – Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

| | Long-Term | | Current | |
|---|---|---|---|---|
| | 31-Mar-17 | 31-Mar-18 | 31-Mar-17 | 31-Mar-18 |
| | £000 | £000 | £000 | £000 |
| **Borrowings** | | | | |
| Financial Liabilities at Amortised Cost * | (75,354) | (77,354) | (1,376) | (5,135) |
| **Total Borrowings** | **(75,354)** | **(77,354)** | **(1,376)** | **(5,135)** |
| **Creditors** | | | | |
| Financial liabilities at amortised cost | (576) | (342) | (8,593) | (8,567) |
| **Total Creditors** | **(576)** | **(342)** | **(8,593)** | **(8,567)** |
| **Investments** | | | | |
| Loans and Receivables | 0 | 0 | 20,823 | 15,615 |
| Available-for-Sale Financial Assets | 416 | 473 | 0 | 0 |
| **Total Investments** | **416** | **473** | **20,823** | **15,615** |
| **Debtors** | | | | |
| Loans and receivables ** | 141 | 133 | 13,581 | 7,304 |
| **Total included in Debtors** | **141** | **133** | **13,581** | **7,304** |
| **Cash and Cash equivalents** | | | | |
| Financial liabilities at amortised cost | 0 | 0 | 0 | 0 |
| Loans and receivables | 0 | 0 | 240 | 875 |
| **Total Cash and cash equivalents** | **0** | **0** | **240** | **875** |

* The Financial Liabilities include the loans that the Council holds for some small local charities (£0.030m) and Bonds (£0.003m)
** The amount shown for Short-term Debtors is net of the Bad Debt Provision for Debtors.

Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

## Financial Instrument Gains/Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

| 2017/18 | Financial Liabilities | Financial Assets | | | Total |
|---|---|---|---|---|---|
| | Amortised cost | Loans and Receivables | Available-for-Sale Assets | Fair Value through the CIES | |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Comprehensive Income & Expenditure Statement** | | | | | |
| Interest Expense | 3,195 | 0 | 0 | 0 | 3,195 |
| **Interest payable and similar charges** | **3,195** | **0** | **0** | **0** | **3,195** |
| Interest Income | 0 | (110) | (22) | 0 | (132) |
| **Interest and investment income** | **0** | **(110)** | **(22)** | **0** | **(132)** |
| **Surplus or deficit arising on revaluation of financial assets in other Comprehensive Income & Expenditure** | **0** | **0** | **(58)** | **0** | **(58)** |
| **Net (gain)/loss for the year** | **3,195** | **(110)** | **(80)** | **0** | **3,005** |

| 2016/17 | Financial Liabilities | | Financial Assets | | Total |
|---|---|---|---|---|---|
| | Amortised Cost | Loans and Receivables | Available-for-Sale Assets | Fair Value through the CIES | |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Comprehensive Income & Expenditure Statement** | | | | | |
| Interest Expense | 3,203 | 0 | 0 | 0 | 3,203 |
| **Interest payable and similar charges** | **3,203** | **0** | **0** | **0** | **3,203** |
| Interest Income | 0 | (178) | (21) | 0 | (199) |
| **Interest and investment income** | **0** | **(178)** | **(21)** | **0** | **(199)** |
| **Surplus or deficit arising on revaluation of financial assets in other Comprehensive Income & Expenditure** | **0** | **0** | **3** | **0** | **3** |
| **Net (gain)/loss for the year** | **3,203** | **(178)** | **(18)** | **0** | **3,007** |

## Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the Public Works Loan Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For 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, or is a trade or other receivable, the fair value is taken to be the carrying amount outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

**Financial Liabilities**

| 31/03/17 | | | 31/03/18 | |
|---|---|---|---|---|
| Carrying Amount | Fair Value | | Carrying Amount | Fair Value |
| £'000 | £'000 | | £'000 | £'000 |
| 59,956 | 72,727 | PWLB Debt | 59,956 | 71,653 |
| 16,176 | 26,821 | Money Market Debt | 16,175 | 26,345 |
| 565 | 561 | Stock | 565 | 561 |
| 34 | 34 | Other | 5,762 | 5,900 |
| 76,731 | 100,143 | **Total Debt** | 82,458 | 104,459 |

The Council has £561,000 of listed debt. This stock has not been traded in recent years. Due to this debt being immaterial and the lack of market activity its fair value has been assessed to be its 'par' (or face) value.

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This is to be expected given that the current rates of interest are at a historically low level.

**Financial Assets**

| 31/03/17 | | | 31/03/18 | |
|---|---|---|---|---|
| Carrying Amount | Fair Value | | Carrying Amount | Fair Value |
| £'000 | £'000 | | £'000 | £'000 |
| 20,823 | 20,823 | Money Market Investments <1 year | 15,600 | 15,615 |
| 0 | 0 | Money Market Investments >1 year | 0 | 0 |
| **20,823** | **20,823** | **Total Investments** | **15,600** | **15,615** |

The differences are attributable to fixed interest instruments payable being held by the Council, whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial assets and raises the value of loans and receivables.

The fair value of Public Works Loan Board (PWLB) loans of £71.653m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets, termed the PWLB Certainty Interest rates. A supplementary measure of the fair value as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £59.956m would be valued at £71.653m. But, if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £83.35m.

Trade debtors and creditors are carried at cost as this is a fair approximation of their value.

## Note 19 – Inventories

In undertaking its work the Council holds reserves of inventories together with amounts of uncompleted work (work in progress). The figure shown in the Balance Sheet may be subdivided as follows:

| | Consumable Stores | | City Maintenance Services Materials | | City Maintenance Services Work in Progress | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2016/17 £'000 | 2017/18 £'000 | 2016/17 £'000 | 2017/18 £'000 | 2016/17 £'000 | 2017/18 £'000 | 2016/17 £'000 | 2017/18 £'000 |
| **Balance outstanding at the start of the year** | **69** | **91** | **70** | **59** | **194** | **173** | **333** | **324** |
| Purchases | 31 | 14 | 0 | 0 | 0 | 0 | 31 | 14 |
| Recognised as an expense in the year | (9) | (33) | (11) | (54) | (20) | (30) | (40) | (118) |
| **Balance outstanding at the year-end** | **91** | **72** | **59** | **5** | **174** | **142** | **324** | **220** |

## Note 20 – Debtors

Debtors listed under current assets are monies due which the Council expects to collect within one year of the Balance Sheet date and are analysed as follows:

| 31/03/17 £'000 | | 31/03/18 |
|---|---|---|
| 9,803 | Central Government Bodies | 1,518 |
| 1,716 | Other Local Authorities | 1,789 |
| 2 | NHS Bodies | 1 |
| 10,146 | Other Entities and Individuals | 10,696 |
| **21,667** | **Total** | **14,004** |

Debtors balances are shown gross of impairment of doubtful debts (£3.762m in 2017/18, £3.693m in 2016/17).

## Note 21 – Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

| 31/03/17 £'000 | | 31/03/18 £'000 |
|---|---|---|
| 1 | Cash held by the Council | 1 |
| 240 | Bank Current accounts | 875 |
| **241** | | **876** |

## Note 22 – Assets Held for Sale

The Authority had 2 pieces of development land as assets held for sale at the beginning of the year. One was sold during the year. The Authority also purchased and sold the Ermine School site during the year.  At the end of the year, the authority held 5 pieces of development land as assets held for sale. The sales have been approved but were not completed as at 31st March 2018. These assets are included as Current Assets as at 31st March 2018.

| Current 2016/17 £000 | Non-current 2016/17 £000 | | Current 2017/18 £000 | Non-current 2017/18 £000 |
|---|---|---|---|---|
| 550 | 0 | Balance at start of the year | 2,525 | 0 |
| 0 | 0 | Additions | 769 | 0 |
| | | Newly classified: | | |
| 3,141 | 0 | - Property Plant & Equipment | 1,543 | 0 |
| 334 | 0 | Revaluation gain/(loss) | 1,531 | 0 |
| 0 | 0 | Transfers from non-current to current | 0 | 0 |
| (1,500) | 0 | Disposals | (1,794) | 0 |
| **2,525** | **0** | **Closing Balance** | **4,575** | **0** |

## Note 23 – Creditors

Creditors shown as current liabilities are amounts payable by the Council within one year of the Balance Sheet date and are analysed as follows:

| 31/03/17 £'000 | | 31/03/18 £'000 |
|---|---|---|
| (4,691) | Central Government Bodies | (6,134) |
| (361) | Other Local Authorities | (246) |
| (8,324) | Other Entities and Individuals | (8,985) |
| **(13,376)** | **Total** | **(15,365)** |

## Note 24 – Provisions

These amounts are set aside to provide for potential liabilities relating to specific occurrences and comprise the following balances:

| | Licensing Legal Case £'000 | Business Rates RV Reduction the Think Tank £'000 | Compulsory Purchase Order £'000 | Local Authority Mortgage Scheme £'000 | Redundancy Provision £'000 | Business Rates Appeals £'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 April 2017** | **(10)** | **(37)** | **(85)** | **0** | **(143)** | **(3,314)** |
| Additional Provisions made in 2017/18 | 0 | 0 | (2) | (14) | 0 | (968) |
| Amounts used in 2017/18 | 0 | 0 | 0 | 0 | 143 | 421 |
| Unused Amounts Reversed in 2017/18 | 0 | 0 | 0 | 0 | 0 | 804 |
| Unwinding of Discounting in 2017/18 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Balance at 31 March 2018** | **(10)** | **(37)** | **(87)** | **(14)** | **0** | **(3,057)** |

The provision for business rate appeals represents the Council's share (40% of £7.639m) of the total provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2018. The total provision is accounted for in the Collection Fund. The amount and timing of outflows against the Business Rates Appeals provision is dependent on the processing and determination of business rates appeals by the Valuation Office.

## Note 25 – Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 10.

## Note 26 – Unusable Reserves

The Council keeps a number of unusable reserves in the Balance Sheet. Some are required to be held for statutory reasons; some are needed to comply with proper accounting practice.

| Reserve | Balance 31/03/17 | Net Movement in Year | Balance 31/03/18 | Purpose of Reserve | Further Details of Movements |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | | |
| Revaluation Reserve | 22,722 | (576) | 22,146 | Store of gains on revaluation of fixed assets | a) below |
| Pensions Reserve | (85,521) | (337) | (85,858) | Balancing account to allow inclusion of Pensions Liability in the Balance Sheet | Note 44 to the financial statements |
| Capital Adjustment Account | 219,273 | 9,538 | 228,811 | Store of capital resources set aside to meet past expenditure | b) below |
| Deferred Capital Receipts | 57 | 0 | 57 | Expected future repayments from sales of assets received in instalments | c) below |
| Financial Instruments Adjustment Account | (60) | 2 | (58) | Balancing mechanism between the rates at which gains and losses are recognised under the Code of Practice | d) below |
| Available-for-Sale Financial Instruments Account | 400 | 58 | 458 | Store of gains on revaluation of investments not yet realised through sales | e) below |
| Collection Fund Adjustment Account – Council Tax | 52 | (7) | 45 | Store of Council's share of accumulated surpluses and deficits in relation to Council Tax on the Collection Fund | f) below |
| Collection Fund Adjustment Account - NNDR | (1,309) | 1,606 | 297 | Store of Council's share of accumulated surpluses and deficits in relation to NNDR on the Collection Fund | f) below |

| Reserve | Balance 31/03/17 | Net Movement in Year | Balance 31/03/18 | Purpose of Reserve | Further Details of Movements |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | | |
| Accumulated Absences Account | (425) | (10) | (435) | Absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year (i.e. annual leave entitlement carried forward at 31 March | g) below |
| | **155,189** | **33,340** | **165,463** | | |

## a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created.

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **(23,092)** | **Balance 1 April** | **(22,722)** |
| (4,329) | Upward Revaluation of assets | (1,603) |
| 1,733 | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services | 545 |
| (2,596) | Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | (1,058) |
| 230 | Difference between fair value depreciation and historical cost depreciation | 410 |
| 2661 | Accumulated gains on assets sold or scrapped | 1,117 |
| 75 | Amounts written out to the Capital Adjustment Account | 107 |
| **(22,722)** | **Balance 31 March** | **(22,146)** |

## 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 Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties, *gains and losses on Assets held for Sale* and gains recognised on donated assets that have yet to be consumed by the Council.

