

## **AUDIT & GOVERNANCE COMMITTEE**

<b>DATE</b>	12/11/2020
<b>REPORT OF</b>	Sharon Wroot
<b>SUBJECT</b>	Statement of Accounts
<b>STATUS</b>	Open

### **CONTRIBUTION TO OUR AIM**

The publication of the annual Statement of Accounts supports the Council's overall commitment to openness and transparency.

### **EXECUTIVE SUMMARY**

The Council is required to prepare a Statement of Accounts which presents a true and fair view of the financial position and transactions during the financial year.

### **RECOMMENDATIONS**

Note the draft Statement of Accounts for 2019/20 for approval.

### **REASONS FOR DECISION**

The Council is required to inform local residents and taxpayers how money is spent. There is a statutory requirement to publish accounts and details of spending on an annual basis.

#### **1. BACKGROUND AND ISSUES**

The Council is required to comply with the 'Code of Practice on Local Authority Accounting' which specifies the principles and practices of accounting required. The Accounts and Audit Regulations 2015 require the Council to prepare and publish its approved draft and audited accounts by 31st May and 31st July respectively.

Due to disruption caused by the COVID19 virus, legislation was passed to delay the statutory publication date until 31st August and the audit opinion until the 30th November 2020.

The 2019/20 draft accounts, as approved for issue by the Director of Resources and Governance, are attached at Appendix 1.

#### **2. RISKS AND OPPORTUNITIES**

The Statement of Accounts are an opportunity for the Council to provide local residents and taxpayers within the Borough details of its financial performance and position.

Failure to produce the Statement of Accounts in accordance with the statutory timetable could lead to negative reputational issues and an adverse opinion from the Council's external auditor.

### **3. OTHER OPTIONS CONSIDERED**

N/A

### **4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS**

The Statement of Accounts are published on the Council's website alongside the audit report once complete.

### **5. FINANCIAL CONSIDERATIONS**

The Statement of accounts provide details of financial spending and transactions on an annual basis.

### **6. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

The Statement of Accounts provides details, where applicable, of any climate change and environmental implications.

### **7. FINANCIAL IMPLICATIONS**

As detailed above the publication of the Statement of Accounts complies with the requirement to inform local residents and taxpayers how money is spent.

### **8. LEGAL IMPLICATIONS**

The publication of the Statement of Accounts is a statutory requirement. There are no other legal issues immediately arising from the content of this report.

### **9. HUMAN RESOURCES IMPLICATIONS**

There are no direct HR implications arising from the contents of this report.

### **10. WARD IMPLICATIONS**

All wards affected

### **11. BACKGROUND PAPERS**

Statement of Accounts (Appendix 1).

### **12. CONTACT OFFICER(S)**

Guy Lonsdale, Head of Finance and Deputy S151 Officer

**SHARON WROOT**  
**DIRECTOR OF RESOURCES & GOVERNANCE**



# North East Lincolnshire Council Statement of Accounts

Financial Year 2019/2020

**UNAUDITED**

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# **Narrative Statement**

## **Overview**

Despite further reductions in funding and continued increases in demand within the social care sector, the council has continued to deliver a full range of services and delivered on its key priorities during 2019/2020. Underspends within corporate budgets have been used to offset service overspends and report a balanced position at year end.

2019/2020 has been a challenging year. Challenges are being faced across many service areas, in particular within Social Care where demand increasingly outstrips supply, with scarce budget capacity, and more increasingly complex pressures, service areas are continually reviewing and looking for new and transformational ways to deliver their service and achieve our outcomes. Whilst service pressures have been faced across a range of areas this year in particular within children's services, there has been an unprecedented increase in demand which has exceeded resources available. In response, an improvement plan has been developed, aimed at whole system transformation across all aspects of children's services, which over time is expected to deliver an improved offer for children, improving outcomes and at the same time becoming a more efficient and effective system.

In March 2020, the council's activities were severely impacted by the Coronavirus pandemic. The pandemic is having widespread socio-economic impacts both nationally and internationally. The council, along with other councils across the country, is leading the effort to support communities in the UK through this major crisis. The council has distributed £1.7m of hardship funding to individuals and is distributing £35.5m in business support grants to cover costs associated with business interruption and to aid cash flow. In addition, the council has distributed additional funding to support care homes and received grant to manage the test and trace programme locally.

The Government has recognised the huge efforts that councils are making and responded to concerns regarding the financial strain being put on the sector by providing additional funding and providing a commitment that they will receive the resources they need to deal with the direct impacts of the pandemic. In total the council has received £11.2m which will be recognised in the 2020/2021 financial year. It is important to note that the impact of the pandemic is felt across both the income and cost base. Income pressures relate to taxation and fees and charges, and cost pressures are significant and wide ranging and impact on all aspects of service delivery; both aspects impact not only now but for the months and years to come.

The Government has very recently introduced a co-payment scheme to compensate councils for relevant unforeseen losses that are irrecoverable. Government have also confirmed that it will extend the period over which councils are able to manage any shortfalls in local tax income relating to 2020/2021, from 1 to 3 years. It is anticipated that this will ease immediate pressures on councils when budget setting for 2021/2022 and protect their ability to deliver services. Further details will be set out in regulations which we expect Government to lay later this year.

In December 2019, the 2020/2021 Local Government Financial Settlement was announced. The council received a real-term increase in its funding for the first time in a number of years. The additional funding has been allocated to support a range of priorities including education, homelessness and social care. However, the settlement is for just one year only and the planned introduction of 75% business rate retention and the Fair Funding review have been further delayed due to the Coronavirus pandemic.

Whatever the outcome of the changes to the national funding model, the council's long-term financial strategy has remained focused on the achievement of financial sustainability by embracing the area's economic potential and growing the local tax base. The intention is to ensure that the council becomes financially resilient and self-sufficient and generate the resources necessary to maintain and reinvest in quality public services, however, our plans have been substantially impacted by the Coronavirus pandemic and the subsequent response.

In light of that the council is reviewing its financial plans to ensure the financial standing of the council remains intact and that it is well placed to deal with further challenges ahead. This includes regular assessments in relation to the adequacy of its reserves, a robust and challenging recovery plan, and regular review of the collection funds. It is very likely that the council will need to address a reduction in local taxation collection over the medium term.

Importantly though, the Council remains committed to financial sustainability and supporting the delivery of the council's key priorities of stronger economy and stronger communities.

## Governance

The ultimate decision-making body of the council is the Full Council which is made up of 42 elected councillors. Decisions on the setting of the council's budget and adoption of key strategies are taken by the Full Council. Key decisions, which are those with a significant impact, are made by the council's Cabinet. The current Cabinet is made up of 8 elected Members, including the Leader and Deputy Leader of the Council. Each Cabinet member has responsibility and individual decision-making powers for a 'portfolio' of services.

There is a process of overview and scrutiny to make sure that councillors are fully accountable for decisions. This process allows elected Members who are not on the Cabinet to act as a check and balance to the council's decision makers and to contribute to the development of future policies and strategies that will help improve services for local people.

The Audit and Governance Committee holds responsibility for monitoring the council's financial controls as well as its risk management, anti-fraud and partnership governance arrangements. The Committee is led by an independent Chair who brings external expertise and provides stability within a political environment.

The council have an established Health and Wellbeing Board which is tasked with joining up commissioning and services across the NHS, social care, public health and the voluntary sector. The Council has a close working relationship ('Union') with North East Lincolnshire CCG to ensure an efficient and effective working relationship with the health sector and make best use of the range of skills and capacity in both organisations. As two of the largest commissioning organisations within North East Lincolnshire, the council and CCG are well placed to influence the health and wellbeing agenda through their joint spending power and economies of scale.

In response to the impact of the Coronavirus pandemic on the normal conduct of the council's business, it was agreed in March 2020 that all council meetings be cancelled until the end of April 2020. Emergency legislation has been subsequently brought forward by the Government to facilitate remote meetings being held. There has been a phased mobilisation of these remote meetings, the cancellation of the AGM of Council and the carry forward of all appointments as at last year's AGM until May 2021.

As it currently stands, the emergency decision making arrangements implemented at the beginning of the mobilisation of the council's response to the Coronavirus, remain in place. Those arrangements include:

- (i) Delegated authority to the Chief Executive to exercise all council responsibilities in respect of civil contingencies and emergency planning.
- (ii) Any decision taken in urgency, regarding the discharge of the council's key decision making responsibilities, will be made in consultation with the Leader and the Portfolio Holder for Finance
- (iii) All such decisions include prior consultation with the chairman of the Communities Scrutiny Panel before ratification is sought from the Leader and the Portfolio Holder for Finance.

In terms of staffing, the 'stay at home' measures have required the council's workforce to work in different ways. In addition, staff have been redeployed to support the front-line work force and there has been increased agile working and use of technology.

## Statement of Accounts and Basis of Preparation

The Statement of Accounts summarise the council's financial performance during the 2019/2020 year and its financial position as at 31 March 2020. The accounting statements comprise:

- Comprehensive Income and Expenditure Statement – a summary of the resources generated and used.
- Movement in Reserves Statement – the in-year movement in reserves held.
- Balance Sheet – a summary of assets, liabilities, and reserves at the year end.
- Cash Flow Statement – the inflow and outflow of cash during the year.
- Collection Fund – the level of non-domestic rates and council tax that has been received during the year and the distribution of these funds.

The Statement of Accounts have been prepared under the historical cost convention, as modified for the revaluation of certain non-current assets, and are presented on a going concern basis.

Due to the Coronavirus pandemic an extension has been granted to the normal accounting timetable and additional disclosures have been incorporated into the accounts to reflect its widespread impact.

## Performance

### Income and Expenditure

The council spent a total of £299.6m providing services to the local population during the year. After considering service-based grants and income of £141.6m, net expenditure on services totalled £158m in 2019/2020.

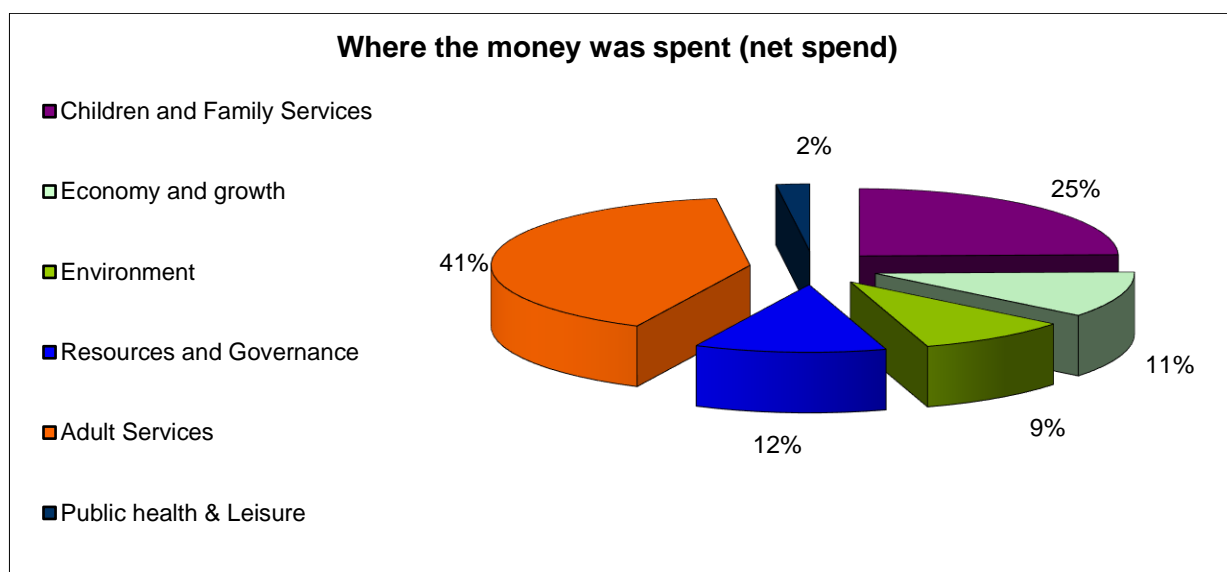
Expenditure is incurred across a diverse range of services with adult social care and children's services being the most significant making up almost two thirds of the council's net budget.

The council recorded several overspends against its agreed service budgets, in particular within children's services where demand continues to exceed available resources. However, underspends within corporate budgets and the drawdown of reserves have been used to offset service overspends and report a balanced position at year end.

During 2019, the council received two focused visits under the New Ofsted Inspection Framework. Both visits identified weaknesses across the system and the council has acted quickly to set a new direction towards a sustainable service in the longer term and make short term demonstrable improvements in a number of key areas. Since the focussed visits the council has implemented a range of improvement measures. Social Care priorities have been reviewed and rationalised into four key priority areas. These form the basis of the Improvement Plan moving forward. Action is already underway around the Residential Project, Valuing Care and alternative placements which will continue into the next financial year and will help to reduce pressure across a range of areas. The transformation and improvement plans are embedded within the 2020/2021 Finance and Commissioning Plan.

In relation to the Coronavirus pandemic, limited additional costs are reflected within the 2019/2020 accounts due to the timing of the lockdown within the UK.

