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NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

23 November 2020

Chairman:

Venue: Virtual Meeting
Microsoft Teams

Time: 10.00 am

E-Mail Address:
matthew.nundy@northlincs.gov.uk

AGENDA

1. Substitutions (if any)

2. Declarations of Disclosable Pecuniary Interests and Personal or Personal and Prejudicial Interests (if any).

3. To take the minutes of the meeting held on 16 September 2020 as a correct record and authorise the chairman to sign. (Pages 1 - 4)

4. Counter Fraud Progress Report (Pages 5 - 12)

5. Going Concern Assessment as at 31 March 2020 (Pages 13 - 20)

6. Audit of Accounts 2019-20

(a) Audited Accounts 2019-20 (Pages 21 - 26)

(b) Statement of Accounts (Pages 27 - 102)

(c) Audit Completion Report - Report submitted by Mazars (Pages 103 - 130)

7. Any other items which the chairman decides are urgent by reasons of special circumstances which must be specified.

Note: Reports are by the Director: Governance and Partnerships unless otherwise stated.

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NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

16 September 2020

PRESENT: - Councillor K Vickers in the chair.

Councillors Clark, Ellerby, T Foster, Gosling, Wells and Yeadon.

This was a Microsoft Teams Virtual Online Meeting

589 **DECLARATIONS OF DISCLOSABLE PECUNIARY, PERSONAL OR PERSONAL AND PREJUDICIAL INTERESTS –** There were no declarations of disclosable pecuniary interests and personal or personal and prejudicial interests.

590 **MINUTES – Resolved** – That the minutes of the proceedings of this committee held on 15 July 2020, having been printed and circulated amongst the members, be taken as read and correctly recorded and signed by the Vice-Chairman.

591 **ARRANGEMENTS FOR VALUE FOR MONEY** – The Director: Governance and Partnerships delivered a presentation on the arrangements that the council had in place to ensure that it achieved value for money. The presentation covered the following areas -

- Legislation
- Three E'S - Economy; Efficiency and Effectiveness
- Elements of Assurance
- Performance
- Procurement and Commissioning
- Sustainable Resource Deployment
- Governance
- Informed Decision Making
- Effective Partnerships
- Risk Management

Following the presentation, the Chairman facilitated a discussion between the Director and the committee on how the council achieved value for money.

Resolved – That the presentation be received with thanks.

592 **EXTERNAL AUDIT PROGRESS REPORT** – The Chairman welcomed representatives from the council's external auditor Mazars to the meeting. The committee was informed that the external audit was in progress. The council had submitted its accounts to Mazars in July and, after some early testing, there were no areas of concern to bring to the attention of the committee at this stage. The full audit would be considered by the committee at its meeting on 23 November 2020.

The Chairman then facilitated a discussion between the council's external auditors and the committee.

Resolved – That the verbal update be received with thanks.

593 **TREASURY MANAGEMENT ANNUAL REPORT 2019-20** – The Director: Governance and Partnerships submitted a report that informed members of the council's treasury arrangements, activity and performance during 2019-20.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defined treasury management as:

"The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by Council in February 2019. This statement also incorporated the Investment Strategy.

Whilst the council had appointed advisors to support effective treasury management arrangements, the council was ultimately responsible for its treasury decisions and activity. No treasury activity was without risk. The successful identification, monitoring and control of risk was therefore an important and integral element of treasury management activities.

The council had nominated the Audit Committee to be responsible for ensuring effective scrutiny of treasury management arrangements.

The TMSS was attached to the report as an appendix. It provided a summary of the effectiveness of the Treasury Management Strategy, identified risk factors affecting those activities of borrowing, investment and cash flow and demonstrated the value for money achieved through the effective delivery of the treasury management arrangements.

The Director then responded to questions on the Treasury Management Annual Report for 2019-20.

Recommended to Council – That the Treasury Management Annual Report 2019-20 be considered by council.

594 **ANNUAL GOVERNANCE STATEMENT** – The Director: Governance and Partnerships circulated the draft Annual Governance Statement (AGS) 2019/20 for members' consideration and approval.

The Accounts and Audit Regulations 2015 required the council to publish an AGS alongside the Annual Accounts.

The AGS set out the council's governance arrangements that were in place and considered their effectiveness. The council's governance arrangements were set out in its Code of Governance which were reviewed and updated annually.

The Code was based upon guidance provided by the Chartered Institute for Public Finance and Accountancy (CIPFA) and the Society for Local Government Chief Executives (SOLACE) "Delivering Good Governance in Local Government – a framework" (April 2016).

The three lines of defence assurance model was central to the review of effectiveness of the council's governance arrangements as follows:

- First Line – (delivery/operational area) - Each Director undertook an annual self-assessment as to how assurances were sought to confirm that the services and functions they were responsible for comply with each of the seven principles of the Code.

- Second Line - (oversight of management activity and separate from those responsible for delivery) - A range of reports were produced annually or throughout the year from those responsible for the oversight of management activity which provided assurance on the operation of elements of the governance framework.

- Third line - (independent oversight) - Reports produced by independent bodies such as External Audit and regulators (e.g. Ofsted, Ombudsman).

The draft AGS 2019/20 was attached as an appendix and showed that the council had well-established governance arrangements that were monitored and reviewed on a regular basis. As at 31 July 2020 no significant governance issues requiring reporting had been identified.

The AGS accompanied the accounts and was for the period up to the accounts were approved. The final published version therefore would be updated to take account of the completion of the audit of the statements of accounts 2019/20 and any additional sources of assurance completed up to that date.

The Audit Committee, as the body charged with governance, was responsible for advising on whether the council should adopt the AGS.

The Director then responded to questions on the draft Annual Governance Statement.

Resolved – (a) That the draft Annual Governance Statement provided a sufficient level of assurance on the adequacy of the council's governance arrangements to allow the committee to fulfil its role; (b) that the Annual Governance Statement 2019-20 be approved and adopted on behalf of the council, and (c) that the Director of Governance and Partnerships be provided with delegated responsibility to make any amendments to the Annual Governance Statement resulting from the outcome of the audit of the statements of accounts and any additional sources of assurance received up to the date of the approval of the accounts. This was on the proviso that any subsequent changes to section 5 of the Statement would require further approval by the committee.

595 **LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN LETTER 2019-20** – The Director: Governance and Partnerships submitted a report on the Local Government and Social Care Ombudsman (LGSCO) Annual Letter 2020.

The LGSCO was a service that investigated complaints from the public about councils and some other bodies providing public services in England. It also investigated complaints about registered adult social care providers. It was the last stage of the complaints process, for people who had given the council or provider opportunity to resolve the issue first.

The LGSCO aimed to resolve cases informally where it could and determine the reasonableness of decisions of bodies being complained about. Its recommendations aimed to provide redress in cases of service failure and puts complainants back in the position they were in if any maladministration was found.

The Annual Review Letter 2020 was attached as appendix to the report. It summarised (i) the complaints upheld (ii) compliance with recommendations and (iii) satisfactory remedies by the local authority.

The LGSCO produced the reports and performance information to provide valuable insights into service areas, early warning signs of problems and was a key source of information for governance, audit, risk and scrutiny functions.

Resolved - That the Local Government and Social Care's Ombudsman's Annual Review Letter 2020 for North Lincolnshire be noted.

Report of the Director of Governance & Partnerships

Agenda Item No: 4
Meeting: 23rd November 2020

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

COUNTER FRAUD PROGRESS REPORT

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To inform Members of key issues arising from counter fraud work.

1.2 Regular reporting on counter fraud issues is an important source of assurance for Members to fulfil their role and provides supporting evidence for the annual approval of the Governance Statement.

2. BACKGROUND INFORMATION

2.1. The council's framework to combat fraud, corruption and misappropriation was approved by Audit Committee in April 2018. The framework follows national guidance as laid out in the document 'Fighting Fraud and Corruption Locally - The local government counter fraud and corruption strategy 2016-2019', published by the Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre and is based upon three key principles:

- Acknowledging and understanding fraud risks
- Preventing and detecting fraud
- Pursue - Being stronger in punishing fraud and recovering losses

2.2. This update (attached in appendix 1) highlights the work carried out in each of these areas and demonstrates the Council's continuing commitment to minimise the risk of fraud.

3. OPTIONS FOR CONSIDERATION

3.1 The Committee is asked to consider whether regular reports on proactive and reactive fraud work will provide sufficient assurance on the adequacy of counter fraud arrangements during 2020/21. The Committee is invited to ask questions about the contents of the report and seek clarification as necessary.

4. ANALYSIS OF OPTIONS

4.1 The progress report is designed to provide this Committee with the assurance required to fulfil its role effectively.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 Regular reviews of counter fraud arrangements should safeguard the council's assets and ensure that value for money is achieved in the use of resources. Minor costs associated with the telephone and publicity for the Hotline will continue to be maintained within the Finance Service budget.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 Regular reviews of counter fraud arrangements should minimise the risk of fraudulent attacks on Council finances and services.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (if required)

7.1 There is no impact assessment required for this report

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 There are no conflicts of interests to declare.

9. RECOMMENDATIONS

9.1 That the Audit Committee considers the assurance provided by the progress report on the adequacy of counter fraud arrangements, and:

9.2 That the Audit Committee considers whether the counter fraud work programme delivers a sufficient level of assurance on the adequacy of counter fraud arrangements.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

Church Square House
SCUNTHORPE
North Lincolnshire
DN15 6NL

Author: Mark Edwards
Date: 20.10.20

Background Papers used in the preparation of this report: None

SAFE WELL PROSPEROUS CONNECTED

Fraud six-month progress report

The Assurance People

NORTHERN LINCOLNSHIRE BUSINESS CONNECT

North Lincolnshire Council

www.northlincs.gov.uk

Introduction

This report highlights the work that has been carried out to minimise and mitigate the risks of fraud under the three key principles of:

- Acknowledging and understanding fraud risks
- Preventing and detecting fraud
- Pursue - Being stronger in punishing fraud and recovering losses.

Acknowledging and understanding fraud risks

The COVID 19 pandemic has significantly increased the risk of fraud to individuals, businesses and central/local government. Fraudsters quickly targeted the public, praying on their anxieties and concerns to offer fake health care goods such as masks, hand sanitisers or even fake test kits. As the governments financial response took shape, fraudsters continued to target the public, offering fake income tax or council tax refunds and other fake financial incentives. These frauds commonly use phishing e-mails or texts (mishing) to lead individuals to a fake website where they steal personal information.

The Council's response has been to include a warning to businesses and the public over the risks of fraud. These were quickly placed on the COVID-19 guidance and support pages on the Council website, with specific scams affecting council services (such as Council Tax) being highlighted on the relevant service areas web pages and the fraud web pages. Links to Action Fraud and the 'Take five to stop fraud' campaign have provided further information to help keep the public safe.

To implement the Government's commitments to support businesses and communities, councils were tasked with quickly designing and introducing various schemes, such as shielding hubs and the small business support grants scheme. Key to the success of these schemes was the early recognition within this council that they were susceptible to fraud. The Audit & Assurance team have supported the development of these schemes to minimise the risk of fraud losses whilst enabling those who need and are entitled to receive assistance.

Whilst some of the fraud risks that have arisen from the pandemic are almost immediate, such as those in the business support grant scheme, others may only appear once the economy begins to recover. For example, an increase in the number of Council Tax Support claims may not mean an increase in fraud at the time of the claim, but as people return to work or their circumstances change, this is where there is a potential for fraud/error if these changes are not reported. We will continue to work with colleagues in Local Taxation & Benefits to ensure all suspicions are referred to investigation as appropriate, to minimise any losses.

The pandemic, and specifically the effect on working patterns has necessitated a review of our fraud awareness activities. Whilst online content remains available, the use of visual prompts and reminders in offices is no longer effective as the majority of colleagues continue to work from home.

To ensure that the fraud awareness message is maintained and available to colleagues, we are in the early stages of creating a series of short online videos, covering the various aspects of fraud. These will be developed over the coming months.

Outside of the pandemic, we have worked with the procurement team (jointly with NELC) to develop a fraud risk assessment and will be facilitating a workshop with them in the near future. This will ensure that the greatest fraud risks are identified, and mitigated, thus protecting the whole procurement cycle.

We will also review the council Anti-Fraud Strategy to take account of the latest 'Fighting Fraud and Corruption Locally' strategy published by CIPFA and also to ensure it reflects the changing fraud risks as a result of the pandemic.

In addition, when planning individual internal audit assignments, the controls relating to the prevention of fraud are subject to risk assessment and if appropriate the effectiveness of their operation will be tested.

Preventing and detecting fraud

Part of the Government response to the Covid pandemic has been to provide financial support to the various sectors affected. Local Councils have been tasked with administering parts of these support packages, such as the small business grants scheme.

With the emphasis being on providing support to local businesses as quickly as possible, the Council developed a process to enable payments to be made quickly whilst protecting against fraud. Businesses were required to register and to provide evidence to support their eligibility. Initial checks were made against the Business Rates data held to identify eligible businesses and these were then subject to further verification checks using the Government spotlight data matching tool to quickly check whether businesses were still trading. Further evidence was obtained where necessary to ensure the payments were made to the correct businesses.

Information on the latest scams were disseminated quickly to the teams administering the grants, enabling further checks to be made where necessary. The result has been that locally, the scheme has not been defrauded by any of the national company scams that have been prevalent.

Our processes also developed to take account of other emerging frauds, particularly around late notifications of occupancy of properties. These applications were subject to further checking and identified one case (requesting a £10k grant) that was referred to the fraud team to investigate. Subsequent investigation established that the property remained unoccupied and the registration was cancelled.

Below is a breakdown of payments made (as at 20th October) including the number of registrations rejected as a result of the validation processes put in place.

Registrations for business support grants	3449
Number of individual businesses supported	2823
Total paid out to local businesses	£31,710,000
Registrations rejected in total	626

Through the controls developed to manage this process 626 registrations were rejected. It is not suggested that all these registrations were fraudulent. The majority may have been made in error. However, unchecked, a significant number of erroneous and potentially fraudulent registrations may have been paid.

The main reasons for rejection were:

- The business is not liable for business rates within North Lincolnshire
- The business property is beyond the North Lincolnshire boundary
- Account ended prior to 11th March 20 (key date in Government guidance)
- Account started after 11th March 20
- Duplicated registrations for same account reference
- Registrations for same property reference
- Registration did not comply with other Government set criteria
- Registration identified as fraudulent

The Audit team were also invited to act as 'critical friend' in reviewing the controls surrounding stocks and availability of PPE. The review provided assurance that stock controls and security risks were being properly managed to ensure that PPE equipment was available to all who require it at a time when there were well publicised shortages elsewhere.

The Covid pandemic has also had an effect on our ability to conduct day to day investigations. Since March, we have been unable to conduct face to face interviews either formally or informally, visit people's homes or other premises. This has required us to review and adapt our working processes. We have developed a method of telephone interviewing in order to conduct informal interviews and this is enabling us to continue to conduct investigations in a safe manner.

Whilst the Covid pandemic has dominated much of the counter fraud work undertaken (and will continue to do so) and how we conduct that work, we continue to support the National Fraud Initiative (NFI). Datasets are currently being submitted to the Cabinet Office and the next exercise should be with us in January 2021.

We are at an advanced stage in the procurement of data matching software to enable us to begin the rolling review of Council Tax single person discounts. The review will enable us to quickly identify potential households that have more than one adult in them that may no longer be entitled to a single residency discount. This will enable us to increase the amount of Council tax available for collection.

It is anticipated that the review will provide an additional £100k of Council Tax for collection. It will also support our response to the NFI single residency discount data match.

As part of its audit plan, Internal Audit is carrying out some specific proactive fraud work reviewing the controls in place for specific areas of risk, and where appropriate, carrying out substantive testing to establish the effectiveness of the controls and identify any unusual transactions. Testing is currently ongoing on areas including agency workers and income management processes. Further internal data matching processes are also being carried out.

Pursue- Being stronger in punishing fraud and recovering losses

Post payment assurance work around business support grants is being undertaken to identify any grants that may have been paid incorrectly. This is particularly important given the Government's emphasis on getting payments out quickly to support businesses. The council will pursue recovery of any incorrectly paid/fraudulent claims.

All losses identified (including those identified from reviews of single residency discounts) are pursued in line with the Council's debt recovery strategy.

All appropriate cases are considered for prosecution in line with the Council's policy on prosecution, taking into consideration both the evidential and public interest tests in the Code for Crown Prosecutors. However, at present we are unable to conduct interviews under caution due to restrictions in place on 3rd party access to council premises. This will impact on our ability to prosecute appropriate cases at present.

9 completed Council Tax Support investigations have identified excess awards of £6,995.39 in the period up to 20th October.

28 completed Council Tax discount investigations have identified increases in liability totalling £1,089 with a further £2,476 in backdated liability available for collection.

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Report of the Director of Governance & Partnerships

Agenda Item No: 5
Meeting: 23rd November 2020

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

GOING CONCERN ASSESSMENT AS AT 31ST MARCH 2020

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1. This report summarises the management assessment of the Council continuing to operate as a going concern for the purposes of producing the Statement of Accounts for 2019/20.

1.2. This report is provided as a working paper to the external auditor confirming the going concern assessment has been completed and the conclusion maintains the assertion the Council is a going concern as at the balance sheet date of 31st March 2020.

2. BACKGROUND INFORMATION

2.1 The Council is required to compile its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business. As part of this process the Council's appointed External Auditor require the Section 151 Officer to undertake a going concern assessment and assert if the Council can operate in the foreseeable future as a going concern.

2.2 As requested by the Council's appointed External Auditor Mazars, and as part of the closure of the 2019/20 financial statements, a going concern assessment as at the Balance Sheet date of 31st March 2020 has been completed. Considering the Covid-19 outbreak and the significant additional expenditure, and lost income, for the Council as well as the financial support provided by Government, this is increasingly important.

2.3 The CIPFA Code (para 2.1.2.9) states "an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern".

2.4 The concept of a 'going concern' assumes that an authority, its functions, and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

2.5 Where the 'going concern' concept is not the case, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.

3 OPTIONS FOR CONSIDERATION

3.1 To endorse the going concern assessment set out in Appendix 2.

3.1 To not endorse the going concern assessment set out in Appendix 2.

4 ANALYSIS OF OPTIONS

4.1 The need to confirm the Council remains a going concern is set out in detail in appendix 2 and is particularly important given the impact of the Covid-19 pandemic. Endorsing the going concern assessment as set out in this report will provide confidence in the Council's current financial position and enable external audit to obtain sufficient assurance on why the Council deems itself to be a going concern.

4.2 Not endorsing the going concern assessment set out in this report would impact upon the extent to which external audit can obtain sufficient assurance necessary to enable them to give an opinion on the Council's ability to continue as a going concern. This would have an impact on External Audit's opinion on the council's financial statements.

5 FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 Financial – based on the review undertaken, there is no imminent risk to the going concern assertion.

5.2 HR – no applicable.

5.3 Legal – the Council is required to compile its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting (hereafter referred to as the Code) as published by the Chartered Institute of

Public Finance and Accountancy (CIPFA). In accordance with the Code, the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.

6 OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 Not applicable.

7 OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 Not applicable.

8 OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable.

9 RECOMMENDATIONS

9.1 It is recommended that the committee endorses the going concern assessment set out in this report.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

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North Lincolnshire
DN15 6NL

Author: Adam Hopley/Mark Kitching
Date: 11th November 2020

Background Papers used in the preparation of this report
2020/21 Q1 Financial Monitoring and Medium-Term Financial Plan Update
International Standard of Audit (UK) 570
NLC Annual Governance Statement 2019/20

Appendix 1

REVENUE MONITORING POSITION 2020/21

REVENUE	Budget £000's	Potential Spend £000's	Risk £000's
EXPENDITURE			
Investment in Priority Areas	125,278	138,140	12,862
Running the Business (Technical)	26,780	26,699	(81)
NET OPERATING EXPENDITURE	**152,058**	**164,839**	**12,781**
FUNDING			
Council Tax, Business Rates and Government Grants	(150,133)	(150,133)	-
Use of Reserves	(1,925)	(1,925)	-
Covid-19 Funding (attributed to Covid-19 pressures)	-	(11,181)	(11,181)
TOTAL FUNDING	**(152,058)**	**(163,239)**	**(11,181)**
POTENTIAL VARIANCE	**-**	**1,600**	**1,600**

Appendix 2

GOING CONCERN ASSESSMENT

1. Current financial position

1.1. The Council is required to assess and determine that it is appropriate to prepare the financial statements on a going concern basis. The review should take account of all available information about the future, which is at least, but not limited to the next twelve months from the end of the reporting period.

