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NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

3 November 2021

Chairman: Councillor Keith Vickers

Venue: Room F01e,
Conference Room
Church Square House

Time: 10.00 am

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

AGENDA

Member Development Session (not public) (10:00 am)

1. Briefing from the Director: Governance and Partnerships on the council's accounts

Public Meeting (10:30 am)

2. Substitutions (if any)
3. Declarations of Disclosable Pecuniary Interests and Personal or Personal and Prejudicial Interests (if any).
4. To take the minutes of the meeting held on 21 July 2021 as a correct record and authorise the chairman to sign. (Pages 1 - 8)
5. Annual Information Governance Update (Pages 9 - 12)
6. Going Concern Assessment as at 31 March 2021 (Pages 13 - 22)
7. Audit Completion Report - Report of Mazars (Pages 23 - 62)
8. Audit of Accounts 2020-21
 - (a) Audited Accounts 2020-21 (Pages 63 - 66)
 - (b) Statement of Accounts (Pages 67 - 144)
 - (c) Annual Governance Statement 2020-21 (Pages 145 - 158)
 - (d) North Lincolnshire Council Draft Management Representation Letter (Pages 159 - 164)
9. External Audit Appointment Process (Pages 165 - 168)

10. Treasury Management Mid Year Report 2021-22 (Pages 169 - 182)
11. Counter Fraud Progress Report (Pages 183 - 192)
12. 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.

Public Document Pack Agenda Item 4

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

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PRESENT: - Councillor K Vickers (Chairman)

Councillors T Foster (Vice-Chair), Wilson, L Yeadon and D Wells

The meeting was held in the Conference Room, Church Square House.

623 **SUBSTITUTIONS (IF ANY)** - Councillor D Wells substituted for Councillor T Mitchell.

624 **DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS AND PERSONAL OR PERSONAL AND PREJUDICIAL INTERESTS (IF ANY)** - There were no declarations of disclosable pecuniary interests and personal or personal and prejudicial interests.

625 **TO TAKE THE MINUTES OF THE MEETING HELD ON 8 APRIL 2021 AS A CORRECT RECORD AND AUTHORISE THE CHAIRMAN TO SIGN - Resolved** – That the minutes of the proceedings of this committee held on 8 April 2021, having been printed and circulated amongst the members, be taken as read and correctly recorded and signed by the Chairman.

626 **TO NOTE THE SCHEDULED DATES AND TIMES OF THE AUDIT COMMITTEE - Resolved** – That dates and times of future meetings of the committee be held on –

- 21 July 2021 at 10:00 am
- 22 September 2021 at 10:00 am
- 24 November 2021 at 10:00 am
- 26 January 2022 at 10:00 am
- 23 March 2022 at 10:00 am.

627 **EXTERNAL AUDIT PROGRESS REPORT - REPORT OF MAZARS** - The Chairman welcomed representatives of the council's External Auditors Mazars to the meeting, and invite them to present the council's audit progress report for July 2021.

The report provided the Audit Committee with an update on progress in delivering Mazars responsibilities as the council's external auditors and also included, at Section 2, a summary of recent reports and publications.

Following the verbal presentation, the Chairman facilitated a discussion between Panel Members and the council's External Auditors.

Resolved – That the audit progress report for July 2021 be received with thanks.

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628 **AUDIT COMMITTEE ANNUAL REPORT 2020-21** - The Director: Governance and Partnerships submitted the Audit Committee Annual Report for 2020-21 for consideration by the Committee. The Annual Report was designed to inform Council of the Committee's activities during the Council year (May 2020 – to April 2021), and how it had discharged its responsibilities. The report demonstrated that the committee operated in line with expected practice, and also identified areas for further development.

The report also included the outcome of the updated self-assessment against good practice identified by the Chartered Institute of Public Finance and Accountancy (CIPFA) that was carried out by the committee.

The main conclusions of the report were that the Committee had effectively discharged its duties, and its design and operation complied with expected practice. This could be further enhanced by -

- The invitation of a wider range of Directors and Heads of Service to obtain assurance as to how they managed risks and internal control in their areas of responsibility
- An invitation to managers with adverse internal audit reports to meet with the Committee to receive assurance on how they were dealing with the issues identified.
- The attendance at a member development session to allow members to assess their core knowledge and skills.

Following the Director's verbal presentation, the Committee discussed its Annual Report for 2020-21.

The Annual Report was attached to the report as an appendix.

Recommended to Council – That the Audit Committee Annual Report for 2020-21 be considered by council to support the requirements of the Code of Governance.

629 **AUDIT COMMITTEE ANNUAL FORWARD PLAN** - The Director: Governance and Partnerships submitted the Committee's Annual Forward Plan for the Municipal Year 2021-22. The Forward Plan was based on the Committee's Terms of Reference and aimed to identify reporting against its key responsibilities.

Members heard that the Audit Committees was a key component of the Council's corporate governance arrangement. It provided a high-level focus on assurance and the organisation's arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.

The Audit Committee Terms of Reference was based upon the Chartered

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Institute of Public Finance and Accountancy (CIPFA) publication 'Audit Committees: Practical Guidance for Local Authorities and Police (2018 edition)'. The forward plan was intended to be a reference point used at each meeting to ensure that each agenda item provided the necessary assurance to enable the Committee to fulfil their responsibilities effectively.

The Director confirmed that to support Audit Committee Members in carrying out their responsibilities, training would be provided during the year in the following areas:

- Member induction (July)
- Accounts (September)
- Fraud and risk (November)
- Treasury management (January)

Following the Director's verbal presentation, the Chairman facilitated a discussion on Committee's Annual Forward Plan.

Resolved – (a) That the Audit Committee Forward Plan for the Municipal Year 2021-22 be agreed, and (ab) that the Director: Governance and Partnerships be authorised to amend the Forward Plan, if required.

630 TREASURY MANAGEMENT MID-YEAR AND ANNUAL REPORT 2020-21 - The Director: Governance and Partnerships submitted the council's Treasury Management Mid-Year and Annual Report for 2020-21.

The Committee was informed that the Chartered Institute of Public Finance and Accountability had 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 2020/21 was approved by Council in February 2020. This statement also incorporated the Investment Strategy.

Whilst the Council had 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 arrangements.

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

The annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21 was attached as an appendix.

Resolved – (a) That the treasury management performance by the council

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for the 2020-21 financial year be noted, and (b) that following consideration of the report and appendix, and discussion of their content, that the Treasury Management Mid-Year and Annual Report for 2020-21 provided adequate assurance in respect of the council's treasury management practices.

- 631 **SICKNESS ABSENCE - REPORT OF THE DIRECTOR: BUSINESS DEVELOPMENT** - The Director: Business Development circulated a report that informed the committee of the council's sickness absence levels for 2020-21.

The committee heard that the average number of working days lost due to sickness absence in 2020-21 was 7.77 days. This indicated a 16.8% decrease (1.63 days) in overall sickness absence levels compared to 2019-20.

Members were informed that on average, a period of absence lasted for 7.9 days in 2020/21 which was longer than in 2019-20 (5.5 days). This indicated that although the number/periods of absence reduced, the average length of a period of absence increased.

61% of the workforce did not have any periods of sickness absence during 2020/21 – this was higher than levels of zero absence in 2019/20, which was 43%. At the end of 2020-21, 88% of council employees met attendance targets as set out in the council's Managing Attendance policy – this meant that they were not meeting or exceeding trigger points based on absence in the 6 months preceding March 2021.

The report also provided detail of the key activities that had been implemented to ensure that the council kept its workforce safe and well during the pandemic.

The Director then responded to members questions.

Resolved – That the sickness absence levels for 2020-21 provided the committee with sufficient assurance that the risk to capacity due to sickness absence was being managed through adequate controls.

- 632 **HEAD OF INTERNAL AUDIT ANNUAL REPORT AND OPINION 2020-21** - Th Director: Governance and Partnerships submitted a report that provided an opinion on the adequacy and effectiveness of the council's internal control environment based upon work carried out by Internal Audit in accordance with the approved 2020/21 audit plan. The report also considered the effectiveness of the audit service. This provides the Audit Committee with an important source of assurance when considering the Annual Governance Statement.

The requirement for Internal Audit was supported by statute in the Accounts and Audit Regulations 2015 and the Local Government Act 1972. The Accounts and Audit Regulations stated that a "relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk

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management, control and governance processes, taking into public sector internal audit standards for guidance”.

Internal Audit operated in accordance with the Public Sector Internal Audit Standards (PSIAS) which defined the way in which the Internal Audit Service should be established and undertake its functions. The PSIAS defined internal audit as: “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helped an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

Members were informed that set out in the standards there was a requirement under PSIAS 2450 that the Chief Audit Executive must provide an annual report to the Audit and Governance Committee, timed to support the Annual Governance Statement. This must include:

- an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s governance, risk, and control framework (i.e. the control environment).
- a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies); and
- a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

A copy of the Annual Report and Opinion was attached to the report as an appendix. The main findings from the Annual Report and Opinion were as follows –

- Section 2 of the Annual Report referred to the work carried out from which the audit opinion was derived, and showed the work carried out compared to the original Audit Plan. Due to the continued impact of COVID-19 the audit plan was subject to regular re-prioritisation including particular focus on the impact of it on the control environment. Appendix 2 of the report provided a summary of the work completed by internal audit, whilst the body of the report also referred to how the Council managed the risks to the control environment as a result of the pandemic.
- Section 3 of the report was based on the work carried out by internal audit. Members heard that satisfactory assurance could be provided on the Council’s governance, risk, and control framework.
- Section 4 of the report evidenced that the council complied with the standards in all material respects and had effective arrangements in place for monitoring quality. Working with clients to improve the timeliness of audit reporting had again been highlighted as an area for further development.

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Following the Director's verbal presentation, a discussion ensued on the Annual Report and opinion for 2020-21.

Resolved - That the Internal Audit Annual Report for 2020-21 provided satisfactory assurance provided on the adequacy and effectiveness of the council's internal control environment.

- 633 **DRAFT ANNUAL GOVERNANCE STATEMENT 2020-21** - The Director: Governance and Partnerships presented the draft Annual Governance Statement (AGS) 2020-21 for members consideration. The AGS provided assurance on the effectiveness of the council's governance and internal control arrangements as well as commentary on the effectiveness of the council's response to Covid-19.

The AGS set out the council's governance arrangements and considered their effectiveness. The council's governance arrangements were set out in its Code of Governance which was updated in December 2020 and subsequently approved by the Audit Committee in January 2021. 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 committee heard that the three lines of defence assurance model was central to the review of effectiveness of the council's governance arrangements, which included –

- First Line – delivery/operational area. Sources of evidence included functional service area assurance frameworks. Reports to the Executive, Overview and Scrutiny and Committees.
- Second Line - oversight of management activity were separate from those responsible for delivery. Sources of evidence include assurance from senior officers responsible for organisational level policies and procedures including HR, Finance and Legal and a range of reports produced annually or throughout the year which provided assurance from a second line perspective.
- Third line - independent oversight. Sources of evidence from Internal Audit reports, External Audit reports, external and regulatory assessments, or inspections.

COVID-19 had a considerable impact on the delivery of the council's responsibilities and governance arrangements to support them. In line with guidance from CIPFA the council had assessed its response in three areas:

- Adaptations to reflect new ways of working and emergency arrangements.
- Changes to 'business as usual' activities, including cessation or reduced frequency or scale of activities.

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- Longer-term changes to priorities, programmes, strategies and plans because of the impact of the pandemic on the organisation and the local area.

The draft AGS 2020-21 was attached as an appendix. It showed that the council had well-established governance arrangements that were monitored and reviewed on a regular basis. No significant governance issues requiring reporting had been identified apart from the exceptional circumstances of Covid-19.

This conclusion would be updated should any significant issues arise between that date and the completion of the external audit. When the Committee received the audited accounts, it would also receive the final version of the AGS, where it would be asked to recommend to the Leader and the Chief Executive to sign it on the council's behalf.

Resolved - 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.

634 **ANTI-FRAUD AND CORRUPTION STRATEGY REVIEW** - The Director: Governance and Partnerships submitted the council's updated Anti-Fraud and Corruption Strategy

The committee heard that the anti-fraud and corruption strategy was last updated in January 2018 and was strongly influenced by 'Fighting fraud and corruption locally – The local government counter fraud and corruption strategy 2016-2019'.

In March 2020, this strategy was updated and in doing so had strengthened its emphasis on strong leadership and governance. The bedrock of the strategy was that executive support for the council's anti-fraud activities were clearly demonstrated, setting the tone from the top. The updated Council strategy reflected this emphasis to make it absolutely clear that fraud and corruption would not be tolerated.

Whilst the strategy had been updated, the general themes remained the same. The risk of fraud had not changed, but new opportunities for fraudsters had arisen, such as exploitation of the Covid 19 pandemic. Therefore, it was now as important as ever to ensure that the council's response was as robust as possible to protect public funds, through good governance, awareness of the fraud risks, the ability to prevent and detect fraud and to in taking action against those that seek to defraud us.

The Director then responded to members questions on the Anti-Fraud and Corruption Strategy.

Resolved – (a) That the updated Anti-Fraud and Corruption Strategy be approved, and (b) that the Strategy be signed by the Leader of the Council

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and Chief Executive to endorse the foreword to emphasise the council's zero tolerance to fraud.

- 635 **INTERNAL AUDIT PLAN 2021-22** - The Director: Governance and Partnerships submitted the council's Internal Audit Plan for 2021-22. At its meeting on 9 April 2021, the Committee approved the Internal Audit Plan. Members were informed at that meeting that the section relating to strategic and operational risk / governance was subject to further development so any risks raised through the completion of the Annual Governance Statement could be factored into the Plan. The final detailed Plan was attached to the report as an appendix.

Members discussed the Internal Audit Plan with the Director, who responded to their questions.

Resolved – That the Internal Audit Plan 2021-22 be noted.

- 636 **ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT BY REASONS OF SPECIAL CIRCUMSTANCES WHICH MUST BE SPECIFIED**
- There were no urgent items for consideration at the meeting.

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ANNUAL INFORMATION GOVERNANCE UPDATE

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To provide the Audit Committee with an annual position statement on the council's Information Governance arrangements.
- 1.2 The key points are:
 - The council is required by law to comply with a range of information related requirements.
 - Further developments have taken place over the last 12 months to strengthen the council's approach to Information Governance. Details are set out in the report together with the findings from internal and external assessments.

2. BACKGROUND INFORMATION

- 2.1 An assurance report is presented to the Audit Committee each year to provide an update on the council's information governance arrangements and associated compliance.
- 2.2 The council has a legal obligation to comply with information legislation, notably the UK General Data Protection Regulation (UK GDPR)/Data Protection Act 2018, Freedom of Information Act and the Environmental Information Regulations. Collectively we refer to these requirements as "information governance".
- 2.3 An Information Governance Framework comprising a series of individual policy schedules sets out how the council will comply with legislation and good practice. Its implementation is led and overseen by the Data Protection Officer with support from the Senior Information Risk Owner.
- 2.4 The council is committed to the ongoing strengthening of its Information Governance arrangements and continues to strive to meet the standards set by both internal audit and external assessments, with a high standard of compliance evidenced as summarised below.

2.5 Key developments and assurance highlights over the last 12 months included:

- The annual Information Governance Self-Assessment, necessary for accessing health information, would usually have been completed by 31 March, but due to the COVID19 pandemic the submission date for 2021 was deferred by the NHS to 30 June 2021. The council's submission was submitted on time and accepted by the NHS as meeting all relevant standards.
- An internal audit review of the council's approach to compliance with the UK General Data Protection Regulation (GDPR) and Data Protection Act 2018 concluded in June 2021 with a "satisfactory assurance / medium risk" opinion.
- The information governance policy framework was comprehensively reviewed and updated in March 2021 and again in July 2021 to align it with changes in legislation and latest professional practice.
- Training for all employees on information governance requirements, including the UK GDPR, is undertaken on a regular basis and forms part of the council's mandatory training suite.
- The annual communication campaign was undertaken in August 2021 as a refresher for all employees of key data protection considerations.
- A new business system was introduced to manage the workflowing of information requests from their receipt through to approval and issue. This has improved the visibility of the status of individual information requests and overall monitoring of processing performance.
- Compliance with national ICT security standards was maintained and externally certified with no serious ICT breaches occurring in the last year. Key highlights are set out below:
 - In June 2021 the council's IT arrangements were certified (unqualified) as compliant with the national Public Services Network (PSN) Code of Connection. This certification provides the council with continued access to wider public service networks such as Department for Work and Pensions and NHS.
 - Attempted email phishing attacks are becoming increasingly common nationally and more sophisticated. To raise employee awareness and assist in the detection and prevention of such attacks, all employees have been enrolled for a further year to the "Purple Phish" cyber security awareness training programme. The training consists of a series of "phishing" simulations, a short 2-3 minute educational video and quiz each month.

- A series of external tests are completed each year by expert third parties to test the strength of the council's IT security arrangements. In addition, an ongoing relationship is maintained with regional and national cyber security centres to share information on threats and mitigation measures.
- 2.6 Each year the council handles hundreds of information requests and processes hundreds of thousands of customer transactions. During the last 12 months, to the end of August 2021, there have been five referrals from the Information Commissioner's Office (ICO) about how the council responded to requests for information or protected personal information. This number is lower than the previous year where there were six referrals and is within the normal reporting levels/business parameters. In addition, the council self-reported three issues to the ICO. The findings were as follows:
- The action taken by the council for a referral case from the previous year was supported by the ICO and the case closed.
 - In respect of the three self-reported issues, the ICO supported the council's approach in all cases and required no further action.
 - As at September 2021 we are awaiting a response from the ICO on the six referral cases. The outcomes will be reported to the audit committee in future reports.
- 2.7 Further continued strengthening of the council's information governance arrangements will be made over the next 12 months through an ongoing action planning based approach.

3. **OPTIONS FOR CONSIDERATION**

- 3.1 As set out below.

4. **ANALYSIS OF OPTIONS**

- 4.1 **Option 1** – The Audit Committee agrees that the current position provides sufficient assurance in our approach to Information Governance.
- 4.2 **Option 2** – The Audit Committee considers the current position is not sufficient and requests that additional work is undertaken.

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

- 5.1 Not applicable.
- 5.2 An integrated impact assessment is not required for this report.

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

6.1 There are no other relevant implications.

7. **OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

7.1 An integrated impact assessment is not required for this report.

8. **OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

8.1 There are no consultations or conflicts of interests to report.

9. **RECOMMENDATIONS**

9.1 The Audit Committee should consider whether the report provides sufficient assurance of the adequacy of the council's Information Governance arrangements.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

Church Square House
SCUNTHORPE
North Lincolnshire
DN15 6NL
Author: Phillipa Thornley, Data Protection Officer
Date: 13 September 2021

Background Papers used in the preparation of this report

As referred to in the main body of the report

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

GOING CONCERN ASSESSMENT AS AT 31 MARCH 2021

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 presenting the completed Statement of Accounts for 2020/21.
- 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 31 March 2021.

2. BACKGROUND INFORMATION

- 2.1 The Council prepares its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In presenting information in its financial statements, the Council is required to have regard to the going concern assumption. The detailed requirements of the code are considered in further detail in appendix 1, together with the responsibilities placed on our external auditors in obtaining sufficient assurance via an annual management assessment.
- 2.2 The going concern assumption underpins the accounts drawn up under the Code and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies. If an authority were in financial difficulty, alternative arrangements may 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.
- 2.3 If the going concern assumption was deemed not to apply, this would have a material impact on the financial statements. Adjustments 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.

- 2.4 In accordance with the Code, the Council's statement of accounts have been prepared under the going concern basis assuming the Council will continue to operate in the foreseeable future and is able to do so within the current and anticipated resources available. This means the Council will realise its assets and settle its obligations in the normal course of business.
- 2.5 This is supported by the going concern assessment undertaken by the section 151 officer which concludes that the Council can operate in the foreseeable future as a going concern.
- 2.6 The going concern assessment has been completed as at the balance sheet date of 31st March 2021. It includes consideration of the impact that Covid-19 has had, and continues to have, on Council finances. It is worth noting that the approved 2020/21 budget pre-dated the pandemic, and accordingly plans were altered during 2020/21 to reflect the changing composition of funding, income and expenditure brought about by the pandemic.