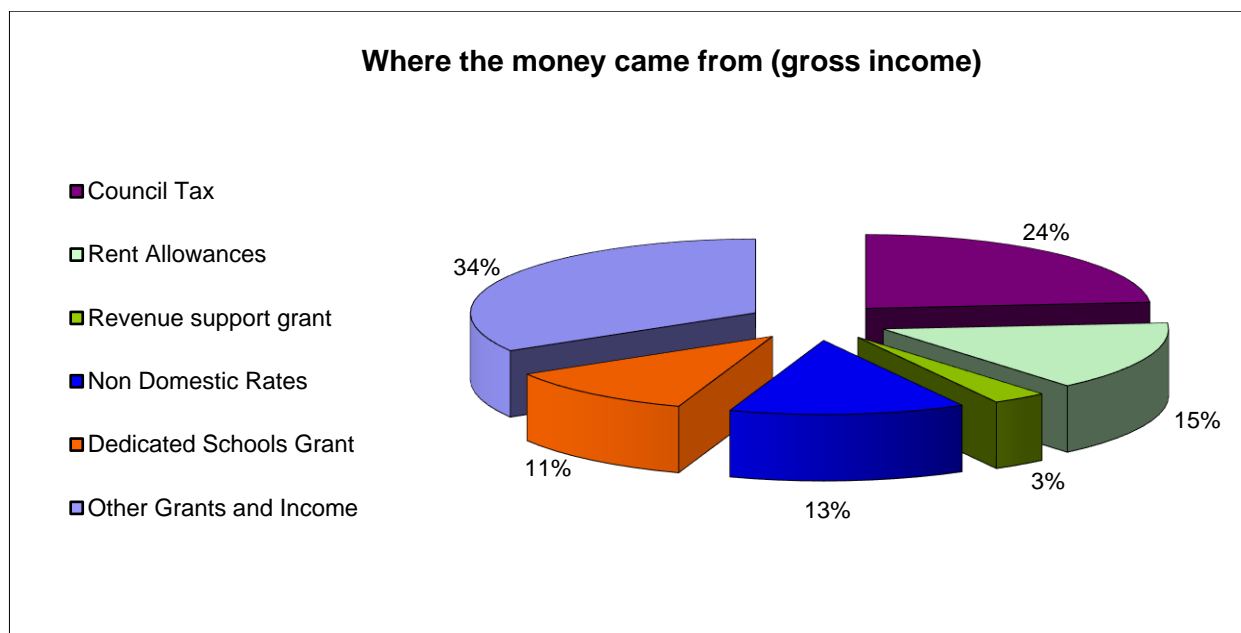
An analysis of where the money was spent is detailed in the chart below:



The council's spending was financed through a combination of local taxation (council tax and business rates), grants and fees and charges.



It should be noted that an increasing proportion of the council's spending is now funded locally with reducing reliance on central government grants. An analysis of where the money came from is detailed in the chart below:



## Review of the Council's Financial Position

The council has reported an increase of £68.5m in its overall net worth during the year with net liabilities of £10m reported at year end. This is predominantly due to a movement in the pension's liability. The pension liability of £164.6m on the Balance Sheet is an estimate of the current value of pension benefits that need to be funded by the council. The liability, as assessed by an independent actuary, showed a decrease of £54.1m during the year. The figure represents an estimate of the value of scheme assets and liabilities at a point in time. Whilst there is no direct link to funding or contribution rates, a triennial valuation of the pension fund has been undertaken and this has established the contribution rates payable for the next 3 years. Stability in terms of contribution rates is particularly important at a time of reducing funding levels for the council. Inevitably the Coronavirus pandemic has impacted on pension valuations and additional work has been undertaken to reflect the impact within the financial statements.

The council has reported an overall £25.1m increase in its long-term assets balance at year end. This increase in net assets predominantly reflects the net impact of investments the council has made in its asset base during the year. In terms of working capital, the council reported a £2.5m movement in its net current asset position at year end.

The council continues to operate within its approved treasury management strategy and focus is on the efficient management of working capital. Returns on investments remain lower than those payable on borrowing and therefore we are maintaining minimum cash balances to reduce the cost of carry. The Coronavirus pandemic has already led to some material changes in the council's normal cash flows and this has necessarily required increased oversight in terms of the treasury management function. Maintaining liquidity in the current environment is essential.

The council is experiencing ongoing pressures and uncertainty in relation to business rates which are being negatively affected by valuations and appeals and ongoing economic uncertainty. Consequently, the council continues to hold a provision in its accounts based upon the level of appeals received from businesses, the likelihood of success and potential write offs. The provision is subject to regular review considering the number of appeals and the latest information on the probability of success.

## Reserves and balances

The overall financial standing of the council is being continually monitored with a focus upon the adequacy of reserves and the stewardship of public funds. The Coronavirus pandemic will undoubtedly put additional pressure on reserves over the short to medium term and this is being addressed as part of ongoing monitoring.

General fund reserves, set aside to deal with any unforeseen events, remain at £8.3m at the end of the 2019/2020 financial year. This is in line with the medium-term financial plan and considered to be a prudent level considering the increased level of risk to which the council is currently exposed. However, it will be necessary to review this level as we move through the 2020/2021 financial year.

Earmarked reserves have decreased by £8.6m to £21.1m during 2019/2020. This is predominantly due to the utilisation of service-based reserves to support the council's transformation programme.

An additional earmarked reserve has been established to manage the additional Coronavirus funding received from Government. These reserves will be drawn down in 2020/2021 as the impacts of Coronavirus are recognised within the council's accounts. Other earmarked reserves will continue to be utilised to support transformational change and initiatives designed to deliver longer term returns.

Whilst earmarked reserves are significant in value it should be noted that balances can only be used once and that in the main there are plans in place to utilise them over the coming medium-term financial planning period. Exceptions include the individual schools budget reserve held by schools and the self-insurance reserve. Earmarked reserves are constantly reviewed to ensure resources are working to best effect for the council.

## Capital investment

The council has delivered 84% of its revised capital programme in 2019/2020 which compares to 79% in 2018/2019. Where underspends against capital allocations have been reported, these have been challenged to ensure spending is timely and in accordance with corporate priorities. It is acknowledged that the worldwide Coronavirus pandemic is likely to have an adverse impact on the council's ability to deliver its capital programme in 2020/2021 and this will be reflected within the council's updated finance and commissioning plans.

The council continues to fund its capital programme through a mix of borrowing, capital receipts, grants and other contributions. Funding for capital projects is integrated into financial planning processes and aligned to the delivery of the council's strategic priorities. Capital and long-term investment is necessary to deliver the council's key priorities and ambitions. However, affordability is a key factor when considering any long term investment. Based upon the current approved capital programme, financing costs are forecast to be maintained within an affordable envelope.

However, with reducing net revenue budgets, the percentage of spend already tied up in borrowing costs may steadily increase even without additional borrowing. Borrowing therefore needs to be in accordance with prudential borrowing principles. The council has well established appraisal processes in place and any new borrowing will be predicated on the preparation of a sound business case which is closely aligned to the council's key outcomes and financial strategy. The council's current strategy is to use cash balances to fund the capital programme where possible. This approach, referred to as internal borrowing, minimises the cost of borrowing and reduces credit risk on investments. Overall borrowing levels remain manageable and under continued review.

As at year end, the council had £148.6m of external borrowing. The council has operated within its prudential borrowing limit during the year and no problems are anticipated for future years at this stage. Net financing costs remained below 10% in 2019/2020 and are projected to continue to do so in 2020/2021.

Whilst the council is undertaking further borrowing over the medium-term financial planning period to support its economic and regeneration ambitions, these investments are expected to lead to an overall increase in the council's overall tax base.

## Strategic outlook

The Coronavirus pandemic has brought widespread socio-economic impacts both nationally and internationally. Whilst the council has additional funding, the challenges brought about by the pandemic will be significant and wide ranging and impact on all aspects of our activities for the months and years to come.

The pandemic has led to a significant slow-down in the local economy which will therefore impact upon the council's income and funding base. It should be noted that local taxation makes up around 80% of the council's overall funding and like any other business concern, the council needs to balance its budget over time.

Council tax, business rates and fees and charges have all been affected by the pandemic and this presents a significant risk to the 2020/2021 finance and commissioning plan and longer-term financial sustainability. The situation will also have an impact on future years in terms of income collection and bad debts and this will be dependent on how quickly the economy can recover.

Nevertheless, the council's financial strategy remains focused on creating a sustainable funding base to allow priority services to be delivered. The council has taken an ambitious approach to securing long term financial sustainability for the area by exploiting opportunities for inward investment, external funding and greater partnership working. The council has demonstrated its commitment to the growth of the tax base through the 'Town Deal' and South Humber Infrastructure and Investment Programme which will deliver wider economic and housing growth in North East Lincolnshire. Only by embracing the area's economic potential and by budgeting for growth can the council become self-sufficient and generate the resources necessary to maintain and reinvest into public services.

North East Lincolnshire, along with many other areas across the country, continues to face significant challenges in relation to social care – both adults and children – with demand currently outstripping available resources. In response, the council is continuing to support the vulnerable and focus upon system wide review and transformation.

We anticipate that the council's planned capital programme, and in particular economic growth focused areas such as the multi-million-pound South Humber Infrastructure and Investment Programme, will be delayed and anticipated growth impaired over the medium term. Inevitably the pandemic will impact on business confidence and we need to review assumed growth in business rates on a recurrent basis through delays to anticipated economic growth with the Borough.

Despite the ongoing economic uncertainty, the council is continuing to align financial resources to priorities, deliver its services as economically and efficiently as possible and taking a more commercial approach linked to its economic strategy. However, it is likely that the pandemic will lead to the delay in the delivery of some of the council's efficiency savings and transformation plans.

The council will continue to be proactive in generating external funding to support a range of initiatives linked to its key outcomes. For example, external funding has been generated to support key economic and regeneration projects including the Town Deal, Future High Streets, and Coastal Communities.

## **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 of Resources and Governance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### **The Director of Resources and Governance Responsibilities**

The Director of Resources and Governance 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 of Resources and Governance 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.

The Director of Resources and Governance 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 31 March 2020 has been prepared in the form directed by the Code and under the accounting policies set out in Note 1.
- b) In my opinion the Statement of Accounts presents fairly the income and expenditure and cash flows for the financial year and the financial position as at the end of the financial year.
- c) The statement of accounts is unaudited and may be subject to change.

Sharon Wroot  
Director of Resources and Governance  
Date of certification:

## **Authority Approval of Statement of Accounts**

Tim Render  
Audit and Governance Committee  
Date of approval:

**Independent auditor's report to the members of North East 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.

	Note	2019/2020 Gross Expenditure £000	2019/2020 Gross Income £000	2019/2020 Net Expenditure £000	2018/2019* Gross Expenditure £000	2018/2019* Gross Income £000	2018/2019* Net Expenditure £000
Resources & Governance		54,236	(45,005)	9,231	57,889	(50,382)	7,507
Environment, Economy & Housing		63,250	(18,899)	44,351	55,168	(15,844)	39,324
Communities		3,831	(1,531)	2,300	2,329	(971)	1,358
Children & Family Services		112,210	(53,667)	58,543	92,634	(50,930)	41,704
Public Health & Leisure		11,670	(6,082)	5,588	11,879	(6,027)	5,852
Adult Services		47,617	(8,848)	38,769	45,237	(8,056)	37,181
Other Corporate Budgets		6,797	(7,547)	(750)	4,511	(7,192)	(2,681)
<b>Cost of Services</b>		<b>299,611</b>	<b>(141,579)</b>	<b>158,032</b>	<b>269,647</b>	<b>(139,402)</b>	<b>130,245</b>
Other operating expenditure	11	2,013	(2,032)	(19)	6,356	0	6,356
Financing and investment income and expenditure	12	11,548	(4,953)	6,595	11,248	(4,886)	6,362
Taxation and non-specific grant income and expenditure	13	0	(142,820)	(142,820)	0	(133,636)	(133,636)
<b>(Surplus) or Deficit on Provision of Services</b>				<b>21,788</b>			<b>9,327</b>
(Surplus) or deficit on revaluation of property, plant and equipment	14,15			(17,058)			(1,110)
Impairment losses and reversals on non-current assets charged to the revaluation reserve	14,15			74			(1,871)
Re-measurement of the net defined benefit liability/(asset)	39			(73,309)			30,483
<b>Other Comprehensive Income and Expenditure</b>				<b>(90,293)</b>			<b>27,502</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>(68,505)</b>			<b>36,829</b>

\* The 2018/2019 comparator figures have been restated to reflect a management restructure within the council during the 2019/2020 financial year.