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

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

| **2016/17 £'000** | | **2017/18 £'000** |
|---|---|---|
| **(165,968)** | **Balance 1 April** | **(219,273)** |
| | **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:** | |
| 12,588 | Charges for depreciation and amortisation of non-current assets | 12,207 |
| (51,414) | Revaluation (gains)/losses and impairments on Property, Plant and Equipment | (11,012) |
| 3,011 | Revenue expenditure funded from capital under statute | 4,612 |
| 0 | Assets under construction written off to revenue | 7 |
| 11,391 | 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 | 3,098 |
| 0 | Other adjustments | 68 |
| **(24,424)** | | **8,980** |
| (2,966) | Adjusting amounts written out of the Revaluation Reserve | (518) |
| **(27,391)** | Net written out amount of the cost of non-current assets consumed in the year | **8,462** |
| | **Capital Financing applied in year:** | |
| (16,066) | Use of Capital Receipts to finance new capital expenditure | (4,674) |
| 0 | Use of Capital Receipts to reduce capital financing requirement | (150) |

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| (8,024) | Use of the Major Repairs Reserve to finance new capital expenditure | (9,184) |
| (458) | Capital expenditure charged against the General Fund and HRA balances | (492) |
| (323) | Application of Capital Grants to finance new capital expenditure | (3,016) |
| (1,044) | Statutory Provision for the financing of capital investment charged against the General Fund and HRA balances (MRP/VRP) | (484) |
| **(25,915)** | | **(18,000)** |
| **(219,273)** | **Balance 31 March** | **(228,811)** |

## c) Deferred Capital Receipts

This account contains the expected future repayments of capital from sales of assets which will be received in instalments over an agreed period of time. They arise principally from mortgages on sold council houses. When made, these payments are regarded as being of a capital nature and transactions during the year were as follows:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **(57)** | **Balance 1 April** | **(57)** |
| 0 | Council's share of (surplus)/deficit for the year | 0 |
| **(57)** | **Balance 31 March** | **(57)** |

## d) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account provides a balancing mechanism between the rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the Code of Practice and are required by statute to be met from the General Fund and HRA balances.

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **62** | **Balance 1 April** | **60** |
| 0 | Proportion of discounts incurred in previous financial years to be credited to the General Fund Balance in accordance with statutory requirements | 0 |
| (2) | Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | (2) |
| **60** | **Balance 31 March** | **58** |

**e) Available-for-Sale Financial Instruments Account**

The Available-for-Sale Financial Instruments Account contains the gains and losses arising from movements in fair value of Available-for-Sale investments, which are recognised in the Comprehensive Income and Expenditure Statement.

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **(403)** | **Balance 1 April** | **(400)** |
| 3 | (Gain)/Loss on revaluations in year | (58) |
| **(400)** | **Balance 31 March** | **(458)** |

**f) Collection Fund Adjustment Account – Council Tax**

The Council Tax Adjustment Account was introduced on 1 April 2009 to comply with the new accounting requirements for the Collection Fund contained within the Statement of Recommended Practice 2009/10 (SORP 2009). The difference between accrued income for the year as shown in the Income and Expenditure Account and the amount required to be credited to the General Fund is taken to the Collection Fund Adjustment Account. The balance on the account represents the Council's share of the accumulated surpluses and deficits on the Collection Fund at the Balance Sheet date.

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **(139)** | **Balance 1 April** | **(52)** |
| 87 | 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 | 7 |
| **(52)** | **Balance 31 March** | **(45)** |

**f) Collection Fund Adjustment Account – NNDR**

The NNDR Adjustment Account was introduced on 1 April 2013 to comply with the new regime for the collection of Business Rates and the resulting accounting requirements. The difference between accrued income for the year as shown in the Comprehensive Income and Expenditure Statement and the amount required to be credited to the General Fund is taken to the Collection Fund Adjustment Account. The balance on the account represents the Council's share of the accumulated surpluses and deficits on the Collection Fund at the Balance Sheet date.

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **1,872** | **Balance 1 April** | **1,309** |
| (563) | Amount by which council non-domestic rates credited to the Comprehensive Income and Expenditure Statement is different from non-domestic rates income calculated for the year in accordance with statutory requirements | (1,606) |
| **1,309** | **Balance 31 March** | **(297)** |

## g) Accumulated Absences Account

The Accumulated Absences Account absorbs differences that would otherwise arise on the General Fund and HRA Balance from accruing for compensated absences earned but not taken in year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on General Fund and HRA Balance is neutralised by transfers to or from this account.

| 2016/17 £'000 | | | | 2017/18 £'000 |
|---|---|---|---|---|
| **444** | | **Balance 1 April** | | **425** |
| | (444) | Settlement or cancellation of accrual made at the end of the preceding year | (425) | |
| | 425 | Amounts accrued at the end of the current year | 436 | |
| (19) | | Amount by which officer remuneration charged in the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | | 11 |
| **425** | | **Balance 31 March** | | **435** |

## Note 27 – Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 219 | Interest received | 156 |
| (1,861) | Interest paid | (3,118) |

## Note 28 – Cash Flow Statement – Adjustment to surplus or deficit on provision of services for non-cash movements

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 12,486 | Depreciation | 12,112 |
| (51,414) | Impairment and downward valuations | (9,895) |
| 102 | Amortisation | 96 |
| 0 | Increase/(decrease) in impairment for bad debts | 0 |
| (1,159) | Increase/(decrease) in creditors | 294 |
| (2,082) | (Increase)/decrease in debtors | 1,499 |
| 9 | (Increase)/decrease in inventories | 104 |
| 2,134 | Movement in pension liability | 4,019 |
| 11,391 | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | 3,098 |
| 1,994 | Other non-cash items charged to the net surplus or deficit on the provision of services | (326) |
| **(26,539)** | | **11,001** |

## Note 29 – Cash Flow Statement – Adjustment to surplus or deficit on the provision of services for items that are investing & financing activities

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| (6,781) | Proceeds from sale of PPE, investment property and intangible assets | (4,671) |
| (13,547) | Any other items for which the cash effects are investing or financing cash flows | (3,002) |
| **(20,328)** | | **(7,673)** |

## Note 30 – Cash Flow Statement - Investing Activities

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| (25,348) | Purchase of property, plant and equipment, investment property and intangible assets | (34,866) |
| (17,760) | Purchase of short-term and long-term investments | (15,600) |
| (1) | Other payments for investing activities | 0 |
| 6,781 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 4,671 |
| 18,955 | Proceeds from short-term and long-term investments | 20,760 |
| 6,352 | Other receipts from investing activities | 9,375 |
| **(11,021)** | **Net cash flows from investing activities** | **(15,660)** |

## Note 31 – Cash Flow Statement - Financing Activities

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| (204) | Cash payments for the reduction of outstanding liabilities relating to finance leases | (506) |
| 0 | Cash receipts of short & long-term borrowing | 5,750 |
| (3) | Repayments of short- and long-term borrowing | 0 |
| 1,899 | Other payments for financing activities | 1,509 |
| **1,692** | **Net cash flows from financing activities** | **6,753** |

## Note 32 – Trading Operations

The Council operates a Housing Repairs Service (HRS), which carries out day to day maintenance on council housing and other public buildings as well as environmental works, street furniture etc. The Council also owns and manages a fruit, vegetable and retail market situated within the City Centre and also operates and manages a bus station and several car parks located throughout the city. It also manages a number of industrial estates and commercial properties.

| 2016/17 | | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| **Exp. £'000** | **Inc. £'000** | **Net £'000** | | **Exp. £'000** | **Inc. £'000** | **Net £'000** |
| 187 | (254) | (67) | Markets | 171 | (251) | (79) |
| 1,636 | (3,812) | (2,176) | Car Parks | 1,581 | (3,852) | (2,271) |
| **1,823** | **(4,066)** | **(2,243)** | **(Surplus)/Deficit applicable to a service** | **1,752** | **(4,103)** | **(2,350)** |
| 6,700 | (6,815) | (115) | HRS | 7,218 | (6,969) | 249 |
| 98 | (104) | (6) | City Bus Station | 110 | (112) | (2) |
| 118* | (407) | (288) | Industrial Estates | 96 | (402) | (307) |
| 67* | (530) | (463) | Lincoln Properties | 85 | (676) | (591) |
| **6,983** | **(7,856)** | **(872)** | **(Surplus)/Deficit not applicable to a service** | **7,509** | **(8,159)** | **(651)** |
| **8,806** | **(11,922)** | **(3,115)** | **Total (Surplus)/Deficit** | **9,261** | **(12,262)** | **(3,001)** |

*Restated to be Comparable with 2017/18 Figures

## Note 33 – Agency Services

In accordance with the Code, the collection and distribution of National Non-Domestic Rates (NNDR) and Council Tax is deemed to be an agency arrangement. The costs of collection of NNDR and the surplus or deficit on the Collection Fund for the year, are shown in the Collection Fund Statement.

## Note 34 – Members' Allowances

The Local Authorities (Members' Allowances)(Amendment) Regulations 1995 requires local authorities to publish the amounts paid to members under the members' allowance scheme.

The payments made to the City of Lincoln Council members during 2017/18 totalled £227,047 (£220,099 in 2016/17).

Payments are defined as:
i. Basic Allowance
ii. Special Responsibility Allowance.

## Note 35 – Officers' Remuneration

The Accounts and Audit Regulations 2012 require the Council to disclose remuneration paid to senior employees.

For the purposes of the regulation senior employees are persons whose salary is in excess of £150,000 per year or whose salary is £50,000 or more and are deemed to have responsibility for the management of the Council to the extent that they have the power to direct or control the major activities. The remuneration paid to the Council's senior employees is as follows:

**Officers' Emoluments – Senior Employees**

| 2017/18 | | | | | | |
|---|---|---|---|---|---|---|
| **Post Title** | **Salary** | **Bonuses** | **Expense Allowances** | **Compen-sation for loss of office** | **Pension Contributions** | **Total** |
| | £ | £ | £ | £ | £ | £ |
| Chief Executive[1] | 118,487 | 0 | 296 | 0 | 18,620 | 137,403 |
| Strategic Director of Housing & Regeneration | 91,221 | 0 | 235 | 0 | 14,595 | 106,051 |
| Strategic Director of Communities & Environment | 80,957 | 0 | 348 | 0 | 12,893 | 94,198 |
| Strategic Director of Major Developments | 79,758 | 0 | 0 | 0 | 12,761 | 92,519 |
| **Total** | **370,423** | **0** | **878** | **0** | **58,870** | **430,171** |

1) The salary costs for the Chief Executive include £5.8k relating to election expenses in 2017/18.

| 2016/17 | | | | | | |
|---|---|---|---|---|---|---|
| **Post Title** | **Salary** | **Bonuses** | **Expense Allowances** | **Compen-sation for loss of office** | **Pension Contributions** | **Total** |
| | £ | £ | £ | £ | £ | £ |
| Chief Executive[1] | 125,176 | 0 | 248 | 0 | 18,903 | 144,327 |
| Strategic Director of Housing & Regeneration[2] | 90,401 | 0 | 869 | 0 | 15,278 | 106,548 |
| Strategic Director of Communities & Environment[2] | 37,266 | 0 | 0 | 0 | 5,917 | 43,183 |
| Strategic Director of Communities & Environment[3] | 47,379 | 0 | 141 | 0 | 7,865 | 55,385 |
| Strategic Director for Major Developments[4] | 32,240 | 0 | 0 | 0 | 5,449 | 37,689 |
| **Total** | **332,462** | **0** | **1,258** | **0** | **53,412** | **387,132** |

1) The salary costs for the Chief Executive include £17.4k relating to election expenses in 2016/17.

2) The outgoing Director of Communities & Environment resigned with effect from 21st August 2016.
3) The incoming Director of Communities & Environment was appointed with effect from 22nd August 2016.
4) The post of Director of Major Developments is a new post that was created during 2016/17 and the post holder was appointed on 1st November 2016.

The numbers of other Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid as follows:

| **Remuneration Band** | **Number of Employees** | |
|---|---|---|
| **£** | **2017/18** | **2016/17** |
| 50,000 - 54,999 | 5 | 2 |
| 55,000 - 59,999 | 2 | 2 |
| 60,000 - 64,999 | 3 | 3 |
| 65,000 – 69,999 | 1 | 0 |
| 70,000 – 74,999 | 1 | 1 |
| 75,000 – 79,999 | 0 | 1 |
| 80,000 – 84,999 | 0 | 0 |
| 85,000 – 89,999 | 0 | 0 |
| 90,000 – 94,999 | 0 | 0 |
| 95,000 – 99,999 | 0 | 0 |
| 100,000 – 104,999 | 0 | 0 |
| 105,000 – 109,999 | 0 | 0 |
| 110,000 – 114,999 | 0 | 0 |
| 115,000 – 119,999 | 0 | 2 |

The figure above for 2017/18 includes no employees for whom an exit package was agreed, compared to 2 in 2016/17.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the following table:

| **Exit package cost band (including special payments)** | **Number of compulsory redundancies** | | **Number of other departures agreed** | | **Total number of exit packages by cost band [b + c]** | | **Total cost of exit packages in each band** | |
|---|---|---|---|---|---|---|---|---|
| | **2016/17** | **2017/18** | **2016/17** | **2017/18** | **2016/17** | **2017/18** | **2016/17** | **2017/18** |
| | | | | | | | **£** | **£** |
| £0 - £20,000 | 2 | 2 | 0 | 1 | 2 | 3 | 10,830 | 11,392 |
| £20,001 - £40,000 | 1 | 0 | 0 | 0 | 1 | 0 | 27,394 | 0 |
| £40,001 - £60,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £60,001 - £80,000 | 2 | 1 | 0 | 0 | 2 | 1 | 143,238 | 71,366 |
| £80,001 - £100,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £100,000 - £150,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total cost included in | | | | | | | 181,462 | 82,758 |

| Exit package cost band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band [b + c] | | Total cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| | **2016/17** | **2017/18** | **2016/17** | **2017/18** | **2016/17** | **2017/18** | **2016/17** | **2017/18** |
| | | | | | | | **£** | **£** |
| bandings | | | | | | | | |
| Add: Amounts provided for in CIES not included in bandings | | | | | | | 0 | 0 |
| **Total cost included in CIES** | | | | | | | **181,462** | **82,758** |

None of the exit packages shown in the table above related to senior employees.