1.2. Normally, councils publish their budgets for 2020/21 in February/March, which was before Covid-19 struck, therefore external audit expect local authorities to be updating their medium-term financial plans and 2020/21 budgets in response to Covid-19.

1.3. Where there is a 'material uncertainty' in the period, to at least 12 months from the date of authorisation of the financial statements for publication e.g. up to November 2021, external audit expect the Council to produce a summary report to the Audit Committee (or equivalent) to validate the going concern assertion.

1.4. Before the latest forecasts for 2020/21 are considered, it is important to note that the Council has a strong base from which to navigate the future from. It was able to contain costs better than it had forecast being able to during the financial year and increased the balance of available reserves. The Council has a strong track record of managing risks and costs and will need to continue to so over the coming years.

1.5. It is also important to note that going concern can be impacted by sector wide issues that do not just impact on this Council. For instance, the impact of Covid-19 is considered at length in this report and has an impact on income and expenditure. But crucially, it impacts all local authorities to a large extent, and in recognition of this the Government have provided significant sums of additional funding, thereby attempting to neutralise its impact at a national level. North Lincolnshire has received £13.3m in grant funding to mitigate pressures due to additional covid-19 related spending, in addition to millions more in grants have been provided for specific purposes. It has also distributed £33.4m in grants to small businesses.

1.6. The Council amended its monitoring protocols during the current year in order to further improve its line of sight and timeliness in respect of financial information. At the end of the first quarter of 2020/21, an overspend of £1.6m was forecast which reflected an amalgamation of expenditure and income risks predominantly because of the Covid-19 pandemic. Crucially, this position was and is expected to remain volatile throughout the remainder of the financial year and was characterised as such. The quarter one forecast position can be seen in Appendix 1. The quarter two position is due to be taken to Cabinet this month.

1.7. The financial impact cuts across expenditure and income. Key expenditure changes include increased activity and PPE costs within social care, provider sustainability, supporting the shielding operation, and pressures created from delays to the implementation and delivery of cost base reductions.

1.8. The Council also generates income through other sources of fees, sales and charges through, leisure and culture sites, car parking, and commercial rents. All of these income streams have been impacted, quite significant in some cases, as a result of the current situation. The Government has introduced a grant scheme that will compensate councils for most of these losses in 2020/21.

1.9. The pandemic has changed the way of life for people across the country, and it is hoped that scientific developments will ultimately mean the current changes to delivery models are temporary. But in the short term they are expected to remain with continuing impacts to service delivery models.

1.10. Officers have been clear on the uncertainty inherent in current financial forecasts, specifically because of the volatile nature of the pandemic leading to changes in policy decisions. The reported position excludes any additional income that may be receivable through fees and charges scheme and any funding variance will crystalise as a deficit on the council's collection fund. The Government has introduced legislation to require councils to spread any estimated deficit relating to council tax over the next three financial years. Further to this an announcement is expected, as part of the Local Government Settlement in December, setting out how government will also fund a portion of any such deficit.

1.11. The Council set a funding base back in February which reflected economic conditions at that time. The pandemic is expected to have an impact on local taxation, which make up around 78% of the net funding base in 2020/21. However, the impact is highly uncertain, as they are linked to the size and scale of Government support schemes. Business grants, additional business rate relief, council tax hardship payments and the help provided by the furlough scheme mean that the amount owed is collectively lower, and that Government support should help people to meet their obligations. Collection rates are tracking broadly 0.5% down on council tax, business rates are holding up albeit with much less due to be paid because of the impact of additional reliefs. Any variance in business rates or council tax income will manifest in 2021/22 through the collection fund mechanism.

1.12. As the reported position in year is not material, any overspend (should it materialise) would be drawn from useable reserves.

Projected financial position

1.13. The Council approves a multi-year medium term financial plan in February/March, and then keeps this actively under review to ensure it remains right and deliverable, relative to the Council plan. As part of the Council's response, the Council is actively reviewing its plans and assessing which operating model changes are likely to remain.

It is also looking at maximising the opportunities brought about by the pandemic, specifically the success of working differently and what this could mean for improved operating models in the future.

1.14. Covid-19 continues to have a significant impact on the country, with a second lockdown currently in force. The situation is fast changing and means high levels of uncertainty in regards to the longer-term impact of the pandemic. This includes the economy, which impacts closely upon employment, council tax and business rates. It also includes the level of structural need in our area, with the potential for increases. The economy has a direct correlation with Council funding, the level of local need as a direct relationship with the Council's cost base.

1.15. The Government has made large interventions across both elements in 2020/21, with significant increases in grant funding for public bodies and large scale support for businesses via grants and additional reliefs and residents through the furlough scheme and council tax hardship. The progression of the virus in 2021/22 together with the actions taken by the Government will impact on the local economy and local need.

1.16. There are expected to be some clear signals from the Government on the approach it is likely to take in 2021/22 when the Chancellor presents the results of the 2020 Spending Review. The Local Government finance settlement will then establish more specific detail in December.

1.17. The Council has undertaken extensive modelling during 2020/21 encompassing all of the relevant information available. In its September update to Cabinet, it presented a revised funding position which showed a reduction of £3.6m (excluding reserve adjustments) in 2021/22 and £2.5m in 2022/23 (excluding reserve adjustments). Note that this position has been helped by a large renewable development being allocated to the area.

1.18. The funding base presented to Cabinet set out revised planning assumptions, which included impairment to the taxbase growth projection, and an increase in the amount not expected to be collected (for reasons including write-off, empty property relief, and council tax support). These assumptions are continually being refined as and when more data becomes available.

1.19. The financial planning process led by Senior Leadership is progressing the development of initiatives which would enable the Council to live within reduced means, if necessary. However, there is a possibility that the Government could increase grant funding in 2021/22 as it has during the current year.

1.20. These uncertainties will be reassessed on a regular basis throughout the budget setting process. The refreshed medium-term financial plan will cover a three-year period acknowledging uncertainties in relation to the comprehensive spending review, local government funding reform and potential local government reorganisation.

Balance sheet

1.21. The councils net assets, excluding the pension liability, has remained relatively stable for the past four financial years. In 2019/20 it increased by £30m to £399m. The council's net assets, including the pensions liability, has remained positive but is far more volatile.

1.22. Whilst the council's net assets value is less important than a private sector organisation's a downward trend or sudden decline would still be a warning sign that the council may be having financial difficulties. The stability and most recent increase in this council's net assets does not indicate any such issues.

1.23. The Council has a reserves strategy which governs the deployment of reserve balances and the level necessary to be held. The reserves strategy bears a direct relationship with the level of known risk and is deemed to be an adequate level of reserves. The level of available reserves increased during the 2019/20 outturn to a level higher than anticipated when the budget was set.

Cash flow

1.24. The Council maintains short- and long-term cash flow projections. The Council maintains long term borrowing commitments to support the capital investment strategy and the asset management strategy. Borrowing is predominately undertaken from the Public Works Loan Board (PWLB).

1.25. As at the 31 March 2020 the Council held £25.2m of investments (£18.7m, March 2019). Also, as at the 31 March 2020 total debt was £193.7m (£180.1m, March 2019). Net borrowing has reduced during 2020/21 to date.

1.26. The current operational boundary for long term debt is set at £286.5million for 2020/21 with an authorised limit set at £324.5m to allow for any unforeseen borrowing needs. The limits have been increased marginally in later years of the plan to support delivery of the capital investment strategy and therefore the Council plan.

Governance arrangements

1.27. The most recent and comprehensive assessment of the council's Governance arrangements is the Annual Governance Statement. The statement does not identify any significant issues with the council's governance arrangements.

Regulatory and control environment applicable to the Council as a local authority

1.28. The Council operates within a highly legislated and controlled environment. The Council is required to set a balanced budget each year considering the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and central government control there are other factors such as the role undertaken by External Audit as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

Report of the Director:
Governance and Partnerships

Agenda Item No: 6.1
Meeting: 23 November 2020

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

AUDITED ACCOUNTS 2019/2020

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 The council's unaudited accounts were approved by the Director Governance and Partnerships on 3 July 2020. This met the statutory requirement that they be approved by 31 August 2020.

1.2 The accounts have since been audited and the external auditors have set out their findings in their audit completion report. This committee now needs to consider the proposed amendments and approve the changes to the accounts that result from it. It is a statutory requirement that this process concludes by 30 November 2020.

1.3 It is expected that the council's external auditors will issue an unqualified opinion on the accounts, but due to the current Covid-19 pandemic, there will be an Emphasis of Matter paragraph to draw the reader's attention to the fact there may be material uncertainty in relation to the valuation of land and buildings, investment properties and property investments within the pension fund valuation.

2. BACKGROUND INFORMATION

2.1. The Accounts and Audit Regulations 2015 (England) require the Council to publish a statement of accounts each financial year. These accounts are the formal statement of the Council's financial performance for the year and its financial position at the end of that period. A financial year runs from April to March.

2.2. The legislation relating to the timescale for the production and audit of the accounts was amended for the 2019/2020 financial year due to the Coronavirus Pandemic. These changes were incorporated into the Accounts and Audit (Coronavirus) Amendments Regulation 2020 (SI 2020/404).

2.3. The production of the draft accounts deadline moved from 31 May to 31 August 2020. The audit completion date moved from 31 July to 30 November 2020.

2.4. The council's unaudited accounts were approved by the Director Governance and Partnerships on 3 July 2020. This met the statutory requirement that they be approved by 31 August 2020.

2.5. The International Standard on Auditing 260 – 'The Auditor's Communication with Those Charged with Governance (ISA 260)' requires auditors to report certain matters arising from the audit of the council's financial statements before giving an opinion on them.

2.6. The report from the council's Auditors (Mazars) is attached. It sets out the matters arising from the audit of the council's 2019/2020 accounts. Staff from Mazars will present the report to Committee. A copy of the amended accounts is included with this report.

Main Findings within the report

2.7. It is expected that an unqualified opinion on the council's accounts with an Emphasis of Matter paragraph included in relation to uncertainty around valuations.

2.8. It is expected that an unqualified opinion on the council's arrangements for securing Value for Money will be issued.

2.9. In relation to internal controls the report recommends that:

- a check is put in place to ensure the Pensionable pay figure within the annual actuarial report is checked to ensure it is the same as the figure provided
- valuation certificates include arithmetic checks to ensure they are accurate
- a comparison of new Property, Plant and Equipment valuations to net book values plus in-year depreciation takes place at year-end
- the sample checks that are undertaken of authorised signatories on creditor invoices are documented

A manger's response has been provided for each of these areas and processes will be put in place to prevent them from occurring in the future.

2.10. 1 unadjusted misstatement was identified in relation to the Cash Flow statement

- The cash flow statement included a balancing figure of £311k within the working papers.

The value was investigated but it was decided that no adjustment would be made within the financial statements.

2.11. 1 Adjusted misstatement was identified in relation to the defined benefit liability valuation.

- The pensionable pay figure was incorrect within the actuary's report

A revised actuary report has been received and the figures have been worked through the statement of accounts attached to this report. It is unclear why the actuary did not use the figures we had provided to them.

2.12. 5 disclosure amendments were identified:

- Cash Flow Statement – a small transposition error had occurred
- Note 18 Financial Instruments – Non-contractual obligations were taken out of the creditors figure (eg. NNDR, Council Tax, National Insurance).
- Note 31 Officers' Remuneration, Exit Packages – One payment for lieu in notice was omitted in error and a difference between an estimated and actual amount paid was updated.
- Note 32 External Audit Costs – updated to include the fee for the work on Teachers' Penson Return for the 2019/2020 at the request of the auditors.
- Note 31 Officers' Remuneration, Over £50k table – prior to the audit starting this table was amended to split the total between Teachers and Other Staff. As it is a change to the signed draft accounts it has been noted here as a change.

2.13. 1 Unadjusted disclosure amendments:

- Due to the error found on the Exit Packages disclosure, the known error was extrapolated and projected an understatement of £22k. This is a projected error only and has not been amended for with the statement of accounts.

2.14. International Standard on Auditing 580 'Management Representations' requires auditors to obtain written confirmations of appropriate representations from management before the audit report is issued. A proposed letter of representation is attached, which the Committee is asked to approve and authorise the Chair of the Audit Committee and the Director Governance and Partnerships to sign.

2.15. Additionally, IAS 570 requires a specific statement on the applicability of the 'Going Concern' concept to the council. The accounts have been prepared on a going concern basis. A review of the applicability of the concept to the council can be seen in a separate report to this Committee.

3. OPTIONS FOR CONSIDERATION

3.1. The Statement of Accounts for 2019/2020 be received and approved.

3.2. That the Committee considers the Auditor's Audit Completion Report (ISA 260) report and note its findings.

3.3. The Audit Committee are also invited to endorse the signing of the Letter of Representation.

3.4. Delegate approval to the Chair and the Director Governance and Partnerships to approve the audited set of accounts on behalf of the Audit Committee following the completion of all audit work.

4. ANALYSIS OF OPTIONS

4.1. Statutorily the accounts must be approved by the 30 November 2020. The Committee should ask sufficient questions to gain assurance that the draft accounts present fairly the financial position of the council.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

5.1 The accounts present the council's financial position as at 31 March 2020.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 The Accounts and Audit Regulations 2015 (England), amended by the Accounts and Audit (Coronavirus) Amendments Regulation 2020 (SI 2020/404), require that each authority prepare and approve its accounts by 31 August and publish them by 30 November. The format and content of the accounts is also governed by the IFRS Code of Practice issued by CIPFA.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable.

9. RECOMMENDATIONS

9.1 The Statement of Accounts for 2019/2020 be approved.

9.2 The contents of the Audit Completion Report be noted.

9.3 The Audit Committee endorse the signing of the Letter of Representation by the Chair of the Audit Committee and the Director Governance and Partnerships.

9.4 Delegate approval to the Chair of the Audit Committee and the Director Governance and Partnerships to approve the audited set of accounts on behalf of the Audit Committee following the completion of all audit work.

DIRECTOR GOVERNANCE AND PARTNERSHIPS

Church Square House
High Street
Scunthorpe
North Lincolnshire
DN15 6NL

Author: Sarah Milburn
Date: 13 November 2020

Background Papers used in the preparation of this report

- Statement of Accounts 2019/2020
- CIPFA Accounting Code of Practice
- International Standard on Auditing 260

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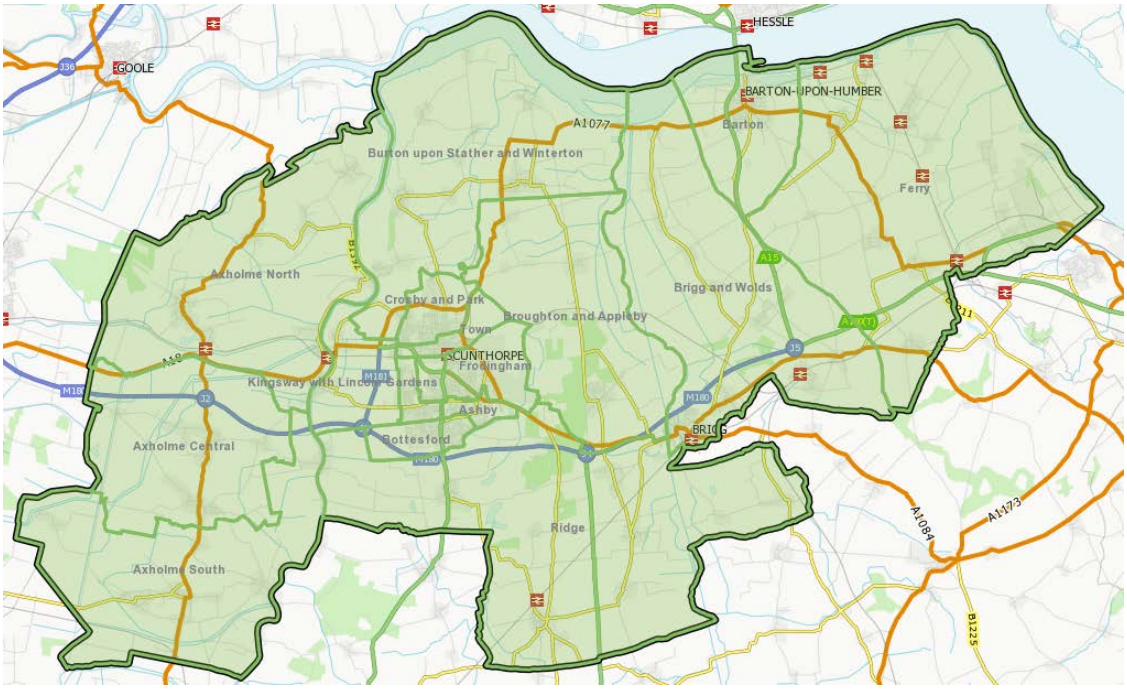
North Lincolnshire Council

www.northlincs.gov.uk

North Lincolnshire Council Statement of Accounts

FINANCIAL YEAR 2019/2020



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Narrative Statement

These financial statements have been prepared in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 (the Code). The purpose of this narrative statement is to explain, in an easy to understand way, the financial facts in relation to the council.

This Statement of Accounts explains North Lincolnshire Council's financial performance during the year 2019/2020 and its financial position at the end of that year. It follows approved accounting standards and is necessarily technical in parts.

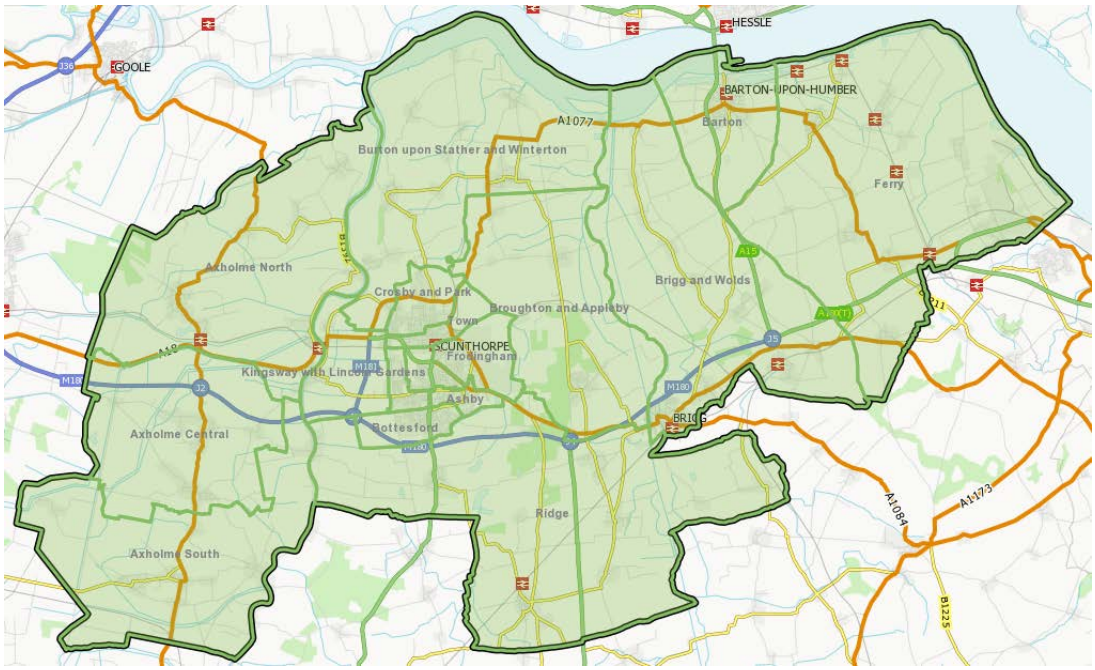
The Narrative Statement is not part of the financial statements but is prepared on the basis that it is consistent with the financial statements. Its purpose is to comment on the financial performance of the council and the economy, efficiency and effectiveness in its use of resources over the financial year.