## 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 in-year movements of the council's reserves are broken down between gains and losses incurred in accordance with International Financial Reporting Standards (IFRS) and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase / Decrease line shows the statutory General Fund Balance movements in the year following these adjustments.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves of the Authority £000
<b>Balance as at 1 April 2018</b>	<b>8,300</b>	<b>27,928</b>	<b>36,228</b>	<b>10</b>	<b>1,237</b>	<b>37,475</b>	<b>(79,163)</b>	<b>(41,688)</b>
<b>Movement in Reserves during the Year:</b>								
Total Comprehensive Income and Expenditure	(9,327)	0	<b>(9,327)</b>	0	0	<b>(9,327)</b>	<b>(27,502)</b>	<b>(36,829)</b>
Adjustments between Accounting Basis & Funding Basis Under Regulations (Note 9)	11,072	0	<b>11,072</b>	12	(154)	<b>10,930</b>	<b>(10,930)</b>	<b>0</b>
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>1,745</b>	<b>0</b>	<b>1,745</b>	<b>12</b>	<b>(154)</b>	<b>1,603</b>	<b>(38,432)</b>	<b>(36,829)</b>
Transfers to or from Earmarked Reserves	(1,745)	1,745	<b>0</b>	0	0	<b>0</b>	<b>0</b>	<b>0</b>
<b>Increase / (Decrease) In 2018/2019</b>	<b>0</b>	<b>1,745</b>	<b>1,745</b>	<b>12</b>	<b>(154)</b>	<b>1,603</b>	<b>(38,432)</b>	<b>(36,829)</b>
<b>Balance Sheet as at 31 March 2019</b>	<b>8,300</b>	<b>29,673</b>	<b>37,973</b>	<b>22</b>	<b>1,083</b>	<b>39,078</b>	<b>(117,595)</b>	<b>(78,517)</b>
<b>Movement in Reserves during the Year:</b>								
Total Comprehensive Income and Expenditure	(21,788)	0	<b>(21,788)</b>	0	0	<b>(21,788)</b>	<b>90,293</b>	<b>68,505</b>
Adjustments Between Accounting Basis & Funding Basis Under Regulations (Note 9)	13,230	0	<b>13,230</b>	(13)	2,883	<b>16,100</b>	<b>(16,100)</b>	<b>0</b>
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>(8,558)</b>	<b>0</b>	<b>(8,558)</b>	<b>(13)</b>	<b>2,883</b>	<b>(5,688)</b>	<b>74,193</b>	<b>68,505</b>
Transfers to or from Earmarked Reserves	8,558	(8,558)	<b>0</b>	0	0	<b>0</b>	<b>0</b>	<b>0</b>
<b>Increase / (Decrease) In 2019/2020</b>	<b>0</b>	<b>(8,558)</b>	<b>(8,558)</b>	<b>(13)</b>	<b>2,883</b>	<b>(5,688)</b>	<b>74,193</b>	<b>68,505</b>
<b>Balance Sheet as at 31 March 2020</b>	<b>8,300</b>	<b>21,115</b>	<b>29,415</b>	<b>9</b>	<b>3,966</b>	<b>33,390</b>	<b>(43,402)</b>	<b>(10,012)</b>

## 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 provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserve are those that the council is not able to use to provide services. This category of reserve includes reserves that hold unrealised gains and losses (for example, the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Note	31 March 2020 £000	31 March 2019 £000
Property, Plant & Equipment	14	234,143	208,415
Heritage Assets	15	1,935	1,935
Investment Property	16	51,696	51,376
Intangible Assets	17	1,506	1,798
Long Term Debtors	18, 20	1,913	2,524
<b>Long Term Assets</b>		<b>291,193</b>	<b>266,048</b>
Inventories		103	98
Short Term Debtors	20	35,436	29,322
Cash and Cash Equivalents	21	30,256	16,672
Assets Held for Sale	22	0	0
<b>Current Assets</b>		<b>65,795</b>	<b>46,092</b>
Short Term Borrowing	18	(32,429)	(19,116)
Short Term Creditors	18, 23	(32,952)	(27,333)
Provisions	24	(1,611)	(1,455)
Capital Grants Received in Advance	34	(12,997)	(9,843)
<b>Current Liabilities</b>		<b>(79,989)</b>	<b>(57,747)</b>
Provisions	24	(6,291)	(5,090)
Long Term Borrowing	18	(116,162)	(109,123)
Other Long Term Liabilities	39	(164,558)	(218,697)
<b>Long Term Liabilities</b>		<b>(287,011)</b>	<b>(332,910)</b>
<b>Net Assets/(Liabilities)</b>		<b>(10,012)</b>	<b>(78,517)</b>
Usable Reserves	MiRS	33,390	39,078
Unusable Reserves	25	(43,402)	(117,595)
<b>Total Reserves</b>		<b>(10,012)</b>	<b>(78,517)</b>

## 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 services 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.

	Note	2019/2020 £000	2018/2019 £000
<b>Net surplus or (deficit) on the provision of services</b>		<b>(21,788)</b>	<b>(9,327)</b>
Adjustment to surplus or deficit on the provision of services for non-cash movements	26	37,807	24,683
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	(25,967)	(16,117)
<b>Net cash flows from operating activities</b>		<b>(9,948)</b>	<b>(761)</b>
<b>Net cash flows from investing activities</b>	27	<b>1,727</b>	<b>4,927</b>
<b>Net cash flows from financing activities</b>	28	<b>21,805</b>	<b>(4,899)</b>
<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>13,584</b>	<b>(733)</b>
Cash and cash equivalents at the beginning of the reporting period	21	16,672	17,405
<b>Cash and cash equivalents at the end of the reporting period</b>	21	<b>30,256</b>	<b>16,672</b>

# **NOTES TO THE ACCOUNTS**

## **Note 1 – Accounting Policies**

### **i. General Principles**

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

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

### **ii. Accruals of Income and Expenditure**

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet where individual inventory categories are above £100k.
- 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 £10k.

### **iii. Cash and Cash Equivalents**

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

Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

## **v. Charges to Revenue for Non-current Assets**

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **vi. Council Tax and Non-Domestic Rates**

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

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

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

## **vii. Employee Benefits**

### **Benefits Payable During Employment**

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

### **Termination Benefits**

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

### **Post-employment Benefits**

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

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

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

However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Public Health line 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 projections of 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 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 of 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.

The council has a small portfolio of loans to individuals, small businesses and other entities, which have been grouped as follows when assessing expected loss allowances:

- Group 1 – these loans, which are secured against the property, were issued to home owners and owners of derelict land and commercial properties to help pay for repairs and other urgent works to bring accommodations up to current decency standards or to facilitate bringing the properties back into use within the community. Loss allowances for these loans can be assessed on an individual basis.
- Group 2 – under a government initiative that aimed to release the economic and productivity potential of the most deprived areas across the country, the council provided loans to individuals and small businesses to aid entrepreneurial activity and support sustainable growth.
- Group 3 – for the residual group of loans, the council relies on past due information and calculates losses based on expected lifetime credit losses.

#### Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

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.

#### **Instruments Entered into Before 1 April 2006**

The council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

#### **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 and Museum Collection**

These items are reported in the Balance Sheet at insurance valuation which is based on market values. The civic regalia and museum collection are deemed to have indeterminate lives and a high residual value; hence the authority does not consider it appropriate to charge depreciation.

### **Heritage Assets – General**

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's 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 £10k) the Capital Receipts Reserve.

## **xiii. Inventories and long-term contracts**

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 £100k, below which inventories are not held on balance sheet.

Long term contracts are accounted for on the basis of charging the Comprehensive Income and Expenditure Statement with the value of works and services received under the contract during the year.

#### **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 £10k) the Capital Receipts Reserve.

#### **xv. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

#### **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 a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, 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 bring the asset to the location and condition necessary for it to be capable of operation in the manner intended by management.

The council does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its 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.

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 and the asset is rarely sold, an estimate of current value is made on a depreciated replacement cost (DRC) basis.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair 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 & 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.

Material assets are recognised into components for depreciation purposes when the component is of significant cost compared to the total cost of the item and has a materially different useful life to the main asset. Enhancement expenditure requires the de-recognition of the component replaced or refurbished, and the new component reflected in the carrying amount, even where parts of an asset have not previously been recognised as a separate component.

## 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 subsequently reversed, 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 – straight-line allocation over estimated life of the asset or as advised by a suitably qualified officer.
- Infrastructure – straight-line allocation over the estimated useful 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 £10k 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 in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, 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 at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

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

## **Note 2 – Accounting Standards Issued, Not Adopted**

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

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

- **Amendments to IAS19 Employee Benefits:** Plan Amendment, Curtailment or Settlement will require the remeasurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1 April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.
- **IFRS16 Leases:** Will require local authorities that are lessees to recognise most leases on their balance sheets as right of use assets with corresponding lease liabilities. CIPFA/LASAAC have deferred implementation of IFRS16 for local government until 1 April 2021.

None of the above changes are expected to have a material impact on the Statement of Accounts.



### **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. There are no specific judgements that require disclosure at this point in time.

### **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; this is particularly relevant in this financial year given the uncertainty surrounding the likely impact of the current Covid-19 pandemic.

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

<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
<b>Property Plant &amp; Equipment</b>  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.  The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of current value as there is an unprecedented set of circumstances on which to base a judgement.  For the 2019/2020 financial year, property valuations are therefore reported by the council's valuers on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global. Consequently, the valuations have less certainty and should be viewed with a higher degree of caution than would normally be the case.	  If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by approximately £0.9m if the average useful life of the council's buildings fell by one year.
<b>Pensions Liability</b>  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.	  The assumptions interact in complex ways. During 2019/2020, the council's actuary advised that the net pension liability had decreased by £54.1m as a result of updating the assumptions and actual contributions made.  A sensitivity analysis, highlighting the impact on net liability from variations to the key assumptions can be seen in Note 39 Defined Benefit Pension Schemes.

Uncertainties	Effect if Actual Results Differ from Assumptions
<p><b>Debt Impairment</b></p> <p>At 31 March 2020, the council had a balance of sundry debtors of £6.6m. A review of significant balances suggested that an impairment of doubtful debts of £0.9m was appropriate. It is not certain that this impairment allowance would be sufficient as the council cannot assess with absolute certainty which debts will be collected or not. Furthermore, the ongoing economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is added uncertainty about the economic viability of debtors and hence their ability to settle their debts.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £0.9m to be set aside as an allowance.</p>
<p><b>National Non-Domestic Rates (NNDR) Provision</b></p> <p>The council has set aside, from its Collection Fund, £13.3m 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, £6.5m, is shown in Note 24 Provisions.</p>	<p>The impact of appeals is highly uncertain and outside of the control of the council.</p>
<p><b>Fair Value Measurement</b></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 Note 14 Property, Plant and Equipment, and Note 16 Investment Properties.</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**

A material item of income and expense would be greater than £5m. There have been no material items of income and expenditure during 2019/2020 that are not already disclosed elsewhere in the accounts.

## **Note 6 – Events After the Balance Sheet Date**

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

In 2020/2021, the council has experienced a number of financial effects of the pandemic. It has seen dramatic reductions in car park usage, loss of other income streams and incurred additional expenditure to support

vulnerable members of the community. The Government has provided £11.2m to support the council with this loss of income and additional expenditure, however, it is unclear if this will be sufficient to cover all the pressures.

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

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

## **Note 7 – Expenditure and Funding Analysis and Associated Notes**

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, fees and charges, 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 council's directorates. Income and expenditure accounted for under IFRS is presented more fully in the Comprehensive Income and Expenditure Statement.

	2019/2020	2019/2020	2019/2020	2019/2020	2019/2020	2018/2019*	2018/2019*	2018/2019*
	Budget Monitoring Outturn	Adjustments Between Outturn and Net Expenditure Chargeable to the General Fund	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the CIES	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the CIES
	£000	£000	£000	£000	£000	£000	£000	£000
Resources & Governance	6,140	(8,693)	(2,553)	11,784	9,231	1,116	6,391	7,507
Environment, Economy & Housing	44,324	(13,529)	30,795	13,556	44,351	31,382	7,942	39,324
Communities	2,281	(116)	2,165	135	2,300	1,344	14	1,358
Children & Family Services	59,947	(17,160)	42,787	15,756	58,543	33,991	7,713	41,704
Public Health & Leisure	5,589	(2,172)	3,417	2,171	5,588	4,420	1,432	5,852
Adult Services	46,591	(10,421)	36,170	2,599	38,769	36,345	836	37,181
Other Corporate Budgets	(16,039)	16,377	338	(1,088)	(750)	2,069	(4,750)	(2,681)
<b>Net Cost of Services</b>	<b>148,833</b>	<b>(35,714)</b>	<b>113,119</b>	<b>44,913</b>	<b>158,032</b>	<b>110,667</b>	<b>19,578</b>	<b>130,245</b>
Other Income and Expenditure	(148,833)	35,714	(113,119)	(23,125)	(136,244)	(110,667)	(10,251)	(120,918)
<b>(Surplus) or Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21,788</b>	<b>21,788</b>	<b>0</b>	<b>9,327</b>	<b>9,327</b>
Opening General Fund Balance			8,300			8,300		
Surplus or (Deficit) on General Fund Balance in Year			0			0		
<b>Closing General Fund Balance</b>			<b>8,300</b>			<b>8,300</b>		

\* The 2018/2019 comparator figures have been reanalysed to reflect a management restructure within the council during the 2019/2020 financial year.

## **Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts**

2019/2020 Financial Year	Adjustments for Capital Purposes	Net Change for Pensions Adjustments	Other Differences	Total
	£000	£000	£000	£000
Resources & Governance	6,833	3,344	1,607	11,784
Environment, Economy & Housing	8,714	2,218	2,624	13,556
Communities	0	346	(211)	135
Children & Family Services	2,441	6,654	6,661	15,756
Public Health & Leisure	1,947	173	51	2,171
Adult Services	428	30	2,141	2,599
Other Corporate Budgets	(2,119)	1,737	(706)	(1,088)
<b>Net Cost of Services</b>	<b>18,244</b>	<b>14,502</b>	<b>12,167</b>	<b>44,913</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(17,063)	0	(6,062)	(23,125)
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>1,181</b>	<b>14,502</b>	<b>6,105</b>	<b>21,788</b>

<b>2018/2019 Financial Year Restated*</b>	<b>Adjustments for Capital Purposes</b>	<b>Net Change for Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total</b>
	£000	£000	£000	£000
Resources & Governance	2,180	2,621	1,590	6,391
Environment, Economy & Housing	5,587	1,709	646	7,942
Communities	0	271	(257)	14
Children & Family Services	2,148	5,027	538	7,713
Public Health & Leisure	1,267	139	26	1,432
Adult Services	29	23	784	836
Other Corporate Budgets	1,565	(1,816)	(4,499)	(4,750)
<b>Net Cost of Services</b>	<b>12,776</b>	<b>7,974</b>	<b>(1,172)</b>	<b>19,578</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(12,302)	0	2,051	(10,251)
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>474</b>	<b>7,974</b>	<b>879</b>	<b>9,327</b>

\* The 2018/2019 comparator figures have been reanalysed to reflect a management restructure within the council during the 2019/2020 financial year.