## Note 36 – External Audit Costs

In 2017/18 the following fees relating to External Audit and Inspection were incurred and paid to KPMG LLP, the Council's external auditors:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| | **<u>Fees payable for statutory audit services</u>** | |
| 47 | Fees Payable with regard to external audit services carried out by the appointed auditor | 47 |
| 9 | Fees payable for the certification of grant claims and returns | 11 |
| **56** | | **58** |
| | **Fees payable for other audit services** | |
| 3 | Fees payable with regard to other audit work | 3 |
| **59** | **Total fee payable to external auditors** | **61** |

The fees relating to grant claims can vary from year to year depending on the number of claims to be audited. The figure for 2017/18 is an estimate, as the work will be carried out in the period August to December 2018.

## Note 37 – Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

| 2016/17 £'000 | Credited to Taxation and Non Specific Grant Income | 2017/18 £'000 |
|---|---|---|
| (1,698) | Revenue Support Grant | (981) |
| (2,285) | New Homes Bonus | (1,655) |
| (328) | Disabled Facilities Grants | (670) |
| 0 | Section 106 agreement | (263) |
| 0 | North Kesteven District Council | (68) |
| (263) | Heritage Lottery Fund | (226) |
| (550) | Decent Homes Contract – Profit Share | (63) |
| (11,577) | Lincolnshire County Council | (1,423) |
| (8) | Transparency Code Setup Grant | (8) |
| (86) | Leaseholder Contributions | (110) |
| (697) | Department of Work and Pensions – City Hall works | 0 |
| (0) | Waterloo Housing | (117) |
| (46) | Other Capital Grants and Contributions | (61) |
| **(17,538)** | | **(5,646)** |

| 2016/17 £'000 | Credited to Services | 2017/18 £'000 |
|---|---|---|
| (16,592) | Rent Allowances | (15,720) |
| (16,334) | Rent Rebates | (15,597) |
| (174) | Discretionary Housing Payments | (223) |
| (477) | Housing Benefit Administration | (437) |
| (153) | New Burdens Grant Determination | (147) |
| 0 | DCLG – Rogue Landlords | (221) |
| 0 | English Heritage | (10) |
| (158) | Local Council Tax Support Admin Subsidy | (152) |
| (134) | Home Office | (106) |
| (29) | Arts Council | (7) |
| (224) | HCA | 0 |
| 0 | Homeless Specific | (173) |
| (18) | Other Grants | (39) |
| **(34,293)** | **Total** | **(32,832)** |

There were no grants received in advance in 2017/18.

## Note 38 – Related Parties

It is a requirement for the Council to disclose any transactions with a related party, including non-financial transactions. A 'related party' is defined as being an organisation with which the Council has dealings and where Officers or Members of the Council have a controlling interest or influence in the activities of that organisation. The code requires local authorities to disclose material transactions with 'related parties'. The disclosure is required in order that the true and fairness of the accounts can be understood by the reader of the accounts having knowledge of any 'related parties' of the Council.

**Members/Officers** - For 2017/18 the Council sent a letter, dated 1 April 2018, to all Members, Chief Officers and Assistant Directors, requesting disclosure of any 'related party transactions'. All letters were returned, no Members or Officers declared pecuniary interests in accordance with section 117 of the Local Government Act 1972.

In addition, the table below details both Member and Officer representation on the boards of levying bodies, assisted organisations with which the Council makes material financial assistance and Joint Ventures.

| Name of Organisation | Member Representative | Officer Representative |
|---|---|---|
| Upper Witham – Drainage Board | Cllr Speakman<br>Cllr Hewson<br>Cllr Vaughan<br>Cllr Gowen | Chief Executive |
| Witham First – Drainage Board | Cllr Hewson<br>Cllr Vaughan | Chief Executive |
| Witham Third – Drainage Board | Cllr Hewson<br>Cllr Vaughan | Chief Executive |
| Lincoln Arts Trust | Cllr Murray | Director of Communities & Environment |
| Lincoln Dial-a-Ride/ Shopmobility | Cllr Clayton-Hewson | Chief Executive |
| Lincoln Citizens Advice Bureau | Cllr Brothwell | Chief Executive |
| Investors in Lincoln | Cllr Metcalfe<br>Cllr Murray | Director of Communities & Environment |
| Lincoln Business Improvement Group | Cllr Metcalfe<br>Cllr Nannestad | N/A |
| Central Lincolnshire Joint Strategic Planning Partnership | Cllr Metcalfe<br>Cllr Burke<br>Cllr Hanrahan | Director of Communities & Environment |
| The Shared Revenues & Benefits Joint Committee | Cllr Metcalfe<br>Cllr Nannestad | Chief Executive |

None of the above Members or Officers took part in the decision making of any financial assistance awarded to any of the organisations.

**UK Central Government** - has significant influence 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. housing benefits).

Details of transactions with government departments are set out in note 37.

**Other Bodies** - transactions with other bodies levying demands on the Council Tax - Levying bodies in 2017/18 were as follows:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 417 | Upper Witham Drainage Board | 424 |
| 129 | Witham 1st Drainage Board | 129 |
| 249 | Witham 3rd Drainage Board | 250 |
| **795** | **Total** | **803** |

**Assisted Organisations** - the Council made material financial assistance to the following organisations during the year:-

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 246 | Lincoln Arts Trust | 231 |
| 52 | Lincoln Dial-a-Ride | 52 |
| 54 | Citizens Advice Bureau | 55 |
| 32 | Lincoln Shopmobility | 32 |

**Collaborative Agreements** – The Council holds 6.3% (£14,000) of the ordinary share capital of £224,000 of Investors in Lincoln Ltd (IIL).

The principal activity of the company is the promotion of economic regeneration and the development and expansion of industry, commerce and enterprise of all forms for the benefit of the community in and around the City of Lincoln. Investors in Lincoln Ltd grants the Council the sole and exclusive right to licence and manage its managed workspace development at Greetwell Place.

The company's accounting year-end is 31st March and the latest (audited) accounts are for the year ended 31st March 2017, showing net assets of £3.767m and a profit of £168,204 before taxation, £124,599 profit after tax (£133,845 before tax and £108,277 profit after tax in 2015/16).

The Council is fully responsible for meeting the first £100,000 of any cumulative deficit on operating the managed workspace units. In the event that the cumulative deficiency exceeds £100,000 the Council shall meet 75% of the deficiency. In 2017/18 a surplus on the managed workspace units of £5,343 was attributable to the Council.

Details of amounts received from IIL during 2017/18 are shown below:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 124 | Property Management costs | 133 |
| 90 | Facility Fee | 90 |
| 7 | Management Fee | 5 |

An amount of £22,153 was owed to IIL at 31st March 2018 in respect of property management costs, facility fees and management fees. This is included in the creditors balance in the Council's Balance Sheet.

The accounts of the company may be obtained from The Company Secretary, 5 Beck Hall, Welton, LN2 3LJ.

**Collaborative Agreements** - The Council has a collaborative arrangement with North Kesteven and West Lindsey District Councils to provide the Central Lincolnshire Joint Planning Unit. This arrangement is hosted by North Kesteven District Council. The Council also has a collaborative arrangement with North Kesteven to provide a shared Revenues and Benefits Service. This shared service is hosted by the City of Lincoln Council. Both of these arrangements are governed through a Joint Committee representing each of the partner authorities. These arrangements are considered as Jointly Controlled Operations, where ventures use their own resources to undertake an activity subject to joint control, and as such do not require consolidation into the Council's accounts. The Council's proportion of activity is accounted for separately within the Core Financial Statements.

## Note 39 – Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR). The CFR is a measure of the capital expenditure incurred historically that has yet to be financed. The CFR is analysed in the second part of this note.

Total Capital expenditure and financing during the year:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| | **Capital investment** | |
| 24,873 | Property, Plant and Equipment | 35,038 |
| 65 | Intangible Assets | 155 |
| 3,011 | Revenue Expenditure Funded from Capital under Statute | 4,612 |
| **27,949** | | **39,805** |

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| | **Sources of finance** | |
| (2,708) | Capital Receipts | (4,674) |

| | | |
|---|---|---|
| (13,681) | Government grants and other contributions | (3,016) |
| (458) | Revenue Contributions | (486) |
| (8,023) | Major Repairs Reserve | (9,190) |
| **3,079** | **Capital Financing Requirement** | **22,439** |
| | **Capital Financing Requirement - Funded by:** | |
| 3,079 | Unsupported Borrowing | 22,439 |
| **3,079** | | **22,439** |
| | **Analysis of movements in the Capital Financing Requirement in Year:** | |
| 86,967 | Opening CFR | 88,676 |
| 3,079 | Unsupported borrowing | 22,439 |
| (326) | Adjustments in respect of leases disposed under finance lease | 0 |
| (1,044) | Minimum Revenue Provision/Voluntary Revenue Provision | (485) |
| | Application of capital receipts to reduce CFR | (150) |
| | Return of LAMS deposit | (1,000) |
| **88,676** | **Closing CFR** | **109,480** |

The Council has a five-year Housing Investment programme, of which £5.835m is contractually committed. This relates to a partnership arrangement to ensure all our properties continue to meet Decent Homes Standard and move towards achieving The Lincoln Standard.

In addition to this the Council also has a five-year General Investment Programme, of which £12.286m is contractually committed. £11.540m of this relates to a land and property acquisition in 2018/19 with the remainder to allow completion of the schemes for the Transformation of Birchwood Leisure Centre (£0.134m), Allotment Capital Improvement Programme (£0.166m) and Lincoln Transport HUB (£0.446m).

## Note 40 – Leases

### Council as Lessee

### Finance Leases

The Council holds fleet vehicles under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following amounts:

| 31/03/17 £'000 | | 31/03/18 £'000 |
|---|---|---|
| 766 | Vehicles, Plant and Equipment | 575 |
| **766** | | **575** |

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property acquired and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| 31/03/17 £'000 | | 31/03/18 £'000 |
|---|---|---|
| | Finance lease liabilities (net present value of minimum lease payments) | |
| 198 | Current | 217 |
| 559 | Non-current | 342 |
| 126 | Finance costs payable in future years | 66 |
| **883** | **Minimum lease payments** | **625** |

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|---|---|---|---|
| | 31/03/17 £'000 | 31/03/18 £'000 | 31/03/17 £'000 | 31/03/18 £'000 |
| Not later than one year | 258 | 258 | 198 | 217 |
| Later than one year and not later than five years | 625 | 366 | 559 | 342 |
| Later than five years | 0 | 0 | 0 | 0 |
| | **883** | **625** | **757** | **559** |

**Operating leases**

The Council has acquired the use of a number of assets, such as vehicles and buildings, under operating leases.

The future minimum lease payments due under non-cancellable leases in future years are shown below:

| 31/03/17 £'000 | | 31/03/18 £'000 |
|---|---|---|
| 74 | Not later than one year | 8 |
| 224 | Later than one year and not later than five years | 0 |
| 0 | Later than five years | 0 |
| **298** | | **8** |

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 0 | Vehicles Plant & Equipment | 0 |
| 109 | Land and Buildings | 74 |
| **109** | **Minimum lease payments** | **74** |

### Council as Lessor

### Finance Leases

The Council has granted a long-term lease to Lincolnshire County Council for the use of The Collection (City and County Museum) accounted for as a finance lease. Rental is at a peppercorn, meaning no rentals are receivable. There was no net investment in this asset in 2017/18.

### Operating Leases

The Council leases out property under operating leases for the following purposes:

- for the provision of community services, such as sports facilities and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for income generation purposes (investment properties)

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

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 918 | Not later than one year | 893 |
| 968 | Later than one year and not later than five years | 791 |
| 2,698 | Later than five years | 2,581 |
| **4,584** | | **4,265** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as rent reviews. In 2017/18, £0.593m contingent rents were received by the Council (2016/17 £0.489m).

## Note 41 – Impairment Losses

There were no impairment losses during 2017/18.

## Note 42 – Capitalisation of Borrowing Costs

As permitted by the code, the Council has adopted a policy of accounting for borrowing costs in the Comprehensive Income and Expenditure Statement as they arise. No borrowing costs are capitalised.

## Note 43 – Termination Benefits

The Council terminated the contracts of a number of employees in 2017/18, incurring liabilities of £0.082m (£0.181m in 2016/17) – see note 35 for the number of exit packages and total cost per band. These costs exclude any ill health retirements or departures as they are not termination benefits in accordance with the requirements of the code.