3. OPTIONS FOR CONSIDERATION

- 3.1 To endorse the going concern assessment set out in this report.
- 3.2 To not endorse the going concern assessment set out in this report.

4. ANALYSIS OF OPTIONS

- 4.1 Endorsing the going concern assessment supports the assertion of the s151 officer that the financial statements are correctly prepared under the going concern assumption.
- 4.2 Not endorsing the going concern assessment would impact upon the extent to which external audit can obtain sufficient assurance necessary, which would reflect in their opinion on the Council's financial statements.

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

- 5.1 Financial – having considered the assessment in this report and the overall financial strength of the Council, it is concluded that this assessment does not contain an imminent risk to the going concern assertion.
- 5.2 Legal – the Council is required to compile its statement of accounts in accordance with the code of practice for local authority accounting, which requires the Council to have regard to the going concern assumption.

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: GOVERNANCE AND PARTNERSHIPS

Church Square House
High Street
Scunthorpe
North Lincolnshire
DN15 6NL

Author: Adam Hopley/Mark Kitching

Date: 16th September 2021

Background Papers used in the preparation of this report

2021/22 Q1 Financial Management and Medium-Term Financial Plan Update

Financial Strategy, Budget 2021/22 and Medium-Term Financial Plan 2021/24

Capital Investment Strategy and Capital Programme 2020/2024

Treasury Management and Investment Strategy 2021/22

Financial Position 2020/21

International Standard of Auditing (UK) 570

NLC Annual Governance Statement 2020/21

Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

Introduction and Accounting/Audit Requirement

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). The code of practice states:
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- “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”
(paragraph 2.1.2.9)
 - “local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements shall be prepared on a going concern basis of accounting. Other bodies that prepare financial statements in accordance with the Code that may be discontinued without statutory prescription shall follow the going concern reporting requirements in IAS 1”
(paragraph 3.4.2.23)
 - “an authority shall prepare its financial statements on a going concern basis unless there is an intention by government that the services provided by the authority will no longer be provided. An intention by government to transfer services from one authority to another (for example, as part of local government reorganisation) does not negate the presumption that the authority is a going concern”
(paragraph 3.8.2.14)
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2. International Standard of Auditing (UK) 570 sets out that a specific assessment is required, and the responsibility of the auditor:
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- “In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity’s ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity’s ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so”
(paragraph 4)

- “The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on:
 - Whether a material uncertainty related to going concern exists; and
 - The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.”
(*paragraph 6*)

3. To demonstrate compliance with the Code and provide our external auditors with the necessary audit evidence, the Council completes an annual going concern assessment. The assessment is contained within this report, and the following areas have been considered as part of the assessment:

- a) National Context
- b) Current Financial Position
- c) Medium Term Financial Plan Update
- d) Balance Sheet
- e) Cash Flow
- f) Governance Arrangements
- g) Regulatory and Control Environment

a) National Context

4. The Council has control over its internal environment and can ensure it has the necessary governance arrangements in place to ensure optimal risk management. It has less control and influence over its external environment, which can impact on current and/or future financial position of the Council.
5. The Secretary of State for Ministry of Housing, Communities and Local Government has been required to provide exceptional financial support to a handful of local authorities recently where there was a high risk of bankruptcy or the potential for services to cease. Exceptional financial support normally comes in the form of a capitalisation directive through powers under sections 16 and 20 of the Local Government Act 2003, in effect allowing the recovery of a deficit over more than one financial year. This is accompanied with a requirement for an independent and external assurance review to provide a comprehensive assessment of the financial position and the strength of wider governance arrangements and the potential for imposed changes.
6. Effective financial management, governance and assurance arrangements can mitigate financial risks and continue to be an integral part of our organisation culture which helps to ensure that we run the business well and sustainably.
7. The emergence of Covid-19 represented a material sector-wide change of circumstances for all local authorities, significantly altering financial planning assumptions. The going concern assessment of most, if not all, local authorities could have been undermined without additional grant support.

8. The Government are continuing to progress work on Local Government oversight and ensuring effective accountability of local government for stewardship of public funds. The final aim in the MHCLG Outcome Delivery Plan: 2021 to 2022 over the coming year and Spending Review period is to “oversee a sustainable and resilient local government system that delivers the key services we all rely on”.

b) Current Financial Position

9. The Council approved its 2020/21 budget on 26th February 2020. The financial plans reflected the Council’s best knowledge around funding, expenditure and income at that point. The emergence of Covid-19 required a fundamental shift in approach, with heightened need requiring frequent changes – often at short notice – to service delivery models to ensure the Council continued to keep people safe, lead and enable communities through the pandemic.
10. Many of the supporting assumptions to the Council’s approved financial plans substantively changed around the start of 2020/21, reflecting the fast moving and widespread changes brought about by the pandemic and the associated actions taken by Government. The national measures introduced to counter the spread of the virus had impacts on the economy, the local taxbase and demand across a range of some Council services.
11. In recognising the financial impact to individuals and businesses, the Government outlined a series of intervention measures to increase support. For individuals, this included job support schemes, additional council tax support for those in receipt of council tax support and temporarily increasing universal credit. For businesses, this included grants, additional business rate reliefs and loans.
12. The Government also recognised the financial impact to local authorities and provided additional financial support to the sector to help meet heightened need and in recognition of income pressures. The composition of funding therefore changed, with the Council placing greater reliance on Government funding to offset taxbase reductions. In 2020/21, the Council received £33.7m to fund additional cost and income losses, and £61.0m to distribute to businesses via grant support schemes.
13. Despite the challenges brought about by the pandemic, the Council was able to successfully adapt itself to ensure the needs of its residents and area were met, within the revised resource envelope. At outturn, an overall revenue underspend was achieved supported by the relatively high level of in-house service delivery. Reserve balances increased at the end of 2020/21 and provide the Council with increased resilience through the ongoing impact of the pandemic.
14. The Council has a strong track record of managing risk and costs which reflects in its financial outcomes. It was able to contain costs better than forecast during the financial year and increased the balance of available reserves. There remains a possibility that some restrictions could need to return at short notice which will continue to be reflected in ongoing risk management and financial monitoring.
15. Cabinet recently received its first full update in respect of progress against the approved 2021/22 budget. Based upon financial management information at quarter one, a balanced position is projected with net operating costs of £163m:

REVENUE	Budget £000's	Potential Spend £000's	Potential Budget Adjustment £000's
EXPENDITURE			
Keeping People Safe and Well	73,515	74,144	629
Enabling Resilient and Flourishing Communities	26,885	28,712	1,827
Enabling Economic Growth and Renewal	7,771	9,100	1,329
Organisational Enablers	32,309	33,130	821
Running the Business Well	22,173	18,267	(3,906)
NET OPERATING EXPENDITURE	162,653	163,353	700
FUNDING			
Council Tax and Business Rates	(125,266)	(125,266)	-
Government Grants	(29,178)	(29,362)	(184)
Covid-19 Resources	(7,070)	(6,231)	839
Use of Reserves	(1,139)	(2,494)	(1,355)
TOTAL FUNDING	(162,653)	(163,353)	(700)
POTENTIAL VARIANCE	-	-	-

This position has been enabled by application of the COVID-19 funding allocated for use in 2021/22. As the reported position in year is not material, any overspend (should it materialise) would be drawn from useable reserves.

16. The Council set a funding base in February which reflected the ongoing impact of Covid-19, with a phased return to 'normal' taxation funding levels assumed. Current monitoring has identified that the taxbase is progressing within expected parameters with a modest surplus at the year-end forecast. Any variance in Business rate and council tax variances are managed through the collection fund.

c) Medium Term Financial Plan Update

17. The Council approves a multi-year medium term financial plan in February/March, and then keeps this actively under review – in the context of changes to its operating environment – to ensure it remains deliverable, and an enabler of the Council plan. It is continuing to develop opportunities for working differently and improving operating models in the future. Whilst Covid-19 is less disruptive than twelve months previously, it very much remains at the forefront of Council planning as it seeks to keep people safe and well, and lead communities through the recovery and renewal stage.

18. The financial planning cycle for the next budget has commenced, and contains three phases:

- Assessment of Financial Resilience
Stress testing the financial plans through an assessment of financial resilience supported by the embedding of the requirements of the Financial Management code. This considers the ongoing impact of Covid-19, spending power projections, and areas with cost opportunities.
- Strategic Planning

Identifying opportunities through organisational commissioning, addressing historical variances, focus on achieving economy, efficiency and effectiveness, supported by continuously improving supporting information

- **Budget Setting**

Comprehensive budget proposal which supports the financial sustainability aspirations of the Council and sets out investment in outcomes, within available resources, together with; required actions, line-of-sight arrangements, and alignment with the Council Plan

19. The Council is currently in the strategic planning phase. In the first phase, the Council completed a comprehensive self-assessment of its compliance with the Financial Management Code (FM Code), which gave rise to a set of actions which have either been completed or are in the process of doing so. All of which seek to further improve collective financial management across the organisation.

20. In addition, the Council is in the final stages of completing a wide reaching and comprehensive assessment of financial resilience. This exercise gives rise to a focussed set of risks, challenges and opportunities which will be a key focus during the strategic planning phase, with cross-Council work needed to maximise the position as part of its journey towards financial sustainability.

21. The Spending Review 2021 will set UK government departments' resource and capital budgets for 2022/23 to 2024/25. This will conclude on 27th October 2021 – the date of the Autumn Budget Statement by the Chancellor of the Exchequer. The Local Government Finance Settlement is expected to be published in December and clarify the amount of funding available for each Council. Funding modelling has been undertaken in advance of settlement confirmation.

22. The current approved three-year medium term financial plan is as follows:

2021/22 Approved Budget £000's	MEDIUM TERM FINANCIAL PLAN	2022/23 Current Plan £000's	2023/24 Current Plan £000's
	PRIORITY AND OTHER INVESTMENT		
135,281	Investment in Priorities	135,862	136,446
20,882	Running the Business Well	22,484	23,201
1,946	Inflationary Provisions	5,446	8,946
4,544	Covid-19 Resource	-	-
162,653	NET OPERATING EXPENDITURE	163,792	168,593
	SPENDING POWER		
(125,266)	Council Tax and Business Rates	(125,650)	(130,305)
(29,178)	Government Grants	(28,866)	(28,720)
(7,070)	Covid-19 Resources	-	-
(1,139)	Use of Reserves	-	-
(162,653)	TOTAL SPENDING POWER	(154,516)	(159,025)
-	Cost Reductions in Development	9,276	9,568

23. 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. There is also the possibility that the Government could increase grant funding in 2022/23 as it has in recent years.

24. 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.

d) Balance Sheet

25. The Council's net assets, excluding the pension liability, has remained relatively stable for the past decade. At the end of March 2011, it stood at £402.6m. It now stands at £409.8m (March 2021), an increase of £10.2m from twelve months ago.

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

27. 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 2020/21 outturn to a level higher than anticipated when the budget was set, in part due to unspent Covid-19 grant balances which are expected to be utilised in 2021/22.

e) Cash Flow

28. 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).

29. As at the 31 March 2021 the Council held £18.6m of investments (£30.8m, March 2020). Also, as at the 31 March 2021 total borrowing was £161.6m (£204.2m, March 2020). Net borrowing reduced during 2020/21 due to grant funding being provided in advance of expenditure being incurred in some cases. Some grants have been maximised, with remaining balances to be returned during 2021/22.

30. As at the 31 March 2021, the capital financing requirement was £245.2m (£244.3m, March 2020). The current operational boundary for long term debt is set at £271.6million for 2021/22 with an authorised limit set at £309.6m 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.

f) Governance Arrangements

31. 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.

g) Regulatory and Control Environment

32. The Council operates within a highly legislated and controlled environment. The Council is required to set a balanced budget each year considering robustness of the budget estimates and adequacy of reserves. The legal framework, central government control, 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 are other important factors.

Conclusion

33. The Council emerged from 2020/21 in a very strong position, with it able to manage risks effectively and control increases within the cost base better than many others were able to. This led to an increase in Council reserves, which strengthens the buffer against future income and expenditure shocks, and potentially provides the Council with time to plan in sustainable cost base adjustments which can be delivered over a realistic time scale.

34. Financial management protocols during 2021/22 have identified that, at this early stage in the year, the Council expects to be able to operate within the budget limits set. This is further evidence of cost consciousness against a backdrop of uncertainty and the potential for further changes to the external environment.

35. The Council is not unique in having residual challenge to address in future years. The Council has a strong track record of collaboration within and with partners to achieve the required outcomes within the resources available. The financial planning process is working to resolve the challenge through a series of specific workstreams, which could be subject to a phased implementation.

36. The Council is in a strong financial position and has effective financial management arrangements in place as it continues its journey towards financial sustainability. It can therefore be asserted with confidence that the Council is a going concern as at the balance sheet date of 31st March 2021.

Audit Completion Report

North Lincolnshire Council – Year ended
31 March 2021

3 November 2021
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05	Internal control recommendations
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07	Value for money arrangements

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Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

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

3 November 2021

Dear Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. 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 8 April 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We 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 764529.

Yours faithfully

Signed: {{_es_:signer1:signature }}

Mark Kirkham

Mazars LLP

Mazars LLP
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Wellington Place
Leeds
LS1 4AP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which are:

- management override of controls;
- valuation of property, plant and equipment; and
- asset defined benefit liability valuation.

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total £239k. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



Value for money arrangements

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our work is provided in section 7 of this report.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



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 2020/21 audit.

1. Executive summary

COVID-19 impacts

The Covid-19 pandemic continued to affect the operation of Council services and the audit process with officers and the audit team continuing to work remotely. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers, these challenges were overcome. We would like to thank the Finance Team for the quality of their supporting working papers and for being available throughout the audit work to answer our queries.

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02

Section 02: **Status of the audit**

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Investment Properties		We are finalising our work on the valuation of investment properties.
Property, Plant and Equipment		We are finalising our work on the valuation of other land and buildings and surplus assets, existence of assets and MRP.
Pensions		We are finalising our audit work in relation to the pension liability.
WGA		Our audit work will be completed once the Group Instructions have been received from the National Audit Office.
Audit quality control and completion procedures		Our audit work is undergoing final stages of review. 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.

-  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.



03

Section 03: **Audit approach**

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3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in April 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £7m using a benchmark of 1.8% of gross operating expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, is £7m using a benchmark of 1.9% of gross operating expenditure.

Use of experts

Where relevant and necessary, provide information on the planned and actual use of experts as part of the audit and any changes to the planned approach as outlined in the Audit Strategy Memorandum.

Item of account	Management's expert	Our expert
Defined benefit liability	Actuary (Hymans Robertson)	PwC actuarial experts provided a review of the key assumptions used by Hymans Robertson.
Property, plant and equipment valuation	In-house valuer District Valuer	We used available third party information to challenge the key valuation assumptions.
Financial instrument disclosures	Link Asset Services (formerly Capita)	No expert required



04

Section 04: **Significant findings**

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4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other 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 17 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

Management override of controls

Description of the risk

This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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 there is a risk of material misstatement due to fraud on all audits.

How we addressed this risk

We addressed this risk through by carrying out audit work in the following areas:

- accounting estimates impacting amounts included in the financial statements;
- consideration of 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

Subject to satisfactory completion of the outstanding work noted in section 2 of this report, there are no matters to report in respect of the risk of management override of controls.

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4. Significant findings

Valuation of property, plant and equipment (PPE), investment properties and assets held for sale

Description of the risk

The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council’s holding of PPE, investment properties and assets held for sale.

Although the Council employs a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE as a results of the significant judgements and number of variables involved. We have therefore identified the revaluation of PPE, investment properties and assets held for sale to be an area of risk.

How we addressed this risk

We addressed this risk by :

- considering the Council’s arrangements for ensuring that PPE values are reasonable;
- challenging the reasonableness of the valuations provided by the Council’s valuer using other sources of data;
- assessing the competence, skills and experience of the valuer and the instructions issued to the valuer; and
- where necessary, performing further audit procedures on individual assets to ensure the basis of valuations is appropriate

Audit conclusion

Subject to satisfactory completion of the outstanding work noted in section 2 of this report, there are no matters to report in respect of the risk of valuation of PPE, investment properties and assets held for sale. The draft statements referred to a “material uncertainty” due to Covid-19 in respect of PPE and investment property valuations but this will be removed to ensure consistency with the valuer’s view that there is no material uncertainty.



4. Significant findings

Net defined benefit liability valuation

Description of the risk

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we addressed this risk

We addressed this risk by :

- evaluating the Council’s arrangements (including relevant controls) for making estimates in relation to pension entries within the financial statements; and
- considering the reasonableness of the actuary’s assumptions that underpin the relevant entries made in your financial statements, through the use of an expert commissioned by the National Audit Office.

Audit conclusion

Our work so far, subject to satisfactory completion of the outstanding work noted in section 2 of this report and receiving the assurance we have requested from the Pension Fund auditor has provided the assurance sought. The draft statements referred to a “material uncertainty” due to Covid-19 in respect of pensions investments but this will be removed to ensure consistency with the East Riding Pensions Fund Accounts.

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4. Significant findings

Qualitative aspects of accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 1 July 2021 and were of a good quality.

Significant matters discussed with management

We have discussed with management the outcome of investigations into allegations made by a whistleblower that the Council had failed to obtain the best consideration for the sale of plots of land on two industrial estates and that the sales had not been conducted in accordance with the Council's constitution.

We have considered the regularity of the sale of these assets and sought evidence and representations from management that the transactions have been regularised. We held discussions with the Director of Partnerships and Governance and are aware that actions have been taken to improve procedures and practices to improve governance arrangements. We are also aware that an internal audit of the Property Transaction Framework is planned and that the findings from this review are to be brought to the Audit Committee for consideration.

Our work has not identified any further matters that to bring to your attention.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

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4. Significant findings

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 2020/21 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. No such objections have been raised.

Delay in the audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our Auditor's Report on the Statement of Accounts. We expect to issue the audit report but the Audit Certificate will not be issued until the following procedures are complete:

- Value for money - We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021 and expect to report our findings in the 2020/21 Annual Auditors Report within 3 months of giving our audit opinion. At the time of preparing this report, we have not identified any significant weaknesses in the Council's arrangements that require us to make a recommendation.
- Whole of Government Accounts - The NAO has not yet issued its Group Instructions for local authority audits.

We will update the Audit and Governance Committee when more information is known but at this stage the draft Auditor's Report at Appendix B assumes that we are not able to issue the Audit Certificate at this stage.



05

Section 05: **Internal control recommendations**

5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or 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 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	

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5. Internal control recommendations

Other deficiencies in internal control – Level 3

Description of deficiency

Member’s Allowances

Our testing of Member’s allowances highlighted that Members are paid an allowance of £47 for acting as a substitute at a Council meeting. The rate paid agrees to a 2016/17 version of the Member’s allowance handbook that is no longer updated but it is not included within the allowance rates for 2020/21 published on the Council’s website.

Potential effects

Lack of transparency in the allowance rates paid to Members.

Recommendation

The substitution allowance should be included within the published allowance rates on the Council’s website.

Management response

Thank you for bringing this to our attention, this is an administrative oversight that will be amended in the scheme publication; in terms of transparency, we can confirm that the publication of Members Expenses Claimed include substitutions payments.

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5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency

Property, Plant and Equipment (PPE) Valuations – Level 2

In the 2019/20 Audit Completion Report we reported we had 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 was 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.

2020/21 update

Our work in the current year has identified further arithmetic errors.

Description of deficiency

Creditor Payments – Level 3

In the 2019/20 Audit Completion Report we reported that 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.

2020/21 update

Our work in the current year has identified that there is still no method or evidence of the checks performed.