## 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:

<b>Segmental Income – Revenue from External Customers</b>	<b>2019/2020</b>	<b>2018/2019</b>
	£000	£000
Resources & Governance	(7,923)	(7,550)
Environment, Economy & Housing	(10,438)	(10,244)
Communities	(962)	(530)
Children & Family Services	(7,888)	(7,330)
Public Health & Leisure	(857)	(782)
Adult Services	(491)	(590)
Other Corporate Budgets	(3,326)	(2,213)
<b>Total Income Analysed on a Segmental Basis</b>	<b>(31,885)</b>	<b>(29,239)</b>

\* The 2018/2019 comparator figures have been reanalysed to reflect a management restructure within the council during the 2019/2020 financial year.

**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 are analysed as follows:

Expenditure / Income	2019/2020 £000	2018/2019 £000
<b>Expenditure:</b>		
Employee Benefits Expenses	82,518	72,555
Other Services Expenditure	190,186	182,175
Depreciation, Amortisation, Impairment	13,451	9,055
Interest Payments	4,679	4,409
Precepts and Levies	1,375	1,403
(Gain)/Loss on the Disposal of Assets	(1,509)	5,184
Other Expenditure	12,773	5,000
<b>Total Expenditure</b>	<b>303,473</b>	<b>279,781</b>
<b>Income:</b>		
Fees, Charges and Other Service Income	(21,638)	(20,039)
Interest and Investment Income	(207)	(144)
Income for Council Tax & Non-Domestic Rates	(107,575)	(104,316)
Government Grants and Contributions	(146,318)	(143,089)
Other Income	(5,947)	(2,866)
<b>Total Income</b>	<b>(281,685)</b>	<b>(270,454)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>21,788</b>	<b>9,327</b>

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

2019/2020 Financial Year	Usable Reserve General Fund Balance	Usable Reserve Capital Receipts Reserve	Usable Reserve Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
<b>Adjustments to Revenue Resources:</b>				
<b>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</b>				
Pension Cost (transferred to (or from) the Pensions Reserve)	19,170	0	0	(19,170)
Pension prepayment adjustment	(4,668)	0	0	4,668
Council Tax and NDR (transfers to or from the Collection Fund)	(2,373)	0	0	2,373
Holiday pay (transferred to the Accumulated Absences Reserve)	(80)	0	0	80
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)	7,348	0	0	(7,348)
<b>Total Adjustments to Revenue Resources</b>	<b>19,397</b>	<b>0</b>	<b>0</b>	<b>(19,397)</b>
<b>Adjustments between Revenue and Capital Resources:</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(2,301)	2,301	0	0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	36	(36)	0	0
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	(457)	0	0	457
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(65)	0	0	65
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(2,787)</b>	<b>2,265</b>	<b>0</b>	<b>522</b>
<b>Adjustments to Capital Resources:</b>				
Use of the capital receipts reserve to finance capital expenditure	0	(2,970)	0	2,970
Application of capital grants to finance capital expenditure	(3,380)	0	2,883	497
Cash payments in relation to deferred capital receipts	0	692	0	(692)
<b>Total Adjustments to Capital Resources</b>	<b>(3,380)</b>	<b>(2,278)</b>	<b>2,883</b>	<b>2,775</b>
<b>Total Adjustments</b>	<b>13,230</b>	<b>(13)</b>	<b>2,883</b>	<b>(16,100)</b>

2018/2019 Financial Year	Usable Reserve	Usable Reserve	Usable Reserve	Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000
<b>Adjustments to Revenue Resources:</b>				
<b>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</b>				
Pension Cost (transferred to (or from) the Pensions Reserve)	12,641	0	0	(12,641)
Pension prepayment adjustment	(4,667)	0	0	4,667
Council Tax and NDR (transfers to or from the Collection Fund)	2,693	0	0	(2,693)
Holiday pay (transferred to the Accumulated Absences Reserve)	(69)	0	0	69
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)	5,933	0	0	(5,933)
<b>Total Adjustments to Revenue Resources</b>	<b>16,531</b>	<b>0</b>	<b>0</b>	<b>(16,531)</b>
<b>Adjustments between Revenue and Capital Resources:</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,594)	1,594	0	0
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	2	(2)	0	0
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	(3,568)	0	0	3,568
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(30)	0	0	30
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(5,190)</b>	<b>1,592</b>	<b>0</b>	<b>3,598</b>
<b>Adjustments to Capital Resources:</b>				
Use of the capital receipts reserve to finance capital expenditure	0	(1,947)	0	1,947
Application of capital grants to finance capital expenditure	(269)	0	(154)	423
Cash payments in relation to deferred capital receipts	0	367	0	(367)
<b>Total Adjustments to Capital Resources</b>	<b>(269)</b>	<b>(1,580)</b>	<b>(154)</b>	<b>2,003</b>
<b>Total Adjustments</b>	<b>11,072</b>	<b>12</b>	<b>(154)</b>	<b>(10,930)</b>

## Note 10 – Transfers to/from Earmarked Reserves

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

	Balance as at 1 April 2018	Transfers In 2018/2019	Transfers Out 2018/2019	Balance as at 31 March 2019	Transfers In 2019/2020	Transfers Out 2019/2020	Balance as at 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Individual Schools Budget Reserve	2,358	2,169	(2,358)	2,169	1,154	(2,169)	1,154
Self-Insurance	3,905	0	0	3,905	0	(2,622)	1,283
Business Rates Reserve	3,335	232	(348)	3,219	0	(2,423)	796
Management of Change	1,895	2,516	(1,900)	2,511	794	(2,041)	1,264
Debt Financing Reserve	2,167	1,751	(130)	3,788	0	(2,750)	1,038
Transformation Programme	1,521	500	(979)	1,042	4,255	(2,915)	2,382
Adult Social Care Transition Funding	2,313	745	(1,523)	1,535	0	(1,350)	185
Nel Clinical Commissioning Group Priorities	11	697	(510)	198	232	(430)	0
IFRS Revenue Grant	2,379	2,053	(1,578)	2,854	6,507	(2,036)	7,325
Medium Term Financial Plan	531	0	(211)	320	0	(320)	0
Health & Wellbeing Board Public Health Priorities	310	0	(51)	259	0	0	259
Council Tax Hardship Fund	0	633	0	633	100	(373)	360
Strategic Change Reserve	0	500	(49)	451	0	(250)	201
Children's Services Recruitment	0	0	0	0	2,000	(1,660)	340
<b>Service Specific Reserves:</b>							
Resources & Governance	397	482	(146)	733	179	(141)	771
Economy & Growth	1,811	21	(358)	1,474	21	(757)	738
Communities	45	0	(10)	35	0	0	35
Children & Family Services	235	312	(116)	431	250	(382)	299
Public Health & Wellbeing	1,278	476	(418)	1,336	532	(446)	1,422
Adult Services	3,437	610	(1,267)	2,780	489	(2,006)	1,263
<b>Total Earmarked Reserves</b>	<b>27,928</b>	<b>13,697</b>	<b>(11,952)</b>	<b>29,673</b>	<b>16,513</b>	<b>(25,071)</b>	<b>21,115</b>

### Service Specific Reserves

A number of service specific reserves were established in respect of a programme of projects that met a service need identified since the Medium Term Financial Plan (MTFP) was approved or was planned/committed spending that was not completed during 2019/2020.

### Individual Schools Budget Reserve

This balance is comprised of unspent revenue balances of schools and other educational establishments at the year-end, which may be applied in the following year. The balances are not available for general use.

### Self-Insurance

This reserve is held to meet the costs of claims which are insured internally.

### Business Rates Reserve

A specific reserve to account for the potential shortfall in the Collection Fund deficit as a result of various elements including a significant number of outstanding appeals against rateable value.

### Management of Change

Reserve in respect of the costs of managing organisational change in particular those that arise from transformation programmes.

### Debt Financing Reserve

This reserve is to mitigate the risks associated with treasury management activity (cash flow, interest rate volatility, debt restructuring and use of internal borrowing) and to cushion the increasing debt management costs in the Medium Term Financial Plan.

### Transformation Reserve

Funding set aside to support the delivery of the council's transformation programme.



**Adult Social Care Transition Funding**

Reserve for transition funding to mitigate the impact of loss of NHS grant in future years.

**North East Lincolnshire Clinical Commissioning Group Strategic Priorities**

Reserve set aside to support CCG priorities.

**IFRS Revenue Grant Reserve**

Under IFRS, revenue grants that do not have outstanding conditions attached at the year-end must be recognised as income immediately, even if specific plans and restrictions for spending the grant are in place. These grants are carried forward and utilised through this earmarked reserve to ensure that they can continue to be used to match future service spending plans.

**Medium Term Financial Plan**

Reserve established to manage and mitigate risk over the Medium Term Financial Planning period including delivery of the strategic cost reduction and transformation programmes.

**Health and Well Being Board Public Health Priorities**

Reserve established to support public health priorities.

**Council Tax Hardship Fund**

Reserve to specifically support council taxpayers who fall within the scope of the Council Tax Support Scheme.

**Strategic Change Reserve**

Reserve to support ongoing regeneration activity in the borough.

**Children's Services Recruitment**

Reserve to support the increase in capacity of the children's social care and related functions.

**Note 11 – Other Operating Expenditure**

	2019/2020 £000	2018/2019 £000
Parish Council Precepts	708	773
Levies	667	630
(Gains)/Losses on Disposal of Non-Current Assets	(1,394)	4,953
<b>Total</b>	<b>(19)</b>	<b>6,356</b>

**Note 12 – Financing and Investment Income and Expenditure**

	2019/2020 £000	2018/2019 £000
Interest Payable and Similar Charges	4,679	4,409
Net Interest on the Net Defined Benefit Liability/(Asset)	5,415	4,842
Interest Receivable and Similar Income	(207)	(144)
Income and Expenditure in relation to Investment Properties and Changes in their Fair Value	(3,292)	(2,745)
<b>Total</b>	<b>6,595</b>	<b>6,362</b>

**Note 13 – Taxation and Non-specific Grant Income and Expenditure**

	2019/2020 £000	2018/2019 £000
Council Tax Income	(68,981)	(65,744)
Non Domestic Rates Income and Expenditure	(38,594)	(38,572)
Revenue Support Grant	(8,995)	(13,396)
Covid-19 Support Grant	(5,216)	0
Other Non-Ring-Fenced Government Grants	(3,971)	(3,622)
Capital Grants and Contributions	(17,063)	(12,302)
<b>Total</b>	<b>(142,820)</b>	<b>(133,636)</b>



## Note 14 – Property, Plant and Equipment

2019/2020 Financial Year	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	PPE Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation:</b>							
Balance as at 1 April 2019	86,758	14,291	140,811	20,348	3,521	7,567	<b>273,296</b>
Additions	3,910	3,368	17,383	38	3,060	123	<b>27,882</b>
Donations	0	0	0	0	0	0	<b>0</b>
Revaluation increases/decreases to Revaluation Reserve	9,992	0	0	0	0	(418)	<b>9,574</b>
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	(6,467)	0	0	0	(11)	(294)	<b>(6,772)</b>
De-Recognition - Disposals	(8)	0	0	0	0	(595)	<b>(603)</b>
De-Recognition - Other	0	0	0	0	0	0	<b>0</b>
Reclassifications & Transfers	275	0	0	0	(392)	0	<b>(117)</b>
Reclassified to/from Held for Sale	0	0	0	0	0	0	<b>0</b>
Other Movements	0	0	0	0	0	0	<b>0</b>
<b>Balance as at 31 March 2020</b>	<b>94,460</b>	<b>17,659</b>	<b>158,194</b>	<b>20,386</b>	<b>6,178</b>	<b>6,383</b>	<b>303,260</b>
<b>Depreciation and Impairment:</b>							
Balance as at 1 April 2019	(10,483)	(9,331)	(37,649)	(7,347)	0	(71)	<b>(64,881)</b>
Depreciation Charge	(6,329)	(2,752)	(3,892)	0	0	(19)	<b>(12,992)</b>
Depreciation written out on Revaluation Reserve	7,450	0	0	0	0	34	<b>7,484</b>
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	883	0	0	0	0	5	<b>888</b>
Impairment losses/reversals to Revaluation Reserve	(86)	0	0	0	0	12	<b>(74)</b>
Impairment losses/reversals To Surplus or Deficit on the Provision of Services	504	0	0	(35)	(1)	(11)	<b>457</b>
De-Recognition - Disposals	0	0	0	0	0	1	<b>1</b>
De-Recognition - Other	0	0	0	0	0	0	<b>0</b>
Reclassifications & Transfers	0	0	0	0	0	0	<b>0</b>
Eliminated on reclassification to Held for Sale	0	0	0	0	0	0	<b>0</b>
<b>Balance as at 31 March 2020</b>	<b>(8,061)</b>	<b>(12,083)</b>	<b>(41,541)</b>	<b>(7,382)</b>	<b>(1)</b>	<b>(49)</b>	<b>(69,117)</b>
<b>Net Book Value:</b>							
<b>Balance as at 31 March 2020</b>	<b>86,399</b>	<b>5,576</b>	<b>116,653</b>	<b>13,004</b>	<b>6,177</b>	<b>6,334</b>	<b>234,143</b>
Balance as at 31 March 2019	76,275	4,960	103,162	13,001	3,521	7,496	208,415