## Note 44 – Defined Benefit Pension Scheme

### Participation in Pension Schemes

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

The Council participates in the Local Government Pension Scheme, administered by Lincolnshire County Council. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liability with investment assets.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Lincolnshire County Council. Policy is determined in accordance with the Pensions Fund Regulations.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

### Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to go against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income & Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| | **Comprehensive Income & Expenditure Statement** | |
| | **Net Cost of Services:** | |
| 3,493 | Current Service Cost | 5,493 |
| 5 | Past Service Costs (including curtailments) | 0 |
| | **Financing and Investment Income and Expenditure:** | |
| 2,285 | Net Interest Expense | 2,245 |
| **5,783** | **Total Post-Employment Benefits charged to the Surplus or Deficit on the Provision of Services** | **7,738** |

| 2016/17<br>£'000 | | 2017/18<br>£'000 |
|---|---|---|
| | **Re-measurement of the net defined benefit liability comprising:** | |
| (14,756) | Return on plan assets (excluding the amount included in the net interest expense) | 392 |
| (3,200) | Actuarial gains and losses arising on changes in demographic assumptions | 0 |
| 34,920 | Actuarial gains and losses arising on changes in financial assumptions | (3,956) |
| 991 | Other | (118) |
| 17,955 | **Total re-measurements recognised in Other Comprehensive Income and Expenditure** | (3,682) |
| **23,738** | **Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement** | **4,056** |

| 2016/17<br>£'000 | | 2017/18<br>£'000 |
|---|---|---|
| | **Movement in Reserves Statement** | |
| 5,783 | Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code | 7,738 |
| (3,649) | Actual amount charged against the General Fund Balance for pensions in the year: | (3,719) |

## Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

| 2016/17<br>£'000 | | 2017/18<br>£'000 |
|---|---|---|
| (215,167) | Present value of the defined obligations | (216,659) |
| 129,646 | Fair value of plan assets | 130,801 |
| **(85,521)** | **Net liability arising from defined benefit obligation** | **(85,858)** |

**Reconciliation of Movements in the fair value of the scheme assets:**

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 112,797 | Opening fair value of scheme assets | 129,646 |
| 3,914 | Interest Income | 3,345 |
| 14,756 | The return on plan assets, excluding the amount included in the net interest expense | (392) |
| 3,649 | Contributions from employer | 3,719 |
| 889 | Contributions from employees into the scheme | 876 |
| (6,359) | Benefits Paid | (6,393) |
| **129,646** | Closing Fair value of scheme assets | **130,801** |

**Reconciliation of Present Value of the scheme liabilities:**

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 178,229 | Opening balance at 1 April | 215,167 |
| 3,493 | Current Service Cost | 5,493 |
| 6,199 | Interest Cost | 5,590 |
| 889 | Contributions from scheme participants | 876 |
| | Re-measurement (gains) and losses: | |
| (3,200) | Actuarial gains/losses arising from changes in demographic assumptions | 0 |
| 34,920 | Actuarial gains/losses arising from changes in financial assumptions | (3,956) |
| 991 | Other | (118) |
| 5 | Past Service Cost | 0 |
| (6,359) | Benefits Paid | (6,393) |
| **215,167** | Closing Balance at 31 March | **216,659** |

### Local Government Pension Scheme assets comprised:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **918** | **Cash and Cash Equivalents** | **1,600** |
| | Equity Securities: | |
| | By industry type | |
| 14,576 | Consumer | 9,609 |
| 1,905 | Manufacturing | 7,437 |
| 3,361 | Energy and utilities | 3,627 |
| 8,954 | Financial Institutions | 8,995 |
| 4,991 | Information Technology | 10,175 |
| 0 | Health and Care | 5,565 |
| 10,643 | Other | 0 |
| **44,430** | **Sub-total equity** | **45,407** |
| | Debt Securities | |
| | By Sector | |
| 12,051 | Corporate | 0 |
| 4,185 | Government | 0 |
| 0 | Other | 0 |
| **16,236** | **Sub-total bonds** | **0** |
| | Property: | |
| | By type | |
| 11,797 | UK Property | 11,085 |
| 394 | Overseas Property | 976 |
| **12,191** | **Sub-Total property** | **12,061** |
| | Private Equity: | |
| 2,994 | All | 2,118 |
| **2,994** | **Sub-Total private equity** | **2,118** |
| | Investment Funds and Unit Trusts | |
| 35,619 | Equities | 36,292 |
| 1,949 | Infrastructure | 1,906 |
| 0 | Bonds | 15,462 |
| 15,309 | Other | 15,956 |
| **52,877** | **Sub-Total Investment Funds and Unit Trusts** | **69,616** |
| **129,646** | **Total assets** | **130,801** |

### 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.

The Local Government Pension Scheme has been assessed by Hymans Robertson, an independent firm of actuaries; estimates for the Lincolnshire Pension Fund are based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

| 2016/17 | | 2017/18 |
|---|---|---|
| | Mortality assumptions: | |
| | Longevity (in years) at 65 for current pensioners: | |
| 22.1 | Men | 22.1 |
| 24.4 | Women | 24.4 |
| | Longevity (in years) at 65 for future pensioners: | |
| 24.1 | Men | 24.1 |
| 26.6 | Women | 26.6 |
| 2.8% | Rate of increase in salaries | 2.8% |
| 2.4% | Rate of increase in pensions | 2.4% |
| 2.6% | Rate for discounting scheme liabilities | 2.7% |

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

| | Approximate % Increase to Employer Liability | Value £'000 |
|---|---|---|
| 0.5% Decrease in Real Discount Rate | 10% | 20,590 |
| 0.5% Increase in the salary increase rate | 1% | 3,041 |
| 0.5% Increase in the pension increase rate | 8% | 17,277 |

### Impact on the Council's Cash Flow

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

Employer contributions payable to the scheme in 2018/19 are estimated to be £3.7m. The weighted average duration of the defined benefit obligation for scheme members is 17.2 years, 2017/18 (17.2 years 2016/17).

## Note 45 – Contingent Liabilities

A contingent liability is a possible liability arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Where a material loss can be estimated with reasonable accuracy a provision is accrued within the financial statements. If, however, a loss cannot be accurately estimated or the event is not considered sufficiently certain, a contingent liability will be disclosed in a note to the Balance Sheet. There are two contingent liabilities as at 31 March 2018.

The Council has made a provision for NNDR appeals based upon its best estimate of the actual liability of known appeals as at 31 March 2018. It is not possible to quantify appeals that have yet to be lodged with the Valuation Office Agency, but there is a risk that national and local appeals could have a significant impact on the financial statements.

As at 31st March 2018 there is an outstanding dilapidations dispute with a landlord following termination of the Council's head lease. The Council has not accepted the claim and it has been assessed that any valid claim would not be material.

## Note 46 – Contingent Assets

The Council has no Contingent Assets as at 31st March 2018.

## Note 47 – Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- ✓ Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- ✓ Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- ✓ Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

### 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 set out through a legal framework set out in the Local Government Act 2003 and the 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 the adoption of a Treasury Management Policy Statement and treasury management clauses within its standing orders;
- ✓ by approving, annually in advance, prudential indicators for the following three years limiting:
    - The Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum limits on the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.
- ✓ by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual Treasury Management Strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported semi-annually to Members.

The annual Treasury Management Strategy, which incorporates the prudential indicators was approved by Council on 1st March 2017. It is available on the Council's website (www.lincoln.gov.uk). The key issues during 2017/18 were:

- The Authorised Limit for 2017/18 was forecast to be £112m. This is the maximum limit of external borrowings or other long term liabilities during the year.
- The original Operational Boundary was expected to be £109.5m. This is the expected level of debt and other long term liabilities during the year. The maximum amounts of fixed and variable interest rate exposure were set at £87.6m and £37.2m based on the Council's net debt.
- The maximum and minimum exposures to the maturity structure of debt are shown within this note.

These policies are implemented by the Treasury team in Financial Services. 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 Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

**Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Details of the Investment Strategy are contained within the Treasury Management Strategy and can be found on the Council's website (www.lincoln.gov.uk).

The Investment Strategy is based on the creditworthiness service provided by Link Asset Services (treasury management advisors to the Council). This uses a wide range of market information to produce a list of investment counterparties with recommended maximum investment durations. Capita use credit ratings, support ratings and credit default swap prices to arrive at the recommended counterparty list.

The criteria used as a minimum within the Capita methodology are as follows:

- Short Term credit ratings of F1, Long Term A, Support 3 and viability rating BBB (Fitch or equivalent rating), using the lowest common denominator principle.

- Inclusion of part Government owned UK banks, based on support assumptions.

The full Investment Strategy for 2017/18 was approved by full Council on 1st March 2017.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default assessed by the Fitch credit rating agency and the Council's experience of its customer collection levels over the last five financial years, adjusted to reflect current market conditions:

| | **Carrying Values at 31/03/18** | **Historical experience of default**** | **Adjustment for market conditions at 31/03/18** | **Estimated maximum exposure to default** |
|---|---|---|---|---|
| | **£'000** | **%** | **%** | **£'000** |
| | a | b | c | (a * c) |
| Deposits with banks and financial institutions | | | | |
| AAA* rated counterparties (investments up to 1 year) | 6,600 | 0.000% | 0.000% | 0 |
| AA* rated counterparties (investments up to 1 year) | 1,000 | 0.005% | 0.005% | 0 |
| A* rated counterparties (investments up to 1 year) | 8,000 | 0.027% | 0.027% | 2 |
| Other Investments | 474 | 0.014% | 0.014% | 0 |
| Debtors | 7,304 | 7.2% | 7.2% | 524 |
| | **23,378** | | | **526** |

*See Glossary for a definition of AAA, AA and A ratings

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties. As a result of these high credit criteria, historical default rates have been used as a good indicator under these current conditions.

**Analysis of Investments by country of origin**

| | | Short term | | Long term | |
|---|---|---|---|---|---|
| | **Principal invested** | **Fixed rate** | **Variable rate** | **Fixed rate** | **Variable rate** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **UK Banks & Building Societies** | | | | | |
| Lloyds TSB Bank plc | 4,000 | 4,000 | 0 | 0 | 0 |
| Santander | 4,000 | 4,000 | 0 | 0 | 0 |
| **UK Money Market Funds** | | | | | |
| SLI Ignis MMF | 1,600 | 0 | 1,600 | 0 | 0 |
| BNP Paribas MMF | 5,000 | 0 | 5,000 | 0 | 0 |
| **UK Local Authorities** | | | | | |
| Kingston Upon Hull Council | 1,000 | 1,000 | 0 | 0 | 0 |
| **Total Investments** | **15,600** | **9,000** | **6,600** | **0** | **0** |

The Council allows credit for its trade debtors, such that £1,555,456 of the £2,329,200 balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

| 31/03/17 £'000 | | 31/03/18 £'000 |
|---|---|---|
| 243 | Less than three months | 491 |
| 245 | Three to six months | 397 |
| 187 | Six months to one year | 101 |
| 641 | More than one year | 567 |
| **1,317** | **Total** | **1,556** |

Collateral – During the reporting period the Council held no collateral as security.

**Liquidity risk**

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 Management and Investment Strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB 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 maturity analysis of financial liabilities is as follows: -

| 31/03/17 £'000 | | 31/03/18 £'000 |
|---|---|---|
| 9,969 | Less than one year | 13,671 |
| 217 | Between one and two years | 2,000 |
| 5,342 | Between two and five years | 5,000 |
| 68,995 | More than five years | 70,354 |
| **84,523** | **Total** | **91,025** |

**Market risk**

**Interest rate risk** - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- ✓ borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- ✓ borrowings at fixed rates – the fair value of the borrowing liability will fall;
- ✓ investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- ✓ investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value in the Balance Sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance, subject to influences from government grants. Movements in the fair value of fixed rate investments will be reflected in Other Comprehensive Income and Expenditure, unless the investments have been designated as Fair Value through the Comprehensive Income and Expenditure Statement, in which case gains and losses will be posted to the Surplus/Deficit on Provision of Services.

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 will monitor market 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, similarly the drawing of longer term fixed rate borrowing would be postponed.

If all interest rates had been 1% higher with all other variables held constant the financial effect would be:

| 2016/17 | | 2017/18 |
|---|---|---|
| £'000 | | £'000 |
| (250) | Increase in interest receivable on variable rate investments | (142) |
| **(250)** | **Impact on Income and Expenditure Account** | **(142)** |
| | | |
| (94) | Share of overall impact credited to the HRA | (60) |
| (156) | Share of overall impact credited to the General Fund | (82) |
| **(250)** | **Total** | **(142)** |

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used for Fair Value of Assets and Liabilities carried at Amortised Cost.

**Price risk** - The Council does not generally invest in equity shares but does have shareholdings to the value of £0.473m in a number of joint ventures and in local industry. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. The majority of the shareholdings are in the Dunham Bridge Company (£0.459m) and Investors in Lincoln (£0.014m). A representative of the Council sits on the Investors in Lincoln Board, enabling the Council to monitor factors that might cause a fall in the value of specific shareholdings.

The shares are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure.