5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency

Pensions Source Data – Level 2

In the 2019/20 Audit Completion Report we reported that when reviewing the source data used by the actuary, we noted a difference in the pensionable pay amount. The pension fund 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.

2020/21 update

The recommendation has been implemented.

Description of deficiency

Property, Plant and Equipment (PPE) Controls – Level 2

In the 2019/20 Audit Completion Report we reported 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.

2020/21 update

The recommendation has been implemented.

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06

Section 06:

Summary of misstatements

Page 44

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £210k. The first table 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 table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Debtors	239k			
	Cr: Income		239k		
	Cut off testing identified income of £37k included in 2021-22, but that related to 2020-21. The income had not been accrued for in the 2020-21 financial year. The value of £239k reflects the value of the extrapolated error across the sampled population.				
Total adjusted misstatements		239k	239k		

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Adjusted misstatements

Our review of the cash flow identified a presentational error within the supporting notes to the statement. The purchase of property, plant and equipment, investment property and intangible assets entry has been amended from £25,382k to £26,747k, whilst a corresponding amendment has been made to amend the proceeds from the sale of plant, property and equipment, investment property and intangible entry from (£337k) to £1,028k.



6. Summary of misstatements

Disclosure amendments

Our audit has 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:

Capital Commitments – The capital commitment disclosure for the A15 North resurfacing has been amended from £2.5m to £1.8m to reflect the fact that £0.7m of the contracted amount has been accrued and is therefore shown as a liability within the accounts.

Related Party Transactions – The works and services commissioned from companies year end debtor balance has been amended from £115k to £15k to correct a typographical error.

Agency Income and Expenditure – The disclosure has been removed as the administering of Covid 19 grants on behalf of Central Government is not an agency arrangement covered by the Code requirements for this disclosure.

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07

Section 07: **Value for Money**

7. Value for money arrangements

Audit approach

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in [insert date].

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report which will be issued within 3 months of giving our audit opinion.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

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

Date: November 2021

North Lincolnshire Council - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of North Lincolnshire Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2020/21 (the Code).

I confirm that the following representations 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 myself that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me 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 of 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.



Appendix A: Draft management representation letter

Accounting records

I confirm that all transactions 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 the Code and International Accounting Standard 8 and consider them appropriate for the year.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

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 Code.

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.



Appendix A: Draft management representation letter

Fraud and error

I acknowledge my responsibility as Director of 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 statement of accounts 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 (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code. 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.

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.

Charges on assets

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

Future commitments

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code 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.



Appendix A: Draft management representation letter

Covid-19

We confirm that we have carried out an assessment of the on-going impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

Brexit

We confirm that we have carried out an assessment of the potential impact of the United Kingdom leaving the European Union, including the potential outcomes at the end of the Implementation Period, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

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.

Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS.

Narrative report

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements.

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 sincerely

Director of Governance and Partnerships

Date



Appendix B: Draft audit report

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of North Lincolnshire Council ("the Council") for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the Collection Fund 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 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 2020/21.

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Governance and Partnership's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Governance and Partnerships with respect to going concern are described in the relevant sections of this report.

Other information

The Director of Governance and Partnerships 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.

Executive summary

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Appendix B: Draft audit report

We have nothing to report in this regard.

Responsibilities of the Director of Governance and Partnerships for the financial statements

As explained more fully in the Statement of the Director of Governance and Partnerships Responsibilities, the Director of Governance and Partnerships 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 2020/21, and for being satisfied that they give a true and fair view. The Director of Governance and Partnerships is also responsible for such internal control as the Director of Governance and Partnerships determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Governance and Partnerships is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Director of Governance and Partnerships 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Governance and Partnerships incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

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Appendix B: Draft audit report

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Director of Governance and Partnerships use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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.

Report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matters on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council’s arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council’s arrangements in our commentary on those arrangements within the Auditor’s Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

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.



Appendix B: Draft audit report

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. 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.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

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.

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.

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;
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Signature

Mark Kirkham
For and on behalf of Mazars LLP



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.

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Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Director of Partnerships and Governance that North Lincolnshire Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p>

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Appendix D: Other communications

Other communication	Response
Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
Matters related to fraud Page 60	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit Committee, confirming that</p> <ol style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ol style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

Mark Kirkham – Engagement Lead

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

AUDITED ACCOUNTS 2020/2021

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 The council's unaudited accounts were approved by the Director: Governance and Partnerships on 1 July 2021. This met the statutory requirement that they be approved by 31 July 2021.
- 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.
- 1.3 It is expected that the council's external auditors will issue an unqualified opinion on the accounts.

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 2020/2021 and 2021/2022 financial years. These changes were incorporated into the Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263).
- 2.3. The production of the draft accounts deadline moved from 31 May to 31 July 2021. The audit completion date moved from 31 July to 30 September 2021.
- 2.4. The council's unaudited accounts were approved by the Director Governance and Partnerships on 1 July 2021. This met the statutory requirement that they be approved by 31 July 2021. The audit deadline was not met and full disclosure was published in line with guidance on the local authority's website.
- 2.5. 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 included within the Audit Completion Report, which the Committee is asked to approve and authorise the Chair of the Audit Committee and the Director Governance and Partnerships to sign.

- 2.6. 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.
- 2.7. 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.
- 2.8. The Audit Completion Report (ACR) from the council's auditors (Mazars) is on this committee agenda. It sets out the matters arising from the audit of the council's 2020/2021 accounts and Mazars will present to the committee. A copy of the amended accounts is included with this report.

Main Findings within the ACR report that have led to amendments to the accounts

- 2.9. 1 Adjusted misstatement was identified in relation to the Cashflow.
 - Presentational error within the supporting notes relating to sale of property, plant and equipment
- 2.10. 3 disclosure amendments were identified:
 - Capital Commitments – commitment figure reduced to reflect that £0.7m of the contract has been accrued for.
 - Related Party Transactions – Typographical error amended from £115k to £15k.
 - Agency Income and Expenditure – disclosure note removed as the administering of COVID19 grants not an agency arrangement covered by this disclosure
- 2.11 The revised Annual Governance Statement 2020/21 makes reference to the significant findings within the Audit Completion report and is included as an appendix to this report.

3. OPTIONS FOR CONSIDERATION

- 3.1. The Statement of Accounts and Annual Governance Statement for 2020/2021 be received and approved following consideration of the Auditor's Audit Completion Report (ISA 260) report.
- 3.2. The Audit Committee are also invited to endorse the signing of the Letter of Representation.

3.3. 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 satisfactory completion of all audit work.

4. ANALYSIS OF OPTIONS

4.1. 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 2021.

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 (Amendment) Regulations 2021 (SI 2021/263), require that each authority prepare and approve its accounts by 31 July 2021 and publish them by 30 September 2021. 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 2020/2021 be approved.

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

9.3 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

High Street
Scunthorpe
North Lincolnshire
DN15 6NL

Author: Sarah Milburn
Date: 25 October 2021

Background Papers used in the preparation of this report

- Statement of Accounts 2020/2021
- CIPFA Accounting Code of Practice
- Notice of delay in publishing the 2020-21 Audited Statement of Accounts
- 2020-2021 Delay – Audit Letter

North Lincolnshire Council

www.northlincs.gov.uk

North Lincolnshire Council Statement of Accounts

FINANCIAL YEAR 2020/2021



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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 2020/2021 (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 2020/2021 and its financial position at the end of that year. It follows approved accounting standards and is necessarily technical in parts.

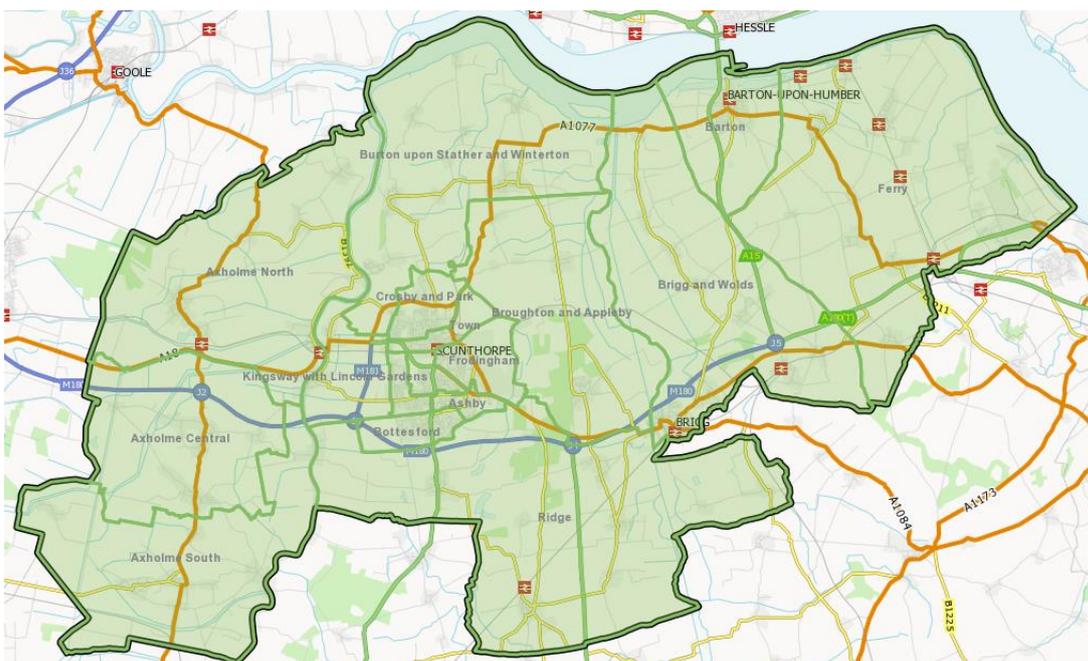
The Narrative Statement is not part of the financial statements but is prepared on the basis that it is consistent with the financial statements. Its purpose is to comment on the financial performance of the council and the economy, efficiency and effectiveness in its use of resources over the financial 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 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. 2020/2021 was the second year of a third four-year term for the ruling Conservative group. The current council consists of 28 Conservative, 14 Labour and 1 independent councillor.

North Lincolnshire has an estimated population of around 172,000 people and an area of 849 km². 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 lockdowns 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 2020/2021 accounts. The draft accounts must be approved by the council's Chief Financial Officer by 30th July 2021 and the audit of accounts concluded by 30th September 2021. The dates would otherwise have been 31st May 2021 and 31st July 2021. In addition, the accounts inspection period must now start on, or before, 1st August 2021 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 to live, work, visit and invest. The council operates to a clear values base of: integrity, excellence, self-responsibility, and equality of opportunity.

Over the last few 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 resilient and flourishing communities
 - Enabling economic growth and renewal

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

Financial Performance 2020/2021

The council set its Medium-Term Financial Plan (MTFP) 2020/2023 and budget for 2020/2021 in March 2020. The council's investment in revenue activities in 2020/2021 was £152.0m and capital investment £47.3m.

The budget made the following assumptions:

- A Council Tax base of 49,889.5 which had increased by 0.9% from 2019/2020
- Retained Business rates of £42.3m, 3.2% more than 2019/20
- Planned use of £1.9m of non-earmarked reserves
- Use of Capital Receipts Flexibility for transformation (£0.7m)
- Support to the capital programme from capital receipts (£5.8m for 2020/2021 and £5.9m for 2021/2022)
- And external borrowing of £18.8m in 2020/21 (this reduced due to re-phasing in year)

The Financial Strategy 2020/2023 identified risks and opportunities in setting 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 financial position

Service budgets are monitored on a regular basis throughout the year, and a council level budget position is collated quarterly focussing on the forecast financial position at year-end and actions required to remedy any issues.

The council has delivered revenue investment of £143.4m against the budget of £152.0m which equates to 5% spend below budget. This been achieved despite difficult and unprecedented circumstances and has been contributed to by all areas of the council through a mixture of pro-active cost management initiatives, appropriate use of specific and non-specific government grants and a managed general slow-down in 'normal' core spending while focus has been turned to the response to the Covid-19 pandemic. The council made savings on staff costs where recruitment has been delayed and staff being deployed agilely to manage and deliver our pandemic response. The council also had the flexibility for facilities and staff to be deployed to support our SHIELD programme to make best use of our resources.

Revenue

Priority	Budget	Actuals	Variance
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	£'000	£'000	£'000
Enabling Resilient and Flourishing Communities	25,370	23,385	(1,985)
Enabling Economic Growth and Renewal	7,237	6,955	(282)
Keeping People Safe & Well	69,807	65,801	(4,006)
Running The Business Well	49,644	48,202	(1,442)
Priority Investment	152,058	144,343	(7,715)
Funding	(152,058)	(153,066)	(1,008)
Total	0	(8,723)	(8,723)

The capital programme delivery was subject to some project delays due to the pandemic with the spend in-year of £28.1m being 64% of the Capital Investment planned budget of £43.9m. A further £16m Investment was rephased to 2021/2022 at the year-end. The change of phasing of the programme has meant a reduction in both interest costs and funding costs.

Capital

Priority	Budget £'000	Actual £'000	Variance £'000
Keeping People Safe & Well	1,323	1,320	(3)
Enabling Resilient and Flourishing Communities	7,415	7,417	2
Enabling Economic Growth and Renewal	14,900	14,900	0
Running the Business Well	4,504	4,504	0
Total Investment	28,142	28,141	(1)
Capital Financing			
Borrowing	9,026	8,946	(80)
Capital Receipts	286	286	0
Revenue	153	154	1
Grants & External Contributions	18,677	18,755	78
Total Financing	28,142	28,141	(1)

Covid-19 related grants totalling £33.7m for the 2020/2021 financial year were received by the council, some intended to fund the council's additional costs in response to the pandemic as well as income losses suffered through reduced sales, fees & charges.

The council granted £19.4m of Expanded Retail Business Rates relief in 2020/2021. It also received £9.9m of grant to offset the effect on the council's finances.

The council also received £61.0m of grants to support Businesses. It had paid out £54.4m of this by the end of 2020/2021 with £6.6m carried forward for use in 2021/2022.

The council set aside £25.41m of reserves in 2020/2021, most of this increase was due to grants relating to Covid costs or lost income being provided in advance. In addition, there has been an increase in schools reserves of £4.8m. Note 10 provides more detail on the council's reserves.

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 Roads**

- People injured in road traffic accidents on North Lincolnshire roads fell by 18% in 2020
 - 98% of streetlamps were restored to working condition within 7 days with the number of faults reduced by 62% compared to 2018/19

- **Outcome Indicator: Safer People**

- 76% of carers told us they found it easy to find information about services.
 - 91% of people said they felt safe as a result of adult services they receive.
 - 100% of people who have longer term needs receive self-directed support, enabling choice and control
 - 100% of Carers received a Direct Payment enabling them flexibility to meet their care needs
 - 73% of people with Learning Disabilities are living independently with their own front door
 - 86% of people who received Rehabilitation and Reablement services are able to remain living independently in their own home
 - 96% of people who received Rehabilitation and Reablement services rated their quality of care as good or very good
 - 94% of children's assessments were completed within timescale *
 - 100% of children in care had a statutory review within timescale *
 - 100% of child protection conferences were held within timescale *
 - 94% of care leavers at age 17 & 18 are in suitable accommodation and 94% were in education employment and training *
 - 100% of the council's Adult Care Provision is good or outstanding
 - People receiving care in a care home or at home receive good quality care with 85.5% of care provider in North Lincolnshire rated Outstanding or Good by the Care Quality Commission (CQC)
 - Over 700 cases of homelessness were prevented

- **Outcome Indicator: Safer Communities**

- Overall crime in North Lincolnshire fell by 16%
 - Youth related crime fell by 26% and youth related Anti-Social behaviour by 20%

- **Outcome Indicator: Quality Housing**

- There were 442 more homes available in North Lincolnshire

- **Outcome Indicator: Cleaner & Greener Spaces**

- 99.9% of waste collections were completed
 - From September 2020 to March 2021, 98.6% of bulky items were collected as per the appointment booked.

- As at quarter 3, the amount of waste landfilled per household is minimal and in the top quartile nationally.
- As at quarter 3, 54% of household waste was reused, recycled and composted and is in the top quartile nationally

Outcome Indicator: Good Health & Wellbeing

- There was an 8% increase in the number of people who are fairly active in North Lincolnshire.
- Children in reception year who are overweight or obese fell by 2.7% points and is now in line with national average.
- 100% of children in care 1 year+ and under 5 years had an up-to-date health assessment

Outcome Indicator: Vibrant Leisure & Culture

- 5,600 people attended livestreaming fitness classes during the 2nd lockdown with nearly 400 classes
- There were 1,400 contacts with Active Lifestyle Activators from vulnerable people during 2020-21
- Ebook loans for December increased by 500% compared to previous year
- There have been 7,790 virtual visits to 20-21 Visual Arts Centre, North Lincolnshire Museum, the Rural Life Museum or Normanby Hall using virtual tours built in new 3d modelling technology.

• **Enabling Economic Growth & Renewal**

Outcome Indicator: More Jobs, Better Jobs

- 40% of jobs in North Lincolnshire are now classed as highly skilled (+2% Points)

Outcome Indicator: Improved Skills

- The percentage of people aged 16-64 with NVQ4+ is now 32.4% (+4.1% points)
- The percentage of people aged 16-64 with no qualifications has reduced to 7.5% (-3.8% points)

Outcome Indicator: Excellent Education

- 9 out of 10 children attend schools judged good or better by Ofsted
- Almost all children attend early years provision rated good or better
- Children and young people in North Lincolnshire ranked within the top 25% of performance in the country in the following measures (latest official data)
 - Children with an Education, Health and Care (EHC) Plan achieving the expected levels in each of reading, writing and maths at the end of key stage 1 (2019)
 - Progress made by children with an EHC Plan between key stages 1 and 2 in each of reading, writing and maths (2019)
 - Overall absence and persistent absence rates in special schools (2019) and overall absence and persistent absence rates for children with an EHC Plan (2019)
 - Fixed term and permanent exclusion rates in special schools (2019) and permanent exclusion rates for children at Special Educational Needs and Disabilities (SEND) Support (2019)
 - Young people with an EHC Plan (at age 19) qualified to level 2 including English and maths (2019) and young people with an EHC Plan (at age 19) qualified to level 3 (2019)
 - Young people with SEND who are in Education, Employment or Training at age 17 (2018), young people at SEND Support who are in Education, Employment or Training (2018) and young people with an EHC Plan who are in Education, Employment or Training (2018)

- The National Client Caseload Information System (NCCIS) data for March 2021 shows that for the 249 young people with SEND in North Lincolnshire aged between 16 and 24
 - 85.1% were in mainstream education and training – which is well above the national average of 54.5%
 - A total of 85.5% were engaged in education or training, which is considerably higher than the national average of 56.5%
 - 6.8% of the cohort were classed as Not in Education, Employment or Training (NEET) – lower than the national average of 9.3%
 - 5.2% of the cohort activity was not known – which is significantly below the national average of 32.7% (testament to the focused tracking and monitoring work undertaken up to the age of 25)
 - The combined NEET and not known figure is increasingly used by DfE and the North Lincolnshire total of 12.0% is significantly below the national average of 42.0%

Outcome Indicator: Accessible Childcare

- The percentage of 2-year-old children benefitting from funded early education in North Lincolnshire in 2020 was above regional and national averages
- The percentage of 3- & 4-year-old children benefitting from funded early education in North Lincolnshire was 97% in 2020; 1 percentage point above the figure in the previous year and above the regional and national average

• #Best Council

- 96.5% of non-domestic rates (£70.5m) and 94.6% of council tax were collected in year (£94m)
- Complaints to the council have fallen by 20% every year over the past 4 years
- 100% of Registrar certificates were issued within 5 days
- 97% of calls to the council's contact centre were answered with 99.7% having their issue resolved at one visit
- 94% of Adult Financial Assessments were completed within 12 weeks (80% within 4 weeks)
- 83% of Major planning applications and 87% of minor planning applications were processed within timescale
- 92% of licencing applications were processed within statutory timescale
- 94% of Stage 1 complaints were responded to within timescale
- 86% of blue badges were issued within 12 weeks (64% within 4 weeks)

*This data is provisional until submitted in government returns and published by them

Financial Outlook

Medium Term Financial Strategy

The council has made significant progress in maintaining and improving services to local people, risen to the challenge of increasing pressures on locally generated income and ensuring value for money is achieved. It has responded to and effectively managed the response to the Covid-19 pandemic alongside the impact of 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, achievement of better 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:

- Grow the tax base. Enabling economic growth and renewal in the local economy and housing market.
- Maximise income by investing wisely in commercial activity and ensuring traded services fully recover costs.
- Take full advantage of opportunities to access external funding sources which will support achieving the council's ambitions.
- Find innovative ways of enablement and delivery, and only invest in things that demonstrate greatest impact to deliver ambitions for best place and best council.
- Ensure financial decision making is based on robust plans that match our ambition and secures value for money.
- Seek opportunities with partners to maximise economies of scale whilst enabling communities to take more responsibility for their local facilities.