2018/2019 Financial Year	Other Land and Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	PPE Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation:</b>							
Balance as at 1 April 2018	88,611	14,421	133,732	20,313	4,257	7,607	268,941
Additions	2,538	1,233	7,238	36	5,446	72	16,563
Donations	1,010	0	0	0	0	0	1,010
Revaluation increases/decreases to Revaluation Reserve	(2,638)	0	0	0	0	1,217	(1,421)
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	(1,656)	0	0	0	0	(33)	(1,689)
De-Recognition - Disposals	(1,458)	(1,363)	(159)	0	(6,182)	(855)	(10,017)
De-Recognition - Other	(53)	0	0	0	0	(37)	(90)
Reclassifications & Transfers	404	0	0	(1)	0	(404)	(1)
Reclassified to/from Held for Sale	0	0	0	0	0	0	0
Other Movements	0	0	0	0	0	0	0
<b>Balance as at 31 March 2019</b>	<b>86,758</b>	<b>14,291</b>	<b>140,811</b>	<b>20,348</b>	<b>3,521</b>	<b>7,567</b>	<b>273,296</b>
<b>Depreciation and Impairment:</b>							
Balance as at 1 April 2018	(13,148)	(8,625)	(34,351)	(7,348)	(1,117)	(539)	(65,128)
Depreciation Charge	(5,341)	(2,001)	(3,457)	0	0	(18)	(10,817)
Depreciation written out on Revaluation Reserve	2,522	0	0	0	0	9	2,531
Depreciation written out on Revaluation taken to Surplus or Deficit on the Provision of Services	649	0	0	0	0	2	651
Impairment losses/reversals to Revaluation Reserve	1,781	0	0	0	0	90	1,871
Impairment losses/reversals To Surplus or Deficit on the Provision of Services	2,311	0	0	0	0	2	2,313
De-Recognition - Disposals	1,070	1,295	159	1	1,117	0	3,642
De-Recognition - Other	21	0	0	0	0	35	56
Reclassifications & Transfers	(348)	0	0	0	0	348	0
Eliminated on reclassification to Held for Sale	0	0	0	0	0	0	0
<b>Balance as at 31 March 2019</b>	<b>(10,483)</b>	<b>(9,331)</b>	<b>(37,649)</b>	<b>(7,347)</b>	<b>0</b>	<b>(71)</b>	<b>(64,881)</b>
<b>Net Book Value:</b>							
<b>Balance as at 31 March 2019</b>	<b>76,275</b>	<b>4,960</b>	<b>103,162</b>	<b>13,001</b>	<b>3,521</b>	<b>7,496</b>	<b>208,415</b>
Balance as at 31 March 2018	75,463	5,796	99,381	12,965	3,140	7,068	203,813

## Capital Commitments

At 31 March 2020, the council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in future years. Of these contracts, those considered to be major contracts are those having outstanding commitments in excess of £1m. As at 31 March 2020, the following contracts met this criterion:

- SHIP – Stallingborough Highways – £3.2m.
- SHIP – Myenergi – £2.2m.
- SHIP – Humber Link Road – £1.5m.
- A18 Safer Road Scheme – £1.2m.

## 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 fair 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 the occupier will have the benefit of access, services and rights to enable occupation on a normal commercial basis.
- That all easements, rights of way, restrictions or other encumbrances have been considered.
- That the properties are in good repair 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 fair value of the asset at the time of valuation.

Valuation Of PPE	Land and Buildings £000	Vehicles, Plant & Equipment £000	Surplus Assets £000	Other PPE £000	Total PPE £000
Carried at Historical Cost	0	5,576	0	135,834	141,410
Valued at Fair Value as at:					
01/04/2019	86,119	0	6,175	0	92,294
01/04/2018	168	0	0	0	168
01/04/2017	18	0	159	0	177
01/04/2016	70	0	0	0	70
01/04/2015	24	0	0	0	24
Total Cost or Valuation	86,399	5,576	6,334	135,834	234,143

## Fair Value Measurement for Surplus Assets and Investment Properties

See Note 1 Accounting Policies (section xxiii. Fair Value Measurement) for an explanation of fair value and the fair value level.

### Fair Value Hierarchy

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

Recurring Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Fair Value as at 31st March 2020 £000	Fair Value as at 31st March 2019 £000
<b>Surplus Assets:</b>		
All Surplus Assets	6,334	7,496
<b>Total Surplus Assets</b>	<b>6,334</b>	<b>7,496</b>
<b>Investment Properties:</b>		
Agricultural Properties	1,078	1,033
Office Units	5,556	5,391
Commercial Units	45,062	44,952
<b>Total Investment Properties</b>	<b>51,696</b>	<b>51,376</b>

### Determined Value Level, Valuation Process and Techniques

There is limited evidence in respect of actual transactions for this region and no publicly available market reports for North East Lincolnshire. Much of the evidence of actual sales comes for this region from North East Lincolnshire Council itself. Adjustments are required to reflect the location, size, age, use and condition of the assets. The council's assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions.

The assets have been valued by the council's partner ENGIE Services Limited in accordance with the methodologies and bases for estimation set out in the Valuation terms of Engagement and professional standards of the Royal Institution of Chartered Surveyors (RICS). 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.

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

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

## Reconciliation of Fair Value Measurements

Assets Categorised Within Level 3	Surplus Assets 31 March 2020 £000	Investment Properties 31 March 2020 £000	Surplus Assets 31 March 2019 £000	Investment Properties 31 March 2019 £000
<b>Opening Balance</b>	<b>7,496</b>	<b>51,376</b>	<b>7,068</b>	<b>51,246</b>
Reclassifications in at Level 3	0	0	0	0
Reclassifications out at Level 3	0	0	(56)	0
Transfers into Level 3	0	0	0	0
Transfers out of Level 3	0	0	0	0
Total gains/losses for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in fair value	(319)	162	1,269	369
Total to Revaluation Reserve	(372)	0	0	0
Additions	123	312	72	128
Disposals	(594)	(154)	(857)	(367)
<b>Closing Balance</b>	<b>6,334</b>	<b>51,696</b>	<b>7,496</b>	<b>51,376</b>

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 surplus assets firstly reduce any Revaluation Reserve balance relating to that asset and, thereafter, are recognised in the Surplus or Deficit on the Provision of Services.

Gains or losses arising from changes in the fair value of investment properties 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	31 March 2020 £000	Valuation Technique used to measure Fair Value	Unobservable Inputs	Sensitivity
<b>Surplus Assets:</b>				
Land	6,157	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	177	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
<b>Investment Properties:</b>				
Industrial and Commercial Units	45,062	Market Comparison / Investment Method	Rent Growth Vacancy Levels Yields	Significant changes in rental income, rent growth, vacancy levels or yields will result in a significantly lower or higher fair value
Office Units	5,556	Market Comparison / Investment Method	Rent Growth Vacancy Levels Yields	Significant changes in rental income, rent growth, vacancy levels or yields will result in a significantly lower or higher fair value
Agricultural Units	1,078	Market Comparison	Rent Growth Vacancy Levels Yields	Significant changes in sales comparables and certain tenancies affecting when vacant possession can be achieved will significantly lower or higher fair value

## **Note 15 – Heritage Assets**

<b>Cost or Valuation</b>	<b>Civic Regalia</b>	<b>Museum Collection</b>	<b>Other Heritage Assets</b>	<b>Total Heritage Assets</b>
	£000	£000	£000	£000
<b>Balance as at 1 April 2018</b>	<b>426</b>	<b>1,426</b>	<b>0</b>	<b>1,852</b>
Additions	0	0	82	82
Movements – Revaluations	0	0	0	0
Reclassifications	0	0	1	1
<b>Balance as at 31 March 2019</b>	<b>426</b>	<b>1,426</b>	<b>83</b>	<b>1,935</b>
Additions	0	0	0	0
Movements – Revaluations	0	0	0	0
Reclassifications	0	0	0	0
<b>Balance as at 31 March 2020</b>	<b>426</b>	<b>1,426</b>	<b>83</b>	<b>1,935</b>

## **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:

	<b>2019/2020</b>	<b>2018/2019</b>
	£000	£000
Rental income from investment property	(4,315)	(4,237)
Direct operating expenses arising from investment property	1,300	1,630
<b>Net (Gain)/Loss</b>	<b>(3,015)</b>	<b>(2,607)</b>

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 and the proceeds of disposal. 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:

	<b>2019/2020</b>	<b>2018/2019</b>
	£000	£000
<b>Balance at start of the year</b>	<b>51,376</b>	<b>51,246</b>
Additions	312	128
Disposals	(154)	(45)
De-recognitions	0	(322)
Net gains/losses from fair value adjustments	162	369
<b>Transfers:</b>		
To/from Property, Plant and Equipment	0	0
<b>Balance at end of the year</b>	<b>51,696</b>	<b>51,376</b>

## **Note 17 – Intangible Assets**

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

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

- Refurb / Refresh – five years (updating software to support our systems, applications and websites).
- Digital Strategy Delivery System – four years.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £916k charged to revenue in 2019/2020 was charged to the following lines in the Cost of Services – £586k Resources & Governance, £322k Children and Family Services and £8k Environment, Economy & Housing.

	2019/2020 £000	2018/2019 £000
Balance at start of the year	2,723	4,637
Accumulated amortisation	(925)	(3,221)
<b>Net carrying amount at start of year</b>	<b>1,798</b>	<b>1,416</b>
Additions	507	933
Reclassifications	117	0
Disposals	0	(2,847)
Amortisation for the period	(916)	(551)
Amortisation written off on disposal	0	2,847
<b>Net carrying amount at the end of the year</b>	<b>1,506</b>	<b>1,798</b>
<b>Comprising:</b>		
Gross carrying amount	3,347	2,723
Accumulated amortisation	(1,841)	(925)
<b>Net carrying amount at the end of the year</b>	<b>1,506</b>	<b>1,798</b>

## **Note 18 – Financial Instruments**

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

	31 March 2020 Long Term £000	31 March 2019 Long Term £000	31 March 2020 Short Term £000	31 March 2019 Short Term £000
<b>Financial Assets:</b>				
Loans and Receivables at Amortised Cost	1,913	2,524	0	0
Debtors carried at Amortised Cost	0	0	35,435	29,322
<b>Total Financial Assets</b>	<b>1,913</b>	<b>2,524</b>	<b>35,435</b>	<b>29,322</b>
<b>Financial Liabilities:</b>				
Borrowings at Amortised Cost	116,162	109,123	32,429	19,116
Creditors carried at Contract Amount	0	0	32,952	27,333
<b>Total Financial Liabilities</b>	<b>116,162</b>	<b>109,123</b>	<b>65,381</b>	<b>46,449</b>

Amounts relating to financial instruments recognised in the Comprehensive Income and Expenditure Statement:

Financial Liabilities Measured at Amortised Cost	2019/2020 £000	2018/2019 £000
Interest Expense	4,557	4,305
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>4,557</b>	<b>4,305</b>

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 ix. Financial Instruments).

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

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

Except for 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 have to 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.

	Fair Value Level	31 March 2020	31 March 2020	31 March 2020	31 March 2019	31 March 2019
		Carrying Amount	Fair Value	Effect of 1% Rise in Interest Rates	Carrying Amount	Fair Value
		£000	£000	£000	£000	£000
PWLB Debt	2	75,794	127,423	(20,622)	76,409	112,481
Non PWLB Debt	2	42,641	119,337	(33,503)	41,675	90,550
Temporary Borrowing	2	30,155	30,239	(56)	10,155	10,179
<b>Total Debt</b>		<b>148,590</b>	<b>276,999</b>	<b>(54,181)</b>	<b>128,239</b>	<b>213,210</b>

The fair value of the liabilities is greater than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional loss (based on economic conditions as at 31 March 2020) arising from the commitment to pay interest to lenders above current market rates.

## Note 19 – Nature and Extent of Risks Arising from Financial Instruments

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

- 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 stock market movements.

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 Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by S & P Global, Fitch, and Moody's Ratings Services. The annual Investment 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 21 February 2019. These include commercial entities with a minimum long-term credit rating of A- and the UK government. Recognising that credit ratings are imperfect predictors of default, the council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

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

## Liquidity Risk

The council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The council has ready access to borrowing at favourable rates from the Public Works Loans Board (PWLb) and other local authorities. The council is also required to set a balanced budget through the Local Government 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:

Timescale	31 March 2020 £000	31 March 2019 £000
Less than one year	32,704	16,757
Between one and two years	1,506	3,345
Between two and five years	3,765	2,481
Between five and ten years	9,628	7,768
Between 10 and 20 years	12,626	11,274
Over 20 years	67,361	65,614
Uncertain date*	21,000	21,000
<b>Total</b>	<b>148,590</b>	<b>128,239</b>

\* The council has £21m of "Lender option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the council is likely to repay those loans. The maturity date is therefore uncertain.



## Interest Rate Risk

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

- Borrowings at variable rates – the interest expense 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 Comprehensive Income.