**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.

# HRA INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDING 31 MARCH 2018

| 2016/17 | | Notes | 2017/18 | 2017/18 |
|---|---|---|---|---|
| **£'000** | | | **£'000** | **£'000** |
| | **Expenditure** | | | |
| (8,072) | Repairs and Maintenance | 5 | (8,465) | |
| (5,946) | Supervision and Management | | (6,123) | |
| (109) | Rents, rates, taxes and other charges | | (134) | |
| (2,705) | Depreciation, impairment and other adjustments for non-current assets | | (454) | |
| (9) | Debt management costs | | 0 | |
| 42,385 | Change in Social Housing Discount Factor | | 0 | |
| (292) | Movement in the allowance for bad debts | | (286) | |
| **25,252** | **Total Expenditure** | | | **(15,462)** |
| | **Income** | | | |
| 28,084 | Dwelling rents | 8 | 27,503 | |
| 539 | Non-dwelling rents | | 619 | |
| 508 | Charges for services and facilities | | 518 | |
| **29,131** | **Total Income** | | | **28,640** |
| **54,383** | **Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement** | | | |
| 115 | Transfer from HRS | | | (249) |
| **54,498** | **Net Cost for HRA Services** | | | **12,929** |
| | **HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement** | | | |
| 1,617 | Gain or (loss) on the sale of HRA assets | | | 746 |
| (2,352) | Interest payable and similar charges | | | (2,352) |
| 76 | Interest and investment income | | | 39 |
| (922) | Pensions interest income on plan assets and interest cost on defined benefit obligation | 9 | | (879) |
| 636 | Capital grants and contributions receivable | | | 621 |
| **53,553** | **Surplus or (deficit) for the year on HRA services** | | | **11,104** |

# MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 1,005 | **Balance on the HRA at the end of the previous year** | 1,087 |
| 53,553 | Surplus or (deficit) for year on the HRA Income and Expenditure Statement | 11,104 |
| (53,345) | Adjustments between accounting basis and funding basis under statute | (10,952) |
| 208 | **Net increase or (decrease) before transfers to or from reserves** | **152** |
| (127) | Transfers (to) or from reserves | (217) |
| 81 | **Increase or (decrease) in year on the HRA** | (65) |
| **1,087** | **Balance on the HRA at the end of the current year** | **1,021** |

# NOTES TO THE HOUSING REVENUE ACCOUNT

## Note 1 – Fixed Assets

The number of dwellings in the Council's housing stock, as at 31 March 2018, totalled 7,685 properties. The type of properties and the period in which they were built, were as follows:

| Property Type | <1945 No. | 1945-64 No. | 1965-74 No. | >1974 No. | TOTAL No. |
|---|---|---|---|---|---|
| Low Rise Flats | | | | | |
| (Blocks up to 2 Storeys) | | | | | |
| 1 Bed | 43 | 654 | 376 | 359 | 1,432 |
| 2 Bed | 5 | 97 | 35 | 42 | 179 |
| 3 Bed | 0 | 0 | 12 | 2 | 14 |
| **Sub-Total** | 48 | 751 | 423 | 403 | 1,625 |
| Medium Rise Flats | | | | | |
| (Blocks of 3 up to 5 Storeys) | | | | | |
| 1 Bed | 0 | 295 | 452 | 382 | 1,129 |
| 2 Bed | 0 | 246 | 160 | 188 | 594 |
| 3 Bed | 0 | 15 | 3 | 2 | 20 |
| **Sub-Total** | 0 | 556 | 615 | 572 | 1,743 |
| High Rise Flats | | | | | |
| (Blocks of 6 Storeys or more) | | | | | |
| 1 Bed | 0 | 56 | 138 | 0 | 194 |
| 2 Bed | 0 | 29 | 72 | 0 | 101 |
| **Sub-Total** | 0 | 85 | 210 | 0 | 295 |
| Houses / Bungalows | | | | | |
| 1 Bed | 158 | 144 | 32 | 9 | 343 |
| 2 Bed | 737 | 777 | 99 | 262 | 1,875 |
| 3 Bed | 823 | 554 | 72 | 228 | 1,677 |
| 4 or more Beds | 99 | 21 | 0 | 7 | 127 |
| **Sub-Total** | 1,817 | 1,496 | 203 | 506 | 4,022 |
| **Total Dwellings 31 March 2018** | **1,865** | **2,888** | **1,451** | **1,481** | **7,685** |

## Note 2 – Housing Revenue Account Assets Valuation

The Council's in-house Valuation Officers, and the District Valuer, have valued the HRA dwellings, land, and other property in accordance with Royal Institute of Chartered Surveyor guidelines.

The Balance Sheet value of council dwellings is calculated by applying a Social Housing discount factor. This represents the market value for the Council's total housing stock adjusted to reflect the fact that the property is socially rented (this adjustment is currently 42%). The discount factor is then applied to the open market or vacant possession value as determined by the District Valuer, as shown below:

| | **£ 000** |
|---|---|
| Vacant possession value of council dwellings at 31 March 2018 | 543,340 |
| Balance sheet valuation applying the Social Housing discount factor | 228,203 |

The Balance Sheet value of HRA Assets is as follows:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 222,737 | Council Dwellings | 228,203 |
| 12,798 | Other Operational Assets | 4,376 |
| 2,567 | Non-Operational Assets | 12,603 |
| **238,102** | **Total at 31 March** | **245,182** |

## Note 3 – Depreciation and Impairment

The Depreciation and Impairment of HRA Assets is as follows:

**Depreciation:**

| 2016/17 £'000 | Operational Assets: | 2017/18 £'000 |
|---|---|---|
| 10,818 | Council Dwellings | 10,361 |
| 252 | Other Operational Assets | 352 |
| **11,070** | **Total at 31 March** | **10,713** |

**Impairment:**

| 2016/17 £'000 | Operational Assets: | 2017/18 £'000 |
|---|---|---|
| (50,762) | Revaluation Gains/(Losses) | 141 |
| **(50,762)** | **Total at 31 March** | **141** |

## Note 4 – Major Repairs Reserve

The Major Repairs Reserve is an earmarked reserve to which the Council transfers an amount annually to finance capital expenditure on council dwellings. This amount includes annual depreciation, which is charged to the Housing Revenue Account and then transferred to the Major Repairs Reserve. This may be supplemented by additional revenue contributions from the HRA to support the HRA capital programme. The balance on the Major Repairs Reserve shows the amounts that have yet to be applied to financing.

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **(6,609)** | **Balance on 1 April** | **(10,680)** |
| | Amount transferred from the HRA | |
| | - Depreciation | |
| (10,997) | Dwellings | (10,361) |
| 0 | Other Assets | (352) |
| (1,097) | - Other revenue contributions | (638) |
| **(18,703)** | | **(22,031)** |
| 8,023 | - HRA Capital Expenditure | 9,190 |
| **(10,680)** | | **(12,841)** |

## Note 5 – Housing Repairs Account

The Housing Repairs Account was set up on 1 April 2001 in order to assist with the longer term planning of repairs and maintenance expenditure. The following analysis details the movement on the Housing Repairs Account during the year.

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| **(500)** | Balance on 1 April | **(610)** |
| | **Expenditure in year** | |
| 3,306 | Tenant Notified Repairs | 3,239 |
| 2,477 | Void Repairs | 1,738 |
| 1,486 | Servicing Contracts | 1,650 |
| 479 | Painting Programme | 623 |
| 13 | Asbestos Removal/Surveys | 54 |
| 245 | Aids & adaptations | 442 |
| 23 | Decoration Grants | 16 |
| 43 | Other Expenditure | 703 |
| **8,072** | | **8,465** |
| | **Income in year** | |
| (8,072) | Contribution from HRA | (8,465) |
| | Contribution to HRA | |
| (91) | Stores Contract Refund | 0 |
| (11) | Contribution from Leaseholders | (3) |
| (8) | Interest Received in year | (10) |
| **(8,182)** | | **(8,424)** |
| **(610)** | **Surplus Balance on 31 March** | **(624)** |

## Note 6 – Capital Expenditure in the year

The Housing Revenue Account capital expenditure and sources of funding during the financial year are detailed in the following table:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| | **Capital investment** | |
| 10,673 | Property, Plant and Equipment – HRA | 9,731 |
| 8 | Property, Plant and equipment – GF used as council housing | 0 |
| 0 | Non-Current Assets held for sale | 769 |
| 23 | Intangible Assets | 151 |
| 11 | Revenue Expenditure funded from Capital under Statute | 55 |
| **10,715** | | **10,706** |
| | **Sources of funding** | |
| (2,369) | Capital Receipts | (456) |
| 0 | Revenue Contributions | (126) |
| (8,024) | Major Repairs Reserve | (9,189) |
| (322) | Government grants and other contributions | (935) |
| **(10,715)** | | **(10,706)** |
| **0** | **Balance unfunded at 31 March** | **0** |

* REFCUS is created when expenditure has been incurred on items that are not capitalised as fixed assets but have been financed from capital resources. It is written down to the Housing Revenue Account over an appropriate period, usually in the same year in which the expenditure has been incurred. The total amount of REFCUS is £0.055m for 2017/18 (£0.011m in 2016/17).

Prior to the implementation of HRA Self-financing on 1 April 2012, supported borrowing levels had been issued annually by Central Government, authorising the Council to borrow monies, which were funded by Central Government to cover capital expenditure. Additionally, the Council was able to take out unsupported or prudential borrowing, which must be financed from its own resources. Post self - financing implementation and the end of the housing subsidy system, all borrowing will be prudential borrowing. In 2017/18, there was no prudential borrowing undertaken to fund the HRA capital investment.

## Note 7 - Capital Receipts

The cash receipts from the disposal of land, houses and other property within the HRA in the year are summarised as follows:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| | Council dwellings | |
| (2,658) | - Right to Buy | (3,227) |
| (36) | - Discounts repaid | (30) |
| | Other Receipts | |
| 0 | - Land Sales reimbursements | (714) |
| 0 | - Reimbursement of expenditure on General Fund property on sale | (33) |
| (2,694) | | (4,004) |
| 534 | Less Pooled (Paid to Central Government) | 529 |
| **(2,160)** | **Total** | **(3,475)** |

## Note 8 - Rent Arrears

During the year 2017/18 total rent arrears increased by £0.018m or 1.13%, to £1.618m. A summary of rent arrears and prepayments is shown in the following table:

| 2016/17 £'000 | | 2017/18 £'000 |
|---|---|---|
| 738 | Current Tenant Arrears @ 31 March | 725 |
| 862 | Former Tenant Arrears @ 31March | 893 |
| 1,600 | **Total Rent Arrears** | 1,618 |
| (582) | Prepayments @ 31 March | (156) |
| **1,018** | **Net Rent Arrears** | **1,462** |

A bad debt provision of £285,683 has been made in this year's accounts in respect of potentially non-collectable rent arrears, as detailed above, and associated miscellaneous debts. The value of the bad debt provision held in the Balance Sheet at 31 March 2018 is £1.614m (£1.563m at 31 March 2017).

## Note 9 - Pension Costs

In line with the full adoption of IAS 19 'Employee Benefits' the Net Cost of Services includes the cost of retirement benefits when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required when determining the movement on the HRA Balance for the year is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the HRA in the Movement on the Housing Revenue Account Statement. The following transactions have been made in the HRA during the year:

| 2016/17 | | 2017/18 |
|---|---|---|
| £'000 | | £'000 |
| | **HRA Income & Expenditure Statement** | |
| 1,303 | Current Service Cost | 1,959 |
| 0 | Past Service Costs | 0 |
| 922 | Net interest expense | 879 |
| **2,225** | **Total** | **2,838** |
| (1,473) | Amount to be met from HRA | (1,457) |
| **752** | **Movement on Pension Reserve** | **1,381** |

# THE COLLECTION FUND STATEMENT
# FOR THE YEAR ENDED 31 MARCH 2018

| 2016/17 £'000 Total | | 2017/18 £'000 Council Tax | 2017/18 £'000 NNDR | 2017/18 £'000 Total | Note |
|---|---|---|---|---|---|
| | **INCOME** | | | | |
| (37,291) | Council Tax Payers | (39,125) | 0 | (39,125) | 2 |
| (94) | Income from Ministry of Defence | (100) | 0 | (100) | |
| (43,136) | Income from Business Ratepayers | 0 | (41,813) | (41,813) | 3 |
| **(80,521)** | | **(39,225)** | **(41,813)** | **(81,038)** | |
| | **EXPENDITURE** | | | | |
| | Precepts: | | | | |
| 5,916 | - City of Lincoln Council | 6,145 | 0 | 6,145 | |
| 26,239 | - Lincolnshire County Council | 27,798 | 0 | 27,798 | |
| 4,684 | - Police & Crime Comm. Lincolnshire | 4,868 | 0 | 4,868 | |
| | Business Rates: | | | | |
| 21,704 | - Payments to Government | 0 | 20,832 | 20,832 | 3 |
| 17,285 | - Payments to City of Lincoln Council | 0 | 16,295 | 16,295 | 3 |
| 4,321 | - Payments to Lincs County Council | 0 | 4,074 | 4,074 | 3 |
| 148 | - Cost of Collection | 0 | 145 | 145 | |
| | Bad and Doubtful Debts | | | | |
| 201 | - Provisions | (20) | 21 | 1 | 5 |
| 364 | - Write Offs | 236 | 148 | 384 | |
| 1,384 | - Provision for appeals | 0 | (643) | (643) | 5 |
| (2,587) | Transfer of Collection Fund Surplus | 236 | (3,074) | (2,838) | 4 |
| **79,659** | | **39,263** | **37,798** | **77,061** | |
| **(862)** | **Deficit / (Surplus) for the year** | **38** | **(4,015)** | **(3,977)** | |
| | **COLLECTION FUND BALANCE** | | | | |
| 3,810 | Balance brought forward at 1st April | (325) | 3,273 | 2,948 | |
| (862) | Deficit/(Surplus) for the year (as above) | 38 | (4,015) | (3,977) | |
| **2,948** | **Balance carried forward at 31st March** | **(287)** | **(742)** | **(1,029)** | |
| | **Allocated to:** | | | | |
| 1,257 | - City of Lincoln Council | (45) | (297) | (342) | |
| 95 | - Lincolnshire County Council | (206) | (74) | (281) | |
| (41) | - Police & Crime Comm. Lincolnshire | (36) | 0 | (36) | |
| 1,637 | - Government | 0 | (370) | (370) | |
| **2,948** | | **(287)** | **(742)** | **(1,029)** | |

# NOTES TO THE COLLECTION FUND

## Note 1 - General

The Collection Fund is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and National Non-Domestic Rates (NNDR) and its distribution to local government bodies and the Government.