Overview of the Area and Council

North Lincolnshire Council is a Unitary Authority with the powers of a Non-Metropolitan County and a District Council. This means it is responsible for a hundreds of essential local government services. To deliver these services it employs a workforce of around 3,100 people, making it a major local employer.

The Council operates a strong Leader and Cabinet model. There are 43 elected members that represent 17 wards. 2019/2020 was the first year of a third four-year term for the ruling Conservative group. The current council consists of 24 Conservative, 14 Labour, 1 independent councillors and 4 vacancies.

North Lincolnshire has an estimated population of around 171,000 people and an area of 849 km^2. It is largely rural, including market towns and settlements of Brigg, Crowle, Epworth, Barton upon Humber, Winterton, Broughton, Kirton in Lindsey, Barnetby Le Wold, Haxey and Messingham. The major sub-regional towns of Scunthorpe and Bottesford are home to almost half of North Lincolnshire residents. It has excellent links with the national road and rail network.



Accounts Timetable

The Covid-19 Pandemic and the resulting lockdown has had an impact on almost all sectors of the economy. Recognising the issues with preparing accounts during this period the Ministry of Housing, Communities and Local Government (MHCLG), following consultation with key stakeholders, introduced legislation to amend the deadlines for the 2019/2020 accounts. The draft accounts must be approved by the council's Chief Financial Officer by 31st August 2020 and the audit of accounts concluded by 30th November 2020. The dates would otherwise have been 31st May 2020 and 31st July 2020. In addition, the accounts inspection period must now start on, or before, 1st September 2020 rather than incorporating the first ten working days in June.

Vision and Ambition

North Lincolnshire Council's main purpose is to **Lead** the place of North Lincolnshire; **Promote** prosperity and wellbeing; **Prevent** harm and **Prioritise the most vulnerable,** in order to achieve better outcomes for the people and place of North Lincolnshire. The outcomes are themed under four areas:

- Safe
- Well
- Prosperous
- Connected

The council is ambitious for both the people and the place of North Lincolnshire working to be the best place for residents and for the council to be the best it can be. The council operates to a clear values base of integrity; excellence; self-responsibility and equality of opportunity.

Over the last couple of years the council has implemented a substantial transformation programme centring on establishing clear direction for the organisation, implementing the organisational model, introducing a new programme of organisational development, and investing in new technologies and workspaces to become more agile and efficient in how it does business and provides services to its residents. This has been achieved whilst keeping and improving its strong needs-led services performing at high level during this period of intense change.

North Lincolnshire Council's overarching principle in its operating framework is an enabling approach and a key success factor in the resilience of individuals and communities. This strategic approach promotes self-responsibility and avoids legacy demand.

The Council gears its capacity around new ways of working and how it can maximise the impact of scarce resources to improve outcomes. Our operating principles help the Council to achieve its organisational goals of being sustainable, enabling, commercial and progressive:

- Prioritising resources to agreed priorities
  - Keeping people safe and well
  - Enabling flourishing communities
  - Growing the local economy
- Acting early to prevent failure and the escalation of need
- Keeping close control of high-risk functions and services
- Where it delivers better outcomes and value for money:
  - alternative delivery for low-risk, high-volume services
  - Commissioning or integration with partners
- Investing to save and to transform

A one council team approach has created the conditions to implement large scale change whilst delivering high quality services to residents.

Financial Performance 2019/2020

The Council set its Medium Term Financial Plan (MTFP) 2019/2024 and budget for 2019/2020 in March 2019.The council's investment in revenue activities in 2019/2020 was £1144.7m revenue and capital investment £32.2m.

The budget made the following assumptions:

- A Council tax base of 49,442 which had increased by 1.7% from 2018/2019
- Business rates growth - £8.4m, over baseline
- Planned use of non-earmarked reserves of £1.3m in 2019/2020
- Use of Capital Receipts Flexibility for transformation (£1.5m)
- Support to the capital programme from capital receipts (£7.0m for 2019/2020 and £3.5m for 2020/2021)
- And external borrowing of £28.6m (this reduced due to re-phasing in year)

The Financial Strategy 2019/2023 identified risks and opportunities in settings the budget and medium term financial plans, including demand pressures within Adults and Children's social care; achieving full cost recovery for traded services; achieving growth in the tax base and allowing for business rates appeals.

Good track record of effective financial management

In every year since its creation in 1996 the Council's accounts have been 'unqualified'; with a positive value for money judgement. This position is supported by examples of good practice and financial management across the council, including:

- Consistently well managed demand in children's and adults social care over a long period
- Effective partnership working with the education sector – for example resolving pressures on High Needs Dedicated Schools Grant through clear ownership of the whole system challenge and agreed interventions
- Systems leadership across Health and Care sectors– with, for example, low rates of delayed transfers of care and integrated intermediate care services

Review of outturn position

Service budgets are monitored on a regular basis throughout the year, and a Council level budget position is collated quarterly. The outturn for 2019/2020 was reported to Cabinet in June 2020. The outturn shows net operating expenditure of £144.6m 1.1% above the budget. The Council overall has achieved its objectives and levels of performance and quality with a modest overspend. Some significant pressures were reported during the year but one-off savings in staffing, central and technical budgets, including cost of capital and unused contingency, partially mitigated these by year-end. Capital delivery achieved 81.4% of the original programme for the year.

The Council continues to manage cash balances and debt in line with the approved Treasury Management and Investment Strategy with the Council spending less on debt interest during the year and reducing capital financing cost as a proportion of the net revenue stream. A mid-year update report was presented to Full Council in January 2020.

	2019/20		
	Budget	Actual	Variance
Investment in Service Functions	119,356	124,132	4,776
Central & Technical Functions	23,798	20,533	-3,265
Revenue Investment	**143,154**	**144,665**	**1,511**
Funding & Reserves	**-143,154**	**-144,665**	**-1,511**

In late March 2020, the council received £8.9m of Covid-19 pandemic related grants. These grants were the first tranche of the Business Support Grant and the first tranche of a Grant to compensate the council for any additional costs or lost income due to the pandemic. These grants related, in the main, to the 2020/21 financial year and have therefore been carried forward in the revenue grants earmarked reserve (see note 10).

Capital Investment Programme Summary

			2019/20		
Capital Spend	**Budget**	**Actual**	**Variance**	**Rephasing**	**Remaining Variance**
Keeping People Safe And Well	450	410	-40	41	**1**
Enabling Communities To Flourish	7,435	5,788	-1,647	1,670	**23**
Growing The Economy	25,592	22,670	-2,922	3,568	**646**
Running the Business	5,613	3,284	-2,329	2,334	**5**
Total Investment	**39,090**	**32,152**	**-6,938**	**7,613**	**675**
Capital Financing	**Budget**	**Actual**	**Variance**	**Rephasing**	**Remaining Variance**
Revenue Financing	161	181	20	0	**20**
Capital Receipts*	3,051	980	-2,071	337	**-1,734**
Grants	19,240	16,393	-2,847	2,818	**-29**
Borrowing	16,638	14,598	-2,040	4,458	**2,418**
Total Financing	**39,090**	**32,152**	**-6,938**	**7,613**	**675**

Recent Achievements and Performance

The council has continued its excellent track record in delivering high performing and value for money services. All council services and functions that are externally regulated or validated have current inspection ratings and verifications of good or better.

Indicators of high and improved performance include:

Keeping People Safe & Well

Outcome Indicator: Safer People

- All people supported by social care and carers have self-directed support, which allows people to be in control of the support they need to live the life they choose. For this measure we are joint top performance in England
- 9 out of 10 people accessing rehabilitation/reablement are able to maximise their independence and remain at home. This is a provisional position, expecting to be top quartile performance when compared to other English authorities

- 9 out of 10 people who received a short-term service from adult social care went on to need no further support or a lesser service. This is a provisional position, expected to be top quartile performance when compared to other authorities across England
- 9 out of 10 adult care provision is rated by the Care Quality Commission as good or outstanding (Jan 2020)
- 99% of children's services assessments were completed and 92% authorised within 45 days. This compares to the latest national and statistical neighbour averages of 83% and 87% respectively, placing us in the top quartile.
- All child protection conferences were held within timescale. We are at maximum performance and this places us in the top quartile and well above the latest national average of 79% and the statistical neighbour average of 87%.
- At the end of 2019/20, our children in need rate was 260.1 per 10,000, below the latest national average of 334.2 and the statistical neighbour average of 348.5. The children in care rate was 65 per 10,000, in-line with the latest national average of 65 and the lower than the statistical neighbour average of 74.
- 92% of Adults Financial assessments were carried out within timescale

Outcome Indicator: Safer Communities

- 9 out of 10 of streetlamps with faults were restored to working condition within timescale

Outcome Indicator: Quality Housing

- The number of people who became statutorily homeless is low with more work being done at the prevention stage.
- The number of households in temporary accommodation is low and is in the top quartile nationally (Dec 2019)
- An extra 418 residential properties were made available

Outcome Indicator: Cleaner & Greener

- 56% of household waste was recycled or composted (Dec 2019) and is in the top quartile nationally
- The amount of waste sent to landfill is minimal (Dec 2019) and is in the top quartile nationally
- All of the 2,000+ reported fly tipping incidents were cleaned up
- 99.9% of waste collections were completed

- **Growing the Economy**

Outcome Indicator: Excellent Education

- 9 out of 10 children attend a school rated good or better
- All children attended Early Years provision which is rated good or better
- 9 out of 10, 3 & 4 year old children benefited from early education in good or outstanding providers (March 2020)
- 9 out of 10 parents/guardians of 2 year olds took up the entitlement to early learning, with all children attending good or outstanding provision (March 2020)
- All out of schools clubs were rated good or better
- 95% of children were allocated their first choice of Primary school for September 2020 and 93% their first choice of secondary school

- **Enabling Communities to Flourish**

Outcome Indicator: Accessible Transport

- 2.7m bus passenger journeys were made in North Lincolnshire

Outcome Indicator: Flourishing Communities

- 99.2% of potential electors in North Lincolnshire are registered to vote

Financial Outlook

Medium Term Financial Strategy

In a time of significant readjustment to the public finances the council has made substantial efficiency savings year on year, while maintaining or improving services to local people. It is also dealing with a range of social, demographic and legislative challenges which increase demand on the council's resources. It is paramount that the council takes the right steps to drive a robust and financially sustainable position. Without that, the achievement of the best outcomes for local people is compromised. For that reason the council must continue to develop, modernise and change the way it operates.

The financial strategy for achieving a sustainable council is therefore to:

- Support growth in the local economy to increase prosperity, to build community resilience and have better outcomes for people

- Invest in its workforce to ensure need is well-managed whilst maintaining quality of service and improving performance

- Find innovative ways of delivery which integrate services across the council and with partners around people and North Lincolnshire, whilst utilising the council's resources wisely

- Ensure financial decision making is based on robust plans that match our ambition and secures value for money

- Maximise income through growing the tax-base; investing wisely in commercial activity; ensure full cost recovery in commercial services; and take full advantage of opportunities to access external funding sources which will support the council's ambitions.

The mechanisms for translating this Financial Strategy into action are the annual budget and Medium Term Financial Plan (MTFP). These are the means for allocating resources to priorities, identifying areas for investment and disinvestment, and for directing organisational delivery of statutory duties and council ambitions. To provide appropriate discipline to the MTFP process, the council works to a set of budget principles to guide resource decisions, and these are set out in the table below:

Values (Council Plan)	**Principles for Council Sustainability**
Integrity	We will: • be guided by our goals; enabling, progressive and commercial outcomes • consider all options before arriving at the most effective and efficient delivery model • spend the money we have in line with our place priorities • keep the lowest possible council tax, whilst delivering value for money • generate commercial income to balance the budget • keep high risk close • consider subsidising where there is social value • transition towards a greener North Lincolnshire •

Excellence	We will: • ensure spending demonstrates improvement and better outcomes • use market intelligence, guided by residents' opinion to inform decisions • use place leadership to influence excellence
Self-Responsibility	We will: • promote and enable communities/organisations/businesses to do more for themselves to deliver for local people and places • make decisions that are progressive on environmental matters
Equality of Opportunity	We will: • spend proportionately to ensure equality of opportunity • use alternative provision where it exists in low risk, low cost areas

National Context

The Government had planned to undertake its next Comprehensive Spending Review in 2019 but this was postponed to 2020. These reviews represent a national re-prioritisation exercise that considers the overall availability of resources for public services and distributes according to policy priorities. The spending review is the mechanism by which Government will take a view on locally generated resources when determining the national grant level. It will set the quantum available to fund Local Government. The state of public finances has improved over the past few years. However, the effects of the Covid-19 pandemic on the economy will have a significant but as yet unquantified impact.

The Government had been planning several reforms to public services and Local Government funding. These include a green paper on the future of social care, the introduction of 75% retention of business rates (currently it is 50%) combined with a reset of the system, the revaluation of business rates in 2021 and a fair funding review. All of these initiatives have now be postponed. The council's forward MTFP takes a neutral stance on all these proposed changes to funding until further detail emerges. There is likely to be a phasing in of changes to moderate the pace of redistribution, and the council has a good track record of managing resource changes.

However, there is an inherent risk that the Council may not benefit from the structural changes to Local Government finance, and from the Comprehensive Spending Review, and it must have enough resilience to withstand this. The council is taking steps to put itself on a sustainable footing so that it has more control over its future finances. It is doing this through its economic growth plan, working with the business sector in an innovative way to promote the area and grow the local economy; to communicate successes and the high standard of local services and quality of life measures; through building individual and community resilience through early intervention and building the sense of place; through defining the community offer and public engagement; and by releasing the potential of its workforce through its transformational Organisational Development Plan. It is also taking an intelligent approach to risk management, clarifying its risk exposure and risk appetite, and putting in place the necessary risk management arrangements.

Covid-19

The pandemic has resulted in additional financial pressures on the council in 2020/21. It has incurred additional expenditure in several areas. The most significant being Adult Social Care, Education, Children's Social Care and Public Health. In addition, it has suffered losses of income. The most significant losses are anticipated to be in Council Tax, Business Rates and Leisure. Government grants currently totalling £9.7m have been received to offset these pressures. Additional funding for Local Authorities of £500m to meet more of the costs of the pandemic and a grant scheme to offset a proportion of council's income losses were also announced in early July 2020.

In the longer term the council is likely to face reduced income from Business Rates and Council Tax due to the impact of the pandemic on the national and global economy. The council will adapt its operating model to reflect the learning from the Covid-19 pandemic and ensure the council remains financially resilient and sustainable in the longer term.

Conclusion

North Lincolnshire Council is a high performing and ambitious Council. It has a clear set of priorities that are outcomes focussed and continues to transform its services and processes to achieve its ambition. The environment in which the Council operates has seen major changes over the past decade and this will continue for the foreseeable future, with the Covid-19 pandemic adding additional uncertainty to an already uncertain future. These changes bring with them their own set of opportunities and risks. The Council is adopting a flexible and adaptable approach to maximise the potential from the opportunities and manage the risks. At the same time setting a clear strategic intent to become financially sustainable to ensure the vital services it provides continue. The Council's financial performance in 2019/2020 provides a firm financial basis for the next phase of transformation. The Council was able to contain its spending at slightly more than its overall funding envelope but was able to minimise the drawdown of reserves and increase its general balances.

Statement of Responsibilities

The Council's Responsibilities

The council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Director: Governance and Partnerships.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Director: Governance and Partnerships' Responsibilities

The Director: Governance and Partnerships is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director: Governance and Partnerships has:

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

Director: Governance and Partnerships has also:

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

Certificate of the Chief Financial Officer

I certify that:

(a) the Statement of Accounts for the year ended 31st March 2020 has been prepared in the form directed by the Code and under the accounting policies set out in note 1.
(b) in my opinion the Statement of Accounts presents fairly the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year.

R McIntyre
Director Governance and Partnerships
Date of certification: November 2020

Audit Committee Approval of Statement of Accounts

In accordance with Regulation 9 (2) of the Accounts and Audit Regulations 2015, I certify that these Accounts were approved by the Audit Committee at the meeting held on 23 November 2020.

Chair of Audit Committee
Date of Approval: November 2020

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Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards (IFRS), rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with statutory requirements, which may be different from the accounting cost. The taxation position is shown in both the Expenditure Funding Analysis and the Movement in Reserves Statement.

2018/2019 Expenditure £000	2018/2019 Income £000	2018/2019 Net £000		Note Number	2019/2020 Expenditure £000	2019/2020 Income £000	2019/2020 Net £000
13,830	(1,583)	12,247	Business Development		8,614	(4,398)	4,216
74,051	(44,232)	29,819	Governance and Partnerships		68,562	(40,934)	27,628
58,418	(12,991)	45,427	Operations		69,592	(10,572)	59,020
1,800	(1,706)	94	Public Health		7,445	(7,611)	(166)
49,923	(31,624)	18,299	Learning, Skills and Culture		48,082	(32,173)	15,909
24,659	(3,700)	20,959	Children and Community Resilience		25,553	(3,939)	21,614
57,618	(22,535)	35,083	Adult and Community Wellbeing		58,314	(26,821)	31,493
68,641	(66,771)	1,870	Schools		73,041	(70,172)	2,869
348,940	**(185,142)**	**163,798**	**Cost of Services**		**359,203**	**(196,620)**	**162,583**
11,197	0	11,197	Other Operating Expenditure	**11**	2,991		2,991
35,664	(22,239)	13,425	Financing and Investment Income and Expenditure	**12**	23,266	(10,751)	12,515
0	(154,937)	(154,937)	Taxation and Non-Specific Grant Income and Expenditure	**13**		(150,959)	(150,959)
395,801	**(362,318)**	**33,483**	**(Surplus) or Deficit on Provision of Services**		**385,460**	**(358,330)**	**27,130**
		1,555	Surplus or deficit on revaluation of Property, Plant and Equipment	**14**			(27,292)
		(1,096)	Impairment losses on non-current assets charged to the Revaluation Reserve	**14**			(2,990)
		45,624	Re-measurement of the net defined benefit liability/(asset)	**39**			(95,820)
		46,083	**Other Comprehensive Income and Expenditure**				**(126,102)**
		79,566	**Total Comprehensive Income and Expenditure**				**(98,972)**

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the council, analysed into usable reserves and other unusable reserves. The statement show how the movements in year of the council's reserves are broken down between gains and losses incurred in accordance with International Financial Reporting Standards (IFRS) and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following these adjustments.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves of the Council £000
Balance Sheet as at 31 March 2018	**6,858**	**30,489**	**1,122**	**9,670**	**48,139**	**108,691**	**156,830**
Movement in reserves during 2018/2019							
Total Comprehensive Income and Expenditure	(33,483)	0	0	0	**(33,483)**	(46,083)	**(79,566)**
Adjustments from income and expenditure charged under the accounting basis to the funding basis	32,742	0	(122)	883	**33,503**	(33,503)	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(741)**	**0**	**(122)**	**883**	**20**	**(79,586)**	**(79,566)**
Transfer to or from Earmarked Reserves	741	(741)	0	0	0	0	0
Increase/(Decrease) in 2018/2019	**0**	**(741)**	**(122)**	**883**	**20**	**(79,586)**	**(79,566)**
Balance Sheet as at 31 March 2019	**6,858**	**29,748**	**1,000**	**10,553**	**48,159**	**29,105**	**77,264**
Movement in reserves during 2019/2020							
Total Comprehensive Income and Expenditure	(27,130)	0	0	0	**(27,130)**	126,102	**98,972**
Adjustments from income and expenditure charged under the accounting basis to the funding basis	34,114	0	1,174	4,196	**39,484**	(39,484)	**0**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**6,984**	**0**	**1,174**	**4,196**	**12,354**	**86,618**	**98,972**
Transfer to or from Earmarked Reserves	(6,684)	6,684	0	0	0	0	0
Increase/(Decrease) in 2019/2020	**300**	**6,684**	**1,174**	**4,196**	**12,354**	**86,618**	**98,972**
Balance Sheet as at 31 March 2020	**7,158**	**36,432**	**2,174**	**14,749**	**60,513**	**115,723**	**176,236**

Balance Sheet

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

31st March 2019 £000		Note Number	31st March 2020 £000
488,036	Property, Plant & Equipment	**14**	510,178
1,289	Heritage Assets	**15**	1,576
55,409	Investment Property	**16**	58,250
957	Intangible Assets	**17**	728
0	Long Term Investments	**18**	0
354	Long Term Debtors	**18/20**	343
546,045	**Long Term Assets**		**571,075**
337	Inventories		358
38,216	Short Term Debtors	**18/20**	29,387
12,675	Cash and Cash Equivalents	**21**	30,767
10,172	Assets held for sale	**22**	8,867
61,400	**Current Assets**		**69,379**
(46,860)	Short Term Borrowing	**18**	(51,993)
(22,813)	Short Term Creditors	**18/23**	(26,403)
(3,516)	Provisions	**24**	(3,312)
(73,189)	**Current Liabilities**		**(81,708)**
(12,085)	Provisions	**24**	(6,817)
(148,840)	Long Term Borrowing	**18**	(152,245)
(296,067)	Other Long Term Liabilities	**39**	(223,448)
(456,992)	**Long Term Liabilities**		**(382,510)**
77,264	**Net Assets**		**176,236**
48,159	Usable Reserves	**MiRS**	60,513
29,105	Unusable Reserves	**25**	115,723
77,264	**Total Reserves**		**176,236**

Cash Flow Statement

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

2018/2019 £000		Note	2019/2020 £000
(33,483)	Net surplus or (deficit) on the provision of services		(27,130)
74,522	Adjustment to surplus or deficit on the provision of services for non-cash movements	26	47,816
(25,093)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(18,683)
15,946	Net Cash flows from operating activities		2,003
(26,095)	Net Cash flows from Investing Activities	27	1,182
7,139	Net Cash flows from Financing Activities	28	14,907
(3,010)	Net increase or (decrease) in cash and cash equivalents		18,092
15,685	Cash and cash equivalents at the beginning of the reporting period	21	12,675
12,675	Cash and cash equivalents at the end of the reporting period	21	30,767

Notes to the Accounts

Note 1 Accounting Policies

i. General Principles

The Statement of Accounts summarises the council's transactions for the 2019/2020 financial year and its position at the year-end of 31 March 2020. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020, supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 where individual inventory categories are above £100,000.
- 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. In respect of both capital and revenue transactions, the council operates on the normal accruals concept of income and expenditure above the council's de minimis threshold of £10,000. Exceptions to this policy are:
    - Housing Benefit payments
    - Social services Income for home care
    - Travel payments and supply teachers
    - Property Trading account Income for commercial properties

  These exceptions still mean a full 12 months of income and expenditure are accounted for in a financial year.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with a low risk of change in value.