## Note 20 – Debtors

Debtors are financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

Debtor	2019/2020 Long Term £000	2018/2019 Long Term £000	2019/2020 Short Term £000	2018/2019 Short Term £000
Central Government Bodies	0	0	6,888	7,589
Other Local Authorities	0	0	2,505	1,317
NHS Bodies	0	0	110	91
Other Entities and Individuals	0	0	36,960	31,082
Impairment Allowances	0	0	(11,027)	(10,757)
Loans and Advances	1,913	2,524	0	0
<b>Total</b>	<b>1,913</b>	<b>2,524</b>	<b>35,436</b>	<b>29,322</b>

The past due, but not impaired, amount for local taxation (council tax and non-domestic rates) is analysed as follows:

Aged Debt	2019/2020 £000	2018/2019 £000
1 year	4,674	4,184
1 – 2 years	2,414	1,875
2 – 3 years	1,416	1,303
3 – 4 years	1,077	922
Over 4 years	2,104	1,940
<b>Total</b>	<b>11,685</b>	<b>10,224</b>

The above analysis only shows those balances where assessment has indicated that, by exception, no impairment is required.

## **Note 21 – Cash and Cash Equivalents**

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand/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 cash flow statement can be reconciled to the related items in the Balance Sheet as follows:

	2019/2020 £000	2018/2019 £000
Cash and Bank Balances	(144)	3,872
Short Term Investments	30,400	12,800
<b>Total - Current Asset</b>	<b>30,256</b>	<b>16,672</b>

## **Note 22 – Assets Held for Sale**

There are currently no assets that meet the necessary conditions to be classed within this category.

## **Note 23 – Creditors**

The following amounts are owed by the council within the next twelve months:

Creditor	2019/2020 £000	2018/2019 £000
Central Government Bodies	13,199	9,632
Other Local Authorities	1,206	579
NHS Bodies	3,161	2,388
Other Entities and Individuals	15,386	14,734
<b>Total Short Term Creditors</b>	<b>32,952</b>	<b>27,333</b>

## **Note 24 – Provisions**

Provisions are recognised where the council has a legal or constructive obligation arising from a past event that will probably require settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Details of the provisions set aside as at 31 March 2020 are as follows:

Provision	Opening Balance 1 April 2019 £000	Increase / (Reduction) In Provision During Year £000	Utilised During Year £000	Unused Amounts Reversed £000	Closing Balance 31 March 2020 £000	Estimated Settlement Within One Year £000	Estimated Settlement Beyond One Year £000
NNDR Appeals	5,835	1,649	(518)	(434)	6,532	1,176	5,356
Self-Insurance	710	3,580	(3,121)	0	1,169	234	935
Other	0	201	0	0	201	201	0
<b>Totals</b>	<b>6,545</b>	<b>5,430</b>	<b>(3,639)</b>	<b>(434)</b>	<b>7,902</b>	<b>1,611</b>	<b>6,291</b>

### **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). In 2019/2020, the total appeals provision in the Business Rates Collection Fund is £13.3m; the council's share of this under the Local Business Rates Retention Scheme is 49%.

### **Self-Insurance**

To obtain insurance in the most cost effective manner, the council has chosen to carry excesses in respect of claims under various insurance policies covering property, public liability and employer's liability, subject to an annual review of the appropriate level at which any 'stop-loss' arrangements apply. The amount set aside to cover the uninsured risks is based on the assessed liability in respect of known claims at that date.

## Other

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

## Note 25 – Unusable Reserves

### Unusable Reserves

	2019/2020 £000	2018/2019 £000
Capital Adjustment Account	62,107	62,376
Revaluation Reserve	56,865	43,663
Pensions Reserve	(164,558)	(223,365)
Collection Fund Adjustment Account	3,366	993
Accumulated Absences Account	(1,182)	(1,262)
<b>Total Unusable Reserves</b>	<b>(43,402)</b>	<b>(117,595)</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2019/2020 £000	2019/2020 £000	2018/2019 £000	2018/2019 £000
<b>Balance at 1 April</b>		<b>62,376</b>		<b>59,466</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	(12,535)		(8,504)	
Revaluation losses on Property, Plant and Equipment	(5,884)		(1,038)	
Amortisation of Intangible Assets	(916)		(551)	
Revenue expenditure funded from capital under statute	(7,049)		(4,332)	
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	(756)		(6,776)	
		<b>(27,140)</b>		<b>(21,201)</b>
Adjusting amounts written out of the Revaluation Reserve		3,090		2,875
<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>(24,050)</b>		<b>(18,326)</b>
<b>Capital financing applied in the year:</b>				
Use of the Capital Receipts Reserve to finance new capital expenditure	2,970		1,947	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	19,630		13,889	
Application of grants to capital financing from the Capital Grants Unapplied Account	497		423	
Statutory provision for the financing of capital investment charged against the General Fund	457		3,568	
Capital expenditure charged against the General Fund	65		30	
		<b>23,619</b>		<b>19,857</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		162		369
Donated asset credited to the Comprehensive Income and Expenditure Statement		0		1,010
<b>Balance at 31 March</b>		<b>62,107</b>		<b>62,376</b>

## Revaluation Reserve

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets.

The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost,
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

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

	2019/2020 £000	2018/2019 £000
<b>Balance at 1 April</b>	<b>43,663</b>	<b>43,924</b>
Net revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	16,984	2,981
Difference between fair value depreciation and historical cost depreciation	(3,314)	(2,648)
Revaluation balances on assets scrapped or disposed of	(468)	(594)
Amount written off to the Capital Adjustment Account	<b>(3,782)</b>	<b>(3,242)</b>
<b>Balance at 31 March</b>	<b>56,865</b>	<b>43,663</b>

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed, as the council makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2019/2020 £000	2018/2019 £000
<b>Balance at 1 April</b>	<b>(223,365)</b>	<b>(184,908)</b>
Re-measurements of the net defined benefit liability/(asset)	73,309	(30,483)
Pension prepayment adjustment	4,668	4,667
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	(25,074)	(18,511)
Employer's pensions contributions and direct payments to pensioners payable in the year	5,904	5,870
<b>Balance at 31 March</b>	<b>(164,558)</b>	<b>(223,365)</b>

## Collection Fund Adjustment Account

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

	2019/2020 £000	2018/2019 £000
<b>Balance at 1 April</b>	<b>993</b>	<b>3,686</b>
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	2,373	(2,693)
<b>Balance at 31 March</b>	<b>3,366</b>	<b>993</b>

## Accumulated Absences Account

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

	2019/2020 £000	2018/2019 £000
<b>Balance at 1 April</b>	<b>(1,262)</b>	<b>(1,331)</b>
Settlement or cancellation of accrual made at the end of the preceding year	1,262	1,331
Amounts accrued at the end of the current year	(1,182)	(1,262)
<b>Balance at 31 March</b>	<b>(1,182)</b>	<b>(1,262)</b>

## Note 26 – Cashflow from Operating Activities

The cash flows from operating activities include the following items:

	2019/2020 £000	2018/2019 £000
Interest Paid	(4,468)	(4,382)
Interest Received	218	144
<b>Total</b>	<b>(4,250)</b>	<b>(4,238)</b>

	2019/2020 £000	2018/2019 £000
<b>Adjustment to Surplus or Deficit on the Provision of Services for Non-Cash Movements:</b>		
Depreciation	12,535	8,504
Impairment & Downward Valuations	5,884	1,038
Amortisation	916	551
(Increase)/Decrease in Debtors	(3,999)	(7,606)
Increase/(Decrease) in Creditors	1,073	4,020
(Increase)/Decrease in Inventories	(5)	16
Movement in Pension Liability	19,170	12,641
Carrying Amount of Non-Current Assets, and Non-Current Assets Held for Sale, Sold or De-recognised	756	6,776
Other items charged to the Net Surplus or Deficit on Provision of Services	1,477	(1,257)
<b>Total</b>	<b>37,807</b>	<b>24,683</b>
<b>Adjustment for items included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities:</b>		
Proceeds from the sale of PPE, Investment Property and Intangible Assets	(2,265)	(1,592)
Any other items for which the cash effects are Investing or Financing Cash Flows	(23,702)	(14,525)
<b>Total</b>	<b>(25,967)</b>	<b>(16,117)</b>

## Note 27 – Cashflow from Investing Activities

	2019/2020 £000	2018/2019 £000
Purchase of PPE, Investment Property and Intangible Assets	(25,770)	(17,914)
Other payments for Investing Activities	(122)	(300)
Proceeds from the sale of PPE, Investment Property and Intangible Assets	2,265	1,592
Other receipts from investing activities	25,354	21,549
<b>Net Cash Flows from Investing Activities</b>	<b>1,727</b>	<b>4,927</b>

## Note 28 – Cashflow from Financing Activities

	2019/2020 £000	2018/2019 £000
Cash receipts of Short Term and Long Term Borrowing	51,419	20,010
Other receipts from Financing Activities	0	0
Repayment of Short Term and Long Term Borrowing	(31,111)	(19,971)
Other payments for Financing Activities	1,497	(4,938)
<b>Net cash flows from Financing Activities</b>	<b>21,805</b>	<b>(4,899)</b>

## Reconciliation of Liabilities arising from Financing Activities:

	Balance as at 1 April 2019 £000	CASH CHANGE	NON-CASH CHANGE	NON-CASH CHANGE	Balance as at 31 March 2020 £000
		Financing Cash Flows £000	Movement from Long-Term to Short-Term £000	Interest Accruals £000	
Long-Term Borrowings	109,123	307	6,732	0	116,162
Short-Term Borrowings	19,116	20,001	(6,732)	44	32,429
<b>Total Liabilities from Financing Activities</b>	<b>128,239</b>	<b>20,308</b>	<b>0</b>	<b>44</b>	<b>148,591</b>

## Note 29 – Pooled Budgets

### Better Care Fund

The Better Care Fund is a government plan to integrate health and social care by 2020, which is implemented via a Section 75 pooled budget arrangement. The council is a partner within the pooled budget with the North East Lincolnshire CCG (NELCCG).

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, the council and NELCCG 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 NELCCG 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, and
- Delayed transfers of care.

Funding of services to support these performance metrics include Intermediate Tier Services (these are concerned with reablement – most often as 'half-way home' service on hospital discharge, recovery as a step down from hospital, and urgent community response with hospital avoidance potential by means of swift interventions at home or using a short term step-up bed), Single Point of Access, Assisted Living Centre, Support to Care Homes, Seven Day Service Provision and Just Checking.

Details of the in-year pooled income and expenditure are as follows:

	2019/2020 £000	2018/2019 £000
<b>Funding Provided to the pooled budget:</b>		
North East Lincolnshire CCG	(12,033)	(11,573)
North East Lincolnshire Council	(10,661)	(9,363)
<b>Total Funding</b>	<b>(22,694)</b>	<b>(20,936)</b>
<b>Expenditure met from the pooled budget:</b>		
North East Lincolnshire CCG	12,033	11,573
North East Lincolnshire Council	9,889	8,308
<b>Total Expenditure</b>	<b>21,922</b>	<b>19,881</b>
<b>Net surplus arising on the pooled budget during the year</b>	<b>(772)</b>	<b>(1,055)</b>

## Note 30 – Members’ Allowances

The council paid the following amounts to elected members of the council during the year:

	2019/2020 £000	2018/2019 £000
Allowances	501	496
Expenses	2	1
<b>Total</b>	<b>503</b>	<b>497</b>

A breakdown of amounts paid directly to members can be found on the council's website ([www.nelincs.gov.uk](http://www.nelincs.gov.uk)).

## Note 31 – Officers’ Remuneration

### Senior Officer Remuneration

The following table details the remuneration received by members of the council's Leadership Team:

Post Title	Financial Year	Basic Salary £	Salary Supplement £	Expense Allowance £	Compensation for Loss of Office £	Pension Contribution £	Total £
Chief Executive – R Walsh	2019/20	165,000	0	0	0	24,750	<b>189,750</b>
Chief Executive – R Walsh	2018/19	165,000	0	0	0	24,750	<b>189,750</b>
Chief Operating Officer	2019/20	129,948	0	0	0	19,492	<b>149,440</b>
Chief Operating Officer	2018/19	123,699	0	0	0	18,555	<b>142,254</b>
Director – Children & Family Services (Vacant with effect from 30 November 2019)	2019/20	100,893	0	0	52,480	9,428	<b>162,801</b>
Director – Children & Family Services	2018/19	99,960	0	106	0	14,130	<b>114,196</b>
Director – Health & Wellbeing	2019/20	96,475	4,074	43	0	14,459	<b>115,051</b>
Director – Health & Wellbeing	2018/19	94,583	3,955	30	0	14,170	<b>112,738</b>
Director – Resources & Governance	2019/20	97,428	0	0	0	14,614	<b>112,042</b>
Director – Resources & Governance	2018/19	95,518	0	0	0	14,328	<b>109,846</b>
Director – Economy & Growth (Vacant)	2019/20	0	0	0	0	0	<b>0</b>
Director – Economy & Growth (Vacant with effect from 30 January 2019)	2018/19	77,060	0	0	0	11,518	<b>88,578</b>
Director – Adult Services	2019/20	88,812	0	0	0	13,322	<b>102,134</b>
Director – Adult Services	2018/19	87,071	0	23	0	13,061	<b>100,155</b>
Director – Communities	2019/20	88,812	0	0	0	13,322	<b>102,134</b>
Director – Communities	2018/19	87,071	0	20	0	13,061	<b>100,152</b>
Chief Legal Officer (Monitoring Officer)	2019/20	76,500	0	13	0	11,475	<b>87,988</b>
Chief Legal Officer (Monitoring Officer)	2018/19	75,000	0	23	0	11,250	<b>86,273</b>
Assistant Director – Communications	2019/20	71,400	0	84	0	10,710	<b>82,194</b>
Assistant Director – Communications (With effect from 24 September 2018)	2018/19	36,361	0	19	0	5,454	<b>41,834</b>

### Notes – Senior Officer Remuneration

From August 2017 a new joint role of Chief Executive North East Lincolnshire Council and North East Lincolnshire Clinical Commissioning Group (NELCCG) was created to facilitate greater partnership working between the two organisations. The council receives a contribution of £39k per annum from NELCCG in relation to this arrangement.