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: <ul style="list-style-type: none">• 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.

Values (Council Plan)	Principles for Council Sustainability
	<ul style="list-style-type: none"> • 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	<p>We will:</p> <ul style="list-style-type: none"> • 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	<p>We will:</p> <ul style="list-style-type: none"> • 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	<p>We will:</p> <ul style="list-style-type: none"> • 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 and due to the Coronavirus Pandemic postponed again. 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.

These ongoing uncertainties in funding and demand pressures have been exacerbated by the pandemic and the council is undertaking a robust resilience evaluation of the Medium-Term Financial Plan for consideration by Cabinet in September 2021.

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 2020/2021 has strengthened financial resilience and provided the foundations for ongoing financial planning and management to smooth the transition to financial sustainability.

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 2021 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: 3 November 2021

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 3 November 2021.

Chair of Audit Committee
Date of Approval: 3 November 2021

Independent Auditor’s Report to the Members of North Lincolnshire Council

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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.

2019/2020			Note Number	2020/2021		
Expenditure £000	Income £000	Net £000		Expenditure £000	Income £000	Net £000
8,614	(4,398)	4,216		5,358	(3,646)	1,712
54,024	(28,991)	25,033		49,643	(31,890)	17,753
69,592	(10,572)	59,020		60,274	(13,140)	47,134
14,538	(11,943)	2,595		21,101	(7,986)	13,115
7,445	(7,611)	(166)		6,876	(8,488)	(1,612)
48,082	(32,173)	15,909		47,565	(36,533)	11,032
25,553	(3,939)	21,614		23,627	(4,769)	18,858
58,314	(26,821)	31,493		63,244	(30,290)	32,954
73,041	(70,172)	2,869		71,435	(73,558)	(2,123)
359,203	(196,620)	162,583		349,123	(210,300)	138,823
2,991		2,991	11	4,939		4,939
23,266	(10,751)	12,515	12	20,415	(11,890)	8,525
	(150,959)	(150,959)	13		(169,625)	(169,625)
385,460	(358,330)	27,130		374,477	(391,815)	(17,338)
		(27,292)	14			6,136
		(2,990)	14			(25)
		(95,820)	39			135,889
		(126,102)				142,000
		(98,972)				124,662

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 shows 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	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves of the Council
	£000	£000	£000	£000	£000	£000	£000
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
Movement in reserves during 2020/2021							
Total Comprehensive Income and Expenditure	17,338	0	0	0	17,338	(142,000)	(124,662)
Adjustments from income and expenditure charged under the accounting basis to the funding basis	12,879	0	582	13,163	26,624	(26,624)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	30,217	0	582	13,163	43,962	(168,624)	(124,662)
Transfer to or from Earmarked Reserves	(30,217)	30,217	0	0	0	0	0
Increase/(Decrease) in 2020/2021	0	30,217	582	13,163	43,962	(168,624)	(124,662)
Balance Sheet as at 31 March 2021	7,158	66,649	2,756	27,912	104,475	(52,901)	51,574

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.

31 st March 2020		Note Number	31 st March 2021
£000			£000
510,178	Property, Plant & Equipment	14	500,132
1,576	Heritage Assets	15	1,576
58,250	Investment Property	16	56,789
728	Intangible Assets	17	904
0	Long Term Investments	18	0
343	Long Term Debtors	18/20	339
571,075	Long Term Assets		559,740
358	Inventories	41	1,295
29,387	Short Term Debtors	18/20	31,653
30,767	Cash and Cash Equivalents	21	18,619
8,867	Assets held for sale	22	6,805
69,379	Current Assets		58,372
(51,993)	Short Term Borrowing	18	(12,027)
(26,403)	Short Term Creditors	18/23	(36,908)
(3,312)	Provisions	24	(3,237)
(81,708)	Current Liabilities		(52,172)
(6,817)	Provisions	24	(6,516)
(152,245)	Long Term Borrowing	18	(149,616)
(223,448)	Other Long-Term Liabilities	39	(358,234)
(382,510)	Long Term Liabilities		(514,366)
176,236	Net Assets		51,574
60,513	Usable Reserves	MiRS	104,475
115,723	Unusable Reserves	25	(52,901)
176,236	Total Reserves		51,574

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 (i.e. borrowing) to the council.

2019/2020 £000		Note	2020/2021 £000
(27,130)	Net surplus or (deficit) on the provision of services		17,338
47,816	Adjustment to surplus or deficit on the provision of services for non-cash movements	26	47,913
(18,683)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(30,612)
2,003	Net Cash flows from operating activities		34,639
1,182	Net Cash flows from Investing Activities	27	3,865
14,907	Net Cash flows from Financing Activities	28	(50,652)
18,092	Net increase or (decrease) in cash and cash equivalents		(12,148)
12,675	Cash and cash equivalents at the beginning of the reporting period	21	30,767
30,767	Cash and cash equivalents at the end of the reporting period	21	18,619

Notes to the Accounts

Note 1 Accounting Policies

i. General Principles

The Statement of Accounts summarises the council's transactions for the 2020/2021 financial year and its position at the year-end of 31 March 2021. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require it 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 2020/2021, 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 (i.e. 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 monthly 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 work 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 (i.e. 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).

Depreciation 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 (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. 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 (i.e. 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 2020/2021 (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:

- **IFRS 16 Leases (deferral to 1 April 2022):** 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 2022. 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 impact of the COVID-19 pandemic.

The items in the council's Balance Sheet at 31 March 2021, 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
<p>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.</p>	<p>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 £0.3m if the average useful life of the council's buildings fell by one year.</p> <p>Other Land and buildings and Investment properties have a net book value of £413m. A 1% difference in the valuations would be £4.1m.</p>
<p>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.</p>	<p>The assumptions interact in complex ways. During 2020/2021, the council's actuary advised that the net pension liability had increased by £134.8m as a result of updating the assumptions and actual contributions made. A sensitivity analysis can be seen in the Defined Benefit Pension Schemes note 39.</p>
<p>Impairment At 31 March 2021, the council had a balance of sundry debtors of £11.2m. A review of significant balances suggested that an impairment of doubtful debts of £2.5m was appropriate. However, it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £2.5m to be set aside as an allowance.</p>
<p>National Non-Domestic Rates (NNDR) Provision The council set aside, from its collection fund, £16.7m 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 £8.2m is shown in the Provisions Note.</p>	<p>The impact of appeals is highly uncertain and outside of the control of the council.</p>

Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Fair Value Measurement</p> <p>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.</p> <p>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 notes 14 and 18 below.</p>	<p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels, occupancy levels and others.</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurements.</p>

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 2020/2021 that are not already disclosed elsewhere within the accounts.

Note 6 Events after the Balance Sheet Date

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.

Net Expenditure Chargeable to the General Fund Balances £'000	2019/2020			2020/2021		
	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
2,112	2,104	4,216	Business Development	(639)	2,351	1,712
17,046	7,987	25,033	Governance and Partnerships	14,557	3,196	17,753
31,842	27,178	59,020	Operations	31,234	15,900	47,134
17,681	(15,086)	2,595	Central & Technical Budgets	22,526	(9,411)	13,115
7,093	(7,259)	(166)	Public Health	8,903	(10,515)	(1,612)
11,131	4,778	15,909	Learning, Skills and Culture	9,843	1,189	11,032
19,990	1,624	21,614	Children and Community Resilience	18,473	385	18,858
36,858	(5,365)	31,493	Adult and Community Wellbeing	39,445	(6,491)	32,954
0	2,869	2,869	Schools	0	(2,123)	(2,123)
143,753	18,830	162,583	Net Cost of Services	144,342	(5,519)	138,823
(144,053)	8,600	(135,453)	Other Income and Expenditure	(144,342)	(11,819)	(156,161)
(300)	27,430	27,130	(Surplus) or Deficit	0	(17,338)	(17,338)
6,858			Opening General Fund Balance	7,158		
300			Surplus or (Deficit) on General Fund Balance in Year	0		
7,158			Closing General Fund Balance	7,158		

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

2020/2021	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	4,143	420	66	(2,278)	2,351
Governance and Partnerships	1,641	436	(939)	2,058	3,196
Operations	17,223	764	(2,147)	60	15,900
Central & Technical Budgets	(746)	(4,833)	(5,140)	1,308	(9,411)
Public Health	0	37	(1,206)	(9,346)	(10,515)
Learning, Skills and Culture	2,412	597	(1,820)	0	1,189
Children and Community Resilience	218	573	(406)	0	385
Adult and Community Wellbeing	102	519	(87)	(7,025)	(6,491)
Schools	(22)	1,168	(3,269)	0	(2,123)
Net Cost of Services	24,971	(319)	(14,948)	(15,223)	(5,519)
Other income and expenditure from the EFA	(30,741)	5,270	(1,571)	15,223	(11,819)
Difference between General Fund surplus or deficit and CIES surplus or deficit on the Provision of Services	(5,770)	4,951	(16,519)	0	(17,338)

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	715	1,439	(39)	5,872	7,987
Operations	25,464	2,302	(259)	(329)	27,178
Central & Technical Budgets	(3,956)	1,164	(4,853)	(7,441)	(15,086)
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

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:

	2020/2021 Revenue from External Customers £000	2019/2020 Revenue from External Customers £000
Business Development	(7,822)	(8,706)
Governance and Partnerships	(2,242)	(7,763)
Operations	(5,785)	(7,038)
Central & Technical Budgets	(2,162)	(1,242)
Public Health	(218)	(181)
Learning, Skills and Culture	(1,981)	(6,403)
Children and Community Resilience	(535)	(665)
Adult and Community Wellbeing	(11,542)	(11,517)
Schools	(981)	(1,753)
Total income analysed on a segmental basis	(33,268)	(45,268)

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:

	2020/2021 £000	2019/2020 £000
Expenditure/Income		
Expenditure		
Employee benefits expenses	161,052	173,628
Other services expenses	177,478	176,821
Depreciation, amortisation, impairment	21,410	20,681
Interest payments	6,183	6,211
Precepts and levies	3,021	2,912
(Gain)/Loss on the disposal of assets	1,918	79
Other Expenditure (REFCUS)	3,415	5,128
Total expenditure	374,477	385,460
Income		
Fees, charges and other service income	(38,155)	(47,348)
Interest and investment income	(13)	(137)
Income from council tax, non-domestic rates income	(108,838)	(114,214)
Government grants and contributions	(242,976)	(194,227)
Other Income	(1,833)	(2,404)
Total income	(391,815)	(358,330)
Surplus or Deficit on the Provision of Services	(17,338)	27,130

Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations

2020/2021	Usable Reserves			Movement in Unusable Reserves £000
	General	Capital	Capital	
	Fund Balance £000	Receipts Reserve £000	Grants Unapplied £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)	7,977			(7,977)
Pension Prepayment	(3,027)			3,027
Council tax and NDR (transfers to or from the Collection Fund)	13,136			(13,136)
Holiday pay (transferred to the Accumulated Absences reserve)	560			(560)
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)	23,602			(23,602)
Total Adjustments to Revenue Resources	42,248	0	0	(42,248)
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(877)	877		
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	9	(9)		
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	(160)			160
Statutory Provision for the repayment of debt (Minimum Revenue Provision transfer to the Capital Adjustment Account)	(8,090)			8,090
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(154)			154
Total Adjustments to Revenue Resources	(9,272)	868	0	8,404
Use of the Capital Receipts Reserve to finance capital expenditure		(286)		286
Application of capital grants to finance capital expenditure	(20,097)		13,163	6,934
Cash payments in relation to deferred capital receipts		0		0
Total Adjustments to Capital Resources	(20,097)	(286)	13,163	7,220
Total Adjustments	12,879	582	13,163	(26,624)

2019/2020	Usable Reserves			Movement in Unusable Reserves £000
	General	Capital	Capital	
	Fund Balance £000	Receipts Reserve £000	Grants Unapplied £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)
Adjustments between Revenue and Capital Resources				
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
Adjustments to Capital Resources				
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)

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 2020/2021.

	2019/2020			2020/2021			Balance as at 31 March 2021 £000
	Balance as at April 2019 £000	Transfers In £000	Transfers Out £000	Balance as at 31 March 2020 £000	Transfers In £000	Transfers Out £000	
General Fund:							
Risk and Transformation Reserve	16,566	0	(607)	15,959	8,817	(445)	24,331
Revenue Grants	4,955	10,870	(3,028)	12,797	5,313	(3,109)	15,001
NNDR Smoothing Reserve	0	0	0	0	12,460	0	12,460
Schools Delegated Reserve	2,940	778	(522)	3,196	3,022	0	6,218
Dedicated Schools Grant	1,488	1,672	(1,091)	2,069	2,042	(251)	3,860
Public Health	1,412	0	(200)	1,212	540	0	1,752
Personal Protective Equipment	0	0	0	0	697	0	697
Adult Social Care - Staffing	0	0	0	0	430	0	430
Dedicated Schools Grant-De-delegated	210	75	0	285	106	0	391
Licensing	122	50	(8)	164	134	(24)	274
Safety Camera Partnership	269	0	(14)	255	0	0	255
Care Leavers	0	0	0	0	240	(22)	218
Scunthorpe Special Expenses	227	86	(101)	212	89	(95)	206
Finance Systems Implementation	50	0	(50)	0	200	0	200
Commuted Sums	226	0	(25)	201	(65)	(42)	94
Org Development – Additional Training	0	0	0	0	65	0	65
Cultural Offer Transformation	0	0	0	0	53	0	53
ICT SharePoint	0	0	0	0	50	0	50
Planning Improvements	205	0	(146)	59	0	(13)	46
Crematorium Enhancement Fund	16	7	0	23	7	0	30
Highways – Developer Contributions	0	0	0	0	65	(47)	18
NNDR Levy Redistribution	500	0	(500)	0	0	0	0
Self-Insurance	284	0	(284)	0	0	0	0
Legal NLC Elections	240	0	(240)	0	0	0	0
Shared Service Development	38	0	(38)	0	0	0	0
Total Earmarked Reserves	29,748	13,538	(6,854)	36,432	34,265	(4,048)	66,649

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.

NNDR Smoothing Reserve

A specific reserve to alleviate future pressures as a result of Collection Fund deficits being transferred into General Fund.

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

	2020/2021 £000	2019/2020 £000
Parish council precepts	1,614	1,545
Levies	1,407	1,367
(Gains)/losses on the disposal of non-current assets	1,918	79
Total	4,939	2,991

Note 12 Financing and Investment Income and Expenditure

	2020/2021 Net £000	2019/2020 Net £000
Interest payable and similar charges	6,183	6,211
Net interest on the net defined benefit liability (asset)	5,271	7,291
Interest receivable and similar income	(13)	(137)
Income and expenditure in relation to investment properties and changes in their fair value	(3,076)	(3,154)
Other investment income	160	2,304
Total	8,525	12,515

Note 13 Taxation and Non-specific Grant Income and Expenditure

	2020/2021 £000	2019/2020 £000
Council Tax Income	(77,631)	(74,129)
Non-Domestic Rates Income and Expenditure	(31,207)	(40,085)
Capital Grants, Contributions and Donations	(29,583)	(16,988)
Non-ring-fenced Government Grants:		
Business Rates Relief Grant	(9,984)	(7,679)
COVID-19 Response Grant	(8,347)	(4,991)
Revenue Support Grant	(6,198)	(6,098)
Social Care Grant	(4,515)	0
COVID-19 Hardship Fund Grant	(1,170)	0
New Homes Bonus	(414)	(737)
Tax Income Guarantee Compensation – Council Tax	(347)	0
Rural Services Grant	(206)	(206)
Other Non-ring-fenced Government Grants	(23)	(46)
Total	(169,625)	(150,959)

In 2020/2021 the guidance relating to the Social Care Grant was updated and grant conditions now class this as a non-ring-fenced grant. The grant income is, therefore, now shown as such in the above table rather than within services income within the Comprehensive Income and Expenditure Statement. The prior year figure, included within services, was £2,061k.

Note 14 Property, Plant and Equipment

Current Year

	Property, Plant & Equipment (PP&E)							Total PP&E £000
	Other Land and Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000		
Cost or Valuation								
Balance as at 1 April 2020	385,227	16,648	162,215	11,666	14,219	4,439		594,414
Additions	6,158	1,220	15,794	31	88	7		23,298
Donations	0	0	0	0	0	0		0
Revaluation increases/(decreases) to Revaluation Reserve	(11,098)	0	0	0	0	(506)		(11,604)
Revaluation increases/(decreases) to Surplus or Deficit on the Provision of Services	(9,154)	0	0	0	0	(211)		(9,365)
De-recognition - Disposals	(2,256)	(1)	0	0	0	0		(2,257)
De-recognition - Other	(219)	0	0	(25)	(7)	0		(251)
Reclassifications & Transfers	906	0	10	0	0	(635)		281
Reclassified to/from Held for Sale	(710)	0	4	0	0	188		(518)
Other movements	0	0	0	0	0	0		0
Balance as at 31 March 2021	368,854	17,867	178,023	11,672	14,300	3,282		593,998
Depreciation and Impairment								
Balance as at 1 April 2020	(13,915)	(9,259)	(58,773)	(1,988)	(8)	(293)		(84,236)
Depreciation Charge	(9,758)	(1,748)	(8,909)	(160)	0	(273)		(20,848)
Depreciation written out on Revaluation Reserve	5,184	0	0	0	0	284		5,468
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	5,622	0	0	0	0	0		5,622
Impairment losses/reversals to Revaluation Reserve	25	0	0	0	0	0		25
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	35	0	0	(31)	0	1		5
De-recognition - Disposals	49	1	0	0	0	0		50
De-recognition - Other	16	0	0	25	7	0		48
Reclassifications & Transfers	0	0	0	0	0	0		0
Eliminated on reclassification to Held for Sale	0	0	0	0	0	0		0
Balance as at 31 March 2021	(12,742)	(11,006)	(67,682)	(2,154)	(1)	(281)		(93,866)
Net Book Value								
Balance as at 31 March 2021	356,112	6,861	110,341	9,518	14,299	3,001		500,132
Balance as at 31 March 2020	371,312	7,389	103,442	9,678	14,211	4,146		510,178

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 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

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 2021, 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 2021, the following contracts met this criterion:

- A15 North Resurfacing - £1.8m
- BDUK (Building Digital UK) - £1.4m

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	6,861	0	134,158	141,019
Valued at current value as at:					
01/04/2020	341,506	0	2,158	0	343,664
01/04/2019	836	0	0	0	836
01/04/2018	3,344	0	0	0	3,344
01/04/2017	8,255	0	435	0	8,690
01/04/2016	2,171	0	408	0	2,579
Total Cost or Valuation	356,112	6,861	3,001	134,158	500,132

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 2021 are as follows:

Recurring fair value measurements using:	2020/2021				2019/2020			
	Quoted Prices (Level 1)	Inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Fair Value	Quoted Prices (Level 1)	Inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Fair Value
	£000	£000	£000	£000	£000	£000	£000	£000
Surplus Assets:								
All Surplus Assets	0	0	3,001	3,001	0	0	4,146	4,146
Total Surplus Assets	0	0	3,001	3,001	0	0	4,146	4,146
Investment Properties:								
Office Units	0	940	217	1,157	0	1,580	0	1,580
Commercial Units	0	23,730	30,705	54,435	0	54,746	470	55,216
Agricultural Units	500	0	697	1,197	0	0	1,454	1,454
Total Investment Properties	500	24,670	31,619	56,789	0	56,326	1,924	58,250

Determined value level, valuation process and techniques

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 inputs for each valuation have been categorised against the fair value hierarchy of evidence in accordance with IFRS 13 and rated as Level 1, 2 or 3.