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.

iv. 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 a 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.

v. Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to 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 in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. Council Tax and Non-Domestic Rates

The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities, central government and precepting bodies of council tax and non-domestic rates (NDR). There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from the collecting non-domestic rates and council tax belong to the bodies (ie major preceptors, central government and billing authorities).

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.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and reflected as expenditure in the relevant service line in the Comprehensive Income and Expenditure Statement.

Termination Benefits

When the council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy, these costs are charged on an accruals basis to the respective service line in the Comprehensive Income and Expenditure Statement.

Post-employment Benefits

Employees of the council are members of three separate pension schemes:

- The Teachers' Pension Scheme administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pension Scheme administered by East Riding of Yorkshire Council.
- The NHS Pension Scheme administered by the NHS Business Services Authority

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Schools service line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. Various lines within the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

The Local Government Pension Scheme

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

- The liabilities of the East Riding pension fund attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.
- The assets of East Riding pension fund attributable to the council are included in the Balance Sheet at their fair value.

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

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment 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
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the East Riding 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 Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The council 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 (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After the Reporting Period

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.

ix. 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 and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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 term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. 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

The council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) 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 financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The council recognises expected credit losses on all its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

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.

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

x. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and 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 in the form of 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 and Expenditure (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.

xi. Heritage Assets

The council holds several assets which are held to increase 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. The council's collections of heritage assets are accounted for as follows:

Civic Regalia, Museum Collection and Memorials

The asset will be accounted for at the value used for insurance purposes or its fair value as determined by a qualified valuer.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, 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 general policies on impairment. The council will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the 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.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) 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.

Intangible assets are measured initially at cost and then carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. 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.

xiii. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The council has set a de minimis value of £100,000, below which inventories are not held on balance sheet.

xiv. 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 production of goods or is held for sale (in the ordinary course of operations).

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use.

Properties are not depreciated but are revalued annually according to market conditions at the year-end. 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 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.

xv. Leases

Leases are classified as finance leases where the terms transfer substantially all the risks and rewards of ownership of the asset 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.

The Council as Lessee

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 finance 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 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 a revenue contribution 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 services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement 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 (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. 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 lease (long-term debtor) asset 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 Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease 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 non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the council grants an operating lease over an asset, this is retained on the Balance Sheet. Rental income is recognised in the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement 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.

xvi. Overheads and Support Services

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

xvii. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and 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 and 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 council does not capitalise borrowing costs incurred while assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair 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 and Expenditure 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:

- assets under construction and community assets (without a determinable finite useful life) – historical cost
- infrastructure, community assets (with a determinable finite useful life) – depreciated historical cost
- all other assets are measured at current value

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.

Where 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 revalued 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. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

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

Where impairment losses are identified, they are accounted for by:

- 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 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(s) 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).

Deprecation is normally charged in the first full year of operational use, except where stated, and calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. Depreciation is charged on vehicles from the point of initial use.
- infrastructure – straight-line allocation over its technically assessed life.

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

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. The asset is revalued 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 losses previously recognised in the Surplus or 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.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.
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 disposals (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 (ie 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. The receipts are transferred to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement. The reserves can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement).

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

xviii. Provisions, Contingent Liabilities and Contingent Assets

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 or service potential, 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 when the council has an 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 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 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 or service potential.

xix. 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. 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 transferred back into the General Fund Balance 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, local taxation, retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

xx. 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.

xxi. Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the council as if they were the transactions, cash flows and balances of the council

xxii. VAT

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

xxiii. Fair Value Measurement

The council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as bonds at fair value at each reporting date. 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 using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act 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 valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the council can access at the measurement date
- 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

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 (the Code), the council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

At the Balance Sheet date, the following new standards and amendments to existing standards have been published but not yet adopted:

- **Amendments to IAS 19 Employee Benefits:** Plan Amendment, Curtailment or Settlement will require the re-measurement of the net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1st April 2020 and as this could result in a positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.

- **IFRS 16 Leases (deferral to 1 April 2021):** Will require local authorities that are lessees to recognise most leases on their balance sheets as right of use assets with corresponding lease liabilities. CIPFA/LASAAC have deferred implementation of IFRS16 for local government until 1 April 2021. The impact of implementing IFRS16 has not yet been calculated.

Note 3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The most critical judgement made in the Statement of Accounts is that there remains a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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, particularly with the uncertainty surrounding the current COVID-19 pandemic effect.

The items in the council's Balance Sheet at 31 March 2020, for which there is a significant risk of material adjustment in the forthcoming financial year, are as follows:

Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. **Property, Plant and Equipment and Investment Properties** Due to many economic factors that impact the property investment and letting markets and the uncertainty around Britain leaving the EU, there is the potential for significant change in value in the retail property market. This has resulted in increased scrutiny of the retail sector and the properties that the Council holds within this property category. In addition, the Coronavirus pandemic has impacted in global financial markets and market activity is being impacted in many sectors. This has resulted in difficulties in attaching weight to previous market evidence for comparison purposes, to inform opinions of value. The property valuations have therefore been reported by our valuers on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global. The valuations therefore have less certainty and should be viewed with a higher degree of caution than what would normally be the case.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £0.4m if the average useful life of the council's buildings fell by one year.
Pensions Liability Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied. Only figures based on estimates have been provided by the actuary so far. Figures based on actual outturns are expected at some point and will be updated accordingly on receipt. The actuary's valuation of their property portfolio is subject to the same 'material valuation uncertainty' described in the above section.	The assumptions interact in complex ways. During 2019/2020, the council's actuary advised that the net pension liability had decreased by £72.6m as a result of updating the assumptions and actual contributions made. A sensitivity analysis can be seen in the Defined Benefit Pension Schemes note.
Impairment At 31 March 2020, the council had a balance of sundry debtors of £10.0m. A review of significant balances suggested that an impairment of doubtful debts of £1.8m was appropriate. However, it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £1.8m to be set aside as an allowance.
National Non Domestic Rates (NNDR) Provision The council set aside, from its collection fund, £17.8m as a provision against the cost of the future settlement of current appeals outstanding against NNDR rateable values. The council's share of this provision of £8.7m is shown in the Provisions Note.	The impact of appeals is highly uncertain and outside of the control of the council.

Uncertainties	Effect if Actual Results Differ from Assumptions
Fair Value Measurement When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets and liabilities. Where Level 1 inputs are not available, the council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the council's chief valuation officer and external valuer). Information about the valuation techniques and inputs used in determining the fair value of the council's assets and liabilities is disclosed in note 14 below.	The council uses the discounted cash flow (DCF) model to measure the fair value of some of its investment properties and surplus assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels, occupancy levels and others. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurements.

Note 5 Material Items of Income and Expense

For this council, a material item of income and expense would be around £5m or more. There have been no material items of income or expenditure during 2019/2020 that are not already disclosed elsewhere within the accounts.

Note 6 Events after the Balance Sheet Date

The Coronavirus Pandemic has an economic impact worldwide. In the UK, a lock-down was announced on 23rd March 2020 to control the spread of the infection. As this was so late in the 2019/2020 financial year there were minimal effects on the council's financial performance, as reported in these financial statements.

In 2020/2021, the council has experienced a number of financial effects of the pandemic. It has had to close Leisure Centres, seen dramatic reductions in car park usage, loss of other income streams and incurred additional expenditure to support vulnerable members of the community. The Government has provided £9.7m to support the council with this loss of income and additional expenditure, however, it is unclear if this will be sufficient to cover all the pressures. The council has sufficient reserves to manage the short term effect.

Business Rates and Council Tax collection rates are expected to be affected in the short-term, with some potential longer-term impact on the tax base.

The council has not identified any material adjusting events occurring after the reporting date.

Note 7 Expenditure and Funding Analysis and Associated Notes

The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by councils in accordance with International Financial Reporting Standards (IFRS). It also shows how this expenditure is allocated for decision making purposes between the service areas across the council. Income and expenditure accounted for under International Financial Reporting Standards (IFRS) is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/2019				2019/2020		
Net Expenditure Chargeable to the General Fund Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the CIES £'000		Net Expenditure Chargeable to the General Fund Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the CIES £'000
397	11,850	12,247	Business Development	2,112	2,104	4,216
36,496	(6,677)	29,819	Governance and Partnerships	34,727	(7,099)	27,628
27,059	18,368	45,427	Operations	31,842	27,178	59,020
1,451	(1,357)	94	Public Health	7,093	(7,259)	(166)
12,256	6,043	18,299	Learning, Skills and Culture	11,131	4,778	15,909
19,845	1,114	20,959	Children and Community Resilience	19,990	1,624	21,614
34,841	242	35,083	Adult and Community Wellbeing	36,858	(5,365)	31,493
0	1,870	1,870	Schools	0	2,869	2,869
132,345	**31,453**	**163,798**	**Net Cost of Services**	**143,753**	**18,830**	**162,583**
(132,345)	2,030	(130,315)	Other Income and Expenditure	(144,053)	8,600	(135,453)
0	**33,483**	**33,483**	**(Surplus) or Deficit**	**(300)**	**27,430**	**27,130**
6,858			**Opening General Fund Balance**	6,858		
0			Surplus or (Deficit) on General Fund Balance in Year	300		
6,858			**Closing General Fund Balance**	**7,158**		

Adjustments from general fund to arrive at the Comprehensive Income and Expenditure Statement amounts:

2019/2020	Adjustments for Capital purposes £000	Net change for the Pensions Adjustments £000	Other Statutory Adjustments £000	Other Non-Statutory Adjustments £000	Total Adjustments £000
Business Development	4,889	1,369	43	(4,197)	2,104
Governance and Partnerships	(3,241)	2,603	(4,892)	(1,569)	(7,099)
Operations	25,464	2,302	(259)	(329)	27,178
Public Health	0	149	(34)	(7,374)	(7,259)
Learning, Skills and Culture	3,005	1,980	335	(542)	4,778
Children and Community Resilience	148	1,868	(80)	(312)	1,624
Adult and Community Wellbeing	646	1,718	599	(8,328)	(5,365)
Schools	(20)	3,922	(1,033)	0	2,869
Net Cost of Services	**30,891**	**15,911**	**(5,321)**	(22,651)	**18,830**
Other income and expenditure from the EFA	(20,055)	7,290	(1,286)	22,651	8,600
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services	**10,836**	**23,201**	**(6,607)**	**0**	**27,430**

2018/2019	Adjustments for Capital purposes £000	Net change for the Pensions Adjustments £000	Other Statutory Adjustments £000	Other Non-Statutory Adjustments £000	Total Adjustments £000
Business Development	17,209	922	629	(6,910)	11,850
Governance and Partnerships	290	4,054	400	(11,421)	(6,677)
Operations	20,792	1,801	(408)	(3,817)	18,368
Public Health	0	95	160	(1,612)	(1,357)
Learning, Skills and Culture	5,607	1,348	(581)	(331)	6,043
Children and Community Resilience	147	1,320	(32)	(321)	1,114
Adult and Community Wellbeing	2,344	1,268	2,024	(5,394)	242
Schools	(13)	2,689	(806)	0	1,870
Net Cost of Services	**46,376**	**13,497**	**1,386**	(29,806)	**31,453**
Other income and expenditure from the EFA	(18,894)	6,401	(15,283)	29,806	2,030
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services	**27,482**	**19,898**	**(13,897)**	**0**	**33,483**

Adjustments for Capital Purposes – include the charge to services for depreciation, impairment and revaluation gains and losses.

Net change for the Pensions Adjustments – includes the removal of the employer pension contributions made by the council as allowed by statute and the replacement with current service costs and past service costs, alongside the net interest on the defined benefit liability charged within other income and expenditure.

Other Statutory Adjustments – between amounts charged/credited to the CIES and amounts payable/receivable to be recognised under statute – accumulated absences charges as required by IAS19 to services and adjustments involving the amount by which council tax and NDR income credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated in accordance with statutory requirements.

Other Non-Statutory Adjustments – represents amounts charged/credited to service segments which need to be adjusted against the 'Other income and expenditure from the Expenditure and Funding Analysis' line to comply with the presentational requirements in the Comprehensive Income and Expenditure Statement – e.g. interest income and expenditure, changes in the fair values of investment properties, trading operations and non-ring-fenced government grants.

Segmental Income

The following analysis shows revenues from external customers included within the Net Expenditure chargeable to the General Fund in the Expenditure and Funding Analysis:

	2019/2020 Revenue from External Customers £000	2018/2019 Revenue from External Customers £000
Business Development	(8,706)	(8,406)
Governance and Partnerships	(9,005)	(3,706)
Operations	(7,038)	(9,212)
Public Health	(181)	(71)
Learning, Skills and Culture	(6,403)	(5,844)
Children and Community Resilience	(665)	(773)
Adult and Community Wellbeing	(11,517)	(10,056)
Schools	(1,753)	(1,449)
Total income analysed on a segmental basis	**(45,268)**	**(39,517)**

Revenue from External Customers – Income from organisations/individuals from outside the council, excluding any grant income.

Note 8 Expenditure and Income Analysed by Nature

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

	2019/2020 £000	2018/2019 £000
Expenditure/Income		
Expenditure		
Employee benefits expenses	173,628	163,983
Other services expenses	176,821	184,189
Depreciation, amortisation, impairment	20,681	19,674
Interest payments	6,211	5,992
Precepts and levies	2,912	2,827
(Gain)/Loss on the disposal of assets	79	8,370
Other Expenditure (REFCUS)	5,128	10,766
Total expenditure	**385,460**	**395,801**
Income		
Fees, charges and other service income	(47,348)	(39,922)
Interest and investment income	(137)	(128)
Income from council tax, non-domestic rates income	(114,214)	(127,534)
Government grants and contributions	(194,227)	(186,985)
Other Income	(2,404)	(7,749)
Total income	**(358,330)**	**(362,318)**
Surplus or Deficit on the Provision of Services	**27,130**	**33,483**

Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations

2019/2020	General Fund Balance £000	Usable Reserves Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.				
Pension cost (transferred to (or from) the Pensions Reserve)	23,201			(23,201)
Council tax and NDR (transfers to or from the Collection Fund)	(1)			1
Holiday pay (transferred to the Accumulated Absences reserve)	77			(77)
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)	26,102			(26,102)
Total Adjustments to Revenue Resources	**49,379**	**0**	**0**	**(49,379)**
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,224)	2,224		
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	70	(70)		
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	459			(459)
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(5,394)			5,394
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(181)			181
Total Adjustments to Revenue Resources	**(7,270)**	**2,154**	**0**	**5,116**
Use of the Capital Receipts Reserve to finance capital expenditure		(980)		980
Application of capital grants to finance capital expenditure	(7,995)		4,196	3,799
Cash payments in relation to deferred capital receipts		0		0
Total Adjustments to Capital Resources	**(7,995)**	**(980)**	**4,196**	**4,779**
Total Adjustments	**34,114**	**1,174**	**4,196**	**(39,484)**

2018/2019	General Fund Balance £000	Usable Reserves Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.				
Pension cost (transferred to (or from) the Pensions Reserve)	19,898			(19,898)
Council tax and NDR (transfers to or from the Collection Fund)	(14,493)			14,493
Holiday pay (transferred to the Accumulated Absences reserve)	(197)			197
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)	42,704			(42,704)
Total Adjustments to Revenue Resources	**47,912**	**0**	**0**	**(47,912)**
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(5,117)	5,117		0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	208	(208)		0
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	(195)			195
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(4,764)			4,764
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(223)			223
Total Adjustments to Revenue Resources	**(10,091)**	**4,909**	**0**	**5,182**
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure		(5,079)		5,079
Application of capital grants to finance capital expenditure	(5,079)		883	4,196
Cash payments in relation to deferred capital receipts		48		(48)
Total Adjustments to Capital Resources	**(5,079)**	**(5,031)**	**883**	**9,227**
Total Adjustments	**32,742**	**(122)**	**883**	**(33,503)**

Note 10 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund Expenditure in 2019/2020.

	2018/2019				2019/2020		
	Balance as at1 April 2018 £000	Transfers In £000	Transfers Out £000	Balance as at 31 March 2019 £000	Transfers In £000	Transfers Out £000	Balance as at 31 March 2020 £000
General Fund:							
Risk and Transformation Reserve	14,269	2,297	0	**16,566**	0	(607)	**15,959**
Revenue Grants	7,811	1,175	(4,031)	**4,955**	10,870	(3,028)	**12,797**
Schools Delegated Reserve	1,635	1,318	(13)	**2,940**	778	(522)	**3,196**
Dedicated Schools Grant	1,767	1,335	(1,614)	**1,488**	1,672	(1,091)	**2,069**
Public Health	1,817	0	(405)	**1,412**	0	(200)	**1,212**
Dedicated Schools Grant-De-delegated	182	28	0	**210**	75	0	**285**
Safety Camera Partnership	269	0	0	**269**	0	(14)	**255**
Scunthorpe Special Expenses	233	44	(50)	**227**	86	(101)	**212**
Commuted Sums	159	67	0	**226**	0	(25)	**201**
Licensing	99	23	0	**122**	50	(8)	**164**
Planning Improvements	0	205	0	**205**	0	(146)	**59**
Crematorium Enhancement Fund	16	0	0	**16**	7	0	**23**
NNDR Levy Redistribution	0	500	0	**500**	0	(500)	**0**
Self-Insurance	284	0	0	**284**	0	(284)	**0**
Legal NLC Elections	240	0	0	**240**	0	(240)	**0**
Finance Systems Implementation	50	0	0	**50**	0	(50)	**0**
Shared Service Development	38	0	0	**38**	0	(38)	**0**
NNDR Smoothing Reserve	1,116	0	(1,116)	**0**	0	0	**0**
Property Trading Account	257	0	(257)	**0**	0	0	**0**
ICT Microsoft Enterprise Agreement	175	0	(175)	**0**	0	0	**0**
Community Grants	72	0	(72)	**0**	0	0	**0**
Organisational Development Programme	0	0	0	**0**	0	0	**0**
Total Earmarked Reserves	30,489	**6,992**	**(7,733)**	**29,748**	**13,538**	**(6,854)**	**36,432**

Risk and Transformation Reserve

This reserve is held for two main purposes: -

- To give the council sufficient resilience to withstand funding or expenditure shocks. These include risks associated with funding, increased demand, delayed savings and the costs of self-insurance.
- To facilitate transformation and transition to a lower cost council

Revenue Grants

This reserve has been set aside to hold the balances of revenue grants where the conditions of use have been met but remain unapplied at year end.