From September 2018, the post of Assistant Director – Communications reports directly to the Chief Executive.

With effect from December 2019, the Chief Operating Officer has taken on the responsibilities of the post of Director of Children & Family Services. This arrangement is currently anticipated to continue during the 2020/2021 financial year.

## Senior Employee Remuneration

Excluding Senior Officers who are listed individually in the previous table, the number of council employees whose remuneration was £50k or more is as follows:

Remuneration Bands	2019/2020 Number of Employees	2018/2019 Number of Employees
£50,001 to £55,000	21	21
£55,001 to £60,000	13	14
£60,001 to £65,000	11	5
£65,001 to £70,000	9	4
£70,001 to £75,000	5	3
£75,001 to £80,000	2	3
£80,001 to £85,000	2	2
£85,001 to £90,000	0	1
£90,001 to £95,000	0	0
£95,001 to £100,000	0	0
£100,001 to £105,000	0	0
£105,001 to £110,000	0	0
£115,001 to £120,000	0	0
£120,001 to £125,000	1	0
<b>Total</b>	<b>64</b>	<b>53</b>

## Exit Packages

The total number of exit packages, split between compulsory redundancies and other agreed departures, and the total cost per band are set out in the table below:

Exit Package Cost Band (Including Special Payments)	2019/2020	2018/2019	2019/2020	2018/2019	2019/2020	2018/2019	2019/2020	2018/2019
	Number of Compulsory Redundancies	Number of Compulsory Redundancies	Number of Other Agreed Departures	Number of Other Agreed Departures	Total Number of Exit Packages by Cost Band	Total Number of Exit Packages by Cost Band	Total Cost of Exit Packages in each Band £000	Total Cost of Exit Packages in each Band £000
£0 - £20,000	28	6	12	11	40	17	234	130
£20,001 - £40,000	5	1	3	6	8	7	229	195
£40,001 - £150,000	2	0	2	0	4	0	422	0
£150,001 - £250,000	1	0	1	0	2	0	417	0
<b>Total Cost included in CIES</b>							<b>1,302</b>	<b>325</b>

## 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, Mazars.

	2019/2020 £000	2018/2019 £000
Fees payable with regards to external audit services carried out by the appointed auditor for the year	92	92
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	9	7
Fees payable in respect of other services provided by the appointed auditor during the year	0	0
<b>Total fees payable</b>	<b>101</b>	<b>99</b>



### **Note 33 – Dedicated Schools Grant**

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

Details of the deployment of DSG receivable for 2019/2020 are as follows:

<b>Dedicated Schools Grant Deployment 2019/2020</b>	<b>Central Expenditure</b> £000	<b>Individual Schools Budget</b> £000	<b>Total</b> £000
Final DSG for 2019/2020 before Academies recoupment			132,109
Academy figure recouped for 2019/2020			(99,677)
<b>Total DSG after Academy recoupment for 2019/2020</b>	<b>15,004</b>	<b>17,428</b>	<b>32,432</b>
Plus: Brought forward from 2018/2019	950	0	950
<b>Agreed initial budgeted distribution in 2019/2020</b>	<b>15,954</b>	<b>17,428</b>	<b>33,382</b>
In year adjustments	0	(204)	(204)
<b>Final budget distribution for 2019/2020</b>	<b>15,954</b>	<b>17,224</b>	<b>33,178</b>
Less: Actual central expenditure	(16,260)		(16,260)
Less: Actual ISB deployed to schools		(16,862)	(16,862)
<b>Carry forward to 2020/2021</b>	<b>(306)</b>	<b>362</b>	<b>56</b>

### **Note 34 – Grant Income**

The council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement during the year:

<b>Credited to Taxation and Non-Specific Grant Income</b>	<b>2019/2020</b> £000	<b>2018/2019</b> £000
Council Tax Income	(68,981)	(65,744)
Non Domestic Rates Income and Expenditure	(38,594)	(38,572)
Revenue Support Grant	(8,995)	(13,396)
Covid-19 Support Grant	(5,216)	0
Other Non-Ring-Fenced Grants	(3,971)	(3,622)
Capital Grants	(17,063)	(12,302)
<b>Total</b>	<b>(142,820)</b>	<b>(133,636)</b>

<b>Credited to Services</b>	<b>2019/2020</b> £000	<b>2018/2019</b> £000
Rent Allowances	(37,835)	(44,263)
Dedicated Schools Grant	(32,442)	(31,208)
Improved Better Care Fund	(7,042)	(5,622)
Public Health Grant	(10,735)	(11,026)
Other Grants & Contributions	(23,019)	(21,650)
<b>Total</b>	<b>(111,073)</b>	<b>(113,769)</b>

The council received a grant of £350k from the Youth Justice Board which is reflected in the above figures. The grant was expended in accordance with the conditions attached to the grant award.

The council has received a number of grants and contributions that have yet to be recognised as income which have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

<b>Grants Received in Advance</b>	<b>2019/2020</b> £000	<b>2018/2019</b> £000
Capital Grants	(12,997)	(9,843)
Revenue Grants	(4,252)	(3,077)
<b>Total</b>	<b>(17,249)</b>	<b>(12,920)</b>

## **Note 35 – 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 control over the general operations of the council – it is responsible for providing 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 Grant Income.

### **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 Members Allowances, and the Register of Members' Interests is available to be viewed on the council's website. During the 2019/2020 financial year, one member of the council has registered an interest as a member of the Board of Lincs Inspire, with whom the council has a 25-year contract for the provision of library, leisure and cultural services. Further information on this contractual arrangement is detailed in Note 44 Long Term Contracts. The Grant Contributions to Charities line in the table below includes all in-year transactions and outstanding year-end balances with Lincs Inspire.

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 party declaration identifying organisations with which they have influence/or control, and which may have a related party interest with the council.

Related Party Interests	In-Year Expenditure	In-Year Income	Year-End Creditor	Year-End Debtor	Number of Members Declaring an Interest	Number of Officers Declaring an Interest
	£000	£000	£000	£000		
Works and Services commissioned from Companies	561	(536)	0	(185)	10	0
Grants to Voluntary Organisations	392	(4)	0	0	14	0
Grant contributions to Charities	4,095	(502)	0	(153)	14	0
Grant contributions to Not for Profit Organisations	955	(431)	0	(325)	8	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 relating to the payments.

### **Other Public Bodies**

#### **Lincolnshire Partnership NHS Foundation Trust**

During the 2019/2020 financial year, a member of the council has registered a pecuniary interest due to their position of non-executive director of the Lincolnshire Partnership NHS Foundation Trust, with whom the council has a current contractual agreement for the provision of mental health and emotional wellbeing services (as reported in Note 44 Long Term Contracts). Expenditure and income, of £3,002k and £(2)k respectively, has been incurred / received during the year; additionally, an outstanding debtor of £(2)k is reported within the council's year-end balances.

#### **North East Lincolnshire Clinical Commissioning Group (NELCCG)**

The council and NELCCG have worked very closely together to deliver health services in North East Lincolnshire since 2007. Following a decision to take this much advanced health and social care partnership even further, the council / NELCCG 'Union' was formed, and the Chief Executive of the council, Rob Walsh, was duly appointed Chief Executive of North East Lincolnshire Council and North East Lincolnshire Clinical Commissioning Group on 1 August 2017.

A 'Union Board' was also established to integrate both organisations, as far as practicable and appropriate, in order to maximise use of combined resources and focus – the focus being to improve the health, care and wellbeing, of the local population of North East Lincolnshire. Additionally, a Section 75 Agreement is in place

which allows the council and NELCCG to jointly commission social care and public health services. Further information relating to the financial relationship with NELCCG is provided in Note 44 Long Term Contracts.

The council also has a pooled budget arrangement with NELCCG in relation to the Better Care Fund. Further information relating to the Better Care Fund is detailed in Note 29 Pooled Budgets.

## **Note 36 – Capital Expenditure and Capital Financing**

The total amount of capital expenditure incurred in the year, together with the resources that have been used to finance it, is shown in the table below. 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. The CFR is analysed in the second part of the table below.

<b>Capital Expenditure and Capital Financing</b>	<b>2019/2020</b> £000	<b>2018/2019</b> £000
<b>Opening Capital Financing Requirement</b>	<b>159,567</b>	<b>157,386</b>
<b>Capital Investment:</b>		
Property, Plant and Equipment	27,882	17,573
Investment Properties	312	128
Intangible Assets	507	933
Heritage Assets	0	82
Revenue Expenditure Funded from Capital Under Statute	7,049	4,332
Other	122	0
	<b>35,872</b>	<b>23,048</b>
<b>Sources of Finance:</b>		
Capital Receipts	(2,970)	(1,947)
Government Grants and Other Contributions	(20,127)	(15,322)
<b>Sums set aside from Revenue:</b>		
Direct Revenue Contributions	(65)	(30)
Minimum/Voluntary Revenue Provision	(457)	(3,568)
	<b>(23,619)</b>	<b>(20,867)</b>
<b>Closing Capital Finance Requirement</b>	<b>171,820</b>	<b>159,567</b>
<b>Explanation of Movements in Year:</b>		
Increase in underlying need to borrow (unsupported by government financial assistance)	12,253	2,181
<b>Increase/(Decrease) In Capital Financing Requirement</b>	<b>12,253</b>	<b>2,181</b>

## **Note 37 – Leases**

### **Council as Lessee**

#### **Finance Leases**

The council has minimal outstanding finance leases. All primary rental periods for those assets have now concluded.

#### **Operating Leases**

The council leases a number of buildings, mainly for office accommodation, that are accounted for as operating leases.

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

<b>Minimum lease payments due:</b>	<b>2019/2020</b> £000	<b>2018/2019</b> £000
No later than 1 year	262	263
Later than 1 year and no later than 5 years	988	1,025
Later than 5 years	1,736	1,784
<b>Total</b>	<b>2,986</b>	<b>3,072</b>

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

	2019/2020 £000	2018/2019 £000
Minimum lease payments	275	291
Less: Sublease payments receivable	0	0
<b>Total</b>	<b>275</b>	<b>291</b>

## **Council as Lessor**

### **Operating Leases**

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

<b>Minimum lease rentals receivable:</b>	2019/2020 £000	2018/2019 £000
No later than 1 year	(2,458)	(2,325)
Later than 1 year and no later than 5 years	(9,202)	(8,785)
Later than 5 years	(114,306)	(106,516)
<b>Total</b>	<b>(125,966)</b>	<b>(117,626)</b>

## **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 Scheme has many participating employers and consequently the council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2019/2020, the council paid £922k to the Teachers' Pension Scheme in respect of teachers' retirement benefits – this represents a contribution rate of 16.48% of pensionable pay for the period April to August 2019, increasing to 23.68% from 1 September 2019. The figures for 2018/2019 were £746k and 16.48% respectively. There were no contributions remaining payable at the year-end. Contributions due to be paid in the 2020/2021 financial year are estimated to be £1,049k.

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 as 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 retain access to the NHS Pension Scheme administered by the NHS Business Services Authority on behalf of the Department of Health and Social Care. The Scheme is run on the same basis as the Teachers' Pension Scheme.

In 2019/2020, the council paid £312k to the NHS Pension Scheme in respect of the retirement benefits of public health staff, representing 14.38% of pensionable pay. In 2018/2019, the council paid £315k to the NHS Pension Scheme, representing 14.38% of pensionable pay. There were no contributions remaining payable at the year-end. Contributions due to be paid in the 2020/2021 financial year are estimated to be £316k.

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:

- (i) 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.
- (ii) Arrangements for the award of discretionary post-retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

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

The principal risks to the council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (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 in 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:

	2019/2020 Local Government Pension Scheme £000	2018/2019 Local Government Pension Scheme £000	2019/2020 Discretionary Benefits £000	2018/2019 Discretionary Benefits £000
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of services:				
Service cost comprising:				
Current service cost	16,622	13,606	0	0
Past service cost	3,037	63	0	0
Financing and investment income and expenditure:				
Net interest expense	5,415	4,842	0	0
<b>Total post-employment benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>25,074</b>	<b>18,511</b>	<b>0</b>	<b>0</b>
Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement:				
Re-measurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	43,244	(19,361)	0	0
Actuarial gains and losses arising on changes in demographic assumptions	(26,902)	0	0	0
Actuarial gains and losses arising on changes in financial assumptions	(46,982)	48,883	(296)	918
Other	(42,373)	43	0	0
<b>Total post-employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>(47,939)</b>	<b>48,076</b>	<b>(296)</b>	<b>918</b>
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	<b>(25,074)</b>	<b>(18,511)</b>	<b>0</b>	<b>0</b>
<b>Actual amount charged against the General Fund balance for pensions in the year:</b>				
Employers' contributions payable to scheme	<b>3,857</b>	<b>3,816</b>		
Retirement benefits payable to pensioners			<b>2,047</b>	<b>2,054</b>

### Impact of McCloud Judgement

Due to the tribunal ruling on the McCloud judgement being received late in the 2018/2019 statement of accounts production process, whilst the increase in liability estimated to be £677k for 2018/2019 was included in the narrative it was not reflected within the figures in the accounts. This adjustment is now included within the total post-employment benefits charged to the surplus or deficit on the provision of services in the 2019/2020 financial year.