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.

Where the inputs in a valuation are classed as unobservable this is primarily due to the lack of evidence in the principal or most advantageous market or the number and type of adjustments made, for example adjustments for location, size, repair of a comparable. Each valuation has been assessed based on the inputs and the hierarchy level is reported on the Schedule of Valuations.

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 majority of the Investment valuations have been categorised as level 3. Rental and transaction data available over the year was limited. The District Valuer and Local Agents suggest the market is stable but few transactions have taken place. The District Valuer also agrees that there has been little direct evidence to support the yields used in the valuations.

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.

Reconciliation of Fair Value Measurements

	2020/2021				2019/2020		
	Level 3 Surplus Assets £000	Level 1 Investment Properties £000	Level 2 Investment Properties £000	Level 3 Investment Properties £000	Level 3 Surplus Assets £000	Level 2 Investment Properties £000	Level 3 Investment Properties £000
Opening Balance	4,146	0	56,326	1,924	2,596	53,903	1,506
Reclassifications in at Level 3	188	0	0	189	2,540	0	0
Reclassifications out of at Level 3	(635)	0	0	(470)	(700)	0	0
Transfers into Level 1	0	350	0	0			
Transfers into Level 2	0	0	0	0	0	600	0
Transfers into Level 3	0	0	0	31,454			
Transfers out of Level 2	0	0	(31,454)	0			
Transfers out of Level 3	0	0	0	(350)	0	0	(600)
Total gains [or losses] for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in fair value	(483)	150	(203)	(393)	(277)	(1,589)	967
Total to Revaluation Reserve	(222)	0	0	0	150	0	0
Additions	7	0	1	681	176	3,471	51
Disposals	0	0	0	(1,416)	(339)	(60)	0
Closing Balance	3,001	500	24,670	31,619	4,146	56,362	1,924

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	2020/2021 £000	Valuation technique used to measure fair value	Unobservable inputs	Sensitivity
Surplus Assets:				
Land	1,892	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	1,109	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	217	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	30,705	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	697	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

	2020/2021				2019/2020			
	Civic Regalia £000	Normanby Park and Hall £000	Other Heritage Assets £000	Total Assets £000	Civic Regalia £000	Normanby Park and Hall £000	Other Heritage Assets £000	Total Assets £000
Cost or Valuation								
Balance as at 1 April	93	287	1,196	1,576	93	0	1,196	1,289
Additions	0	22	0	22	0	0	0	0
Reclassifications	0	0	0	0	0	287	0	287
Revaluations	0	0	0	0	0	0	0	0
Impairment recognised in Surplus or deficit	0	(22)	0	(22)				
Balance as at 31 March	93	287	1,196	1,576	93	287	1,196	1,576

Civic Regalia

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

Normanby Park and Hall

Normanby Hall is a Grade 1 listed building and is of local historical importance.

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

	2020/2021	2019/2020
	£000	£000
Rental income from investment property	(5,210)	(5,098)
Direct operating expenses arising from investment property	807	1,277
Net (Gain)/Loss	(4,403)	(3,821)

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:

	2020/2021 £000	2019/2020 £000
Balance at start of the year	58,250	55,409
Additions:		
- Purchases	682	3,523
- Subsequent expenditure	0	0
Disposals	(1,416)	(60)
Net (gains)/losses from fair value adjustments	(446)	(622)
Transfers:		
- to/from Assets Held for Sale	0	0
- to/from Property, Plant and Equipment	(281)	0
Other changes	0	0
Balance at end of the year	56,789	58,250

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.

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
- Finance and Human Resources and Payroll – 10 years

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £548k charged to revenue in 2020/2021 was charged £517k to Governance and Partnerships and £31k to Adult and Community Wellbeing in the Cost of Services.

	2020/2021 £000	2019/2020 £000
Balance at start of the year	1,757	1,580
Accumulated Amortisation	(1,029)	(623)
Net carrying amount at start of year	728	957
Additions:		
- Purchases	724	177
- Other Movements	0	0
Disposals	0	0
Amortisation for the period	(548)	(406)
Amortisation written off on disposal	0	0
Net carrying amount at the end of the year	904	728
Comprising:		
- Gross carrying amounts	2,481	1,757
- Accumulated amortisation	(1,577)	(1,029)
	904	728

Note 18 Financial Instruments

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

	Long-term		Current	
	2020/2021 £000	2019/2020 £000	2020/2021 £000	2019/2020 £000
Financial Assets				
Unquoted equity investment at cost	0	0	0	0
Loans and receivables	339	343	12	16
Debtors carried at amortised cost	0	0	17,884	18,486
Total Financial Assets	339	343	17,896	18,502
Financial Liabilities				
Borrowings at amortised cost	(149,616)	(152,245)	(12,027)	(51,993)
Creditors carried at amortised cost	0	0	(30,957)	(14,518)
Total Financial Liabilities	(149,616)	(152,245)	(42,984)	(66,511)

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

	2020/2021 Liabilities measured at amortised cost £000	2019/2020 Liabilities measured at amortised cost £000
Interest expense	6,183	6,211
Total expense in Surplus or Deficit on the Provision of Services	6,183	6,211

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).

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.

	2020/2021		2019/2020	
	Carrying amount £000	Fair value* £000	Carrying amount £000	Fair value* £000
Financial liabilities:				
PWLB	152,245	194,636	156,840	214,224
Other Borrowing	9,000	9,215	47,000	47,139
Total	161,245	203,851	203,840	261,363

*Fair value hierarchy: Quoted prices in active markets for identical assets / liabilities (level 1)

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 26 February 2020. 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 2021 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:

	2020/2021 £000	2019/2020 £000
Less than 1 year	10,561	51,595
Between 1 and 2 years	6,113	5,629
Between 2 and 5 years	31,852	17,339
Between 5 and 10 years	43,768	50,239
Between 10 and 20 years	43,725	52,082
Over 20 years	25,226	26,956
	161,245	203,840

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	
	2020/2021 £000	2019/2020 £000	2020/2021 £000	2019/2020 £000
Central Government Bodies	0	0	3,492	2,135
Other Local Authorities	0	0	2,039	849
NHS Bodies	0	0	1,852	1,266
Other entities and individuals	0	0	12,325	11,980
Prepayments	0	0	1,983	5,207
Impairment of loans and receivables	0	0	(3,807)	(2,951)
Loans and Advances	339	343	12	16
Total Financial Instruments	339	343	17,896	18,502
NDR & Council Tax	0	0	11,154	8,926
Value Added Tax	0	0	2,603	1,959
Total Non-Financial Instruments	0	0	13,757	10,885
Total Debtors	339	343	31,653	29,387

A breakdown of the local taxation (council tax and non-domestic rates) figure, 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:

	2020/2021 £000	2019/2020 £000
Major Preceptors, not past due	2,846	1,006
1 year	5,192	5,332
1 – 2 years	1,641	1,411
2 – 3 years	1,025	796
3 – 4 years	447	381
Total	11,154	8,926

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:

	2020/2021 £000	2019/2020 £000
Cash and Bank balances	(5,380)	(4,500)
Short Term Investments	23,999	35,267
Total	18,619	30,767

Note 22 Assets Held for Sale

These assets are being actively marketed for sale:

	2020/2021 £000	2019/2020 £000
Balance outstanding at start of year	8,867	10,172
Additions	0	1
Transferred from Non-Current Assets during year:		
- Property Plant and Equipment	880	966
Depreciation written out to Surplus/Deficit	0	32
Revaluation gains/losses	(2,583)	(474)
Impairment gains/losses to revenue	3	2
Impairment gains/losses to revaluation reserve	0	0
Assets declassified as held for sale to PPE	(362)	(500)
Assets sold	0	(1,330)
Other movement	0	(2)
Balance outstanding at year-end	6,805	8,867

Note 23 Creditors

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

	2020/2021 £000	2019/2020 £000
Central government bodies	12,658	2,087
COVID-19 Grants due back to central government	4,551	0
Other local authorities	477	492
NHS bodies	720	180
Accumulated Absences	2,785	2,225
Bodies external to general government	9,766	9,534
Total Financial Instruments	30,957	14,518
NNDR & Council Tax	3,557	9,589
Tax and National Insurance	2,394	2,296
Total Non-Financial Instruments	5,951	11,885
Total Short-Term Creditors	36,908	26,403

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 2020 £000	Increase in provision during year £000	Utilised during year £000	Unused Amounts Reversed £000	Balance as at 31 March 2021 £000	Estimated to be settled:	
						Current Provision £000	Long Term Provision £000
NNDR Appeals	8,709	2,239	(2,743)	0	8,205	2,800	5,405
Insurance Claims	1,393	205	(250)	0	1,348	437	911
Other	27	200	(27)	0	200	200	0
	10,129	2,644	(3,020)	0	9,753	3,437	6,316

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). The figure of £8.2m is the council's share of the full £16.7m 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 several 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

	2020/2021 £000	2019/2020 £000
Capital Adjustment Account	185,630	188,217
Revaluation Reserve	135,700	147,362
Deferred Capital Receipts Reserve	160	0
Pensions Reserve	(364,287)	(223,448)
Collection Fund Adjustment Account	(7,319)	5,817
Accumulated Compensated Absences Adjustment Account	(2,785)	(2,225)
Total Unusable Reserves	(52,901)	115,723

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.

	2020/2021		2019/2020	
	£000	£000	£000	£000
Balance at 1 April		188,217		199,402
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	(20,862)		(20,275)	
Revaluation losses on Property, Plant and Equipment	(6,326)		(10,446)	
Amortisation of Intangible Assets	(548)		(406)	
Revenue expenditure funded from capital under statute (REFCUS)	(1,080)		(1,527)	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,826)		(1,819)	
		(32,642)		(34,473)
Adjusting amounts written out of the Revaluation Reserve		5,551		4,563
Net written out amount of the cost of non-current assets consumed in the year		(27,091)		(29,910)
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	286		980	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	9,486		8,993	
Application of grants to capital financing from the Capital Grants Unapplied Account	6,934		3,799	
Statutory provision for the financing of capital investment charged against the General Fund balance	8,090		5,394	
Capital expenditure charged against the General Fund balance	154		181	
		24,950		19,347
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(446)		(622)
Donated Asset credited to the Comprehensive Income and Expenditure Statement		0		0
Balance at 31 March		185,630		188,217

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.

	2020/2021	2019/2020
	£000	£000
Balance at 1 April	147,362	121,643
Net revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(6,111)	30,282
Difference between fair value depreciation and historical cost depreciation	(3,638)	(4,088)
Revaluation balances on assets scrapped or disposed of	(1,913)	(475)
Amount written off to the Capital Adjustment Account	(5,551)	(4,563)
Balance at 31 March	135,700	147,362

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.

	2020/2021	2019/2020
	£000	£000
Balance at 1 April	0	459
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	160	(459)
Balance at 31 March	160	0

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.

	2020/2021 £000	2019/2020 £000
Balance at 1 April	(223,448)	(296,067)
Re-measurements of the net defined benefit liability	(135,889)	95,820
Prepayment	3,027	0
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	(23,266)	(41,410)
Employer's pensions contributions and direct payments to pensioners payable in the year	15,289	18,209
Balance at 31 March	(364,287)	(223,448)

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.

	2020/2021 £000	2019/2020 £000
Balance at 1 April	5,817	5,816
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	(13,136)	1
Balance at 31 March	(7,319)	5,817

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.

	2020/2021 £000	2019/2020 £000
Balance at 1 April	(2,225)	(2,148)
Settlement or cancellation of accrual made at the end of the preceding year	2,225	2,148
Amounts accrued at the end of the current year	(2,785)	(2,225)
Balance at 31 March	(2,785)	(2,225)

Note 26 Cash flow from Operating Activities

The cash flows for operating activities include the following items:

	2020/2021 £000	2019/2020 £000
Interest Paid	(6,183)	(7,922)
Interest Received	13	137

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

	2020/2021 £000	2019/2020 £000
--	-------------------	-------------------

Adjustment to surplus or deficit on the provision of services for noncash movements		
Depreciation and Impairment	20,862	20,275
Revaluations	6,326	10,446
Amortisation	548	406
Increase/(Decrease) in impairment for bad debts	856	439
(Increase)/Decrease in Inventories	(937)	(21)
(Increase)/Decrease in Debtors	99	(1,874)
Increase/(Decrease) in Creditors	17,365	(2,025)
Movement in pension liability	7,977	23,201
Prepayment of Secondary Pension Contributions	(9,080)	0
Carrying amount of non-current assets sold	3,827	1,819
Movement in provisions	(376)	(5,472)
Movement in value of investments properties	446	622
	47,913	47,816
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	(1,028)	(1,695)
Capital grants include in Taxation & non-specific grant income	(29,584)	(16,988)
	(30,612)	(18,683)

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:

	2020/2021 £000	2019/2020 £000
Purchase of PP&E, investment property and intangible assets	(26,747)	(28,285)
Proceeds from the sale of PP&E, investment property and intangible assets	1,028	12,479
Capital Grants and Contributions Received	29,584	16,988
Net Cash flows from Investing Activities	3,865	1,182

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:

	2020/2021 £000	2019/2020 £000
Cash Receipts of Short and Long-term borrowing	12,000	74,000
Repayment of Short and Long-term Borrowing	(54,595)	(63,751)
Council Tax and NNDR Adjustments	(8,057)	4,658
Net Cash flows from Financing Activities	(50,652)	14,907

Reconciliation of Liabilities Arising from Financing Activities

	Cash Changes		Non-Cash Changes		Balance at 31-Mar-2021 £000
	Balance as 1-Apr-2020 £000	Financing Cash Flows £000	Movement from long-term to short-term £000	Interest Accruals £000	
Long-term Borrowings	152,245	(4,595)	1,967	0	149,617
Short-term Borrowings	51,993	(38,000)	(1,967)	0	12,026
Total Liabilities from Financing Activities	204,238	(42,595)	0	0	161,643

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 supports integration of health and social care 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.

	2020/2021 Better Care Funds £000	2019/2020 Better Care Funds £000
Funding provided to the pooled budget:		
The Authority	16,897	16,228
The NLCCG	5,319	5,054
	22,216	21,282
Expenditure met from the pooled budget:		
The Authority	16,028	15,652
The NLCCG	5,319	5,054
	21,347	20,706
Net surplus/(deficit) arising on the pooled budget during the year	869	576

Note 30 Members' Allowances

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

	2020/2021 £000	2019/2020 £000
Allowances	508	545
Expenses	2	23
Total	510	568

Note 31 Officers' Remuneration

Senior Officer Remuneration

Continuing Employees		Basic Salary	Salary Supplement	Compensation for Loss of Office	Contribution to Pension Fund	Total
		£	£	£	£	£
Chief Executive – D Hyde (Head of Paid Service)	2020/2021	157,032	9,422	0	25,109	191,563
	2019/2020	152,829	9,170	0	24,001	186,000
Deputy Chief Executive	2020/2021	147,219	8,833	0	23,113	179,165
	2019/2020	143,278	8,597	0	22,495	174,370
Director of Adults & Community Well-being	2020/2021	103,598	6,216	0	16,265	126,079
	2019/2020	100,825	6,049	0	15,830	122,704
Director of Business Development	2020/2021	96,771	5,806	0	15,193	117,770
	2019/2020	92,558	5,553	0	14,532	112,643
Director of Children & Community Resilience	2020/2021	107,415	6,445	0	16,864	130,724
	2019/2020	99,540	5,972	0	15,628	121,140
Director of Governance and Partnerships (Chief Financial Officer)	2020/2021	96,771	5,806	0	15,193	117,770
	2019/2020	92,558	5,553	0	14,532	112,643
Director of Learning, Skills & Culture	2020/2021	99,236	5,954	0	15,580	120,770
	2019/2020	96,580	5,795	0	15,163	117,538
Head of Legal and Democracy (Monitoring Officer)	2020/2021	64,431	3,866	0	10,116	78,413
	2019/2020	62,706	3,762	0	9,845	76,313

Resigned, Redundant, Redesignated or Retired Employees		Basic Salary	Salary Supplement	Compensation for Loss of Office	Contribution to Pension Fund	Total
		£	£	£	£	£
Director of Public Health*	2020/2021	57,093	3,417	0	8,190	68,700
	2019/2020	94,573	5,674	0	13,600	113,847

* The Director of Public Health employed by North Lincolnshire Council was in post from April to November 2020. From 1st November 2020, a joint arrangement is in place with North East Lincolnshire Council. North Lincolnshire Council is recharged 50% of the salary costs and other remuneration.

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:

	2020/2021			2019/2020		
	Teachers	Other Staff	Total	Teachers	Other Staff	Total
£50,001 to £55,000	44	20	64	28	27	55
£55,001 to £60,000	17	38	55	18	27	45
£60,001 to £65,000	13	9	22	11	12	23
£65,001 to £70,000	10	11	21	10	7	17
£70,001 to £75,000	6	4	10	7	5	12
£75,001 to £80,000	4	5	9	5	4	9
£80,001 to £85,000	3	1	4	2	0	2
£85,001 to £90,000	2	0	2	1	0	1
£90,001 to £95,000	1	1	2	1	1	2
£95,001 to £100,000	1	0	1	1	0	1
£100,001 to £105,000	1	0	1	3	0	3
£105,001 to £110,000	1	0	1	0	0	0
£110,001 to £115,000	0	0	0	1	0	1
£115,001 to £120,000	2	0	2	1	0	1
	105	89	194	89	83	172

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	
	2020/2021	2019/2020	2020/2021	2019/2020	2020/2021	2019/2020	2020/2021	2019/2020
							£000	£000
£0-£20,000	9	12	17	36	26	48	148	343
£20,001 - £150,000	0	6	3	5	3	11	86	481
Total cost included in CIES							234	824

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.

	2020/2021 £000	2019/2020 £000
Fees payable regarding external audit services carried out by the appointed auditor for the year	95	80
Fees payable in respect of grant claims during the year	16	18
Fees payable in respect of other services provided during the year	0	0
	111	98

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 2020. 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 2020/2021 is as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2020/2021 before Academies recoupment	26,239	115,988	142,227
Academy figure recouped for 2020/2021	(320)	(55,037)	(55,357)
Total DSG after academy recoupment for 2020/2021	25,919	60,951	86,870
Plus: Brought forward from 2019/2020	2,061	8	2,069
Less: Carry forward to 2021/2022 (agreed in advance)			0
Agreed initial budgeted distribution in 2020/2021	27,980	60,959	88,939
In year adjustments	319	(300)	19
Final budget distribution for 2020/2021	28,299	60,659	88,958
Less: Actual central expenditure	(24,439)		(24,439)
Less: Actual ISB deployed to schools		(60,659)	(60,659)
Plus: Carry Forward (agreed in advance)			0
Carry forward to 2021/2022	3,860	0	3,860

Note 34 Grant Income

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

	Note	2020/2021 £000	2019/2020 £000
Credited to Taxation and Non-Specific Grant Income			
Council Tax Income	13	(77,631)	(74,129)
Non-Domestic Rates Income and Expenditure	13	(31,207)	(40,085)
Capital Grants	13	(29,583)	(16,988)
Non-ring-fenced Government Grants:			
Business Rates Relief Grant	13	(9,984)	(7,679)
COVID-19 Response Grant	13	(8,347)	(4,991)
Revenue Support Grant	13	(6,198)	(6,098)
Social Care Grant	13	(4,515)	0
COVID-19 Hardship Fund Grant	13	(1,170)	0
New Homes Bonus	13	(414)	(737)
Tax Income Guarantee Compensation – Council Tax	13	(347)	0
Rural Services Grant	13	(206)	(206)
Other non-ring-fenced grants	13	(23)	(46)
Total		(169,625)	(150,959)
Credited to Services			
Dedicated Schools Grant		(86,562)	(82,059)
DWP - Rent Allowance Subsidy		(29,412)	(26,793)
Public Health England		(9,346)	(9,069)
Better Care Fund		(7,285)	(6,923)
Improved Better Care Fund		(7,025)	(6,264)
Additional Restrictions Grant		(4,976)	0
EFSA- Pupil Premium		(4,637)	(4,576)
Contain Outbreak Management Fund		(4,312)	0
COVID-19 Income Compensation Scheme		(3,480)	0
EFSA – Teachers Pension		(2,413)	(1,310)
COVID-19 Discharge Arrangements		(1,928)	0
COVID-19 Discretionary Support Grant		(1,771)	0
EFSA – Free School Meals		(1,506)	(1,502)
Skills Funding Agency		(1,169)	(1,078)
Social Care Support		0	(1,300)
Total		(165,822)	(140,874)

In 2020/2021 the guidance relating to the Social Care Grant was updated and grant conditions now class this as a non-ring-fenced grant. The grant income is, therefore, now shown as such in the above table as Credited to Taxation and Non-Specific Grant Income rather than Credited to Services. The prior year figure, included within services, was £2,061k.