Public Health Grant

This reserve has been set aside to hold the balance of the ring-fenced Public Health Grant received, but not yet spent.

Dedicated Schools Grant

This reserve has been set aside to hold the balance of the ring-fenced Dedicated Schools Grant, but not yet spent.

Note 11 Other Operating Expenditure

	2019/2020 £000	2018/2019 £000
Parish council precepts	1,545	1,495
Levies	1,367	1,332
(Gains)/losses on the disposal of non-current assets	79	8,370
Total	**2,991**	**11,197**

Note 12 Financing and Investment Income and Expenditure

	2019/2020 Net £000	2018/2019 Net £000
Interest payable and similar charges	6,211	5,992
Net interest on the net defined benefit liability (asset)	7,291	6,401
Interest receivable and similar income	(137)	(128)
Income and expenditure in relation to investment properties and changes in their fair value	(3,154)	(6,674)
Other investment income	2,304	7,834
Total	**12,515**	**13,425**

Note 13 Taxation and Non-specific Grant Income and Expenditure

	2019/2020 £000	2018/2019 £000
Council Tax Income	(74,129)	(72,075)
Non-Domestic Rates Income and Expenditure	(40,085)	(55,459)
Revenue Support Grant	(6,098)	0
Business Rates Relief Grant	(7,679)	(5,339)
COVID-19 Response Grant	(4,991)	0
Rural Services Grant	(206)	0
New Homes Bonus	(737)	(956)
Adult Social Care Support Grant	0	(476)
Other Non-ring-fenced Government Grants	(46)	(43)
Capital Grants, Contributions and Donations	(16,988)	(20,589)
Total	**(150,959)**	**(154,937)**

The reduction in the Non-Domestic Rates Income and Expenditure figure for 2019/2020 is due to the council no longer being part of the Lincolnshire Pool Pilot, where 99% of the income was retained by the council. The pool arrangement has now ended and the council only retains 49% of the income and expenditure.

In 2019/20 the Adult Social Care Support Grant was deemed to be a ring-fenced grant and will now be shown within services income within the Comprehensive Income and Expenditure Statement.

Note 14 Property, Plant and Equipment

Current Year

	Property, Plant & Equipment (PP&E)						
	Other Land and Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	**Total PP&E** £000
Cost or Valuation							
Balance as at 1 April 2019	**372,426**	**15,845**	**150,758**	**11,522**	**18,251**	**2,613**	**571,415**
Additions	7,020	1,286	11,439	145	3,257	176	**23,323**
Donations	0	0	0	0	0	0	**0**
Revaluation increases/decreases to Revaluation Reserve	15,296	0	(333)	0	0	(707)	**14,256**
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	(11,692)	0	0	0	0	(18)	**(11,710)**
De-recognition - Disposals	(1)	(483)	0	0	0	(164)	**(648)**
De-recognition - Other	(33)	0	0	0	0	(175)	**(208)**
Reclassifications & Transfers	3,159	0	351	(1)	(7,289)	2,256	**(1,524)**
Reclassified to/from Held for Sale	(948)	0	0	0	0	458	**(490)**
Other movements	0	0	0	0	0	0	**0**
Balance as at 31 March 2020	**385,227**	**16,648**	**162,215**	**11,666**	**14,219**	**4,439**	**594,414**
Depreciation and Impairment							
Balance as at 1 April 2019	**(23,107)**	**(8,162)**	**(50,348)**	**(1,744)**	**(1)**	**(17)**	**(83,379)**
Depreciation Charge	(10,180)	(1,522)	(8,425)	(244)	0	(284)	**(20,655)**
Depreciation written out on Revaluation Reserve	12,188	0	0	0	0	848	**13,036**
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	1,686	0	0	0	0	20	**1,706**
Impairment losses/reversals to Revaluation Reserve	2,981	0	0	0	0	9	**2,990**
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	380	0	0	0	(7)	5	**378**
De-recognition - Disposals	0	425	0	0	0	0	**425**
De-recognition - Other	2	0	0	0	0	0	**2**
Reclassifications & Transfers	2,103	0	0	0	0	(866)	**1,237**
Eliminated on reclassification to Held for Sale	32	0	0	0	0	(8)	**24**
Balance as at 31 March 2020	**(13,915)**	**(9,259)**	**(58,773)**	**(1,988)**	**(8)**	**(293)**	**(84,236)**
Net Book Value							
Balance as at 31 March 2020	**371,312**	**7,389**	**103,442**	**9,678**	**14,211**	**4,146**	**510,178**
Balance as at 31 March 2019	**349,319**	**7,683**	**100,410**	**9,778**	**18,250**	**2,596**	**488,036**

Comparator Year

=----------	Other Land and Buildings £000	Vehicles, Plant & Equipment £000	Property, Plant & Equipment (PP&E) Infrastructure Assets £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	**Total PP&E £000**
Cost or Valuation							
Balance as at 1 April 2018	**390,896**	**13,343**	**133,351**	**4,630**	**20,157**	**13,189**	**575,566**
Additions	5,656	3,343	17,407	38	14,439	19	**40,902**
Donations	600	0	0	0	0	0	**600**
Revaluation increases/decreases to Revaluation Reserve	(6,838)	0	0	0	0	0	**(6,838)**
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	(22,368)	0	0	0	0	0	**(22,368)**
De-recognition - Disposals	(9,641)	(841)	0	0	0	(830)	**(11,312)**
De-recognition - Other		0	0	0	0	0	**0**
Reclassifications & Transfers	16,172	0	0	6,854	(16,345)	46	**6,727**
Reclassified to/from Held for Sale	(2,051)	0	0	0	0	(9,811)	**(11,862)**
Other movements	0	0	0	0	0	0	**0**
Balance as at 31 March 2019	**372,426**	**15,845**	**150,758**	**11,522**	**18,251**	**2,613**	**571,415**
Depreciation and Impairment							
Balance as at 1 April 2018	**(22,324)**	**(7,562)**	**(42,304)**	**(946)**	**(2)**	**(852)**	**(73,990)**
Depreciation Charge	(10,496)	(1,362)	(8,044)	(244)	0	(3)	**(20,149)**
Depreciation written out on Revaluation Reserve	5,283	0	0	0	0	0	**5,283**
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	1,573	0	0	0	0	0	**1,573**
Impairment losses/reversals to Revaluation Reserve	1,098	0	0	(2)	0	0	**1,096**
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	723	0	0	(13)	0	0	**710**
De-recognition - Disposals	427	762	0	0	0	830	**2,019**
De-recognition - Other	0	0	0	0	0	0	**0**
Reclassifications & Transfers	548	0	0	(539)	1	(10)	**0**
Eliminated on reclassification to Held for Sale	61	0	0	0	0	18	**79**
Balance as at 31 March 2019	**(23,107)**	**(8,162)**	**(50,348)**	**(1,744)**	**(1)**	**(17)**	**(83,379)**
Net Book Value							
Balance as at 31 March 2019	**349,319**	**7,683**	**100,410**	**9,778**	**18,250**	**2,596**	**488,036**
Balance as at 31 March 2018	**368,572**	**5,781**	**91,047**	**3,684**	**20,155**	**12,337**	**501,576**

Depreciation

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

- Other Land and Buildings – 1–99 years
- Vehicles, Plant, Furniture & Equipment – 1-30 years
- Infrastructure – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer

Capital Commitments

At 31 March 2020, the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years. Of these contracts, those considered to be major contracts are those having outstanding commitments in excess of £1m. As at 31 March 2020, there are no major contracts with outstanding commitments over £1m.

Effects of Changes in Estimates

No material changes in estimates have been made in year. Useful lives are assessed as part of the valuation rolling programme.

Revaluations

The council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the current values of property, plant and equipment are:

- that good title can be shown, and all valid planning permissions and statutory approvals are in place;
- that all easements; rights of way, restrictions and other encumbrances have been considered
- that the properties are in good repair unless otherwise stated
- that any services are in good working order or free from defect unless otherwise stated
- that no deleterious or hazardous materials have been used in the construction nor any existing or potential environmental factors are known that could affect the values.

The table below shows the property, plant and equipment held on the asset register valued at historical cost or at the current value of the asset at the time of valuation (5-year rolling programme).

	Land and Buildings	Vehicles, Plant & Equipment	Surplus Assets	Other PPE	Total PPE
Carried at historical cost	0	7,389	0	127,331	134,720
Valued at current value as at:					
01/04/2019	348,661	0	2,013	0	350,674
01/04/2018	3,528	0	0	0	3,528
01/04/2017	9,197	0	535	0	9,732
01/04/2016	2,407	0	1,598	0	4,005
01/04/2015	7,519	0	0	0	7,519
Total Cost or Valuation	**371,312**	**7,389**	**4,146**	**127,331**	**510,178**

Fair Value Measurement for Surplus Assets and Investment Properties

See Note 1 (xxiii) for an explanation of fair value and the fair value levels.

Fair Value Hierarchy

Details of the council's surplus assets and investment properties as at 31 March 2020 are as follows:

Recurring fair value measurements using:	2019/2020 Inputs other than quoted prices (Level 2) £000	2019/2020 Significant unobservable inputs (Level 3) £000	2019/2020 Fair Value £000	2018/2019 Inputs other than quoted prices (Level 2) £000	2018/2019 Significant unobservable inputs (Level 3) £000	2018/2019 Fair Value £000
Surplus Assets:						
All Surplus Assets	0	4,146	**4,146**	0	2,596	**2,596**
Total Surplus Assets	**0**	**4,146**	**4,146**	**0**	**2,596**	**2,596**
Investment Properties:						
Office Units	1,580	0	**1,580**	1,570	0	**1,570**
Commercial Units	54,746	470	**55,216**	52,333	750	**53,083**
Agricultural Units	0	1,454	**1,454**	0	756	**756**
Total Investment Properties	**56,326**	**1,924**	**58,250**	**53,903**	**1,506**	**55,409**

Determined value level, valuation process and techniques

With a small number of exceptions, the Council's Assets where valued to Fair Value, are categorised as Level 2 on the Fair Value Hierarchy. This was the consensus of the internal and external valuers. Level 2 inputs are inputs that are observable for the asset, either directly or indirectly. The inputs used took the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations at or around the valuation date.

All valuations have been undertaken using the combined resource of internal and external valuers, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The council's valuation experts work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters.

The Industrial and commercial units located in the local authority area are valued on an income approach that is based on capitalisation of current rental income and taking into account existing lease terms, any increases at the next review and other lease terms. Rentals and yields are derived from market evidence for similar properties in the local authority area adjusted to reflect each asset. The rental comparables are measured from a mixture of deals on council assets and third party assets. The yields are derived from third party sales and discussions with other agents and the District Valuer.

The Council's PPE assets have been valued to Current Value (Existing Use Value). The valuations are based on an analysis of market comparables in the area for similar properties disregarding any potential alternative uses in accordance with the EUV definition.

The agricultural valuations are based on market comparable rents and yields for similar properties in the local authority area, taking into account existing lease terms, any increases at the next review and other lease terms. Rentals and yields are derived from market evidence for similar properties in the local authority area adjusted to reflect each asset. The rental comparables are a mixture of deals on council assets and third party assets. The yields are derived from third party sales and discussions with other agents and the District Valuer.

The fair value of the council's investment property is measured annually at each reporting date.
The fair value of the council's Surplus Assets is measured at 5 yearly intervals.

In estimating the fair value of the council's surplus assets and investment properties, the highest and best use of the properties is their current use.

Due to the current COVID-19 pandemic, the valuers have reported the valuations on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. The valuers advise that less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.

Reconciliation of Fair Value Measurements

Assets categorised within Level 2 and 3	2019/2020 Level 3 Surplus Assets £000	2019/2020 Level 2 Investment Properties £000	2019/2020 Level 3 Investment Properties £000	2018/2019 Level 3 Surplus Assets £000	2018/2019 Level 2 Investment Properties £000	2018/2019 Level 3 Investment Properties £000
Opening Balance	2,596	53,903	1,506	12,337	0	50,663
Reclassifications in at Level 3	2,540	0	0	56	491	0
Reclassifications out of at Level 3	(700)	0	0	(9,813)	(7,293)	0
Transfers into Level 2	0	600	0	0	48,665	0
Transfers out of Level 3	0	0	(600)	0	0	(48,665)
Total gains [or losses] for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in fair value	(277)	(1,589)	967	(3)	4,432	(452)
Total to Revaluation Reserve	150	0	0	0	0	0
Additions	176	3.471	51	19	8,582	0
Disposals	(339)	(60)	0	0	(974)	(40)
Closing Balance	**4,146**	**56,362**	**1,924**	**2,596**	**53,903**	**1,506**

Gains arising from changes in the fair value of surplus assets are recognised in the revaluation reserve, unless they reverse a previous impairment charged to the Surplus or Deficit on the Provision of Services. Losses arising from changes in the fair value of the surplus assets reduce any revaluation reserve balance relating to that asset and, thereafter, are recognised in Surplus or Deficit on the Provision of Services.

Gains or losses arising from changes in the fair value of the investment property are recognised in Surplus or Deficit on the Provision of Services – Financing and Investment Income and Expenditure line.

Quantitative Information about Fair Value

Subcategory at Fair Value Level 3	2019/2020 £000	Valuation technique used to measure fair value	Unobservable inputs	Sensitivity
Surplus Assets:				
Land	2,972	market comparison/ residual	sale levels finance / construction costs build period	significant changes in sale levels, finance and construction costs will result in a significantly lower or higher fair value
Buildings	1,174	market comparison/ residual	sale levels finance / construction costs build period	significant changes in sale levels, finance and construction costs will result in a significantly lower or higher fair value
Investment Properties				
Office Units	1,580	market comparison	Rent Growth Vacancy Levels Yields	Significant changes in rental income and rent growth, Vacancy levels or yields will result in a significantly Lower or higher value
Industrial and commercial units	55,216	market comparison	Rent Growth Vacancy Levels Yields	Significant changes in rental income and rent growth, Vacancy levels or yields will result in a significantly Lower or higher value
Agricultural units	1,454	market comparison	Rent Growth Vacancy Levels Yields	Significant changes in rental income and rent growth, Vacancy levels or yields will result in a significantly Lower or higher value

Note 15 Heritage Assets

	2019/2020				2018/2019		
	Civic Regalia £000	Normanby Park and Hall £000	Other Heritage Assets £000	Total Assets £000	Civic Regalia £000	Other Heritage Assets £000	Total Assets £000
Cost or Valuation							
Balance as at 1 April	93	0	1,196	**1,289**	93	1,159	**1,252**
Additions	0	0	0	**0**	0	37	**37**
Reclassifications	0	287	0	**287**	0	0	**0**
Revaluations	0	0	0	**0**	0	0	**0**
Balance as at 31 March	**93**	**287**	**1,196**	**1,576**	**93**	**1,196**	**1,289**

Civic Regalia

This category includes a variety of items including items held by the council's predecessors Scunthorpe and Glanford Borough Councils.

Other Heritage Assets

This category includes the exhibits on display and in storage at Scunthorpe Museum and Normanby Hall, as well as war memorials around the county and a Sculpture within the centre of Scunthorpe.

Note 16 Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Income and Expenditure from Investment Properties

	2019/2020 £000	2018/2019 £000
Rental income from investment property	(5,098)	(4,976)
Direct operating expenses arising from investment property	1,277	1,476
Net (Gain)/Loss	**(3,821)**	**(3,500)**

There are no restrictions on the council's ability to realise the value inherent in its investment property and none on the council's right to the remittance of income but there are some restrictions on the council's right to the proceeds of disposal due to the conditions of grant funding. The council has no contractual obligations to purchase, construct or develop investment property or on repairs, maintenance or enhancement.

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

	2019/2020 £000	2018/2019 £000
Balance at start of the year	55,409	50,663
Additions:		
- Purchases	3,523	8,582
- Subsequent expenditure	0	0
Disposals	(60)	(1,014)
Net (gains)/losses from fair value adjustments	(622)	3,978
Transfers:		
- to/from Assets Held for Sale	0	(75)
- to/from Property, Plant and Equipment	0	(6,726)
Other changes	0	1
Balance at end of the year	**58,250**	**55,409**

Due to the current COVID-19 pandemic, the valuers have reported the valuations on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. The valuers advise that less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.

Note 17 Intangible Assets

The council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment. The intangible assets include both purchased licenses and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council. The useful lives assigned to the major software suites used by the council are:

- Microsoft office Licences – 5 and 3 years
- Electronic Document management – 5 years
- Carefirst – 5 years

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £406k charged to revenue in 2019/2020 was charged £380k to Governance and Partnerships and £26k to Adult and Community Wellbeing in the Cost of Services.

	2019/2020 £000	2018/2019 £000
Balance at start of the year	1,580	1,330
Accumulated Amortisation	(623)	(364)
Net carrying amount at start of year	**957**	**966**
Additions:		
- Purchases	177	357
- Other Movements	0	0
Disposals	0	(107)
Amortisation for the period	(406)	(284)
Amortisation written off on disposal	0	25
Net carrying amount at the end of the year	**0**	**957**
Comprising:		
- Gross carrying amounts	1,757	1,580
- Accumulated amortisation	(1,029)	(623)
	728	**957**

Note 18 Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Current	
	2019/2020 £000	2018/2019 £000	2019/2020 £000	2018/2019 £000
Financial Assets				
Unquoted equity investment at cost	0	0	0	0
Loans and receivables	343	354	16	24
Debtors carried at amortised cost	0	0	18,486	24,394
Total Financial Assets	**343**	**354**	**18,502**	**24,418**
Financial Liabilities				
Borrowings at amortised cost	(152,245)	(148,840)	(51,993)	(46,860)
Creditors carried at amortised cost	0	0	(14,518)	(16,807)
Total Financial Liabilities	**(152,245)**	**(148,840)**	**(37,475)**	**(30,053)**

Amounts relating to Financial Instruments recognised in the Comprehensive Income and Expenditure Account:

	2019/2020 Liabilities measured at amortised cost £000	2018/2019 Liabilities measured at amortised cost £000
Interest expense	6,211	5,992
Total expense in Surplus or Deficit on the Provision of Services	**6,211**	**5,992**

Information as to the council's treatment of financial assets and liabilities within the accounts, including the basis of fair value measurements, is included within note 1 Accounting Policies (section xxiii. Financial Instruments).

There has been no impact on the measurement of financial assets following the implementation of International Financial Reporting Standard 9.

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required)

Except for the financial assets carried at fair value, all other financial liabilities and financial assets represented by amortised cost and long-term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB payable, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures
- For non-PWLB loans payable, as market lenders to the sector compete with PWLB their rates must be comparable, therefore PWLB premature repayment rates 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 or the billed amount
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

This table shows the carrying value and fair value of the loans to the council by the Public Works Loans Board and other organisations.

	2019/2020		2018/2019	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities:				
PWLB	156,840	214,224	153,591	198,004
Other Borrowing	47,000	47,139	40,000	40,252
Total	**203,840**	**261,363**	**193,591**	**238,256**

Fair value hierarchy:

	2019/2020 Quoted prices in active markets for identical assets / liabilities (level 1) £000	2018/2019 Quoted prices in active markets for identical assets / liabilities (level 1) £000
Financial Liabilities		
PWLB	214,224	198,004
Other Borrowing	47,139	40,252
Total	**261,363**	**238,256**

Note 19 Nature and Extent of Risks Arising from Financial Instruments

The council's activities expose it to a variety of financial risks, including:

- Credit risk – the possibility that other parties might fail to pay amounts due to the council
- Liquidity risk – the possibility that the council might not have funds available to meet its commitments to make payments

- Re-financing and Maturity risk – the possibility that the council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and market pricing of financial instruments.