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and National Non-Domestic Business Rates. The administrative costs associated with the collection process are charged to the General Fund.

Collection Fund surpluses declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year. For the City of Lincoln, the Council Tax precepting bodies are Lincolnshire County Council (LCC) and the Police and Crime Commissioner for Lincolnshire (PCCL).

In 2013/14, the local government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give councils a greater incentive to grow businesses in the City. It does, however, also increase the financial risk due to non-collection and the volatility of the NNDR tax base.

The scheme allows the Council to retain a proportion of the total NNDR received. The City of Lincoln share is 40% with the remainder paid to precepting bodies. For the City of Lincoln the NNDR precepting bodies are Central Government (50% share) and LCC (10% share).

NNDR surpluses declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions. Deficits likewise are proportionately charged to the relevant precepting bodies in the following year.

The national code of practice followed by local authorities in England stipulates that a Collection Fund Income and Expenditure account is included in the Council's accounts. The Collection Fund Balance Sheet meanwhile is incorporated into the Council's Balance Sheet.

## Note 2 - Council Tax

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 9 valuation bands (A-H) for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council for the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

The Council Tax base for 2017/18 was 23,690 (23,244 in 2016/17). The increase between financial years is as a result of a combination of new builds and a reduction in the level of Council Tax Discounts and Exemptions. The tax base for 2017/18 was approved at the Executive on 9th January 2017 and was calculated as follows:

| Band | Ratio | Dwellings | Equivalent Dwellings after discounts, exemptions and reliefs | Equivalent Band D Dwellings |
|---|---|---|---|---|
| A Reduced | 5/9 | 0 | 71 | 39 |
| A | 6/9 | 27,282 | 22,115 | 14,743 |
| B | 7/9 | 8,750 | 7,489 | 5,825 |
| C | 8/9 | 4,854 | 4,310 | 3,831 |
| D | 9/9 | 2,507 | 2,268 | 2,268 |
| E | 11/9 | 1,230 | 942 | 1,152 |
| F | 13/9 | 391 | 363 | 524 |
| G | 15/9 | 130 | 119 | 199 |
| H | 18/9 | 45 | 8 | 15 |
| **Total** | | **45,189** | **37,685** | **28,596** |
| Deduction for Non Collection | | | | (357) |
| Crown Properties Adjustment | | | | 59 |
| **Adjusted to Band D Equivalent** | | | | **28,298** |
| Council Tax Relief Scheme | | | | (4,609) |
| **Tax Base for the Calculation of Council Tax** | | | | **23,689** |

Dwellings for residents entitled to 'disabled relief reduction' are reduced to the next lowest band for the calculation of Council Tax. As band 'A' is the lowest band, 'A reduced' has been introduced to give effect to this reduction for those who reside in Band 'A' properties.

Income received from Council Tax payers in 2017/18 was £39.125m (£37.291m in 2016/17).

## Note 3 - Income from Business Ratepayers

The Council collects National Non-Domestic Rates (NNDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government. Historically the total amount due, less certain allowances, was paid to a central pool (the NNDR pool) administered by Central Government, which, in turn, paid to local authorities their share of the pool, such shares being based on a standard amount per head of the local adult population.

In 2013/14, the administration of NNDR changed following the introduction of a business rates retention scheme which aims to give councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NNDR to the central pool, local authorities retain a proportion of the total collectable rates due. In the case of the City of Lincoln the local share is 40%. The remainder is distributed to preceptors and in the case of the City of Lincoln these are 50% Central Government and 10% to Lincolnshire County Council (LCC).

The business rates shares payable for 2017/18 were estimated before the start of the financial year as £20.832m to Central Government, £4.074m to LCC and £16.295m to the City of Lincoln Council. These sums have been paid in 2017/18 and charged to the Collection Fund in year.

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government or to Top-up authorities within an NNDR Pooling arrangement are used to finance the top ups to those authorities who do not achieve their targeted baseline funding. City of Lincoln Council was part of the Lincolnshire NNDR Pool in 2017/18 alongside Lincolnshire County Council and five other Lincolnshire District Councils. In 2017/18 the City of Lincoln made a tariff payment from the General Fund to the County Council to the value of £12.228m (£12.936m in 2016/17).

The total income from business rate payers collected in 2017/18 was £41.813m (£43.136m in 2016/17).

In addition to the top up/tariff, a 'safety net' figure is calculated at 92.5% of baseline amount which ensures that authorities are protected to this level of Business Rates income (either through support from Central Government if they are not in a NNDR Pool or as first call on gains from pooling if authorities are members of an NNDR Pool). For the City of Lincoln the value of the safety net figure (net of tariff) is £3.295m (£3.229m in 2016/17). The comparison of business rate income to the safety net uses the total income collected from business rate payers and adjusts for losses in collection, losses on appeal, transitional protection payments, the cost of collection and the revision to Small Business Rate Relief and other reliefs not allowed for when the safety net was set. The Council does not qualify for a safety net payment for 2017/18.

In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and hence business rates outstanding as at 31st March 2018. As such, authorities are required to make a provision for these amounts. Appeals are charged and provided for in proportion of the precepting shares. The total provision released to the collection fund for 2017/18 has been calculated at £0.643m (£1.384m was added in 2016/17).

For 2017/18, the total non-domestic rateable value at the year-end is £112.7m (£105.3m in 2016/17). The national multipliers for 2017/18 were 46.6p for qualifying

Small Businesses, and the standard multiplier being 47.9p for all other businesses (48.4p and 49.7p respectively in 2016/17).

## Note 4 - Contributions to Collection Fund Surpluses and Deficits

The Council has a statutory requirement to prepare an estimate each January of the surplus or deficit expected to arise at the end of the financial year. In January 2017 it was estimated that the Collection Fund would have a Council Tax surplus of £0.236m (£0.879m in January 2016) and a Business Rates deficit of £3.074m (£3.466m in January 2016), a combined Collection Fund deficit of £2.837m (£2.587m deficit in January 2016) and so the following amounts were due to or from the preceptors in 2017/18.

| **2016/17 £'000** | | **2017/18 £'000** |
|---|---|---|
| 1,246 | City of Lincoln Council | 1,191 |
| (283) | Lincolnshire County Council | 139 |
| (109) | Police & Crime Comm. Lincolnshire | (30) |
| 1,733 | Central Government | 1,537 |
| **2,587** | **Total** | **2,837** |

## Note 5 - Council Tax/NNDR Bad Debt Provision and NNDR provision for valuation appeals – Accounting Policy

The Collection Fund account provides for bad debts on arrears on the basis of prior years' experience and current year's collection rates.

| **2016/17 £'000** | | | **2017/18 £'000** | |
|---|---|---|---|---|
| | 584 | Balance at 1st April | | 690 |
| (109) | | Write-offs during year for previous years | (236) | |
| 215 | | Contributions to provisions during year | 217 | |
| | 106 | Net Increase / (Decrease) in Provision | | (20) |
| | **690** | **Balance at 31st March** | | **670** |

The Council's proportion of these write offs and increase in provision are shown below:

| **2016/17 £'000** | | **2017/18 £'000** |
|---|---|---|
| 93 | Balance at 1st April | 109 |
| 16 | Net Increase / (Decrease) in Provision | (5) |
| **109** | **Balance at 31st March** | **104** |

The Collection Fund account also provides for bad debts on NNDR arrears.

| 2016/17 £'000 | | | 2017/18 £'000 | |
|---|---|---|---|---|
| | 370 | Balance at 1st April | | 465 |
| (255) | | Write-offs during year for previous years | (148) | |
| 350 | | Contributions to provisions during year | 169 | |
| 95 | | Net Increase in Provision | | 21 |
| | **465** | **Balance at 31st March** | | **486** |

The Council's proportion of these write offs and increase in provision are shown below:

| 2016/17 £'000 | | | 2017/18 £'000 | |
|---|---|---|---|---|
| | 148 | Balance at 1st April | | 186 |
| (102) | | Write-offs during year for previous years | (59) | |
| 140 | | Contributions to provisions during year | 68 | |
| 38 | | Net Increase in Provision | | 9 |
| | **186** | **Balance at 31st March** | | **195** |

The Collection Fund account also provides for provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31st March 2018.

| 2016/17 £'000 | | | 2017/18 £'000 | |
|---|---|---|---|---|
| | 6,900 | Balance at 1st April | | 8,285 |
| 3,642 | | Additional Provisions made in year | 2,471 | |
| (547) | | Amounts used in year | (1,053) | |
| (1,710) | | Unused Amounts reversed in year | (2,061) | |
| | 1,385 | Net Increase/(Decrease) in Provision | (643) | |
| | **8,285** | **Balance at 31st March** | | **7,642** |

The Council's proportion of this provision is shown below:

| 2016/17 £'000 | | | 2017/18 £'000 | |
|---|---|---|---|---|
| | 2,760 | Balance at 1st April | | 3,314 |
| 1,457 | | Additional Provisions made in year | 968 | |
| (219) | | Amounts used in year | (421) | |
| (684) | | Unused Amounts reversed in year | (804) | |
| | 554 | Net Increase/(Decrease) in Provision | | (257) |
| | **3,314** | **Balance at 31st March** | | **3,057** |

# Independent auditor's report

## to the members of City of Lincoln Council

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

**1. Our opinion is unmodified**

We have audited the financial statements of the City of Lincoln Council ('the Authority') for the year ended 31 March 2018 which comprise the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and
- the financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law, including the Code of Audit Practice issued by the Comptroller and Auditor General. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**Overview**

| | |
|---|---|
| **Materiality:** | £1.0m (2017:£2.0m) (0.97% (2017:1.8%) of benchmark) |

| **Risks of material misstatement** | | **vs 2017** |
|---|---|---|
| **Recurring risks** | Valuation of non housing land and buildings | ◀▶ |
| | Valuation of pension liabilities | ◀▶ |

## Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2017):

| | The risk | Our response |
|---|---|---|
| **Valuation of non housing land and buildings**<br>(£90.2 million; 2017: £67.6 million)<br>*Refer to pages 65 to 70 (Note 14) in the financial statements and pages 42 to 45 of the financial statements (accounting policy)* | **Subjective valuation**<br>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted, for non housing land and buildings valued internally, a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end current value. | Our procedures included:<br>• **Test of detail -** reviewing the approach that the Authority has adopted to address the risk that these assets not subject to valuation are materially misstated and challenging the robustness of that approach.<br>• **Assessing the valuer's credentials** - assessing the internal valuer's qualifications and objectivity to carry out such valuations.<br>• **Our sector experience** - engaging a KPMG valuer to review the methodology used. |
| **Valuation of defined benefit net pension liability**<br>(Asset £130.8 million, Liability £216.6m, net Liability £85.8m<br>2017: Asset £129.6 million, Liability £215.1 million, net Liability £85.5 million)<br>*Refer to pages 106 to 107 (Note 44) in the financial statements and pages 31 to 34 of the financial statements (accounting policy).* | **Subjective valuation**<br>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Lincolnshire Local Government Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.<br>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.<br>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.<br>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation and asset are not reasonable. This could have a material impact on the pension liability recognised in the financial statements. | Our procedures included:<br>• **Test of detail -** reviewing the arrangements in place over the information sent by the Authority directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to obtain assurance over the accuracy and completeness of the source data supplied to the actuary by the Pension Fund.<br>• **Our sector experience -** reviewing the appropriateness of the key assumptions used by the actuary to produce the included within the valuation, comparing them to expected ranges and engaging a KPMG Actuary to provide a specialist assessment of those assumptions.<br>• **Assessing the actuary's credentials:** We critically assessed the competency, objectivity and independence of the Scheme's actuary.<br>• **Test of detail** - obtaining assurance from the Pension Fund auditors over the accuracy and completeness of the source data used by the Fund's actuary to allocate assets across the participating bodies.<br>• **Test of detail -** reviewing the overall Actuarial valuation report obtained and agreeing the disclosures in the financial statements. |

## 3. Our application of materiality and an overview of the scope of our audit

Materiality was set at £1.0 million (2016/17: £2.0 million), determined with reference to a benchmark of gross expenditure of which it represents 0.97% (2016/17: 1.8%). We consider gross expenditure to be more stable than a surplus- or deficit-related benchmark.

We agreed to report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £50,000 (2016/17: £100,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

## 4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## 5. We have nothing to report on the other information published with the financial statements

The Chief Finance Officer is responsible for the other information published with the financial statements, including the Narrative Report and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

## 6. Respective responsibilities

### Chief Financial Officer's responsibilities

As explained more fully in the statement set out on page 19, the Chief Financial Officer is responsible for the preparation of the Authority'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 2017/18. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority and the Group will continue in operational existence for the foreseeable future.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

# REPORT ON OTHER LEGAL AND REGULATORY MATTERS

### Our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is unqualified

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, City of Lincoln Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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.