The authority has received grants that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year-end are as follows:

	2020/2021 £000	2019/2020 £000
Grants received in advance		
Capital Grants	(20,097)	(7,994)
Revenue Grants	(10,192)	0
Total	(30,289)	(7,994)

The large increase in revenue grants received in advance relates to section 31 grants prepaid by MHCLG to cover non-domestic rate reliefs.

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.

2020/2021	In-Year Expenditure	In-Year Income	Year-end Creditor	Year-end Debtor	Number of parties declaring an interest	
	£000	£000	£000	£000	Members	Officers
Related Party Interests:						
Works and Services commissioned from companies	445	(21)	3	(115)	13	0
Grants to Voluntary Organisations	514	(60)	0	0	19	0
Grant contributions to Charities	817	(9)	12	(2)	9	0
Grant to Non-Profit Organisations	403	(5)	0	0	5	0

2019/2020	In-Year Expenditure	In-Year Income	Year-end Creditor	Year-end Debtor	Number of parties declaring an interest	
	£000	£000	£000	£000	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.

	2020/2021 £000	2019/2020 £000
Opening Capital Financing Requirement	244,332	235,128
Capital Investment		
Property, Plant and Equipment	23,298	23,324
Investment Properties	682	3,523
Intangible Assets	724	177
Heritage Assets	22	0
Revenue Expenditure Funded from Capital under Statute (REFCUS)	3,415	5,128
	28,141	32,152
Sources of finance		
Capital receipts	(286)	(980)
Government grants and other contributions	(18,755)	(16,393)
Sums set aside from revenue:		
Direct revenue contributions	(154)	(181)
Minimum Revenue Provision	(8,090)	(5,394)
	(27,285)	(22,948)
Closing Capital Finance Requirement	245,188	244,332
Explanation of movements in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	856	9,204
Increase/(decrease) in Capital Financing Requirement	856	9,204

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:

	2020/2021 Land and Buildings £000	2019/2020 Land and Buildings £000
No later than 1 year	3,673	3,112
Later than 1 year and no later than 5 years	10,819	9,413
Later than 5 years	100,235	103,802
	114,727	116,327

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 2020/2021, the council paid £6.9m to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.68% of pensionable pay. The figures for 2019/2020 were £5.9m and 16.48% of pensionable pay to 31st August 2019 and 23.68% from 1st September onwards. The contributions due to be paid in the next financial year are estimated to be £6.9m

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 39.

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 2020/2021 the council paid £53k to the NHS Pension Scheme in respect of the retirement benefits of public health staff representing 14.38% of pensionable pay. In 2019/2020 the council paid £60k 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 £53k.

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 must 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	
	2020/2021 £000	2019/2020 £000	2020/2021 £000	2019/2020 £000
Comprehensive Income and Expenditure Statement				
<i>Cost of services:</i>				
<i>Service cost comprising:</i>				
Current service cost	18,072	34,801	0	0
Past service cost	(376)	(682)	0	0
(Gain)/loss from settlements	0	0	0	0
<i>Financing and Investment Income and Expenditure:</i>				
Net Interest expense	5,271	7,291	0	0
Total post-employment benefits charged to the Surplus or Deficit on the Provision of Services	22,967	41,410	0	0
<i>Other post-employment benefits charged to the CIES</i>				
Re-measurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(99,461)	56,251	0	0
Actuarial gains and losses arising on changes in demographic assumptions	13,829	(40,348)	0	0
Actuarial gains and losses arising on changes in financial assumptions	231,195	(69,438)	528	(255)
Other	(10,202)	(42,030)	0	0
Total post-employment benefits charged to the CIES	158,328	(54,155)	528	(255)
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	(22,967)	(41,410)	0	0
Actual amount charged against the general fund balance for pensions in the year:				
Employers' contributions payable to scheme	13,559	16,392		
Retirement benefits payable to pensioners			1,730	1,817

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	
	2020/2021 £000	2019/2020 £000	2020/2021 £000	2019/2020 £000
Present value of the defined obligation	(1,106,011)	(852,655)	(21,554)	(22,756)
Fair value of plan assets	769,331	651,963	0	0
Net liability arising from the defined benefit obligation	(336,680)	(200,692)	(21,554)	(22,756)
Total Liability	(358,234)	(223,448)		

Reconciliation of movements in the fair value of scheme assets

	Local Government Pension Scheme		Discretionary Benefits	
	2020/2021 £000	2019/2020 £000	2020/2021 £000	2019/2020 £000
Opening fair value of scheme assets	651,963	695,629		
Interest income	14,918	16,681		
Re-measurement gain/(loss):				
the return on plan assets, excluding the amount included in the net interest expense	99,461	(56,251)		
Other	0	0		
The effect of changes in foreign exchange rates				
Contributions from employer	13,559	16,392	1,730	1,817
Prepayment of contributions	9,080	0		
Contributions from employees into the scheme	5,003	4,758		
Benefits paid	(24,354)	(25,246)	(1,730)	(1,817)
Other	(299)	0		
Closing value of scheme assets	769,331	651,963	0	0

Reconciliation of present value of the scheme liabilities:

	Local Government Pension Scheme		Discretionary Benefits	
	2020/2021 £000	2019/2020 £000	2020/2021 £000	2019/2020 £000
Opening balance at 1 April	(852,655)	(966,868)	(22,756)	(24,828)
Current service cost	(18,072)	(34,801)		
Interest cost	(20,189)	(23,972)		
Contributions from scheme participants	(5,003)	(4,758)		
Re-measurement gains and (losses):				
Actuarial gains/(losses) from changes in demographic assumptions	(13,829)	40,348		
Actuarial gains/(losses) from changes in financial assumptions	(231,195)	69,438	(528)	255
Other (if applicable)	10,202	42,030		
Past service cost	(29)	682		
Curtailments	405	0		
Benefits paid	24,354	25,246	1,730	1,817
Liabilities extinguished on settlements	0	0		
Balance as at 31 March	(1,106,011)	(852,655)	(21,554)	(22,756)

Local Government Pension Scheme assets comprised:

	2020/2021 £000	2019/2020 £000
Cash and cash equivalents	21,367	30,840
Equities:		
<i>by industry type</i>		
Other	93,239	56,669
Bonds:		
<i>by sector</i>		
Corporate (non-Investment Grade)	66,220	44,752
Government	23,796	28,951
Other	14,448	12,346
sub-total bonds	104,464	86,049
UK Property	89,438	86,762
UK Private equity	43,870	34,613
Other investment funds:		
Equities	313,920	278,127
Bonds	32,611	15,042
Infrastructure	46,232	38,611
Other	24,190	25,250
sub-total other investment funds	416,953	357,030
Total assets	769,331	651,963

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		
	2020/2021	2019/2020
Mortality assumptions:		
<i>Longevity at 65 current pensioners:</i>		
Men	21.0	20.9
Women	23.7	23.3
<i>Longevity at 65 for future pensioners:</i>		
Men	22.2	21.8
Women	25.5	24.8
Financial assumptions:		
Rate of increase in salaries	3.75%	2.80%
Rate of increase in pensions	2.85%	1.90%
Discount Rate	2.00%	2.30%
Rate of Inflation (CPI)	2.85%	1.90%

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

Change in assumptions at 31 March 2021	Approximate increase to Employer	
	%	£000
0.5% decrease in Real Discount Rate	10%	113,411
0.5% increase in the Salary Increase Rate	1%	11,002
0.5% increase in the Pension Increase Rate	9%	99,986

Impact on the Council's Cash Flows

The council's anticipated contributions to the scheme in 2021/2022 is £13.5m.

Note 40 Contingent Liabilities

The council's statement of accounts for the 2019/2020 financial year included a contingent liability in relation to an ongoing business rate appeal, whereby a number of NHS Trusts were taking forward a claim for NNDR Mandatory Charitable Relief to the High Court. The case was initially rejected by the High Court in 2019 with the ruling that NHS Trusts were not eligible to be treated the same as charities with regards to business rates. An appeal against this ruling was subsequently lodged with The Court of Appeal by the NHS Trusts, however, this has now been withdrawn. There is therefore no ongoing potential liability to the council in relation to this matter.

Note 41 Inventories

		Balance outstanding at start of year £'000	Purchases £'000	Recognised as an expense in year £'000	Written off balances £'000	Balance outstanding at end of year £'000
Personal Protective Equipment Stock	2020/2021	0	1,100	(401)	(2)	697
	2019/2020	0	0	0	0	0
Highways Materials	2020/2021	226	331	(131)	0	426
	2019/2020	191	261	(225)	0	227
Waste Stock	2020/2021	132	262	(180)	(42)	172
	2019/2020	146	92	(56)	(51)	131
Total	2020/2021	358	1,693	(712)	(44)	1,295
	2019/2020	337	353	(281)	(51)	358

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.

Business Rates £000	2019/2020			2020/2021		Total £000
	Business Rates £000	Council Tax £000		Business Rates £000	Council Tax £000	
INCOME						
	(90,787)	(90,787)	Council Tax Receivable		(94,736)	(94,736)
(90,487)		(90,487)	Business Rates Receivable	(68,366)		(68,366)
Contribution towards previous year's Business Rates deficit:						
(409)		(409)	Central Government	0		0
0		0	Billing Authority	0		0
0		0	Fire Authority	0		0
(90,896)	(90,787)	(181,683)	Total amounts to be credited	(68,366)	(94,736)	(163,102)
EXPENDITURE						
Apportionment of Previous Year Surplus						
		0	Central Government	(868)		(868)
2,027	711	2,738	Billing Authority	2,563	972	3,535
16	40	56	Fire Authority	17	55	72
	97	97	Police Authority		133	133
Precepts, demands and shares						
38,009		38,009	Central Government	38,209		38,209
37,328	74,275	111,603	Billing Authority	37,365	77,854	115,219
762	4,200	4,962	Fire Authority	763	4,322	5,085
	11,041	11,041	Police Authority		11,386	11,386
Charges to Collection Fund						
337	281	618	Write-offs of uncollectable amounts	404	348	752
1,002	1,162	2,164	Increase/(decrease) in allowance for impairment	106	1,103	1,209
3,668		3,668	Increase/(decrease) in allowance for appeals	(1,030)		(1,030)
4,265		4,265	Transitional Protection Payments Payable	3,078		3,078
236		236	Charge to General Fund for allowable collection costs for non-domestic rates	239		239
Other transfers to General Fund in accordance with non-domestic rates regulations						
2,197		2,197	Enterprise Zone Growth	244		244
5,304		5,304	Renewable Energy	5,423		5,423
95,151	91,807	186,958	Total amounts to be debited	86,513	96,173	182,686
4,255	1,020	5,275	(Surplus) /deficit arising during the year	18,147	1,437	19,584
(5,082)	(1,099)	(6,181)	(Surplus)/deficit brought forward at 1 April	(827)	(79)	(906)
(827)	(79)	(906)	(Surplus)/deficit carried forward at 31 March	17,320	1,358	18,678

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	25,358	6/9	16,905.0	1,250.26
B	40,001 - 52,000	13,109	7/9	10,196.2	1,458.63
C	52,001 - 68,000	9,740	8/9	8,657.7	1,667.01
D	68,001 - 88,000	6,930	9/9	6,930.2	1,875.38
E	88,001 - 120,000	3,510	11/9	4,290.6	2,292.13
F	120,001 - 160,000	1,448	13/9	2,091.5	2,708.89
G	160,001 - 320,000	473	15/9	788.4	3,125.64
H	More than 320,001	10	18/9	20.9	3,750.77
				49,880.5	
Adjustment				9.0	
				49,889.5	

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	£93,561,906
(ii)	Number of Band D equivalent Dwellings	49,889.5
	Band D – (i) divided by (ii)	£1,875.38

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 2020/2021 the amount was 51.2p (50.4p in 2019/2020) and 49.9p for small businesses (49.1p in 2019/2020).

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 2021 was £200,000,378 (as at 31 March 2020 it was £201,521,698).

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 grants.

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.

SAFE WELL PROSPEROUS CONNECTED

**ANNUAL GOVERNANCE
STATEMENT**

Final

2020-2021

Executive Summary

The Council has in place strong governance arrangements which we are confident protect the interests of the council and provide necessary assurances to our residents and stakeholders.

Notwithstanding inherent risks facing local government and strategic risks within the local operating environment which are identified and reviewed throughout the year, the Council's governance arrangements provide robust mechanisms to ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The council has set out a clear ambition for North Lincolnshire in its Council Plan and will strive to seek continuous improvement. The council will continue to provide effective governance arrangements and will make further improvements in line with good practice and external recommendations accordingly.

The operating environment for local government has been significantly impacted on by the coronavirus pandemic over the past 15 months. Locally the council has led the response to the pandemic, working with communities, businesses and partners to minimise and mitigate the impact from COVID for people and place. Our COVID-19 recovery and renewal framework provided a guide for the council's actions through the different transition phases of 'recovery', both short and medium term at both Place and Council level. Each phase guided by national guidance and legislation; Public Health advice and guidance and supported by local evidence, information and intelligence. Our local arrangements were set within governance structures aligned with the Humber Local Resilience Forum to enable a whole system approach with sub-regional partners. With a strong focus on business continuity the council resources were flexibly and agilely deployed to deliver for our residents.

The Annual Governance Statement 2020-21 concludes that there are no significant governance issues that have arisen during the year which require specific reporting apart from the exceptional circumstances of Covid-19.

Becky McIntyre

Director Governance and Partnerships

27 October 2021

1. Council's responsibility for good governance

North Lincolnshire Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, which include arrangements for the management of risk, whilst facilitating the effective exercise of its functions.

The Accounts and Audit Regulations 2015 require the council to publish with its final accounts an Annual Governance Statement (AGS). The AGS sets out the council's governance arrangements in place and considers their effectiveness.

2. Council's Governance Framework

The council's governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and those activities through which it accounts to, engages with and leads its communities. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money. Key elements of the council's framework are:

- The [Council Constitution](#) sets out how the council operates and how it makes decisions. The Constitution says what the council must do to make decisions efficiently, transparently and accountably. Periodic reviews of the Constitution are undertaken to ensure alignment with the Council Plan and strategic objectives as well as incorporating legislative change and developments in case law. Any major changes to the Constitution are reported to full Council by the Monitoring Officer.
- [The Council Plan](#), which sets out North Lincolnshire Council's ambition to be best place and the best council it can be, and the outcomes it is committed to achieving for local residents, through whole council transformation.
- The system of internal control, which is based on an on-going process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- The [Council's Code of Governance](#) which sets out how the council's strategies, policies, plans, procedures, processes, structures, attitudes and behaviours. The key components are:
 - A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
 - B. Ensuring openness and comprehensive stakeholder engagement

- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

3. Review of effectiveness of governance arrangements

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review relates to the governance framework which has been in place at North Lincolnshire Council for the year ended 31 March 2021 and up to the date of approval of the Statement of Accounts. Any issues identified as a significant governance issue are reported within the AGS, and the progress made by management in 2020/21 to address these issues will be reported regularly to the Audit Committee as the body charged with governance.

The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment; by the Head of Audit and Assurance Annual Report; comments made by External Auditors and other review agencies and inspectorates. The Council Assurance Group is responsible for co-ordinating the review.

The three lines of defence assurance model is central to this review of effectiveness and is made up as follows.

First Line – (delivery/operational area)

Each Head of Service undertakes a self-assessment as to how assurances are sought to confirm that the services and functions they are responsible for comply with each of the seven principles. The Directors use these to inform their Director Assurance Statements which confirm the arrangements against the assurance framework.

Additionally the council has a performance framework to help assess the effectiveness of its arrangements. Performance is monitored at different levels across the organisation and forms part of the Directors' assurance.

The Director assurance statements review against previous years' actions highlighting areas of good governance actions to further strengthen the control environment. Examples of good governance and improvements progressed include:

- Governance and accountability arrangements for SEND have been strengthened through the introduction of a SEND Standards Board. The

membership of this Board includes senior leaders and chief officers from partner agencies

- One Social Work Team Model embedded, ensuring that the statutory responsibilities of the Council are met and enables individual need to be supported at the lowest level of the social care pathway
- In response to complaints feedback, the fly tipping process was redesigned to improve customer reporting, response and feedback.
- Rolling programme of HR policy review provides assurance that the organisation has a legislatively compliant framework in place along with regular updates from LGA on any changes to legislation affecting local government
- Safeguarding in Education Line of Sight meetings provide a management overview of safeguarding within the council's functions for schools and settings and concentrate on exceptions

In addition Directors produce reports for Cabinet, Scrutiny and committees which provide assurance on governance and the control environment in specific areas e.g.

- **Director of Public Health's Report 2019-20** – presented to Health and Wellbeing Board 14 September 2020. In video format, the review is the DPH's professional judgement and statement about the health of local communities. It highlights good progress being made against the priorities set for 2019-20 and concludes with the priority areas for the next 12 months, including:
 - Supporting positive mental health and wellbeing
 - Taking a whole systems approach to creating healthy environments
 - Encouraging people to be more physically active
- **Virtual School Headteacher Annual Report 2020** – reported to Cabinet 7 December 2020. The role of the Virtual School is to promote the educational achievement of children in care. The report provides an overview of the work undertaken to support children and young people throughout their journey and the impacts and successes over the past year. The virtual school reported that standards have once again been raised for their young people.
- **Local Safeguarding Adults Board Annual Report 2019/20** – presented to Health and Wellbeing Board 18 March 2021 and Cabinet 1 February 2021. The annual report demonstrated that the LASB:
 - listened and responded to the voices of adults with care and support needs, and adults with the lived experience;
 - was effective in providing help and protection to adults with care and support needs;
 - effectively met statutory obligations;
 - benefitted from strong and consistent leadership, and
 - had made good progress on delivering the strategic objectives laid out within the strategic plan

As part of its statutory duties, the board carried out an independent Safeguarding Adults Review (SAR) in relation to Adult A. Significant work has been undertaken by partners to understand how agencies could work better together to safeguard adults at risk in such circumstances. The SAR has been published on the website and provided the Board with important learning to take forward in the future.