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the council in the annual Treasury Management Strategy. The council provides written principles for overall risk management, as well as written policies.

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 Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Standard & Poor's Global, Fitch and Moody's Ratings Services. The Treasury Management Strategy also imposes a maximum sum and time limits with a financial institution located within each category.

The council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy approved by Full Council on the 28 February 2019. These include commercial entities with a minimum long-term credit rating of A- and the UK government. Recognising that credit ratings are imperfect predictors of default, the council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

The council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all the council's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise.

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

The council has ready access to borrowing at favourable rates from the Public Works Loans Board (PWLB) and other local authorities. The Council is also required to set a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure.

There is no significant perceived risk that the council will be unable to raise finance to meet its commitments.

Re-financing and Maturity Risk

The council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the re-financing risk procedures, longer-term risk to the council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the council's day to day cash flow needs, and the spread of longer-term investments provide stability of maturities and returns in relation to the longer term cash flow need.

The maturity analysis of financial liabilities is as follows:

	2019/2020 £000	2018/2019 £000
Less than 1 year	51,595	44,751
Between 1 and 2 years	5,629	4,595
Between 2 and 5 years	17,339	17,941
Between 5 and 10 years	50,239	46,042
Between 10 and 20 years	52,082	59,619
Over 20 years	26,956	20,643
	203,840	**193,591**

Interest rate risk

The council faces a risk in terms of its exposure to interest rate movements on its investments and to a lesser extent borrowings. Movements in interest rates have a complex impact on the council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited will rise
- Investments at fixed rates – the fair value of the assets will fall.

The council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team 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 rates borrowing would be postponed.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates.

Price risk

The market prices of any council fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

This will typically only apply where an investment is held as fair value through profit and loss or fair value through other comprehensive income.

Note 20 Debtors

	Long term debtors		Short term debtors	
	2019/2020 £000	2018/2019 £000	2019/2020 £000	2018/2019 £000
Central Government Bodies	0	0	2,135	1,896
Other Local Authorities	0	0	849	990
NHS Bodies	0	0	1,266	1,281
Other entities and individuals	0	0	11,980	21,412
Prepayments	0	0	5,207	1,327
Impairment of loans and receivables	0	0	(2,951)	(2,512)
Loans and Advances	343	354	16	24
Total Financial Instruments	**343**	**354**	**18,502**	**24,418**
NDR & Council Tax	0	0	8,926	9,079
Value Added Tax	0	0	1,959	4,719
Total Non-Financial Instruments	**0**	**0**	**10,885**	**13,798**
Total Debtors	**343**	**354**	**29,387**	**38,216**

A breakdown of the local taxation (council tax and non-domestic rates), in the table above, can be seen in the table below, analysed by age. The analysis only shows those balances where assessment has indicated that, by exception, no impairment is required. The amounts due, but not impaired, for local taxation is analysed as follows:

	2019/2020 £000	2018/2019 £000
Major Preceptors, not past due	1,006	965
1 year	5,332	5,300
1 – 2 years	1,411	1,532
2 – 3 years	796	918
3 – 4 years	381	364
Total	**8,926**	**9,079**

Note 21 Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand and in bank and short-term deposits and investments (considered to be cash equivalents), net of outstanding bank overdrafts.

Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the Balance Sheet as follows:

	2019/2020 £000	2018/2019 £000
Cash and Bank balances	(4,500)	(323)
Short Term Investments	35,267	12,998
Total	**30,767**	**12,675**

Note 22 Assets Held for Sale

These assets are being actively marketed for sale:

	2019/2020 £000	2018/2019 £000
Balance outstanding at start of year	**10,172**	**6,693**
Additions	1	33
Transferred from Non-Current Assets during year:		
- Property Plant and Equipment	966	11,954
Depreciation written out to Surplus/Deficit	32	82
Revaluation gains/losses	(474)	(4,703)
Impairment gains/losses to revenue	2	99
Impairment gains/losses to revaluation reserve	0	0
Assets declassified as held for sale to PPE	(500)	(96)
Assets sold	(1,330)	(3,890)
Other movement	(2)	0
Balance outstanding at year-end	**8,867**	**10,172**

Note 23 Creditors

These are amounts owed by the council in the next twelve months:

	2019/2020 £000	2018/2019 £000
Central government bodies	2,087	2,514
Other local authorities	492	447
NHS bodies	180	254
Accumulated Absences	2,225	2,148
Bodies external to general government	9,534	11,444
Total Financial Instruments	**14,518**	**16,807**
NNDR & Council Tax	9,589	3,823
Tax and National Insurance	2,296	2,183
Total Non-Financial Instruments	**11,885**	**6,006**
Total Short-Term Creditors	**26,403**	**22,813**

Note 24 Provisions

A provision is a liability of uncertain timing or amount. Amounts and timings are subject to future insurance, NNDR appeal and legal decisions.

	Balance as at 1 April 2019 £000	Increase in provision during year £000	Utilised during year £000	Change in Council Share £000	Unused Amounts Reversed £000	Balance as at 31 March 2020 £000	Estimated to be settled: Current Provision £000	Long Term Provision £000
NNDR Appeals	13,965	2,978	(1,180)	(7,054)	0	8,709	2,800	5,909
Insurance Claims	1,609	226	(442)	0	0	1,393	485	908
Other	27	0	0	0	0	27	27	0
	15,601	**3,204**	**(1,622)**	**(7,054)**	**0**	**10,129**	**3,312**	**6,817**

National Non-Domestic Rates Appeals (NNDR)

This provision has been established to meet the council's share of the estimated costs of settling appeals against the NNDR valuation of properties, currently lodged with the Valuation Office Agency (VOA). For 2019/2020 the council is no longer part of the Lincolnshire Pool pilot and is responsible for 49% of the provision (rather than 99% as in 2018/2019). The figure of £8.7m is the council's share of the full £17.8m appeals provision made from the collection fund.

Insurance Claims

This provision has been set aside to meet the estimated costs of current insurance claims that will not be met by the council's insurance policies.

Other

This covers a number of smaller provisions that are held to account for potential liabilities that are likely to result in a payment having to be made by the council but for which the timing and amount is currently uncertain.

Note 25 Unusable Reserves

Unusable Reserves

	2019/2020 £000	2018/2019 £000
Capital Adjustment Account	188,217	199,402
Revaluation Reserve	147,362	121,643
Deferred Capital Receipts Reserve	0	459
Pensions Reserve	(223,448)	(296,067)
Collection Fund Adjustment Account	5,817	5,816
Accumulated Compensated Absences Adjustment Account	(2,225)	(2,148)
Total Unusable Reserves	**115,723**	**29,105**

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 additions to those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs 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 subsequent costs.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council.

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

	2019/2020 £000	£000	2018/2019 £000	£000
Balance at 1 April		**199,402**		**220,655**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(20,275)		(19,390)	
Revaluation losses on Property, Plant and Equipment	(10,446)		(25,416)	
Amortisation of Intangible Assets	(406)		(284)	
Revenue expenditure funded from capital under statute (REFCUS)	(1,527)		(2,824)	
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	(1,819)		(14,278)	
		(34,473)		**(62,192)**
Adjusting amounts written out of the Revaluation Reserve		4,563		7,189
Net written out amount of the cost of non-current assets consumed in the year		**(29,910)**		**(55,003)**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	980		5,079	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	8,993		14,910	
Application of grants to capital financing from the Capital Grants Unapplied Account	3,799		4,196	
Statutory provision for the financing of capital investment charged against the General Fund balance	5,394		4,764	
Capital expenditure charged against the General Fund balance	181		223	
		19,347		**29,172**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(622)		3,978
Donated Asset credited to the Comprehensive Income and Expenditure Statement		0		600
Balance at 31 March		**188,217**		**199,402**

Revaluation Reserve

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

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

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2019/2020 £000	2018/2019 £000
Balance at 1 April	**121,643**	**129,291**
Net revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	30,282	(459)
Difference between fair value depreciation and historical cost depreciation	(4,088)	(3,548)
Revaluation balances on assets scrapped or disposed of	(475)	(3,641)
Amount written off to the Capital Adjustment Account	**(4,563)**	**(7,189)**
Balance at 31 March	**147,362**	**121,643**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

	2019/2020 £000	2018/2019 £000
Balance at 1 April	**459**	**312**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(459)	195
Transfer to the Capital Receipts Reserve upon receipt of cash	0	(48)
Balance at 31 March	**0**	**459**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed, as the council makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2019/2020 £000	2018/2019 £000
Balance at 1 April	**(296,067)**	**(230,545)**
Re-measurements of the net defined benefit liability/(asset)	95,820	(45,624)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(41,410)	(37,210)
Employers pensions contributions and direct payments to pensioners payable in the year	18,209	17,312
Balance at 31 March	**(223,448)**	**(296,067)**

Collection Fund Adjustment Account

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

	2019/2020 £000	2018/2019 £000
Balance at 1 April	**5,816**	**(8,677)**
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1	14,493
Balance at 31 March	**5,817**	**5,816**

Accumulated Absences Account

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

	2019/2020 £000	2018/2019 £000
Balance at 1 April	**(2,148)**	**(2,345)**
Settlement or cancellation of accrual made at the end of the preceding year	2,148	2,345
Amounts accrued at the end of the current year	(2,225)	(2,148)
Balance at 31 March	**(2,225)**	**(2,148)**

Note 26 Cash flow from Operating Activities

The cash flows for operating activities include the following items:

	2019/2020 £000	2018/2019 £000
Interest Paid	(7,922)	(5,666)
Interest Received	137	128

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

	2019/2020 £000	2018/2019 £000
Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation	20,275	19,390
Impairment & downward valuations	10,446	25,416
Amortisation	406	284
Increase/(Decrease) in impairment for bad debts	439	393
(Increase)/Decrease in Inventories	(21)	(97)
(Increase)/Decrease in Debtors	(1,874)	(419)
Increase/(Decrease) in Creditors	(2,025)	(5,586)
Movement in pension liability	23,201	19,898
Carrying amount of non-current assets sold	1,819	14,278
Movement in provisions	(5,472)	4,879
Movement in value of investments properties	622	(3,914)
	47,816	**74,522**
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of PP&E, investment property and intangible assets	(1,695)	(5,104)
Capital grants include in Taxation & non-specific grant income	(16,988)	(19,989)
	(18,683)	**(25,093)**

Note 27 Cash flow from Investing Activities

The surplus or deficit on the provision of services has been adjusted for the following items that are investing activities:

	2019/2020 £000	2018/2019 £000
Purchase of PP&E, investment property and intangible assets	(28,285)	(44,348)
Proceeds from the sale of PP&E, investment property and intangible assets	12,479	(1,736)
Capital Grants and Contributions Received	16,988	19,989
Net Cash flows from Investing Activities	**1,182**	**(26,095)**

Note 28 Cash flow from Financing Activities

The surplus or deficit on the provision of services has been adjusted for the following items that are financing activities:

	2019/2020 £000	2018/2019 £000
Appropriation to/from Collection Fund Adjustment Account	(1)	(14,493)
Cash Receipts of short and long term borrowing	74,000	53,000
Repayment of Short and Long Term Borrowing	(63,751)	(47,362)
Council Tax and NNDR Adjustments	4,659	15,994
Net Cash flows from Financing Activities	**14,907**	**7,139**

Reconciliation of Liabilities Arising from Financing Activities

		Cash Changes	Non-Cash Changes		
	Balance as 1-Apr-2019 £000	Financing Cash Flows £000	Movement from long-term to short-term £000	Interest Accruals £000	Balance at 31-Mar-2020 £000
Long-term Borrowings	(148,840)	(3,249)	(16,156)	0	(168,245)
Short-term Borrowings	(46,860)	(7,000)	16,156	1,711	(35,993)
Total Liabilities from Financing Activities	**(195,700)**	**(10,249)**	**0**	**1,711**	**(204,238)**

Note 29 Pooled Budgets

North Lincolnshire Council and North Lincolnshire Clinical Commissioning Group (NLCCG) are involved in a pooled budget scheme for the Better Care Fund.

The Better Care Fund is a government plan to integrate health and social care by 2020, which is implemented via a Section 75 pooled budget arrangement. This council is a partner within the pooled budget with NLCCG.

This funding requires the council and its health partners to agree how the money should be used to support social care activity that also has a health benefit. In accordance with national requirements NLC submitted its better care plan as to how it would use funding to improve its citizen's lives, and monitoring reports detailing progress continue to be submitted by NLCCG to NHS England.

The focus continues to support projects to deliver four key performance metrics and the high impact change model. The performance metrics are:

- Non elective admissions
- Residential admissions
- Reablement
- Delayed transfers of care

Funding of services to support these performance metrics focuses on supporting elderly service users, rapid response and reablement services to prevent people from needing to access hospital care.

	2019/2020 Better Care Funds £000	2018/2019 Better Care Funds £000
Funding provided to the pooled budget:		
The Authority	16,228	7,155
The NLCCG	5,054	11,337
	21,282	**18,492**
Expenditure met from the pooled budget:		
The Authority	15,652	14,597
The NLCCG	5,054	3,475
	20,706	**18,072**
Net surplus/(deficit) arising on the pooled budget during the year	**576**	**420**

Note 30 Members' Allowances

Members' allowances, including Employer's costs, are as follows:

	2019/2020 £000	2018/2019 £000
Allowances	545	537
Expenses	23	29
Total	**568**	**566**

Note 31 Officers' Remuneration

Senior Officer Remuneration

		Basic Salary £	Salary Supplement £	Compensation for Loss of Office £	Contribution to Pension Fund £	Total £
Chief Executive – D Hyde	**2019/2020**	**152,829**	**9,170**	**0**	**24,001**	**186,000**
(Head of Paid Service)	2018/2019	148,349	8,901	0	23,746	180,996
Deputy Chief Executive	**2019/2020**	**143,278**	**8,597**	**0**	**22,495**	**174,370**
	2018/2019	139,077	8,345	0	21,835	169,257
Director of Adults & Community Well-being	**2019/2020**	**100,825**	**6,049**	**0**	**15,830**	**122,704**
	2018/2019	97,869	5,872	0	15,365	119,106
Director of Business Development	**2019/2020**	**92,558**	**5,553**	**0**	**14,532**	**112,643**
	2018/2019	88,268	5,296	0	13,858	107,422
Director of Children & Community Resilience	**2019/2020**	**99,540**	**5,972**	**0**	**15,628**	**121,140**
	2018/2019	101,475	6,089	0	15,932	123,496
Director of Governance and Partnerships	**2019/2020**	**92,558**	**5,553**	**0**	**14,532**	**112,643**
(Chief Financial Officer)	2018/2019	88,268	5,296	0	13,858	107,422
Director of Learning, Skills & Culture	**2019/2020**	**96,580**	**5,795**	**0**	**15,163**	**117,538**
	2018/2019	93,748	5,625	0	14,718	114,091
Director of Operations	**2019/2020**	**99,943**	**4,603**	**52,651**	**12,044**	**169,241**
(Vacant wef 24.01.2020)	2018/2019	91,420	5,485	0	14,353	111,258
Director of Public Health	**2019/2020**	**94,573**	**5,674**	**0**	**13,600**	**113,847**
	2018/2019	91,800	5,508	0	13,201	110,509
Head of Legal and Democracy	**2019/2020**	**62,706**	**3,762**	**0**	**9,845**	**76,313**
(Monitoring Officer)	2018/2019	60,867	3,652	0	9,556	74,075

Senior Employee Remuneration

The council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

2019/2020	2018/2019

	Teachers	Other Staff	Total	Teachers	Other Staff	Total
£50,001 to £55,000	28	27	**55**	20	39	**59**
£55,001 to £60,000	18	27	**45**	19	16	**35**
£60,001 to £65,000	11	12	**23**	13	13	**26**
£65,001 to £70,000	10	7	**17**	11	2	**13**
£70,001 to£ 75,000	7	5	**12**	5	5	**10**
£75,001 to £80,000	5	4	**9**	1	1	**2**
£80,001 to £85,000	2	0	**2**	2	0	**2**
£85,001 to £90,000	1	0	**1**	1	0	**1**
£90,001 to £95,000	1	1	**2**	2	0	**2**
£95,001 to £100,000	1	0	**1**	1	0	**1**
£100,001 to £105,000	3	0	**3**	1	0	**1**
£105,001 to £110,000	0	0	**0**	1	0	**1**
£110,001 to £115,000	1	0	**1**	1	0	**1**
£115,001 to £120,000	1	0	**1**	0	0	**0**
	89	**83**	**172**	**78**	**76**	**154**

Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below (excluding any Senior Officers which are listed individually above):

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2019/2020	2018/2019	2019/2020	2018/2019	2019/2020	2018/2019	2019/2020 £000	2018/2019 £000
£0-£20,000	12	24	36	23	48	47	343	267
£20,001 - £40,000	4	2	4	6	8	8	215	204
£40,001 - £160,000	2	1	1	4	3	5	266	345
Total cost included in CIES							**824**	**816**

Note 32 External Audit Costs

The council has incurred the following costs relating to the annual audit of the Statement of Accounts, certification of grant claims and other services provided by the council's external auditors.

	2019/2020 £000	2018/2019 £000
Fees payable regarding external audit services carried out by the appointed auditor for the year	80	80
Fees payable in respect of grant claims during the year	18	8
Fees payable in respect of other services provided during the year	0	0
	98	**88**

The Fees payable in respect of grant claims during the year total includes the Teachers' Pension Grant costs for 2018/2019 and 2019/2020.

Note 33 Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2019. The Schools Budget includes elements for a range of educational services provided on a council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Distribution of DSG receivable for 2019/2020 is as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000

Final DSG for 2019/2020 before Academies recoupment	24,097	109,522	133,619
Academy figure recouped for 2019/2020	(404)	(51,280)	(51,684)
Total DSG after academy recoupment for 2019/2020	**23,693**	**58,242**	**81,935**
Plus: Brought forward from 2018/2019	1,488	0	1,488
Less: Carry forward to 2020/2021 (agreed in advance)	(2,039)	0	(2,039)
Agreed initial budgeted distribution in 2019/2020	**23,142**	**58,242**	**81,384**
In year adjustments	274	0	**274**
Final budget distribution for 2019/2020	**23,416**	**58,242**	**81,658**
Less: Actual central expenditure	(23,383)		(23,383)
Less: Actual ISB deployed to schools		(58,242)	(58,242)
Plus: Carry Forward (agreed in advance)	2,039	0	**2,039**
Carry forward to 2020/2021	**2,072**	**0**	**2,072**

Note 34 Grant Income

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement during the year.

	Note	2019/2020 £000	2018/2019 £000
Credited to Taxation and Non-Specific Grant Income			
Revenue Support Grant	13	(6,098)	0
Other non-ring-fenced grants	13	(46)	(43)
Adult Social Care Support Grant	13	0	(476)
New Homes Bonus	13	(737)	(956)
Rural Services Grant	13	(206)	0
Business Rates Relief Grant	13	(7,679)	(5,339)
COVID-19 Response Grant	13	(4,991)	0
Capital Grants	13	(16,988)	(19,989)
Donations	13	0	(600)
Total		**(36,745)**	**(27,403)**
Credited to Services			
Dedicated Schools Grant		(82,059)	(80,470)
DWP - Rent Allowance Subsidy		(26,793)	(33,688)
Public Health England		(9,069)	(9,315)
Better Care Fund		(6,923)	0
Improved Better Care Fund		(6,264)	(5,042)
EFSA- Pupil Premium		(4,576)	(4,636)
EFSA – Free School Meals		(1,502)	(1,608)
EFSA – Teachers Pension		(1,310)	0
Social Care Support		(1,300)	0
Skills Funding Agency		(1,078)	(1,234)
Total		**(140,874)**	**(135,993)**

Note 35 Related Parties

Related Parties

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

Central Government

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. council tax bills, housing benefits). Grant receipts are shown in Note 34.

Members and officers

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid during the year is shown in Note 30. The Register of Members' Interests is available to be viewed on the council's website. Officers that might be in a position to influence significantly the policies of the council are considered to be members of the Senior Leadership Team. All senior officers have been required to complete a related declaration identifying organisations with which they have influence/or control, and which may have a related party interest with the council.