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether City of Lincoln Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the City of Lincoln Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Report on our review of the adequacy of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required by guidance issued by the Comptroller and Auditor General under Paragraph 9 of Schedule 6 to the Local Audit and Accountability Act 2014 to report on how our work addressed any identified significant risks to our conclusion on the adequacy of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. The 'risk' in this case is the risk that we could come to an incorrect conclusion in respect of the Authority's arrangements, rather than the risk of the arrangements themselves being inadequate.

We carry out a risk assessment to determine the nature and extent of further work that may be required. Our risk assessment includes consideration of the significance of business and operational risks facing the Authority, insofar as they relate to 'proper arrangements'. This includes sector and organisation level risks and draws on relevant cost and performance information as appropriate, as well as the results of reviews by inspectorates, review agencies and other relevant bodies.

The significant risks identified during our risk assessment are set out below together with the findings from the work we carried out on each area.

| Significant Risk | Description | Work carried out and judgements |
| --- | --- | --- |
| **Financial resilience** | The Authority faces significant financial pressures as a result of reductions in central government funding and needs to have effective arrangements in place for managing its annual budget, generating income and identifying and implementing any savings required to balance its medium term financial plan. | We reviewed the arrangements the Authority has in place in these areas and for ensuring its continuing financial resilience. We have considered the Authority's arrangements for managing its annual revenue and capital budgets and the 2017/18 outturn.<br>**Our findings on this risk area:**<br>We are satisfied that there were adequate arrangements in place during 2017/18 and there are no significant matters relating to the Authority's arrangements for Sustainable Resource Deployment which prevent us from giving an unqualified VFM conclusion. |
| **Major projects** | The Authority continues to have a number of major projects in progress which are relatively high risk. These include the final stages of the Lincoln Transport Hub and Boultham Park projects and the Western Growth Corridor project, which is complex and of significant strategic importance to the Authority. | We assessed your arrangements for managing the delivery and financial control of these projects. We also considered the most recent progress reports in relation these projects and the Authority's latest programme risk registers.<br>**Our findings on this risk area:**<br>We are satisfied that there were adequate arrangements in place during 2017/18 and there are no significant matters relating to the Authority's arrangements for Sustainable Resource Deployment and Working with Partners and Third Parties which prevent us from giving an unqualified VFM conclusion. |

**We have nothing to report on the statutory reporting matters**

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

## CERTIFICATE OF COMPLETION OF THE AUDIT

We certify that we have completed the audit of the financial statements of City of Lincoln Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

**Andrew Bush**
**for and on behalf of KPMG LLP**

*Chartered Accountants*
KPMG LLP
St Nicholas House
Nottingham
NG1 6FQ

30th July 2018

KPMG

## 1 The council's responsibility for sound governance

### 1.1 Scope of responsibility

City of Lincoln Council must ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to secure continuous improvement in the way in which its functions are exercised.

Governance is about how we ensure that we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. In discharging this overall responsibility, we must put in place proper governance arrangements to manage our affairs. The council must ensure that there is a sound system of governance (incorporating the system of internal control).

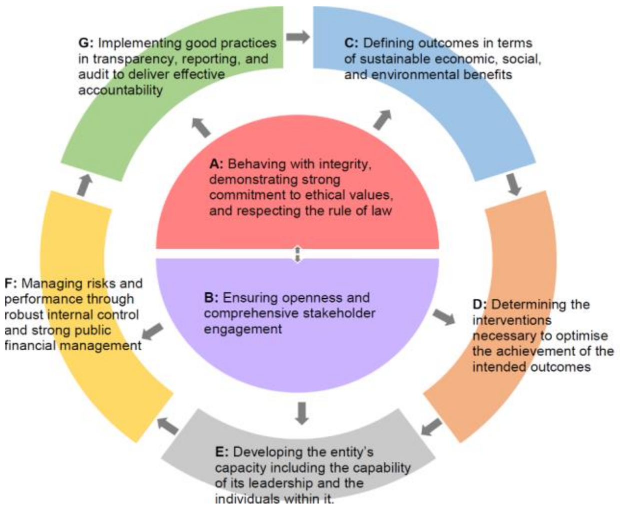
During 2016/17, City of Lincoln Council fundamentally reviewed its governance framework to reflect the new CIPFA/SOLACE Framework. The council updated its own Code of Corporate Governance and following a review of compliance in autumn 2017, updated this further in January 2018.

How we are meeting these defined responsibilities is detailed in the Code of Corporate Governance, which is found on our website under your council/information policies & publications/corporate publications. www.lincoln.gov.uk

This Annual Governance Statement details how the city council has complied with its own Code of Corporate Governance over the last year and meets the statutory requirements for all relevant bodies to prepare such a statement.

1.2 The new Code of Corporate Governance sets out the documentation, systems and processes by which the authority transparently controls its activities and defines its cultures and values. It enables us to monitor achievement of our strategic objectives and to consider whether these have led to the delivery of appropriate value for money services.

The code is based on a set of seven core principles:




1.3 Responsibility rests within a range of areas – the key ones are detailed in the table below:

**KEY ELEMENTS OF COUNCIL'S GOVERNANCE FRAMEWORK**

Key elements of the governance framework at City of Lincoln Council are summarised below:

**Council, Executive, Leader**

- Provide leadership; set, develop and implement policy
- Ensure the Vision 2020 strategy is taken forward
- Develop, adopt and implement the budget framework
- Support the city's diverse communities and neighbourhoods to thrive

**Leadership and decision making**

- All decision meetings held in public (except those identified as 'part B')
- Decisions recorded on the council's public website
- Resources directed according to priorities as set out in Vision 2020

**Risk management**

- Risk registers identify both operational and strategic risks
- Strategic risks are considered by CMT and Executive every quarter
- Internal audit provides independent objective assurance
- Council's arrangements comply with the requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)

**Scrutiny and review**

- Scrutiny committees review council policy and can challenge decisions to hold Executive to account
- Audit and Performance committees review governance, costs vs budget , risk, internal control and delivery of agreed plans
- Ethics and Engagement Committee and/or Monitoring Officer deals with complaints about, or suspected breaches of member conduct
- Scrutiny operates a 'call in' process whereby backbenchers can challenge an Executive decision

**Corporate Management Team (CMT)**

- The CX is the Head of Paid Service and is responsible for all council staff and for leading an effective Corporate Management Team (CMT)
- CMT ensures there is clear accountability for the use of resources in achieving desired outcomes for service users and the community
- The Chief Finance Officer (CFO) is the council's Section 151 Officer and is responsible for safeguarding the council's financial position and securing value for money. The council's financial management arrangements comply with the governance requirements of the CIPFA Statement on the role of Chief Financial Officer in Local Government (2015)
- The City Solicitor is the councils Monitoring Officer and is responsible for ensuring legality, good governance and promoting high standards of conduct

## Outcomes, Vision, Value for Money

The council's governance arrangements underpin our strategic policies and plans to ensure that the council delivers effective, efficient services for its residents and other stakeholders. Vision 2020 (our new strategic plan) provides a clear vision for what is to happen in the period 2017-20120. It is complemented with the council's Annual Report which provides details on achievements each year towards the vision.

The council has a strong Medium Term Financial Strategy (MTFS) which delivers the best use of current assets, whilst also ensuring that the council maximises the use of available government grants

1.4 In the following sections, the AGS considers whether the Code has been applied effectively providing commentary on how the framework itself has operated over the last 12 months.

## 1.5 CORE PRINCIPLE A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Ethical values, standards and formal codes of conduct are defined in the council's constitution and form the basis for developing our policies, procedures and actions as well as for the behaviour of our members and staff. We have appropriate processes in place to ensure that members and staff are not influenced by prejudice, bias or conflicts of interest when engaging and making decisions with stakeholders, as well as effective systems to protect the staff rights.
All council decisions consider legal and equality implications with support from Legal Services.

Our Audit Committee (which includes an independent member) provides assurance on the adequacy of the internal control environment, by ensuring high standards of conduct are embedded within the council's culture, monitoring governance issues raised and overseeing internal and external audit arrangements.

**Activity within Principle A in 2017/18:**

- An internal audit was undertaken in autumn 2017 to look at compliance with the council's code of corporate governance (CCG). As a result, some minor changes to the code were identified, including the inclusion of the Whistle Blowing Policy. The CCG was then updated and approved by Audit Committee in February 2018
- The council has new core values – to be approachable, trusted to deliver & innovative
- Counter Fraud Strategy/action plan and other counter fraud policies have been reviewed. The council is involved with the National Fraud Initiative and has a close working relationship with Department for Work & Pensions for Housing Benefit fraud.
- Completion of the information asset database within the 'IMPS' monitoring system
- Complete the review of the Financial Procedure Rules

**Proposed activity for the coming year:**

- Further counter fraud policies / strategies will be reviewed and updated and CF training will be rolled out through the year
- We will be undertaking counter fraud projects with the Lincolnshire CF team
- Continued progress on outstanding information management actions to meet GDPR
- Roll out of NetConsent – policy management and compliance system
- Member induction for those new Members elected in May 2018

## 1.6 CORE PRINCIPLE B: Ensuring openness and comprehensive stakeholder engagement

The council makes sure our partners, in the private, public and voluntary sector as well individual citizens and service users are engaged in and have full access to information relating to decisions made.  We expect reports to decision makers to be open, provide all the necessary material to ensure informed decisions in the best interests of the city and communities, and to have engaged stakeholders and service users in arriving at proposals under consideration.

**Activity within Principle B in 2017/18:**

- Businesses were engaged in a highly successful Growth Conference – March 2018
- Consultation was conducted in January 2018 on the proposed MTFS for 2018-23
- Consultation was conducted in December 2017 on the Council Tax Support Scheme
- The council has increased its use of social media to enhance its communications reach
- Completion and roll out of guidance for staff on best practice principles for consultation
- Workshops were held as part of the planning stages of the revitalisation of Sincil Bank, with the final results shared in a workshop in June 2017
- WGC – Lengthy consultation took place during 2017, with multiple focus groups over an extended period. As a result significant changes are to be made within the transport aspect, with further consultation taking place in 2018 on the revised proposals

**Proposed activity for the coming year:**

- The City of Lincoln is a partner in a group of voluntary sector organisations reviewing the Community Cohesion Strategy for Lincoln
- Housing will be undertaking the biennial STAR survey in late 2018
- Development of a Social Policy Conference in 2018/19 to seek partner views on a specific area of focus to be determined under the ‘Let’s reduce inequality’ priority
- Development and roll of out a new Communications Strategy

## 1.7 CORE PRINCIPLE C: Defining outcome in terms of sustainable economic, social, and environmental benefits

Together, let’s deliver
Lincoln’s ambitious future

Vision 2020 is a three year strategy and delivery plan, developed using an evidence base from the Lincoln City Profile and following wide consultation, with an inclusive vision to deliver Lincoln’s ambitious future. It highlights four priorities for the city, acknowledging that the council cannot deliver everything needed by itself and must work in partnership and collaboration to achieve these ambitious plans. These are:

- Let’s drive economic growth
- Let’s deliver quality housing
- Let’s reduce inequality
- Let’s enhance our remarkable place

These are underpinned by the need to deliver ‘Professional high performing services’

Progress towards achieving the vision, aligned with the key priorities, will be reported to and monitored by senior management and elected members. Service areas within directorates, and under the guidance of assistant directors, are responsible for delivering individual projects to agreed timescales and budgets, with consideration for economic, social and environmental benefits which collectively will achieve our priorities.

**Activity within Principle C in 2017/18:**

- Approval of the MTFS which is a financial representation of the council’s Vision 2020
- Completion of the Transport Hub which is now the ‘Gateway to Lincoln’
- Implementation has started of the approved place strategy for Park Ward, highlighted as an area for regeneration. Three key strands of work are in planning stage.
- Completion of the Boultham Park project utilising Heritage Lottery funding
- A cross directorate group has been created with a focus on ‘embedding sustainability into everyday working processes’
- Development of new Portfolio Holder responsibilities to align with Vision 2020

**Proposed activity for the coming year:**

- Plan to be developed for embedding sustainability over the next 3 to 5 years

- Further develop plans for the Western Growth Corridor in partnership
- Progress plans for regeneration of the Sincil Bank area of the city
- Refresh the Low Carbon Lincoln Strategy and action plan
- Roll out and embed the application of the new Portfolio Holder responsibilities

## 1.8 CORE PRINCIPLE D: Determining the interventions necessary to optimise the achievement of the intended outcomes

The council clearly defines its priorities and plans which are aimed at delivering the outcomes it intends. Service plans are in place for all directorates with key projects listed separately. All projects are subject to the Lincoln Project Management Model (LPMM), through which we continuously assess the risks of not fully delivering plans and ensure that there are mitigating actions in place to support the achievement of intended outcomes.

The council's financial management arrangements ensure that there is adequate resource available to deliver plans. The council reviews progress against delivering those outcomes through its performance management framework.