A key priority for the board in 2020/21 is to gain assurance from partner agencies about how any impact of Covid-19 on local safeguarding arrangements is being managed, particularly looking at how the current situation is impacting on adults who have care and support needs and on the effectiveness of safeguarding arrangements within North Lincolnshire

- ***Independent Reviewing Service (IRS) Annual Report 2019/20*** – presented to the Children and Families Cabinet Member 7 October 2020. It focuses on the IROs for Looked After Children and sets out a range of information about the service, including the extent to which it complies with regulation and best practice. Information contained within the report includes:
 - A total of 634 Looked after and Adoption Reviews have been chaired during the year.
 - North Lincolnshire has maintained a low number of children in care and remains lower than the latest national and statistical neighbour comparators. 129 Children entered care in 2018/19, compared to 51 Children entering care during 2019/20.
 - Over the past year the numbers of children in care has decreased, from 251 at the end of March 2019, to 231 at the end of March 2020. This places North Lincolnshire below the England latest published rate.
- ***Special Education Needs and Disabilities (SEND) Annual Report 2019/20*** – reported to Children and Education Scrutiny Panel 1 February 2021. The report summaries work undertaken by the council and its partners to implement the SEND Delivery Plan, and also highlights achievements. Ni issues were identified.
- ***Managing Allegations Against People Who Work With Children Annual Report 2019/20*** – reported to Children and Families Cabinet Member 18 January 2021. This report provides an overview of the activity and impact of the Local Authority Designated Officer (LADO) function in the year 2019-20. This includes an analysis of the allegations reported to the LADO, including the responses and outcomes. Of the 28 referrals received, a small decrease from the previous year, two were substantiated.
- ***Regulation of Investigatory Powers 2000 (RIPA) 2020 Update*** – reported to Cabinet 1 February 2021. The report provides information about the council's surveillance activity during 2020 in respect of the RIPA regime.

- **Care Call Service – Annual Report 2019-20** – reported to Cabinet 7th December 2021. The report provides an overview of the service activity and service performance April 2019 to March 2020, including that call handling and feedback statistics exceeded the accreditation scheme standards for a third consecutive year. Future developments include upgrading the hardware and software to improve to offer better resilience and more effective methods of communications for users.
- **Annual review of the Children’s Multi Agency Resilience and Safeguarding Local Arrangements 2019-20** – reported to Health and Wellbeing Board 16 November 2020. The report demonstrates that the local arrangements:
 - effectively meets statutory obligations
 - is effective in providing help and protection to children
 - benefits from strong and consistent leadership
 - has made good progress against its areas of focus
 - listens and responds to the voices of children and young people
 - has swiftly and confidently responded to the challenges posed by COVID-19

The review identifies areas of focus for 2020-21. Safeguarding partners and relevant agencies will continue to listen, learn, review and adapt; continue to deliver the core functions with particular focus on – work with adolescents and their families; emotional health and wellbeing; domestic abuse and emerging harm arising from COVID-19 across the early help and safeguarding system.

Second Line - (oversight of management activity and separate from those responsible for delivery)

The council’s Assurance Group receive a quarterly overview which provides an update on the position against a set of criteria, which help identify whether the council is fulfilling its duties as an organisation and employer. Assurance is evaluated using information and data including management sign-off of critical functions and by referencing specific performance measures for example additional assurance in respect on arrangements for fleet compliance was sought and progress on the implementation of a new system for monitoring compliance within the grey fleet was provided.

As part of the process for completing the AGS those responsible for the oversight of management activity, separate from those responsible for delivery were asked to provide statements on the overall operation of the control environment in their particular areas of oversight:

- **Assurance provided by the Monitoring Officer in relation to operating within the rule of the law and constitutional arrangements including member code of conduct** –no material issues were identified
- **Assurance provided by the Head of Human Resources and Organisational Development in respect of human resources policy**

frameworks and arrangements, including organisational health and safety - no material issues were identified.

- **Assurance provided by the Deputy s151 Officer on finance and procurement policy and procedures** - no material issues were identified.

The Council's Reporting a Concern (Whistleblowing) policy provides opportunities for organisational learning. An investigation into a concern raised in 2020/21 was concluded in June 2021 and identified weaknesses in the internal controls in the recording of decision making relating to property transactions. Actions intended to improve these controls will be monitored through the council's assurance processes during 2021/22.

In addition a range of reports are produced annually or throughout the year which provide assurance from a second line perspective e.g.

- **CIPFA Code of Financial Management Self-Assessment** - The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities. By complying with the principles and standards within the Code authorities will be able to demonstrate their financial sustainability. The self-assessment has been completed demonstrating compliance against the vast majority of the standards. We have identified balance sheet reporting and financial resilience assessment as areas of focus, although meeting the standard, further development has been prioritised to support financial sustainability.
- **Annual Report of the Audit Committee 2020/21** – This was reviewed approved by the Audit Committee on 21 July 2021 and will be taken to Full Council 11 October 2021. It summarises the activities of the Committee and demonstrates how it has discharged its duties. It also reports on the outcome of the Audit Committee's self- assessment against good practice.
- **Annual Information Governance and ICT Security Update** – the Data Protection Officer produces an annual report on Information governance matters to the Audit Committee, as well as quarterly update reports for the Senior leadership Team. No major issues of concern were identified in 2020/21
- **Annual Report of the Standards Committee 2020/21** – This presented to the Standards Committee on 8 July and will be presented to Full Council on 11 October 2021. The annual report highlights the work of the Committee over the period and outcomes from complaints made against the Code of Conduct. Although activity has increased in number of complaints received, the report doesn't conclude any particular theme or concern.
- **Fraud Annual Report** - reported to the Audit Committee on 8 April 2021, to assist in discharging its responsibilities for monitoring the effectiveness of the Council's arrangements for managing the risk of fraud. The report highlights the work undertaken to prevent fraud in relation to business grants. It also reported that in 2020/21, significantly fewer referrals relating to allegations of

fraud or financial misconduct were received than in previous years. No major frauds were reported.

- **Risk Management Progress reports** – The Audit Committee regularly receives assurance on Risk Management via Risk Management progress reports. A report was presented to the Audit Committee 27 January 2021, which provided an update on the Risk and Opportunities framework and the Council's Strategic Risks. Audit work highlighted improvements to how risk is referred to in Cabinet reports.
- **Treasury Management Policy Statement** - reported to Audit Committee 8 April 2021 – this outlined the policies and objectives of its treasury management activities, as approved by Council. It also set out high-level objectives of the council's treasury management activities. Audit Committee also receive a mid-year position against the treasury management strategy and an end of year report.
- **Youth Council and Young Voice Annual Report** – reported to Children and Families Cabinet Member 9 December 2020 - this highlights the work undertaken across the Youth Council and wider young voice activities and outlines the impact and outcomes of engagement, predominantly at a service, local, regional and national level. The report also focused on young people's perspectives and experiences during the pandemic and associated restrictions. No issues were identified.

Third line (independent oversight)

Head of Internal Audit Annual Report and Opinion 2020/21

Presented to the Audit Committee on 21 July 2021 the Head of Internal Audit concludes that the council had a satisfactory control environment with some areas for improvement identified. It also provided a satisfactory opinion on governance identifying that Scrutiny arrangements could be strengthened and substantial opinion on risk arrangements. The report also provided assurance that Internal Audit meets required quality standards.

External Audit

Based upon the External Auditor's Audit Completion Report for 2020-21 it is anticipated that an unqualified opinion on the financial statements will be issued and that no significant weaknesses in arrangements that the council has in place to secure economy, efficiency and effectiveness in its use of resources will be identified. The final approved accounts have been updated to reflect identified misstatements and disclosure amendments. The Audit Completion Report identified 3 recommendations to improve internal controls, management have responded and processes will be put in place to prevent them from occurring in the future. In addition, the report highlights significant matters discussed with management pertaining to a whistleblowing allegation in respect of disposal of assets. Information was provided to the Auditors in respect of the actions that have been

taken to improve procedures and practices to improve governance arrangements. This area of activity is included in the Internal Audit Plan for 2021-22 and any findings will be reported to the Audit Committee through update reports.

Ofsted

Adult Education and Community Learning Interim Visit December 2020 - No judgements given but report was positive with no recommendations made.

Assurance Monitoring Visit (Kingfisher Lodge) – no judgement but noted that it is a well-managed home.

Other External Inspections/Assessments

Other external inspections and verifications carried out in 2020/21 are listed below together with their ratings:

- **Registration Service: Public Protection & Counter Fraud Inspection**, March 2020 - 100% criteria met for monitoring and compliance and all statutory operational standards being met
- **Catering & Cleaning: Food Hygiene Rating Scheme** – 4.89/5.00 score
- **Building Control Quality Management Systems (ISO 9001)** – no nonconformities posted as part of annual review.
- **Defence Employers Recognition Scheme (Gold Award)**
- **Department for Transport** – annual self-assessment against set criteria regarding **Highway Asset Management** including asset evaluation and programme management. DFT assessed North Lincolnshire as achieving Band 3 which is the highest rating demonstrating that the council is prioritised investment based on properly assessed needs analysis.
- The council's approach to managing its fleet effectively is subject to external verification by the **Driver and Vehicle Standards Agency (DVSA)**. The DVSA operate a traffic light system to ensure targeted enforcement and the Council currently has a Green rating
- **Inspection by the Ministry of Housing Community and Local Government around youth homelessness service** – points to consider in future planning were proposed and all feedback received was positive and commented on the vibrant discussion that had taken place.
- An independent inspection by the **Investigatory Powers Commissioner's Office** in July 2020 was satisfied that our arrangements relating to the Regulation and Investigatory Powers Act (RIPA) demonstrated a good level of compliance, and the policies and procedures currently in place remain fit for purpose.

Local Government and Social Care Ombudsman

The Ombudsman is responsible for independently investigating complaints that have not been resolved by the organisation. The Annual Letter of the Ombudsman was received in July 2021. There were fewer complaints received by the Ombudsman during 2020/21 compared to previous years, with the majority not

progressing to investigation following their initial enquiries. Only one complaint upheld in full and one partially upheld and all remedy recommendations were complied with.

4. COVID-19

COVID-19 has had considerable impact on the delivery of the Council's responsibilities and governance arrangements to support them. In line with the guidance from CIPFA the Council has assessed its response in three areas:

- *Adaptations to reflect new ways of working and emergency arrangements*
- *Changes to 'business as usual' activities, including cessation or reduced frequency or scale of activities*
- *Longer-term changes to priorities, programmes, strategies and plans as a result of the impact of the pandemic on the organisation and the local area*

Since the start of the pandemic the council put the necessary governance arrangements in place both locally and regionally and with partners. For every meeting of the Cabinet a COVID-19 report has been presented, providing updates on the response, recovery and outbreak management and prevention. Alongside reporting to Cabinet, the Health and Wellbeing Board extended its health protection remit to specifically be the publicly accountable oversight committee for the Local Outbreak Management Plan and arrangements. The frequency of meetings was increased for regular oversight to take place. The membership was also extended to ensure system level partners were involved. Overview and Scrutiny Committees also adapted their workplans to consider COVID-19 related matters.

The Council has considered the three areas above, reviewing information, reports and plans in respect of COVID-19 response and recovery which demonstrate that:

- The Council responded quickly to the pandemic, framed around the Council Plan to give a clear priority focus on keeping people safe and well (prevent and reduce the spread); protecting the most vulnerable from the impact of COVID-19; enabling communities to be resilient and protect and enabling the local economy, whilst ensuring business continuity in line with local and national priorities. In response to the emergency new systems and agile working arrangements were established at pace at an early stage. This swift and flexible approach, including the implementation of emergency decision making ensured that the council was able to operate within its agreed governance framework.
- Via the enhanced use of technology, the Council has been able to maintain most of its activities. Inevitably, however, there were some activities which were impacted, as required by government guidelines. Creative solutions were implemented to offer alternative access through technologies. The strong partnerships across North Lincolnshire provided a good foundation upon which to build, adapt and enable higher risk settings, such as schools, care homes and businesses to operate in line with COVID-19 secure guidelines. Where national and local restrictions required some venues and activities to be suspended we were able to direct resources to the COVID-19

response – for example the Shield programme, working across communities to meet the needs of our clinically extremely vulnerable residents.

- Overall, no significant control issues have been identified as a result of the pandemic. The financial impacts during 2020/21 have been contained within the additional grant funding received from government. The longer-term financial impact continues to be assessed in the context of national policy and local needs analysis. The Council has recognised that the continued recovery from the pandemic will remain challenging, and as a result it has been identified as an area of focus for 2021/22 as shown in section 5 of the AGS. A strength of the council's approach has been that throughout its response to the covid pandemic it has remained focused on its ambition and priorities set out in the council plan.

5. Governance Challenges

Governance challenges can arise when something has gone or is going wrong which will affect the achievement of the Council's objectives. There is a need to respond and often recover from an issue and in financial terms, responding and recovering may add significant cost to the organisation or its processes. An issue may arise unexpectedly or may result from a poorly managed risk. Determining the significance of a governance issue will always contain an element of judgement.

An issue is likely to be significant if one or more of the following criteria applies:

- It has seriously prejudiced or prevented achievement of a principal objective.
- It has resulted in the need to seek additional funding to allow it to be resolved.
- It has required a significant diversion of resources.
- It has had a material impact on the accounts.
- It has been identified by the Audit Committee as significant.
- It has resulted in significant public interest or has seriously damaged reputation.
- It has resulted in formal actions being taken by the Section 151 Officer or Monitoring Officer.
- It has received significant adverse commentary in external or internal inspection reports that has not been able to be addressed in a timely manner.

Based upon the assurance systems in place and the council's approach to continuous learning through external and internal review and the information considered in the AGS, the conclusion is that there are no significant governance issues that have arisen during the year which require specific reporting apart from the exceptional circumstances of Covid-19.

Required improvements in governance arrangements identified at an operational level (first line) and/or second line will continue to be monitored through the Council's Assurance processes.

6. Governance Risks 2021-22

The financial impact of COVID-19 on the council during 2020/21 could be met by the additional funding made available by government. Overall, the net additional cost amounted to £27m (18% of the approved budget). However, the approach taken whilst responding effectively to additional responsibilities mitigated against creating longer term legacy costs or demand and making use of redirected internal resources to minimise costs. This approach contributes to financial resilience for 2021/22 and beyond as it is anticipated that the longer-term impacts of COVID-19 will require re-prioritisation of investment. An exercise has commenced to review the financial sustainability and assess the medium-term financial plan with adapted assumptions on funding and spend. In addition, the review and renewal of the Council Plan and Health and Wellbeing Strategy will take account of the impact of COVID and prioritise recovery and renewal focus on mitigation and reduction of inequalities.

At an organisational level there have been changes within the Council's statutory roles. Following the retirement of three chief officers, a successful recruitment exercise has completed to appoint a new Chief Executive; while interim arrangements are in place relating to the roles of Director of Children's Services and Director of Public Health.

North Lincolnshire Council will benefit from investment as part of the government's 'Build Back Better: our plan for growth' over the next few years. This will require new and strengthened governance arrangements to operate effectively.

The changes to NHS structures and the development of Integrated Care Systems will also impact on local governance arrangements. The Council are a key stakeholder in the development and design of the new ICS NHS body and place-based partnerships, including the transitional arrangement during 2021/22.

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XX November 2021

Dear Mark,

North Lincolnshire Council -audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of North Lincolnshire Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2020/21 (the Code).

I confirm that the following representations 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 myself that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material
- additional information that you have requested from me 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 of 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 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 the Code and International Accounting Standard 8 and consider them appropriate for the year.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with my knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

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 Code.

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 of 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 statement of accounts 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 (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code. 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.

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.

Charges on assets

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

Future commitments

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code 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.

Covid-19

We confirm that we have carried out an assessment of the on-going impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

Brexit

We confirm that we have carried out an assessment of the potential impact of the United Kingdom leaving the European Union, including the potential outcomes at the end of the Implementation Period, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

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.

Annual Governance Statement

I am satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and I confirm that I am not aware of any significant risks that are not disclosed within the AGS.

Narrative report

The disclosures within the Narrative Report fairly reflect my understanding of the Council's financial and operating performance over the period covered by the financial statements.

Unadjusted misstatements

I confirm that the effect of the uncorrected misstatement is immaterial, both individually and in aggregate, to the financial statements as a whole. Please see appendix A for details.

Yours sincerely

R McIntyre
Director Governance and Partnerships

Unadjusted Misstatement

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
Dr: Debtors Cr: Income		239	239	
Total adjusted misstatements		239	239	

Cut off testing identified income of £37k included in 2021-2022, but that related to 2020-2021. The income had not been accrued for in the 2020-2021 financial year. The value of £239k reflects the value of the extrapolated error across the sampled population.

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NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

EXTERNAL AUDIT PROCUREMENT PROCESS

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 The report sets out the process for the external audit procurement process and the options available to the Council.
- 1.2 The Council will be required to reprocure an external audit provider at the end of the current 5-year contract on 31 March 2023. There are various options open to the Council.
- 1.3 The recommended option is for the Council to continue to opt into the arrangements allowing Public Sector Audit Appointments Ltd (PSAA) to appoint the Council's external auditor on its behalf, and the Committee is requested to recommend this option to Full Council.

2. BACKGROUND INFORMATION

- 2.1 The Local Audit and Accountability Act 2014 established arrangements for the appointment of external auditors and the setting of audit fees for all local government bodies in England. In relation to appointing external auditors, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national approved collective scheme where contracts are negotiated with audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.
- 2.2 In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. In 2017 the Committee approved the Council opting into the scheme, and consequently Mazars was appointed as its external auditor.
- 2.3 Prior to the end of the current contract on 31 March 2023 the Council will need to reprocure external audit services. The Regulations require the appointing person to set the duration of each appointing period; the maximum duration is five years.

The Council has until December 2022 to make an external audit appointment. In practical terms this means a decision by spring 2022 in order that the contract negotiation process can be carried out during 2022. However, the Council is required to indicate whether it wishes to continue with the PSAA Framework arrangement, by 11 March 2022.

3. **OPTIONS FOR CONSIDERATION**

3.1 There are three options available to the Council:

Option 1: To continue with the PSAA framework

Option 2: Stand-alone appointment

Option 3: Set up a Joint Auditor Panel/local joint procurement arrangements

4. **ANALYSIS OF OPTIONS**

4.1 **Option 1:**

4.1.1 The Council has benefitted from economies of scale achieved as part of the national procurement process that led to the appointment of our current external auditor. In 2018 over 96% of Councils opted into the PSAA framework to obtain these economies of scale. Entering into a large-scale collective procurement arrangement also removes the costs of establishing an auditor panel.

4.1.2 There are ongoing national issues with delays in audits and many uncompleted by the deadlines, including the council's audit for 2020/21. Nevertheless, it is a suppliers' market and being part of a national arrangement gives the best opportunity for influencing the market, a view supported by the LGA.

4.2 **Option 2:** In order to make a stand-alone appointment the Council would need to establish an Auditor Panel. The members of the panel would need to be mainly independent members as defined by the Act. This means that elected members would not have a majority input to assessing bids and choosing which organisation to award a contract for the Council's external audit. Recruitment and servicing of the Auditor Panel, running the tendering exercise and negotiating the contract will incur costs plus on-going expenses and allowances. Furthermore, the Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

4.3 **Option 3:** The Act enables the Council to join with other authorities to establish a joint auditor panel. This would also require to be constituted of wholly or a majority of independent appointees.

The costs of setting up the panel, running the tendering exercise and negotiating the contract would be shared across a number of authorities. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms. However, these economies are anticipated to be less than those derived from the national framework and there is no indication of neighbouring Councils wishing to set up such a panel.

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

5.1 The chosen methodology for making the external auditor appointment will potentially impact on the associated costs related to making the appointment and the subsequent audit fees. As laid out on in Section 4 Option 1 is recommended to contain costs.

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

6.1 There are no specific risks to the Council.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 An Integrated Impact Assessment is not required for this report.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 There are no identified conflicts related to this report.