	In-Year Expenditure £000	In-Year Income £000	Year-end Creditor £000	Year-end Debtor £000	Number of parties declaring an interest	
					Members	Officers
Related Party Interests:						
Works and Services commissioned from companies	300	-24	1	-18	16	0
Grants to Voluntary Organisations	156	-56	0	-3	25	0
Grant contributions to Charities	329	-51	-2	-5	9	0
Grant to Non-Profit Organisations	118	-5	0	-2	5	0

In all instances, the grants were made with proper consideration of declarations of interest. The relevant members or officers did not take part in any discussion or decision to the payments.

Note 36 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, 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), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

	2019/2020 £000	2018/2019 £000
Opening Capital Financing Requirement	235,128	211,565
Capital Investment		
Property, Plant and Equipment	23,324	41,535
Investment Properties	3,523	8,582
Intangible Assets	177	357
Heritage Assets	0	37
Revenue Expenditure Funded from Capital under Statute (REFCUS)	5,128	10,766
	32,152	**61,277**
Sources of finance		
Capital receipts	(980)	(5,079)
Government grants and other contributions	(16,393)	(27,648)
Sums set aside from revenue:		
Direct revenue contributions	(181)	(223)
Minimum Revenue Provision	(5,394)	(4,764)
	(22,948)	**(37,714)**
Closing Capital Finance Requirement	**244,332**	**235,128**
Explanation of movements in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	9,204	23,563
Increase/(decrease) in Capital Financing Requirement	**9,204**	**23,563**

Note 37 Leases

Operating Leases (council as lessor)

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

- for the provision of smallholdings
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for the provision of leisure and cultural purposes

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

	2019/2020 Land and Buildings £000	2018/2019 Land and Buildings £000
No later than 1 year	3,112	3,670
Later than 1 year and no later than 5 years	9,413	10,807
Later than 5 years	103,802	106,754
	116,327	**121,231**

Note 38 Pension Schemes Accounted for as Defined Contribution Schemes

Teachers

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is a multi-employer defined benefit scheme. The Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The arrangements for the teachers' scheme mean that the council is not able to identify its share of the underlying financial position and performance within the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2019/2020, the council paid £5.9m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay to 31st August 2019 and 23.68% from 1st September onwards. The figures for 2018/2019 were £4.7m and 16.48%. The contributions due to be paid in the next financial year are estimated to be £6.8m

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 40.

The council is not liable to the Scheme for any other entities' obligations under the plan.

Public Health staff

Since 1 April 2013, public health staff have been employed by the council. These members of staff retained access to the NHS Pension Scheme, administered by the NHS Business Services Authority on behalf of the Department of Health and Social Care. The scheme is run on the same basis as the teachers' pension scheme.

In 2019/2020 the council paid £60k to the NHS Pension Scheme in respect of the retirement benefits of public health staff representing 14.38% of pensionable pay. In 2018/2019 the council paid £75k to the NHS Pension Scheme, representing 14.38% of pensionable pay. Contributions due to be paid in the next financial year are estimated to be £60k.

The council is not liable to the Scheme for any other entities' obligations under the plan.

Note 39 Defined Benefit Pension Schemes

Participation in the Local Government Pension Scheme

As part of the terms and conditions of employment of its officers, the council makes contributions towards the cost of post-employment benefits within the Local Government Pension Scheme. 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 two post-employment schemes:

- The Local Government Pension Scheme, administered locally by East Riding of Yorkshire Council - this is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However there are no investment assets built up to meet these liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The East Riding 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 East Riding of Yorkshire Council. Policy is determined in accordance with the Public 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 (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

Discretionary Post-retirement Benefits

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

Transactions relating to Post-Employment Benefits

The council recognises the cost of retirement benefits in the reported cost of service when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement on Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/2020 £000	2018/2019 £000	2019/2020 £000	2018/2019 £000
Comprehensive Income and Expenditure Statement				
Cost of services:				
Service cost comprising:				
Current service cost	34,801	28,732	0	0
Past service cost	(682)	2,267	0	0
(Gain)/loss from settlements	0	(626)	0	0
Financing and Investment Income and Expenditure:				
Net Interest expense	7,291	6,401	0	0
Total post-employment benefits charged to the Surplus of Deficit on the Provision of Services	**41,410**	**36,774**	**0**	**0**
Other post-employment benefits charged to the CIES				
Re-measurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	56,251	(26,972)	0	0
Actuarial gains and losses arising on changes in demographic assumptions	(40,348)	0	0	0
Actuarial gains and losses arising on changes in financial assumptions	(69,438)	71,905	(255)	825
Other	(42,030)	(134)	0	0
Total post-employment benefits charged to the CIES	**(54,155)**	**81,573**	**(255)**	**825**
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	**(41,410)**	**(36,774)**	**0**	**0**
Actual amount charged against the general fund balance for pensions in the year:				
Employers' contributions payable to scheme	**16,392**	**15,487**		
Retirement benefits payable to pensioners			**1,817**	**1,825**

Pensions 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 plans is as follows:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/2020 £000	2018/2019 £000	2019/2020 £000	2018/2019 £000
Present value of the defined obligation	(852,655)	(966,868)	(22,756)	(24,828)
Fair value of plan assets	651,963	695,629	0	0
Net liability arising from the defined benefit obligation	**(200,692)**	**(271,239)**	**(22,756)**	**(24,828)**
Total Liability	**(223,448)**	**(296,067)**		

Reconciliation of movements in the fair value of scheme assets

	Local Government Pension Scheme		Discretionary Benefits	
	2019/2020 £000	2018/2019 £000	2019/2020 £000	2018/2019 £000
Opening fair value of scheme assets	695,629	654,071		
Interest income	16,681	17,606		
Re-measurement gain/(loss):				
the return on plan assets, excluding the amount included in the net interest expense	(56,251)	26,972		
Other	0	0		
The effect of changes in foreign exchange rates				
Contributions from employer	16,392	15,487	1,817	1,825
Contributions from employees into the scheme	4,758	4,514		
Benefits paid	(25,246)	(22,585)	(1,817)	(1,825)
Other	0	(436)		
Closing value of scheme assets	**651,963**	**695,629**	**0**	**0**

Reconciliation of present value of the scheme liabilities:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/2020 £000	2018/2019 £000	2019/2020 £000	2018/2019 £000
Opening balance at 1 April	(966,868)	(858,788)	(24,828)	(25,828)
Current service cost	(34,801)	(28,732)		
Interest cost	(23,972)	(24,007)		
Contributions from scheme participants	(4,758)	(4,514)		
Re-measurement (gains) and losses:				
Actuarial (gains)/losses from changes in demographic assumptions	40,348	0		
Actuarial (gains)/losses from changes in financial assumptions	69,438	(71,905)	255	(825)
Other (if applicable)	42,030	134		
Past service cost	682	(2,267)		
Benefits paid	25,246	22,585	1,817	1,825
Liabilities extinguished on settlements	0	626		
Balance as at 31 March	**(852,655)**	**(966,868)**	**(22,756)**	**(24,828)**

Local Government Pension Scheme assets comprised:

	2019/2020 £000	2018/2019 £000
Cash and cash equivalents	30,840	27,503
Equities:		
by industry type		
Consumer		15,430
Manufacturing		14,989
Energy and utilities		3,215
Financial institutions		10,390
Health and care		6,315
Information technology		6,868
Other	56,669	350
sub-total equity	**56,669**	**57,557**
Bonds:		
by sector		
Corporate (Investment Grade)		9,200
Corporate (non-Investment Grade)	44,752	43,344
Government	28,951	30,512
Other	12,346	18,827
sub-total bonds	**86,049**	**101,883**
UK Property	**86,762**	**82,076**
UK Private equity	**34,613**	**35,310**
Other investment funds:		
Equities	278,127	325,976
Bonds	15,042	0
Infrastructure	38,611	33,716
Other	25,250	31,608
sub-total other investment funds	**357,030**	**391,300**
Total assets	**651,963**	**695,629**

In March 2020, the World Health Organisation declared the outbreak of COVID 19 as a global pandemic which led initially to a material negative impact in publicly quoted markets. This caused additional uncertainty in the valuation of unquoted investments which are challenging to value even in normal market conditions. With regard to property valuations undertaken at 31 March 2020, valuers noted that they considered less weight could be attached to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that external valuers were faced with an unprecedented set of circumstances on which to base a judgement. Where valuations were undertaken by external valuers at 31 March 2020, these were therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case.

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 the future years dependent on assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Pension Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The significant assumptions used by the actuary are set out below:

	Local Government Pension Scheme	
	2019/2020	2018/2019
Mortality assumptions:		
Longevity at 65 current pensioners:		
Men	20.9	21.7
Women	23.3	24.2
Longevity at 65 for future pensioners:		
Men	21.8	23.7
Women	24.8	26.4
Financial assumptions:		
Rate of increase in salaries	2.8%	2.7%
Rate of increase in pensions	1.9%	2.5%
Discount Rate	2.3%	2.4%
Rate of Inflation (CPI)	1.9%	2.5%

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

	Approximate increase to Employer	
Change in assumptions at 31 March 2019	%	£000
0.5% decrease in Real Discount Rate	9%	82,359
0.5% increase in the Salary Increase Rate	1%	8,397
0.5% increase in the Pension Increase Rate	8%	73,205

Impact on the Council's Cash Flows

The council's anticipated contributions to the scheme in 2020/2021 is £16.1m.

Note 40 Contingent Liabilities

The council is aware of an ongoing business rate appeal, whereby a number of NHS Trusts are taking forward a claim for NNDR Mandatory Charitable Relief to the High Court. One of the parties to the appeal is the Northern Lincolnshire and Goole Hospitals NHS Trust which currently pays business rates on Scunthorpe General Hospital. The financial impact of the appeal will depend on whether the Trusts are successful and the dates any relief is awarded for. No provision has been made within the accounts for the appeal at this stage, given the uncertainties surrounding the case. However, if this appeal is successful, it is estimated that the maximum impact could be in the region of £2m for the council.

Collection Fund

The Collection Fund shows the transactions of the billing council in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (i.e. major preceptors, the billing council and the Government) on behalf of which the billing council collects these taxes.

2018/2019 Business Rates £000	2018/2019 Council Tax £000	2018/2019 Total £000		2019/2020 Business Rates £000	2019/2020 Council Tax £000	2019/2020 Total £000
			INCOME			
	(86,685)	(86,685)	Council Tax Receivable		(90,787)	(90,787)
(87,682)		(87,682)	Business Rates Receivable	(90,487)		(90,487)
			Contribution towards previous year's Business Rates deficit:			
(12,695)		(12,695)	Central Government	(409)		(409)
(12,441)		(12,441)	Billing Authority	0		0
(254)		(254)	Fire Authority	0		0
(113,072)	**(86,685)**	**(199,757)**	**Total amounts to be credited**	**(90,896)**	**(90,787)**	**(181,683)**
			EXPENDITURE			
			Apportionment of Previous Year Surplus			
		0	Central Government			
	417	417	Billing Authority	2,027	711	2,738
	24	24	Fire Authority	16	40	56
	56	56	Police Authority		97	97
			Precepts, demands and shares			
0		0	Central Government	38,009		38,009
75,241	70,969	146,210	Billing Authority	37,328	74,275	111,603
760	4,010	4,770	Fire Authority	762	4,200	4,962
	9,687	9,687	Police Authority		11,041	11,041
			Charges to Collection Fund			
442	293	735	Write-offs of uncollectable amounts	337	281	618
17	404	421	Increase/(decrease) in allowance for impairment	1,002	1,162	2,164
(4,442)		(4,442)	Increase/(decrease) in allowance for appeals	3,668		3,668
5,683		5,683	Transitional Protection Payments Payable	4,265		4,265
237		237	Charge to General Fund for allowable collection costs for non-domestic rates	236		236
			Other transfers to General Fund in accordance with non-domestic rates regulations			
1,038		1,038	Enterprise Zone Growth	2,197		2,197
2,806		2,806	Renewable Energy	5,304		5,304
81,782	**85,860**	**167,642**	**Total amounts to be debited**	**95,151**	**91,807**	**186,958**
(31,290)	**(825)**	**(32,115)**	**(Surplus) /deficit arising during the year**	**4,255**	**1,020**	**5,275**
26,208	(274)	25,934	(Surplus)/deficit brought forward at 1 April	(5,082)	(1,099)	(6,181)
(5,082)	**(1,099)**	**(6,181)**	**(Surplus)/deficit carried forward at 31 March**	**(827)**	**(79)**	**(906)**

Collection Fund Note 1 - Council Tax Income

Income from council tax is derived from charges raised according to the value of residential properties, which have been classified into valuation bands using estimated values as at 1 April, 1991. The tax base calculation is based upon the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts and exemptions. Individual charges are calculated by estimating the amount of income required to fund the demands on the Collection Fund and dividing this by the tax base.

The number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings is detailed below:

	Valuation Band Limits	Calculated number of dwellings	Ratio to Band D	Equated number of dwellings	Council Tax Payable (£)
A	Up to 40,000	25,213	6/9	16,808.8	1,207.00
B	40,001 - 52,000	13,029	7/9	10,133.6	1,408.17
C	52,001 - 68,000	9,647	8/9	8,574.8	1,609.33
D	68,001 - 88,000	6,826	9/9	6,826.0	1,810.50
E	88,001 - 120,000	3,452	11/9	4,219.3	2,212.83
F	120,001 - 160,000	1,436	13/9	2,074.3	2,615.17
G	160,001 - 320,000	465	15/9	774.5	3,017.50
H	More than 320,001	10	18/9	20.5	3,621.00
				49,431.8	
			Adjustment	11.0	
				49,442.8	

The amount of Council Tax required for Band D, for North Lincolnshire Council and its major preceptors, was calculated on the following basis:

(i)	Preceptors' Council Tax Requirements	£89,516,157
(ii)	Number of Band D equivalent Dwellings	49,442.8
Band D – (i) divided by (ii)		£1,810.50

Collection Fund Note 2 – Non-Domestic Rates

Non-Domestic Rates are determined on a national basis by central government which specifies a rating multiplier and subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. In 2019/2020 the amount was 50.4p (49.3p in 2018/2019) and 49.1p for small businesses (48.0p in 2018/2019).

The council is responsible for collecting rates due from the ratepayers in its area and distributing the amount collected between itself, central government and major preceptors in proportions specified by central government. The council's share of this is shown in the Comprehensive Income and Expenditure Statement and analysed at Note 13. The total rateable value as at 31 March 2020 was £201,521,698 (as at 31 March 2019 it was £196,479,201).

Glossary of Financial Terms

Financial Abbreviations and roundings

Throughout this document we have used standard financial abbreviations k and m. In this case 'k' means thousands and 'm' means millions e.g. £6k means £6,000 and £1.577m means £1,577,000.

Most of the numbers in the accounts are rounded. Those in the main statements are presented to the nearest 1,000 pounds. Where necessary to ensure that totals are correct, small adjustments have been made to individual figures.

Glossary

Accruals
This is the concept of recognising income and expenditure when earned or incurred, not as money is received or paid.

Actuary
Pension expert

Amortisation
The writing off of a balance over a period of time to reflect the reduced value.

Capital Expenditure
This is expenditure on the acquisition, creation or enhancement of a fixed asset.

Capital Receipts
Income received from the sale of capital assets.

Cash and Cash Equivalents
Cash and cash equivalents include petty cash, cash in transit, bank balances (according to the ledger), and short-term, highly liquid investments that are readily convertible to known amounts of cash.

Code of Practice (The Code)
This is a document issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). All English and Welsh Local Authorities must comply with the COP in compiling their financial statements.

Collection Fund
This is a statutory fund for the receipt of Council Tax and Non-Domestic Rates collected by the authority and the payments made from these funds including precepts and payments to precepting authorities.

Community Assets
Assets that the authority 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 historic buildings.

Consistency
This is the principle that the accounting treatment of like items within an accounting period, and from one period to the next, is the same.

Creditors
Amounts owed by the authority for goods and services, where payment has not been made at the end of the financial year.

Current Assets
Current assets are items that can be readily converted into cash.

Current Liabilities
Current liabilities are items that are due immediately or in the short term.

Curtailments (Pension)
A curtailment is an event that reduces the expected years of future service of present employees, or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples might include a redundancy programme as a result of e.g. closing a factory or the introduction of a defined contribution pension arrangement covering all employees for future service.

De minimis
An immaterial amount or balance.

Debtors
Amounts owed to the authority for goods and services, where the income has not been received at the end of the financial year.

Dedicated Schools Grant (DSG)
School funding for local authorities in England is provided by a ring fenced grant.

Deferred Credits
These consist of deferred capital receipts, which are amounts derived from the sales of assets that will be received in instalments over agreed periods of time and deferred government grants that are grants received in advance.

Deferred Liabilities
These are liabilities which by arrangement are payable beyond the next year at some point in the future or are paid off by an annual sum over a period of time.

Depreciation
This is the measure of the wearing out, consumption, or other reduction in the useful life of a non-current asset, whether arising from use, over time or obsolescence through technological or other changes.

Events after the balance sheet date
Those events of such materiality that their disclosure is required for the fair presentation of the authority's statements, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

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

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

General Fund
This is the main revenue account of a local authority, from which day to day spending on its services is met.

Going Concern
Accounting concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to significantly curtail the scale of operations.

Government Grants
Assistance by government and inter-government agencies and similar bodies, in the form of cash or transfer of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Impairment
A reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet

International Financial Reporting Standards (IFRSs)
Standards prepared by the International Accounting Standards Board. Many of the International Financial Reporting Standards (IFRSs) and some International Public Sector Accounting Standards (IPSAS) apply to local authorities and any departure from these must be disclosed in the published accounts.

Intangible Asset
Assets that have a useful life of over one year but are not material or physical.

Infrastructure Assets
Infrastructure assets can be defined as groups of assets that together form an integrated system. Such a system could not be effectively operated if individual components were removed. Examples of such assets are highways and footpaths.

Investment Properties
Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential with any rental income being negotiated at arm's length.

Leasing
Method of financing the provision of various capital assets, usually in the form of operating leases which tend not to provide for title in the asset to transfer to the authority.

Levy
Impose or collect an amount (such as a tax) by compulsion or legal authority.

Liquid Resources
Current asset investments that are readily disposable by the authority 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 Borrowing
Amounts repayable in more than 12 months.

Long Term Investments
Long-term investments are investments intended to be held for use on a continuing basis in the activities of the authority. They should be so classified only where an intention to hold the asset for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Where investments are not classified as long term investments, they are classified as current assets.

Minimum Revenue Provision (MRP)
The minimum amount which must be charged to an authority's revenue account each year for the repayment of loan principal.

National Non-Domestic Rate (NNDR)
Amounts payable to the authority from non-domestic properties. National Non-Domestic Rate is a standard rate in the pound set by central government on the assessed rateable value of properties used for business purposes.

Net Current Replacement Cost
Cost of replacing or recreating the particular asset in its existing condition and in its existing use.

Net Realisable Value
Open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non-Operational Assets
Non-operational assets are tangible fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples include investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operational Assets
Tangible fixed assets held and occupied, used or consumed by the authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Precept
Demands made upon the collection fund by the authorities which it directly funds, i.e. the authority, Humberside Police and Humberside Fire and Rescue Service for the services they provide. Parish Councils also raise precepts which are paid by the authority and included within the precept it levies on the collection fund.

Property, Plant & Equipment
Tangible assets that yield benefits to the authority and the services it provides for a period of more than one year.

Provision
Amounts set aside to meet liabilities or losses which are likely to be incurred but where the amount remains uncertain.

Prudence
An accounting concept that revenue is not anticipated but is recognised only when realised in the form of either cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty. Proper allowance must be made for all known and foreseeable losses and liabilities.

Public Works Loan Board (PWLB)
A central government agency, which lends money to local authorities usually at interest rates which are more favourable than those found elsewhere.

Remuneration
All amounts paid to or receivable by a person, and includes sums due by way of expenses allowance (so far as those sums are chargeable to United Kingdom income tax), and the estimated money value of any other benefits received by an employee otherwise than in cash.

Reserves
Sums set aside to meet future expenditure. Some reserves are earmarked for specific purposes only. Others are general reserves.

Revaluation Reserve
This is an account containing any surpluses arising from the revaluation of fixed assets.

Revenue Expenditure
Expenditure on the day-to-day running of the authority, including employee costs, running expenses and capital financing costs.