**Activity within Principle D in 2017/18:**

- Review of the CMT decision making process around strategic plan projects (SPIT) has been completed and implementation commences from May 2018
- The LPMM has been fully updated to include all changes in project governance recommended through the SPIT review. More ownership and accountability for project management has been passed to Project Sponsors and Project Managers
- The Vision Boards are now established and have all delivered their first annual reports to members
- The revised TFS Board and the new High Performing Services Board commenced in May 2017 and has delivered its first annual report
- Services Managers Forum has been active since November 2016 and has taken over the role covering risk, insurance incidents, GDPR and AGS monitoring

**Proposed activity for the coming year:**

- A year 2/3 programme for the next steps of implementing the vision has been proposed and is currently under discussion
- The work of the Business Development team is to be re-aligned with the needs identified within the year 2/3 Vision projects
- A new training programme for the LPMM will be rolled out to ensure that all project managers and sponsors are fully aware of how to implement their new responsibilities

## 1.9 CORE PRINCIPLE E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

The council ensures a management structure that provides leadership and creates the opportunity for staff to work effectively and efficiently to achieve the council objectives. A newly developed People Strategy will ensure the workforce has the necessary skills and behaviours to deliver the vision for the city, and is effectively engaged to champion the council's priorities. Partnership working extends the capacity for key projects beyond the councils own resource and is embedded within the Vision 2020 objectives.

**Activity within Principle E in 2017/18:**

- Roll out of People Strategy demonstrating plans to develop capability and capacity. Two defined positions have been created around performance and staff wellbeing.
- Targeted work around the wellbeing and health aspects for staff
- More HR policies have been reviewed with training delivered to managers
- New appraisal format includes mandatory appraisals during the period April- June,

collation of personal development plans and a review of Job responsibilities
- Coaching programme completed for senior management and service managers
- Staff satisfaction survey completed in late 2017. Action plans are now underway in each Directorate

**Proposed activity for the coming year:**

- A further review of Directorate structures following the retirement of the Housing Director in April 2018
- People Strategy to continue to roll out new activities for example a Staff engagement Strategy and HR focussed line manager briefings
- Needs analysis to be completed on Leadership Development

## 1.10 CORE PRINCIPLE F: Managing risks and performance through robust internal control and strong public financial management

The council recognises the need to implement an effective performance management system that will allow us to deliver services effectively and efficiently. We understand that risk management, internal control and strong financial management are essential for us to achieve our objectives and we have put appropriate arrangements in place.

The financial audit identified material errors in the DRAFT financial statements, which were corrected in the published version, for which an unqualified opinion was given. The errors were reported in the September 2017 ISA260 report to the Authority. It was acknowledged that this was due to unprecedented staffing difficulties faced by the finance team during the closedown process and in the first half of the 2017. Management agreed to the report recommendations and ensured that the arrangements and working papers for the 2017/18 accounts would be robust and effective.

**Activity within Principle F in 2017/18:**

- Continued use of the risk process 'Risk Appetite' methodology and toolkit.
- The Annual Audit Letter issued an unqualified conclusion on the authority's Final Statement of accounts and Value for Money statement
- Continuation of the review of compliance to data protection and an audit on data management. All services have been reviewed and have agreed an action plan
- Reductions in the central government funding have been mitigated by a successful savings and income generation programme – a key aspect of which is the new Property Acquisition arm of the Asset Optimisation plan.
- The review of business continuity plans has been completed which is the last part of the revised disaster recovery plan

**Proposed activity for the coming year:**

- The introduction of NETconsent to minimise the risk of non-compliance to policy
- Development of a three-year plan for new income generating opportunities
- Partnership guidance to be updated and re-issued - AD's to develop a list of ALL partnerships/joint working in their areas as a minimum
- Increase the level of purchase order usage across the authority to ensure full control
- The council will move from KPMG (external auditors) to Mazzars during 2018/19

## 1.11 CORE PRINCIPLE G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The council recognises that effective accountability is concerned not only with reporting on actions completed but ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in an open, transparent and proportionate manner. Performance is managed under the principles of the Performance Management Framework

**Activity within Principle G in 2017/18:**

- Improvements made to the website, including more self-serve options – through 2017
- Communications team has increased coverage of new developments, changes etc. through social media as well as the more traditional channels
- New targets on all year 1 Vision 2020 projects have been developed
- A scope for the development of a new performance management system was approved for progression by CMT in December 2017

**Proposed activity for the coming year:**

- Targets to be developed for all year 2 Vision projects
- Develop and implement a new Performance Management system aimed at improving the culture of performance across the organisation
- The Lincoln Performance Management Framework will be reviewed in 2018
- Review of options in Aggresso for reporting alongside the proposed new Performance Management System
- Develop a new web option to replace our existing website

## 2 Review of effectiveness of the governance framework

We undertook an assessment of the council's governance framework during 2017/18 - summary details are outlined above.

We reviewed key governance areas and assurances to identify any significant governance issues, these are detailed below in section 5

## 3 Level of assurance provided

We can provide a high level of assurance that the governance arrangements operating at City of Lincoln Council, in line with our Code of Corporate Governance are appropriate, fit for purpose and working well in practice.

## 4 Status of significant governance issues monitored from 2016-17

The council has regularly monitored its 2016 -17 significant governance issues through senior management and the Audit Committee during 2017/18:

**Issues that have been significantly progressed and now can be removed:**

- Health & Safety – Framework for risk assessment: The central register is now live and all training needs undertaken. An internal audit on the H&S development plan gave a substantial assurance. This risk was confirmed green at Audit committee 4th April 2017

- Health & Safety – Responsible officers (RO): The RO manual and procedures have been updated and responsible officer duties are being undertaken. All RO's were identified and most have had this responsibility inserted into their job description.

- IT disaster recovery: Arrangements to cover major events are well underway with a secondary ICT location established and tested and fully functional at Hamilton House.

A draft ICT Disaster Recovery Plan has been written and is now being tested against Corporate Business Continuity plans. The final plan needs to be agreed by the Business Continuity Group to complete this exercise.

## 5 Significant governance issues identified from 2017-18

**One current significant issue will remain a focus for 2018/19**

- **Information Management**: During 2017/18 significant progress has been made towards achieving the aim of being fully compliant with General Data Protection Regulation (GDPR) by the implementation date in May 2018. However there remain a number of areas still in progression and due to the seriousness of non-compliance, until these are completed, this area will remain a significant issue

**New significant issues identified**

There are no new areas designated as significant issues

**Other areas to retain a focus on – but are not considered significant issues as yet**

- The council has minimal experience of the process of setting up a new partnership company (solely owned or a joint venture) and care needs to be taken to select the right governance framework arrangements, ensuring appropriate formal legalities and financial aspects are in place.

- Project management monitoring arrangements have been reviewed, with the Strategic Plan Implementation Team having been replaced by the new Capital Programme Group and additional responsibilities for the Programme Boards. This will remain on the list of areas to watch through 2018/19 to ensure governance quality is maintained.

- Western Growth Corridor to ensure that effective governance is maintained as the project develops further

- Continually ensure that appropriate and timely professional advice is sought on key projects, policies and decisions

- Ensure that the remaining Responsible Officer duties within the Housing services are fully rolled out during 2018/19

## 6 Conclusion

The council's governance arrangements are under continual review and refinement. The council will monitor improvement plans for its significant governance issues quarterly and report progress in the next annual review.

**Signed**

Leader (Cllr Ric Metcalfe) **Date:** 24 July 2018

**Signed**

Chief Executive (Mrs Angela Andrews) **Date:** 24 July 2018

# GLOSSARY

**AAA FITCH RATING**

Highest credit quality - 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

**AA FITCH RATING**

Very high credit quality - 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

**A FITCH RATING**

High credit quality - 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

**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.

**ACCRUALS**

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

**ACTUARIAL GAINS AND LOSSES**

For a defined benefit pension scheme, the changes in actuarial surpluses or deficits 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

**ASSET**

An item having value to the Council in monetary terms. Assets are categorised as either current or fixed:

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A fixed asset provides benefits to the Council and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

**AUDIT OF ACCOUNTS**

An independent examination of the Council's financial affairs.

**BALANCE SHEET**

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

**BORROWING**

Government support for capital investment is described as either Supported Capital Expenditure (Revenue) known as SCE(R) or Supported Capital Expenditure (Capital Grant) known as SCE(C). SCE can be further classified as either Single Capital Pot (SCP) or ring-fenced.

**BUDGET**

The forecast of net revenue and capital expenditure over the accounting period.

**CAPITAL EXPENDITURE**

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

**CAPITAL FINANCING**

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

**CAPITAL PROGRAMME**

The capital schemes the Council intends to carry out over a specific period of time.

**CAPITAL RECEIPT**

The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government but they cannot be used to finance revenue expenditure.

**CLAW-BACK**

Where average council house rents are set higher than the Government's prescribed average limit rent, used in the calculation of rent rebates, the percentage difference reduces the amount of rent rebate subsidy due to the Council, i.e. it is "clawed-back" by the Government.

**CIPFA**

The Chartered Institute of Public Finance and Accountancy.

**COLLECTION FUND**

A separate fund that records the income and expenditure relating to Council Tax and non-domestic rates.

**COMMUNITY ASSETS**

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

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

**CONSISTENCY**

The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

**CONTINGENT ASSET**

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

**CONTINGENT LIABILITY**

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

**CORPORATE AND DEMOCRATIC CORE**

The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The costs of these activities are thus over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

**CREDITOR**

Amount owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

**CURRENT SERVICE COST (PENSIONS)**

The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

**DEBTOR**

Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

**DEFERRED CHARGES**

Expenditure which can be properly deferred (i.e. treated as capital in nature), but which does not result in, or remain matched with, a tangible asset. Examples of deferred charges are grants of a capital nature to voluntary organisations.

**DEFINED BENEFIT PENSION SCHEME**

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

**DEPRECIATION**

The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Council's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

**DISCRETIONARY BENEFITS (PENSIONS)**

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

**EQUITY**

The Council's value of total assets less total liabilities.

**EVENTS AFTER THE BALANCE SHEET DATE**

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

**EXCEPTIONAL ITEMS**

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

**EXPECTED RETURN ON PENSION ASSETS**

For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

**EXTRAORDINARY ITEMS**

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period.

**FAIR VALUE**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**FINANCE LEASE**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

**GOING CONCERN**

The concept that the Statement of Accounts is prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

**GOVERNMENT GRANTS**

Grants made by the Government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be specific to a particular scheme or may support the revenue spend of the Council in general.

**HOUSING BENEFITS**

A system of financial assistance to individuals towards certain housing costs administered by authorities and subsidised by Central Government.

**HOUSING REVENUE ACCOUNT (HRA)**

A separate account to the General Fund, which includes the income and expenditure arising from the provision of housing accommodation by the Council.

**IMPAIRMENT**

A reduction in the value of a fixed asset to below its carrying amount in the Balance Sheet.

**INCOME AND EXPENDITURE ACCOUNT**

The revenue account of the Council that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

**INFRASTRUCTURE ASSETS**

Fixed assets belonging to the Council that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

**INTANGIBLE ASSETS**

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Council's intangible assets comprise computer software licences.

**INTEREST COST (PENSIONS)**

For a defined benefit scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

**INVESTMENTS (PENSION FUND)**

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

**LIABILITY**

A liability is where the Council owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

**LIQUID RESOURCES**

Current asset investments that are readily disposable by the Council without disrupting its business and are either:

- Readily convertible to known amounts of cash at or close to the carrying amount; or
- 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 or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

**MATERIALITY**

The concept that the Statement of Accounts should include all amounts which, if omitted or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

**MINIMUM REVENUE PROVISION (MRP)**

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

**NET BOOK VALUE**

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

**NET DEBT**

The Council's borrowings less cash and liquid resources.

**NON-DISTRIBUTED COSTS**

These are overheads for which no user now benefits and as such are not apportioned to services

**NATIONAL NON-DOMESTIC RATES (NNDR)**

The National Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by the Government and multiplied by the assessed rateable value of the premises they occupy. It is collected by the Council on behalf of Central Government and then redistributed back to support the cost of services.

**NON-OPERATIONAL ASSETS**

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

**OPERATING LEASE**

A lease where the ownership of the fixed asset remains with the lessor.

**OPERATIONAL ASSETS**

Fixed assets held and occupied, used or consumed by the Council in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**PAST SERVICE COST (PENSIONS)**

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

**PENSION SCHEME LIABILITIES**

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

**PRECEPT**

The levy made by precepting authorities on billing authorities, requiring the latter to collect income from Council Tax on their behalf.

**PRIOR YEAR ADJUSTMENT**

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**PROVISION**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

**PUBLIC WORKS LOAN BOARD (PWLB)**

A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the Government can borrow itself.

**RATEABLE VALUE**

The annual assumed rental of a hereditament, which is used for NNDR purposes.

**RELATED PARTIES**

There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Council's members, the Chief Executive, its Directors and their close family and household members.

**RELATED PARTY TRANSACTIONS**

The Code requires the disclosure of any material transactions between the Council and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

**REMUNERATION**

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

**RESERVES**

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

**RESIDUAL VALUE**

The net realisable value of an asset at the end of its useful life.

**RETIREMENT BENEFITS**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

**REVENUE EXPENDITURE**

The day-to-day expenses of providing services.

**REVENUE SUPPORT GRANT**

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

**STOCKS**

Items of raw materials and stores a Council has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

**TEMPORARY BORROWING**

Money borrowed for a period of less than one year.

**TRUST FUNDS**

Funds administered by the Council for such purposes as prizes, charities, specific projects and on behalf of minors.

**USEFUL ECONOMIC LIFE (UEL)**

The period over which the Council will derive benefits from the use of a fixed asset.

**WORK IN PROGRESS (WIP)**

The cost of work performed on an uncompleted project at the Balance Sheet date, which should be accounted for.