9. RECOMMENDATIONS

9.1 That Audit Committee supports the Council continuing to adopt into the PSAA framework and recommends that Full Council endorses this option.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

Church Square House
SCUNTHORPE
North Lincolnshire
DN15 6NL

Author: Nina Torr
Date: 19 October 2021

PSAA invitation



North Lincolnshire
Council invitation.p



North Lincolnshire
Council.docx

Report of the Director:
Governance and Partnerships

Meeting: 3 November 2021

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

TREASURY MANAGEMENT MID-YEAR REPORT 2021/22

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. This report provides an overview of the Council's treasury performance during the first six months of 202/22 and sets out national factors that affect the Council's Treasury activity.
- 1.2. The key points are that the Council's:
 - Investment returns remain at near zero due to the impact of the Covid 19 pandemic. The Council has continued to take a cautious approach to investing.
 - Borrowing remains comfortably within the control levels set and no new borrowing was undertaken.
 - Treasury activity was compliant with the Prudential Indicators set for the financial year.

2. BACKGROUND INFORMATION

- 2.1 This report fulfils the Authority's legal obligation under the Local Government Act to have regard to both the CIPFA Code and the Department for Levelling Up, Housing and Communities (DLUHC), previously Ministry of Housing, Communities & Local Government, Investment Guidance. The CIPFA Code requires that Full Council receive a report at the start of the financial year, mid-year and year end. The Audit Committee also receive regular updates regarding treasury activity, providing assurance on the effectiveness of the Council's treasury management arrangements.
- 2.2 The CIPFA Code sets out the following objectives for treasury management:

"It is important that treasury management policies adequately reflect risk and in particular security, liquidity and yield risk, in that order of importance. No treasury management transaction is without risk and management of risks is the key purpose of the treasury management strategy."
- 2.3 Full Council agreed the Treasury Management Strategy Statement (TMSS) for 2021/22 in February 2021.

3. OPTIONS FOR CONSIDERATION

3.1 This is a report on past performance for Audit Committee to consider the mid-year performance and treasury management activity. Full details of the mid-year review are attached in appendix 1.

4. ANALYSIS OF OPTIONS

4.1 The key messages are:

- Interest rates remain near all-time lows at 0.10%. The bank rate is not expected to increase quickly, a forecast rise to 0.25% in June 2022 with a further increase to 0.75% in the final quarter of 2023/24. As a result, there is opportunity for reducing our average cost of borrowing.
- The Council aims to achieve optimum return on its investments in accordance with its priorities of security, liquidity and risk appetite.
- The Council's investment balances during the first six months of the year were £48.9m and as such is always in a position to meet its liabilities, while managing risks associated with carrying cash balances.
- The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- It is anticipated that further borrowing will not be required during this financial year.

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

5.1 Not applicable

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

6.1 Risk and external factors are considered in the monitoring report.

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 That the Audit Committee considers the assurance provided by this report on the effectiveness of arrangements for treasury management, and:
- 9.2 That the Audit Committee notes the mid-year treasury management performance 2021/22.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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DN15 6NL

Author: Tracy Elliott
Date: 22nd October 2021

Background Papers used in the preparation of this report

Council

2021-22 Treasury Management Strategy
2021-22 Capital Programme

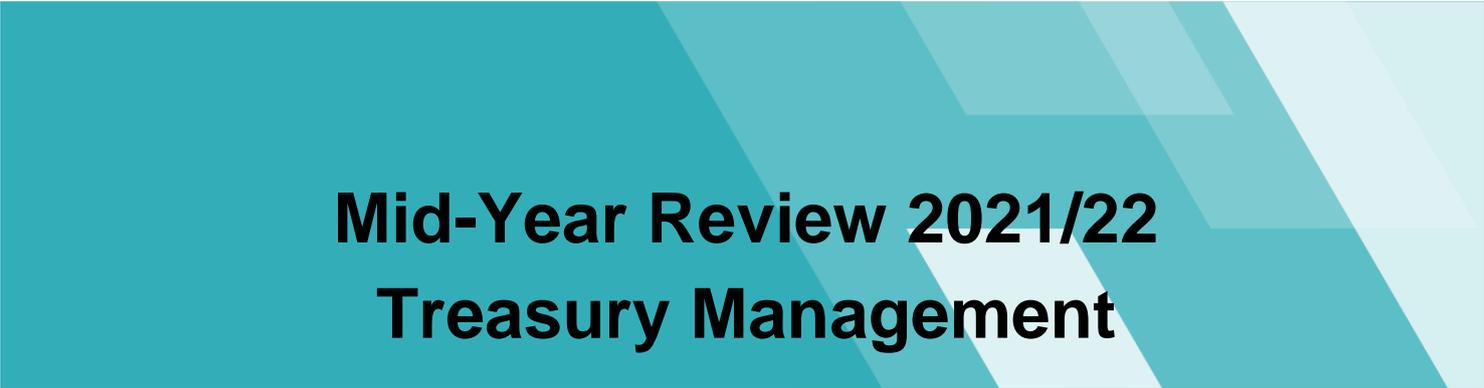
CIPFA Publications

Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)
The Prudential Code for Capital Finance in Local Authorities (2017 Edition)

Legislation and Central Government Guidance

Local Government Act 2003
The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
DLUHC

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Mid-Year Review 2021/22 Treasury Management

1. Background

1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

1.2 Treasury management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

“The management of the local authority'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.”

2. Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Audit Committee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2021/22 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2021/22;
- A review of the Council's borrowing strategy for 2021/22;
- A review of compliance with Treasury and Prudential Limits for 2021/22.

3. Economics and interest rates

3.1 Economics update

MPC meeting 24.9.21

- The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing.
- A potential danger was highlighted that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.
- At MPC meeting, there was a concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth. This could lead to inflation rising to 4% before reducing again to the 2% MPC target.
- Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.
- The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
 - Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
 - Raising Bank Rate to 0.50% before starting on reducing its holdings.
 - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
 - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

3.2 Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View	29.9.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

The COVID-19 outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The MPC tightens monetary policy at the wrong time.

The balance of risks to the UK economy: -

There remains a number of risks to economic growth in the UK, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

Bank Rate is not expected to increase quickly after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may need to be revised again as the economic situation evolves.

The Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to remove that last cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is historically both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period.

There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to a number of economic factors.

Gilt and treasury yields

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. This volatility is likely to continue over the medium term but PWLB rates are most likely to increase slowly in line with the forecasts shown above.

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2021/22 was approved by this Council on 25 February 2021.

- There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2021/22 Original Estimate £m	Current Position £m	2021/22 Revised Estimate £m
Total capital expenditure	49.26	14.406	55.68

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2021/22 Original Estimate £m	2021/22 Revised Estimate £m
Total capital expenditure	49.260	55.68
Financed by:		
Capital receipts	10.500	10.500
Capital grants	24.008	28.336
Revenue	0.016	0.060
Total financing	34.524	38.836
Borrowing requirement	14.736	16.844

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for external debt

	2021/22 Original Estimate	2021/22 Revised Estimate
	£m	£m
Prudential Indicator – Capital Financing Requirement		
CFR –	264.554	264.554
Total CFR	264.554	264.554
Net movement in CFR	0.000	0.000
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	269.554	269.554
Other long-term liabilities	2.000	2.000
Total debt (year-end position)	271.554	271.554

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2021/22 Original Estimate £m	Current Position £m	2021/22 Revised Estimate £m
Borrowing	200.855	155.959	152.616
Other long term liabilities	0.000	0.000	0.000
Total debt	200.855	155.959	152.616
CFR (year end position)	264.554	264.554	264.554

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2021/22 Original Indicator £m	Current Position £m	2021/22 Revised Indicator £m
Borrowing	304.554	155.959	304.544
Other long term liabilities	5.000	0.000	5.000
Total	309.554	155.959	309.554

6. Borrowing

The Council's capital financing requirement (CFR) for 2021/22 is £264.554m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

It is anticipated that further borrowing will not be undertaken during this financial year.

7. Debt Rescheduling

No debt rescheduling has been undertaken to date in the current financial year.

8. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22. The Director Governance and Partnerships reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

9. Annual investment strategy

The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 25 February 2021. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach.

As shown by the interest rate forecasts in section 3.2, interest rates are expected to remain close to zero.

Creditworthiness

At the beginning of the Covid-19 pandemic there was a concern that many financial institutions would have their credit rating reduced. In the main, this did not happen.

Investment Counterparty criteria

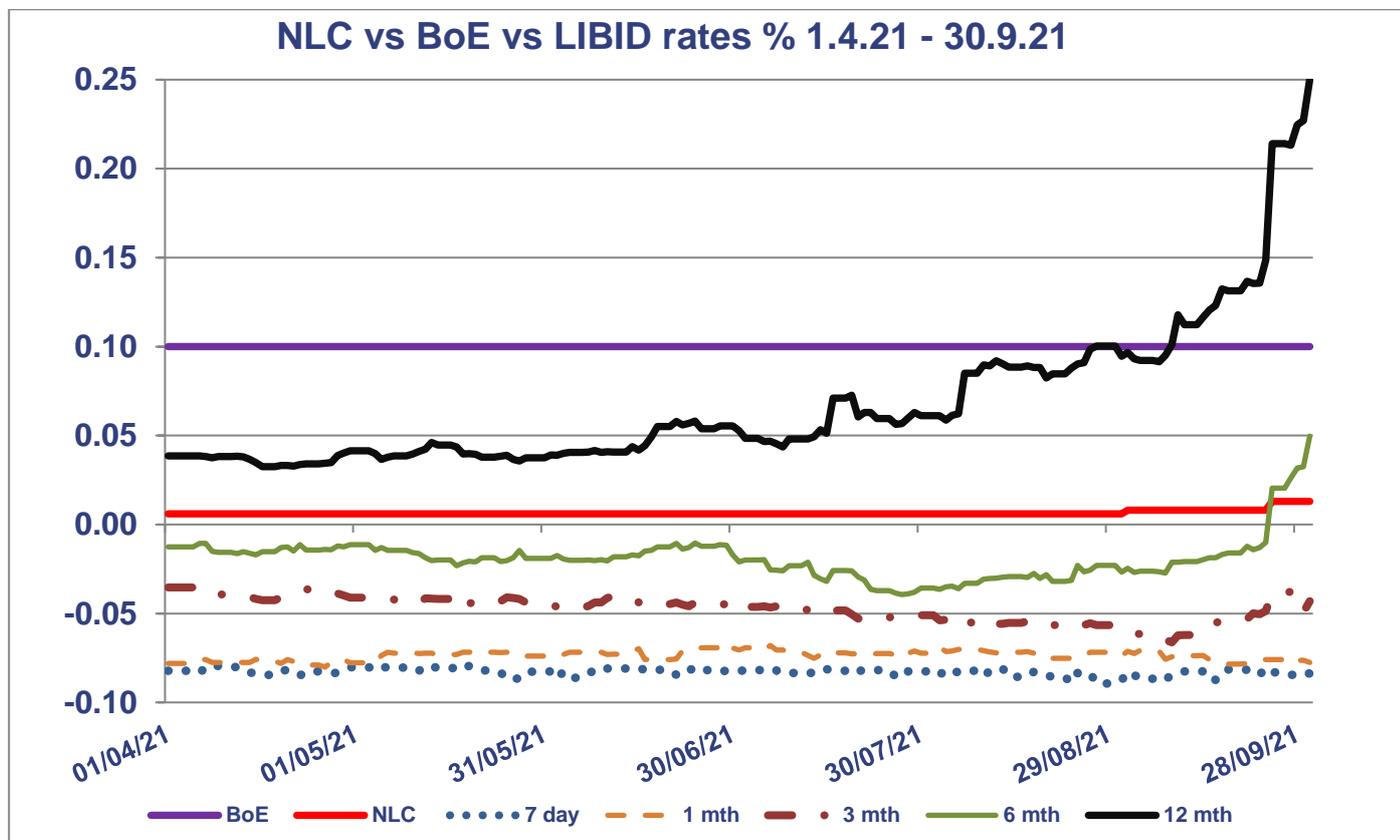
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Investment balances

The average level of funds available for investment purposes during the first half of the year was **£48.9 m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Investment rates during half year ended 30th September 2021

As highlighted earlier in this report, the levels shown below use the traditional market method for calculating LIBID rates – i.e., LIBOR – 0.125%. Given the ultra-low LIBOR levels this year, this produces negative rates across some periods.



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	-0.08	-0.07	-0.04	0.05	0.25
High Date	01/04/2021	09/04/2021	06/07/2021	01/04/2021	30/09/2021	30/09/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.03
Low Date	01/04/2021	27/08/2021	26/04/2021	08/09/2021	27/07/2021	16/04/2021
Average	0.10	-0.08	-0.07	-0.05	-0.02	0.07
Spread	0.00	0.01	0.01	0.03	0.09	0.22

Investment performance year to date as at 30th September 2021

Period	LIBID benchmark return	Council performance	Investment interest earned
7 day	-0.08%	0.013%	£153.41
1 month	-0.07%	0.008%	£376.71
3 month	-0.05%	0.006%	£866.10
6 month	-0.02%	0.006%	£1,597.44

As illustrated, the Council outperformed the benchmark by 0.026%.

Fund investments

- Money Market Funds (MMFs)
- DMO Deposits
- Interest earning call accounts

Investments As at 30 September 2021			
Type	Counterparty	Rate	Principal O/S (£)
Fixed	DMADF (Debt Management Account Deposit Facility)	0.010%	44,500,000.00
Call	Bank of Scotland plc	0.010%	3,000,000.00
Call	Barclays Bank plc	0.010%	3,555,310.69
MMF	BlackRock Institutional Sterling Liquidity	0.007%	3,000,000.00
MMF	Goldman Sachs MMF	0.000%	3,000,000.00
			57,055,310.69

Following BoE, Monetary Policy Committee (MPC) meeting in September 2021, there is now an expectation that interest rates will rise in next 2 quarters. The Council is exploring possible investment opportunities with improved returns. The outcome of this will be reported in the annual outturn report for 2021-22.

Approved limits

The approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 2021.

10. Other

1. Barclays Approval Sequence

Due to system requirements of Barclays.net, the order of approvals in the workflow of payments above £50k has changed. This does not affect the controls in place for the approval of payments.

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Report of the Director:
Governance and Partnerships

Meeting: 3 November 2021

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 July 2021. The framework follows national guidance as laid out in the document 'Fighting Fraud and Corruption Locally -a strategy for the 2020's', and is based upon the key principles of:

- Govern
- Acknowledge and understand
- Prevent and detect
- Pursue
- Protect

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 2021/22. 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 Fraud is a risk to both the council's finances and its reputation. Resources lost to fraud, both monetary and through the provision of services are resources that are no longer available to support the council's aims and in turn the community.
- 6.2 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. This progress report does not constitute a key decision and there are no new material impacts to individuals, the community, workforce, place or other impacts as a result of this update.

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: GOVERNANCE AND PARTNERSHIPS

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DN15 6NL

Author: Mark Edwards
Date: 5 October 2021

Background Papers used in the preparation of this report

None.

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Appendix 1

SAFE WELL PROSPEROUS CONNECTED

Fraud six-month progress report



Introduction

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

- Govern
- Acknowledge and understand
- Prevent and detect
- Pursue
- Protect

Govern

The council has a robust framework of procedures and controls to minimise the risk of losses due to fraud.

The council's anti-fraud and corruption strategy, updated and approved by the Audit Committee in July 2021, is strongly influenced by 'Fighting fraud and corruption locally - the local government counter fraud and corruption strategy 2020'.

In addition to the strategy, the Fraud Response Plan is also currently being reviewed in tandem with the council's Reporting a Concern (Whistleblowing) policy to ensure there is a consistent message to support those who wish to report fraud both internally or externally.

Further work to review the Bribery and Money Laundering policies will be undertaken in the second half of the year, to ensure they continue to provide clear guidance to protect the council from the risks of bribery, corruption and money laundering.

Acknowledging and understanding fraud risks

The COVID 19 pandemic created new opportunities for fraudsters to exploit individuals, businesses and central/local government. As a council we were quick to publicise these new dangers and to provide support to local businesses and communities through the various schemes we were tasked to deliver. It is testament to those services that delivered these schemes that this support was facilitated quickly, with a clear understanding of associated fraud risks taken into account from the outset.

However, as the country comes out of restrictions and we establish a new 'normal', fraudsters will continue to look to identify and exploit weaknesses. The Audit Team will therefore be reviewing any procedures that were revised or relaxed as a consequence of the pandemic, to ensure that processes that were put in place to prevent fraud are still appropriate and being followed.

Additionally, as the economy recovers, we will maintain a focus on areas such as local taxation and benefits to ensure that people are keeping the council updated on any change of circumstances. Particular focus will be placed on those support mechanisms that may have been utilised more during COVID and as the economy recovers, entitlements may have changed.

We have identified changes in the way that fraudsters are attempting to commit mandate fraud, whereby they mislead the council into changing a supplier's bank details to divert funds into their own accounts. Fraudsters are using technology to hack email addresses and spoof emails to make them look like genuine ones from suppliers. This type of fraud has also become more prevalent over the past few months, with numerous attempts reported by public authorities.

Whilst the council has procedures to mitigate such attempts, unfortunately it was subject to a successful attempt to defraud in August, causing an initial loss of £49K (subsequently £44k of which has been recovered).

As a result, we have taken the opportunity to review our procedures in relation to requests for changes to supplier information. A number of changes have been identified and are currently being implemented to provide additional security when updating such information.

Key to preventing further losses is understanding the risks associated with changes to supplier information and the methods fraudsters use to steal council money. In addition to the implementation of revised processes, we have delivered a fraud awareness session to those tasked with updating supplier information to raise awareness and we have also used fraud awareness tools provided by our banking partner to further increase knowledge and understanding of this fraud risk. Additionally, we have provided more information for services on mandate fraud in our fraud A-Z on TOPdesk and are in the process of issuing a council wide communication to emphasise the risks of mandate fraud.

The changes in how and where we work will change the way we deliver general fraud awareness training in future. It is clear that there will be less of an emphasis on office-based activity and therefore, new ways of providing (virtual) awareness sessions are being considered, including the use of a series of short fraud awareness videos.

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

One significant area of fraud risk is that of Council Tax single residency discounts (SRDs).

The council has approximately 76,000 Council Tax payers, of which about 25,000 receive a SRD entitling them to a 25% reduction in their Council Tax bill. If only 1% of those receiving a discount fail to tell us that they are no longer entitled to it, this could equate to around £87,000 per year in revenue the council is unable to collect.

To mitigate this risk, we have procured the services of a Credit Reference Agency to conduct monthly checks to identify households that may have more than one adult resident. Our first review took place in March and identified 2499 accounts that required a review.

All individuals were written to and asked to confirm their entitlement to the discount. As at 03.09.2021, we had received 2150 responses of which 250 have had their entitlement to a discount removed. Where a taxpayer has not confirmed their eligibility, accounts will be updated to remove the discount.

Below is a breakdown of the March review. Once the remaining accounts have been updated, a further £120,000 will be added to the total council tax income.

Summary	Values
Number of letters sent	2499
Number of reminders sent	683
Number returned	2150
Number returned with no change reported	1799
Number of changes reported	350
Number of SRD's removed as a result of change reported	250
Number of SRD's removed as customer failed to reply	0
Total number of SRD's removed	250
Charge generated	£88,869.82
Additional liability	£22,241.00

From July, we have commenced a monthly review to identify new households that may have more than one adult resident. The results of these monthly reviews will be included in future reports to the Audit Committee.

In addition to the review, a further eight Council Tax discount investigations have completed, identifying increases in liability totalling £1,076 with a further £4,364 in backdated liability available for collection. The number of Council Tax discount investigations completed has reduced from previous years as we have used this resource to undertake the Council Tax discount review exercise.

We continue to participate in the National Fraud Initiative data matching exercise to identify fraud and error across a number of council services.

A plan for proactive fraud work is being completed as part of the Internal Audit plan for 2021/22. The focus of the work within this plan will relate to the change in working practices that took place during 2020 and whether this has had an impact on controls relating to expenditure and authorisation.

Pursue - Being stronger in punishing fraud and recovering losses

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.

Protect

The actions outlined above provide a robust response to the risk of fraud occurring, its detection and investigation. They enable the council to protect itself from fraud and the harm fraud can cause, both to the council and to the residents of North Lincolnshire.

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