Revenue Expenditure Financed From Capital Under Statute (REFCUS)
Expenditure which may be properly capitalised, but which does not result in, or remain matched with, tangible non-current assets. An example would be capital expenditure on improvement grans.

Revenue Support Grant (RSG)
Grant paid to local authorities by central government to help finance its general expenditure. It is determined under the Formula Spending Share system.

Settlement (Pension)
A settlement is an irrevocable action that relieves the employer of the primary responsibility for a pension obligation and eliminates significant risks relating to the assets and liabilities in respect of that obligation. Examples would include purchasing annuities in respect of pensioner liabilities or making a bulk transfer payment to another arrangement.

Useful Life
This is the period over which the authority will derive benefits from the use of a fixed asset.

Agenda Item 6c

Audit Completion Report

North Lincolnshire Council

Year ending 31 March 2020

MAZARS

CONTENTS

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3 Wellington Place
Leeds
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Audit Committee
North Lincolnshire Council
Church Square House
30 - 40 High Street
Scunthorpe
North Lincolnshire
DN15 6NL

13 November 2020

Dear Members,

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 15 July 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the dates for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Even with the revised timetable we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07747 764 529.

Yours faithfully

Mark Kirkham
Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of North Lincolnshire Council ('the Council') for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 23 November 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- management override of control;
- property, plant and equipment valuations; and
- defined benefit liability valuation.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, on the financial statements. Given the material valuation uncertainty relating to the valuation of land and buildings highlighted in the financial statements, we have included an Emphasis of Matter paragraph within our auditor's report. Page 7 and 8 provide further details. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 4 December 2020. We anticipate reporting that the WGA submission is consistent with the audited financial statements

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. There have been no matters arising for the 2019/20 audit.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and value for money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Investment properties	🟠	We are finalising our work in this area and are in the process of resolving our final queries with the valuer.
Property, plant and equipment	🟠	We are finalising our work in this area and are in the process of resolving our final queries with the valuer. We have small items of work to complete in relation to disposals, existence and assets held for sale.
Cash and cash equivalents	🟢	We have one query outstanding in relation to the petty cash balance included within the financial statements.
Loans and borrowings	🟢	We are awaiting receipt of direct confirmation for two loan balances.
Pensions	🟢	We are yet to receive the final report from the pension fund auditor for the procedures we are seeking assurance on. We are awaiting the finalised actuary report to enable the adjustments to be processed. See Section 2 for further details.
Collection fund	🟢	We are finalising our work in this area.
Whole of Government Accounts (WGA)	🟢	We are yet to complete the procedures as set out in the NAO group instructions.
Audit quality control and completion procedures	🟢	Our audit work is undergoing final stages of review by the Engagement Lead. In addition, there are residual procedures to complete, including agreeing the expected amendments to the final Statement of Accounts, updating post balance sheet event considerations to the point of issuing the opinion and reviewing managements going concern assertion.

Status

- 🔴 Likely to result in material adjustment or significant change to disclosures within the financial statements
- 🟠 Potential to result in material adjustment or significant change to disclosures within the financial statements
- 🟢 Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit Committee with an update in relation to these outstanding matters in a follow up letter, prior to signing the auditor's report.

2. EXECUTIVE SUMMARY (CONTINUED)

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in July 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £6.9m using a benchmark of approximately 1.7% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £6.9m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £207k based on 3% of overall materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow up letter.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 9 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk by performing audit work in the following areas: • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion There are no matters arising from our work in relation to management override of controls.

2. SIGNIFICANT FINDINGS (CONTINUED)

Property, plant and equipment valuation

Description of the risk

The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Because of the high degree of estimation uncertainty we have determined there is a significant risk in this area.

How we addressed this risk

In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we:

- critically assessed the valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations;
- considered whether the overall revaluation methodologies used by the valuer's are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies;
- assessed whether valuation movements are in line with market expectations by using information available from other sources;
- critically assessed the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; and
- critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer.

Audit conclusion

At the outset of the COVID-19 outbreak, an expectation was raised that valuers were likely to conclude that a "material uncertainty" for the valuation of land and buildings existed at the balance sheet date. The Council's valuer has followed guidance issued by the Royal Institute of Chartered Surveyors and concluded that the impact of COVID-19 on the property market has led to a "material uncertainty" over the valuation of your land and buildings at the balance sheet date. This has been properly disclosed in the notes to the Statement of Accounts and we also asked management to extend the scope to include investment properties in Note 4 given the valuation is subject to the same uncertainty.

We expect, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. Our draft report at Appendix B includes the 'emphasis of matter' paragraph we expect to include. The draft wording is subject to our internal review processes, and if this wording subsequently changes we will provide an update in the follow up letter to the Audit Committee when the audit is completed.

In section 3 we have identified two internal control recommendations in relation to property, plant and equipment.

The procedures we have undertaken to date have not identified any material errors or uncertainties in the financial statements, or further matters that we wish to bring to Members' attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Defined benefit liability valuation

Description of the risk

The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of the East Riding of Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2019.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology.

There are financial and demographic assumptions used in the calculation of, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council'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.

There is a risk that the assumptions and methodology used in valuing your pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2019/20.

How we addressed this risk

As part of our work we reviewed the controls that the Council has in place over the information sent to the scheme actuary, including the Council's process and controls relevant to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the scheme actuary, Hymans Robertsons.

We reviewed the appropriateness of the methodology applied, and the key assumptions included within the valuation, and compared them to expected ranges, utilising the information provided by PwC, the consulting actuary engaged by the National Audit Office. We reviewed the methodology applied in the valuation of the liability by Hymans Robertsons.

Audit conclusion

The draft financial statements submitted for audit included pension figures provided by the actuary which were based on the estimated asset values at 31 March 2020. During the course of the audit, the actuary provided an update which included the pension figures based on actual asset values at 31 March 2020. The financial statements have been amended to incorporate the revised figures. This has reduced the value of the net pension liability.

When agreeing the source data used by the actuary, we noted a difference on the pensionable pay figure. The pension fund have confirmed an incorrect figure has been used and a revised actuary report has been requested. We have included an internal control recommendation in relation to this matter in Section 3.

Our work on the adjustment for these two issues is still underway and we will report the detailed amendment within our follow up letter.

The Pension Fund accounts disclose a material valuation uncertainty in relation to the valuation of level 3 unquoted property investments and level 3 unquoted pooled funds because of the potential impact of COVID-19. is disclosed in notes 4 and 39 of your revised financial statements. We plan, in line with normal practice, to include reference to this disclosure as an 'emphasis of matter' in our audit report. The purpose of this paragraph is to draw attention to this disclosure, it is not a qualification and does not modify our proposed unqualified opinion. Our draft report at Appendix B includes the 'emphasis of matter' paragraph we expect to include. The draft wording is subject to our internal review processes, and if this wording changes we will provide an update in the follow up letter to the Audit Committee.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 3 July 2020 and were of a good quality. These were supported by working papers of a good standard and represents a significant achievement by the finance team.

Significant matters discussed with management

McCloud

The McCloud judgment relates to potential age discrimination arising from transitional protections offered to some existing members of public service pension schemes that were not made available to younger members. In July 2019, Treasury confirmed that the difference in treatment between older and younger members of public service pension schemes would need to be removed in order to remove the discrimination. For the financial year 2018/19, Hyman Robertsons provided a revised actuarial report which included an estimate of the impact of the case on pension liabilities for the Local Government Pension Scheme (LGPS). At the time of making this estimate, actuaries were required to estimate what the proposed remedy would be. In 2019/20 the respective actuarial reports made an adjustment to the initial estimates based on further information received.

In July 2020, the Treasury initiated a consultation on the proposed remedy for public service pensions and MHCLG released a consultation into the proposed remedy for the LGPS, which set out the estimation basis for the impact of the judgment.

Management made enquires of the actuary of the LGPS, Hyman Robertsons, in relation to the expected outcome of this change on the LGPS. Hyman Robertsons confirmed that the estimate made in the 2019/20 IAS 19 report included a methodology not dissimilar to that in the consultation and as such your actuary does not expect there to be a material difference in the LGPS meaning that a recalculation based on the consultation remedies was not required.

Goodwin

A case was made against the Teachers Pensions Scheme in relation to sexual orientation discrimination. The discrimination occurs because there is a difference in survivor benefits payable depending upon whether the member was in a same-sex marriage or civil partnership or an opposite-sex marriage or civil partnership. The Government concluded that changes are required to the Teachers' Pension Scheme to address the discrimination. The Government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances.

In respect of the LGPS, your actuary has confirmed that there will be an additional liability arising from the Goodwin judgment. Full information is not yet available to accurately calculate the impact, however, based on an estimate, your actuary has indicated that the LGPS impact is not likely to be material. As the impact is below materiality, no adjustment to the financial statements has been made. As these issues relate to the refinement of an estimate rather than an error, they have not been reported as unadjusted misstatements.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant difficulties during the audit

We did not encounter any significant difficulties and we have had the full co-operation of management. The outbreak of the Covid-19 pandemic affected the operation of Council services and the audit process with officers and the audit team working remotely. We held regular discussions with management to understand the implications and consider the impact on our risk assessment. We identified no changes in key financial processes that affected our audit approach but our usual methods of communication and engagement were revised and the circumstances involved some time lags in resolving audit queries. Overall, the finance team responded well.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	-
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	3
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1

Other deficiencies in internal control – Level 2

Description of deficiency

Pensions source data

When reviewing the source data used by the actuary, we noted a difference in the pensionable pay amount. The pension fund has confirmed this amount was used in an error, and the actuary have provided a revised report based on the actual pensionable pay.

Potential effects

The financial statements are materially mis-stated in relation to the pensions liability.

Recommendation

The finance team should review the data used by the actuary to confirm the accuracy of it.

Management response

On receipt of the actuary report, a review of the data included will be carried out and verified back to any data we have provided for their use

Description of deficiency

Property, plant and equipment (PPE) valuations

We noted four cases where there were arithmetic errors within the valuation certificates, resulting in incorrect asset valuations. The errors included overstatements and understatements which overall netted to an £80k variance which is below trivial. In addition, we identified a further case where a BCIS index had been incorrectly input into the valuation certificate. Again the value of the error was below our triviality threshold. It is, however, possible that these types of issues could result in a significant error.

Potential effects

PPE valuations are incorrect as a result of arithmetic or input errors within the valuation process.

Recommendation

Internal quality review processes are implemented to ensure valuation certificates once prepared are reviewed by a second officer prior to being provided to the finance team.

Management response

Existing valuation procedures and controls will be reviewed by the internal asset valuation working group, with a view to implementing additional quality control/checking systems.

Description of deficiency

Property, plant and equipment controls

When carrying out our walkthrough test of the Property, Plant and Equipment system, we noted that the following control had not operated:

The Capital Accountant compares new valuations to net book values plus this year's depreciation and investigates large differences over £100k.

This check was completed upon request, with no issues identified.

Potential effects

Property, Plant and Equipment may be held at inaccurate values in the ledger.

Recommendation

Year end controls are carried out and implemented as designed.

Management response

A process will be written for the year end capital procedures and when the new Capital Accountant is in post, emphasis will be drawn to the importance of completing all Year End controls.

Other deficiencies in internal control – Level 3

Description of deficiency

Creditor payments

When carrying out our walkthrough test of the creditors system, we noted that random checks of signatories take place, however there is no method in place for these checks and no evidence of the check is maintained.

Potential effects

Unauthorised signatories are used to authorise expenditure.

Recommendation

A method is implemented for completing the checks, and evidence of the check is maintained.

Management response

A Business Objects Report will be scheduled to run at the beginning of each month. Using this report the Servicedesk will choose the top 10 randomly selected invoices and compare those signatories with those kept on file. The date checked will be recorded and results filed for reference

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £207k.

The first section outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second section outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2019/20

On review of the cash flow statement it was noted there is a balancing figure of £311k included. This value has been investigated by officers and no adjustment has been made within the financial statements.

Adjusted misstatements 2019/20

As noted in Section 2 in our response to the significant audit risk in respect of the defined benefit liability valuation, we have identified the need for an amendment. Our work in this area is still in progress, and we will report the detailed adjustment in our follow up letter to the Audit Committee on completion of the audit.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

In addition to the above numerical errors that relate directly to the primary statements or their related notes, our audit also identified a small number of errors and adjustments in relation to other disclosures. These have been discussed with management who have agreed to the amendments and include, but are not limited to:

- **Cash Flow Statement** - There was a transposition error on the total 'Net increase (or decrease) in cash and cash equivalents' which was incorrectly shown as £18,902k, but should be £18,092k. This has been amended in the revised financial statements.
- **Note 18 – Financial Instruments** – The disclosure for creditors has been amended from £28,171k to £14,518k to remove items that are not contractual obligations, as non domestic rates, council tax, payroll tax and national insurance. The prior year has also been amended from £22,813k to £16,807k.
- **Note 31 – Officers' Remuneration – Exit Packages –** There was £24k payment in lieu of notice on one exit package that was incorrectly omitted from the disclosure. There was also a pension strain cost of £4k that was based on an estimate due to timing. The disclosure has been amended for both issues.
- **Note 32 – External Audit Costs** – the disclosure has been updated to include the fee for the work on the Teachers Pensions Return of £3k which was omitted due to the work not being agreed at the time of preparing the financial statements.
- During the course of the audit, officers amended the presentation of Note 31 – Officers' Remuneration. The revised financial statements now include separate tables for teaching and other staff.

Unadjusted disclosure amendments

As noted above, we identified errors in the disclosure of exit packages. We extrapolated the known error and projected an understatement of £22k. This is a projected error and has not been amended for within the financial statements.

5. VALUE FOR MONEY CONCLUSION

Our approach

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the 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.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Council operates an Executive with a Leader and Cabinet model, and this is governed by a Council Constitution including the normal features of an effective governance framework in local government. The Audit Committee monitors the Council's system of internal control and it met regularly during the year. The Internal Audit plan has been delivered for the year and the Head of Internal Audit Opinion provided satisfactory assurance. Internal Audit reports directly to the Audit Committee. The Audit Committee receives regular reports tracking services progress in responding to Internal Audit recommendations. The Audit Committee challenges management to ensure recommendations are implemented and this is in a timely manner. An Annual Governance Statement has been prepared and approved by the Audit Committee. A medium term financial plan was in place for the year ended 31 March 2020. Performance against the plan was reported regularly to the Cabinet.	Yes

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	The updated financial plan was approved by full Council in February 2020 and sets out the pressures faced by the Council in the coming year including demand and funding issues. The plan included the need for cost reduction initiatives over the medium term including to ensure a balanced financial position. The Council is now revisiting the financial plan in light of COVID-19 and the anticipated economic consequences in the short and medium term. This includes consideration of the key expenditure and income assumptions included in the plan. This is understandably difficult given the significant levels of ongoing uncertainty. Our VFM conclusion considers the arrangements in place for the 2019/20 financial year and recognises that the consequences of the pandemic affect arrangements in 2020/21. The 2019/20 outturn shows that this was a challenging financial year for some areas of Council. Demand pressures meant there were overspends in some service areas, especially within need led budgets, but these were partially offset by one off savings. The Council ended the year with a slight overspend of approx. 1.1%. The above pressures will continue alongside the financial pressures and challenges created by the response and recovery from COVID-19. In the year earmarked reserves increased by £6.6m mainly due to COVID-19 grant received at the year end. The General Fund reserve increased by £300k. Overall total useable reserves as at 31 March 2020 are £60.5m. Capital expenditure was lower than planned in the year by £7.3m against a total budget of £39.5m. The underspend has been carried into the 20120/21 budget.	Yes
Working with partners and other third parties	The Council works with a range of third parties including NHS Providers, LEP's and Housing Associations. There is a Partnership Protocol and a Joint Working Framework to govern the arrangements. The Council has issued procurement guidance, has contract procedures in place and maintains a contracts register. The Council seeks to achieve best value from the procurement process, driving savings where possible, but also aiming to deliver sustainable services.	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to the significant risk is outlined below.

Risk	Work undertaken	Conclusion
Financial Sustainability The Council's medium term financial plan (MTFP) for the period 2020/21 to 2022/23 sets out the financial challenges the Council faces in the medium term. To achieve financial balance in the coming years, the MTFP includes planned use of reserves of £1.9m in 20/21 and £1.6m in 21/22. The continuing challenges the Council faces are not new and are not unique to North Lincolnshire Council. The challenges do, however, present a significant audit risk in respect of the arrangements that the Council has in place to deliver financial sustainability over the medium term.	We reviewed the arrangements the Council has in place for ensuring financial resilience and ensuring that the medium term financial plan has taken into consideration factors such as funding reductions, salary and general inflation, demand pressures and restructuring costs. We also reviewed the arrangements in place to monitor income and expenditure to deliver the budget and the Council priorities.	Our work provided sufficient assurance. We have no matters to report. The impact of the COVID-19 pandemic means the Council will need to revisit the financial plan, including assumptions and future budget gaps. Our conclusion considers arrangements in the 2019/20 financial year and recognises that the impact of COVID-19 was in March 2020. When setting the updated financial plan, arrangements were in place to set a financial plan which reflected the circumstances at that time.

Our overall conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

North Lincolnshire Council
Church Square House
30 – 40 High Street
Scunthorpe
DN15 6NL

[XX] November 2020

Dear Mark

North Lincolnshire Council - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of North Lincolnshire Council (the Council) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director Governance and Partnerships that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:
- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date. There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.
The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as Director Governance and Partnerships for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
I have disclosed to you:
- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions
I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.
I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

Charges on assets
All the Council's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Impairment review
To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Service Concession Arrangements
I am not aware of any material contract variations, payment deductions or additional service charges in 2019/20 in relation to the Council's PFI schemes that you have not been made aware of.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that the Council will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements
I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR. Please remove this paragraph if no unadjusted mis-statements.*

Yours faithfully

Director Governance and Partnerships: ……
Date: ……

APPENDIX B
DRAFT AUDITOR'S REPORT

Independent auditor's report to the Members of North Lincolnshire Council

Report on the financial statements

Opinion

We have audited the financial statements of North Lincolnshire Council for the year ended 31 March 2020, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of North Lincolnshire Council as at 31st March 2020 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of land and buildings and investment properties

We draw attention to note 4, 14 and 16 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and investment properties. As disclosed in note 4, 14 and 16 of the financial statements, the Council's valuers included a 'material valuation uncertainty' declaration within their report as a result of the Covid-19 pandemic creating a shortage of relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Material uncertainty relating to valuations of property investments

We draw attention to Note 4 and 39 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Pension Fund's level 3 unquoted property investments and level 3 unquoted pooled funds as at 31 March 2020. As disclosed in Note 4 and 39 of the financial statements, the outbreak of Covid-19 has had a significant impact on global financial markets. As such, the Pension Fund's property investment manager has included a material valuation uncertainty clause in some 31 March 2020 valuation reports because of the possible impact of Covid-19. There is, therefore, less certainty and a higher degree of caution should be attached to valuations of unquoted property investments and pooled funds than would normally be the case. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
the Director Governance and Partnership's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Director Governance and Partnership has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The Director Governance and Partnership is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Responsibilities of the Director Governance and Partnership for the financial statements
As explained more fully in the Statement of the Director Governance and Partnership's Responsibilities, the Director Governance and Partnership is responsible for the preparation of the Statement of Accounts, which includes the 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 2019/20, and for being satisfied that they give a true and fair view. The Director Governance and Partnership is also responsible for such internal control as the Director Governance and Partnership determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director Governance and Partnership is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director Governance and Partnership is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements
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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice
We are required by the Code of Audit Practice to report to you if:
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on North Lincolnshire Council's arrangements for securing economy, efficiency and effectiveness in the use of resources
Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, North Lincolnshire Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

APPENDIX B
DRAFT AUDITOR'S REPORT

Basis for conclusion
We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether the 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 in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

Responsibilities of the Council
The Council 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.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report
This report is made solely to the members of North Lincolnshire Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council 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 Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate
We certify that we have completed the audit of North Lincolnshire Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.
OR
Delay in certification of completion of the audit
We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark Kirkham
For and on behalf of Mazars LLP

5th Floor
3 Wellington Place
Leeds
LS1 4AP

APPENDIX C
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

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