### 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:

	2019/2020 Local Government Pension Scheme £000	2018/2019 Local Government Pension Scheme £000	2019/2020 Discretionary Benefits £000	2018/2019 Discretionary Benefits £000
Present value of the defined obligation	(590,877)	(688,536)	(22,104)	(24,447)
Fair value of plan assets	448,423	494,286	0	0
<b>Net liability arising from the defined benefit obligation</b>	<b>(142,454)</b>	<b>(194,250)</b>	<b>(22,104)</b>	<b>(24,447)</b>
<b>Total liability</b>	<b>(164,558)</b>	<b>(218,697)</b>		

### Reconciliation of movements in the fair value of scheme assets:

	2019/2020	2018/2019	2019/2020	2018/2019
	Local Government Pension Scheme	Local Government Pension Scheme	Discretionary Benefits	Discretionary Benefits
	£000	£000	£000	£000
<b>Opening fair value of scheme assets</b>	<b>494,286</b>	<b>474,745</b>	<b>0</b>	<b>0</b>
Interest income	11,716	12,642	0	0
Re-measurement gain / (loss):				
The return on plan assets, excluding the amount included in the net interest expense	(43,244)	19,361	0	0
Contributions from employer	3,857	3,816	2,047	2,054
Contributions from employees into the scheme	2,431	2,293	0	0
Benefits/transfers paid	(20,623)	(18,571)	(2,047)	(2,054)
<b>Closing value of scheme assets</b>	<b>448,423</b>	<b>494,286</b>	<b>0</b>	<b>0</b>

### Reconciliation of present value of the scheme liabilities:

	2019/2020	2018/2019	2019/2020	2018/2019
	Local Government Pension Scheme	Local Government Pension Scheme	Discretionary Benefits	Discretionary Benefits
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	<b>(688,536)</b>	<b>(624,735)</b>	<b>(24,447)</b>	<b>(25,583)</b>
Current service cost	(16,622)	(13,606)	0	0
Interest cost	(17,131)	(17,484)	0	0
Contributions from scheme participants	(2,431)	(2,293)	0	0
Re-measurement (gains) and losses:				
Actuarial (gains)/losses from changes in demographic assumptions	26,902	0	0	0
Actuarial (gains)/losses from changes in financial assumptions	46,982	(48,883)	296	(918)
Other	42,373	(43)	0	0
Past service cost	(3,037)	(63)	0	0
Benefits/transfers paid	20,623	18,571	2,047	2,054
<b>Balance as at 31 March</b>	<b>(590,877)</b>	<b>(688,536)</b>	<b>(22,104)</b>	<b>(24,447)</b>

## Local Government Pension Scheme assets comprised:

	2019/2020 £000	2018/2019 £000
<b>Cash and Cash Equivalents</b>	<b>21,212</b>	<b>19,543</b>
<b>Equities: by industry type</b>		
Consumer		10,964
Manufacturing		10,651
Energy and Utilities		2,285
Financial Institutions		7,383
Health and Care		4,487
Information Technology		4,880
Other	38,977	248
<b>Sub-Total Equity</b>	<b>38,977</b>	<b>40,898</b>
<b>Debt Securities: by sector</b>		
Corporate Bonds (Investment Grade)	0	6,537
Corporate Bonds (Non-Investment Grade)	30,780	30,799
UK Government	19,913	21,680
Other	8,492	13,378
<b>Sub-Total Debt Securities</b>	<b>59,185</b>	<b>72,394</b>
<b>Real Estate - UK</b>	<b>59,675</b>	<b>58,320</b>
<b>Private Equity - All</b>	<b>23,807</b>	<b>25,090</b>
<b>Investment Funds and Unit Trusts:</b>		
Equities	191,297	231,625
Bonds	10,346	0
Infrastructure	26,557	23,957
Other	17,367	22,459
<b>Sub-Total Investment Funds and Unit Trusts</b>	<b>245,567</b>	<b>278,041</b>
<b>Total Assets</b>	<b>448,423</b>	<b>494,286</b>

## Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit 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 assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the East Riding Pension Fund being based on the latest full valuation of the scheme as at 31 March 2019. The full impact of Guaranteed Minimum Pension (GMP) equalisation is reflected within this latest valuation of the scheme.

The significant assumptions used by the actuary are set out in the following table:

	2019/2020	2018/2019
<b>Mortality assumptions:</b>		
<i>Longevity at 65 current pensioners (years):</i>		
Men	20.9	21.7
Women	23.3	24.2
<i>Longevity at 65 for future pensioners (years):</i>		
Men	21.8	23.7
Women	24.8	26.4
<b>Financial assumptions:</b>		
Rate of increase in salaries	2.8%	2.7%
Rate of increase in pensions	1.9%	2.5%
Discount rate	2.3%	2.4%
Rate of inflation (CPI)	1.9%	2.5%



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

Change in Assumption at 31 March 2020	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	9%	53,544
0.5% increase in the Salary Increase Rate	1%	4,160
0.5% increase in the Pension Increase Rate (CPI)	8%	48,997

### Impact on the Council's Cash Flows

It has been estimated that the contributions to the scheme for 2020/2021 will be approximately £8.770m.

## **Note 40 – Contingent Liabilities**

### **General Business Rate Appeals**

The Local Government Finance Act 2012 introduced a business rates retention scheme that enabled local authorities to retain a proportion of the business rates generated in their area. These new arrangements for business rates came into effect on 1 April 2013. Billing authorities acting as agents on behalf of the major preceptors (1%) and Central Government (50%), and themselves (49%) are required to make provisions for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

In 2017 a new rating list opened, and the 2010 rating list closed; local businesses can only now appeal against their rateable value in the 2010 list in limited circumstances. Due to this, the provision for the 2010 list has been estimated using trend analysis of the success and rate change based on each type of business rate category since the 2010 list opened. The provision for the 2017 list has been calculated using an average percentage rate in line with the multiplier uplift advised by central government. As a result, the council has included a total provision, covering both the 2010 and 2017 lists, of £6.5m (the overall provision in the Business Rates Collection Fund is £13.3m and this council's share of the Local Business Rates Retention scheme is 49%).

There may be further backdated claims, but it is difficult to estimate the likelihood of businesses both submitting and being successful with any new appeals and therefore the council has made no further provision in the accounts.

### **NHS Trust Business Rate Appeal**

The council is aware of an ongoing business rate appeal, whereby a number of NHS Trusts are taking forward a claim for NNDR Mandatory Charitable Relief to the High Court. One of the parties to the appeal is the Northern Lincolnshire and Goole Hospitals NHS Trust which currently pays business rates on the Diana, Princess of Wales Hospital in Grimsby. The financial impact of the appeal will depend on whether the Trusts are successful and the dates any relief is awarded for. No provision has been made within the accounts for the appeal at this stage, given the uncertainties surrounding the case. However, it is estimated that the maximum impact could be in the region of £2.5m for the council, if the appeal is successful.

## **Note 41 – Contingent Assets**

The council does not have any material contingent assets.

## **Note 42 – Trust Funds**

The council administers various funds that are not included within the council's Balance Sheet. These include the Charter Trustees for Grimsby and Cleethorpes (precepting bodies set up to preserve the historic rights and memorabilia of the former boroughs of Grimsby and Cleethorpes). There are a further three miscellaneous funds that retained balances at 31 March 2020. The movements on which during the year were as follows:

	2019/2020	2019/2020	2019/2020	2018/2019*	2018/2019*	2018/2019*
	Charter Trustees £000	Other Funds £000	Total £000	Charter Trustees £000	Other Funds £000	Total £000
Opening Balance at 1 April	167	26	193	163	26	189
In Year Movement	54	1	55	4	0	4
Closing Balance At 31 March	221	27	248	167	26	193

\*The 2018-2019 comparator figures have been restated to reflect omitted charter trustee investment

## **Note 43 – Agency Income & Expenditure**

The council provides Payroll Services for a number of academy schools. It pays the academy school employees and related deductions to third parties for such items as tax, national insurance and pension contributions and then these are charged back to the schools. Other than the fees received for providing the service the related income and expenditure is excluded from the Council's cost of services.

The income and expenditure associated with the Payroll Service to academy schools is not material to the accounts.

## **Note 44 – Long Term Contracts**

### **Engie**

On the 23 April 2010 the council entered into a 10 year Strategic Partnership with Engie for the provision of Highways, Planning, Regeneration, Facilities Management and Strategic Housing services with services commencing on 1 July 2010. The council has since agreed to extend the contract term by two years in accordance with Section 4 of the Services Agreement.

This is an outcomes based contract which requires Engie to achieve a series of performance targets during the contract term for which service credits can be paid back to the council if they are not met.

The initial value of the contract over the 10 years was £155m of which payments of £12.7m were made in 2019/2020. Contract payments are revised annually for both inflation and efficiencies identified by the partnership, in accordance with the terms of the Services Agreement.

### **Lincs Inspire Ltd**

On 1 May 2015 the council entered into a 25 year contract with Lincs Inspire to provide the following services:

- Statutory Library Services and Northern Lincolnshire Public Archives Services
- Leisure Centres, KGV Stadium, Bradley Football Centre, and Ormiston Academy Sports Service
- Sports and Development Service
- Grimsby Auditorium entertainment and cultural development programme

Lincs Inspire deliver and improve outcomes via a rolling three year business plan. In 2019/2020 they received £2.3m of contract payments from the council.

### **Newlincs**

The authority has a 25 year waste management contract with Newlincs Development Ltd. This has been extended by five years and runs until 2029. Contract payments for 2019/2020 were £6.6m.

## **Financial Relationship with Clinical Commissioning Group**

Following NHS reforms in 2013, the CTP was abolished and the council entered into a new section 75 agreement with the Clinical Commissioning Group in North East Lincolnshire for the delivery of adult social care and mental health services. The value of this work is now £45.7m. The previous legal agreement was then updated to reflect the fact that the council had taken direct responsibility for the delivery of public health and health improvement functions and in addition, the council had to reflect the fact the arrangements for children's health services were to be commissioned by the CCG and delivered by the council. As a result, a separate section 75 agreement has been entered into by the council with NHS England to enable the council to continue to commission certain children's health services, the value is currently £3.6m

During 2018/2019 the S75 agreement was rewritten to reflect the formal arrangements being developed around the "Union", essentially a wider integration and co-ordination of activities to assist with a more joined up approach, a more co-ordinated targeting of resources, with the aim of further improving the more effective and efficient use of limited resources.

## **Lincolnshire Partnership Foundation Trust**

A contract for the provision of Mental Health & Emotional Wellbeing services to children and adolescents living or registered with a GP in North East Lincolnshire runs until the 31 March 2021. This has an option to be extended for a further two years.

## **We Are With You**

A contract to deliver an integrated substance misuse service for young people and adults within North East Lincolnshire runs until the 31 March 2021 with an option to extend for a further two years.

## 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.

	2019/2020	2019/2020	2019/2020	2018/2019	2018/2019	2018/2019
	Business Rates	Council Tax	Total	Business Rates	Council Tax	Total
	£000	£000	£000	£000	£000	£000
<b>Income</b>						
Council Tax Receivable		(82,909)	<b>(82,909)</b>		(78,212)	<b>(78,212)</b>
Business Rates Receivable	(64,994)		<b>(64,994)</b>	(61,132)		<b>(61,132)</b>
<b>Total Amounts to Be Credited</b>	<b>(64,994)</b>	<b>(82,909)</b>	<b>(147,903)</b>	<b>(61,132)</b>	<b>(78,212)</b>	<b>(139,344)</b>
<b>Expenditure</b>						
<b>Apportionment of Previous Year Surplus/Deficit:</b>						
Central Government	(1,309)		<b>(1,309)</b>	2,370		<b>2,370</b>
Billing Authority	(1,282)	1,113	<b>(169)</b>	2,323	1,795	<b>4,118</b>
Fire Authority	(26)	61	<b>35</b>	47	101	<b>148</b>
Police Authority		148	<b>148</b>		235	<b>235</b>
<b>Precepts, Demands and Shares:</b>						
Central Government	29,587		<b>29,587</b>	29,063		<b>29,063</b>
Billing Authority	28,995	66,866	<b>95,861</b>	28,482	63,985	<b>92,467</b>
Fire Authority	592	3,673	<b>4,265</b>	581	3,516	<b>4,097</b>
Police Authority		9,656	<b>9,656</b>		8,494	<b>8,494</b>
<b>Charges to Collection Fund:</b>						
Write-offs of uncollectable amounts	789	(270)	<b>519</b>	742	178	<b>920</b>
Increase/(Decrease) in allowance for impairment	111	470	<b>581</b>	14	(68)	<b>(54)</b>
Appeals charged to appeals provision	(1,943)		<b>(1,943)</b>	(3,240)		<b>(3,240)</b>
Change in provision for appeals	3,366		<b>3,366</b>	3,789		<b>3,789</b>
Charge to General Fund for allowable collection costs for non-domestic rates	220		<b>220</b>	223		<b>223</b>
Payments in respect of Transitional protection	2,560		<b>2,560</b>	2,189		<b>2,189</b>
<b>Other transfers to General Fund in accordance with non-domestic rates regulations:</b>						
Enterprise Zone Growth	88		<b>88</b>	125		<b>125</b>
Renewable Energy	169		<b>169</b>	135		<b>135</b>
<b>Total amounts to be debited</b>	<b>61,917</b>	<b>81,717</b>	<b>143,634</b>	<b>66,843</b>	<b>78,236</b>	<b>145,079</b>
<b>(Surplus) / deficit arising during the year</b>	<b>(3,077)</b>	<b>(1,192)</b>	<b>(4,269)</b>	<b>5,711</b>	<b>24</b>	<b>5,735</b>
(Surplus) / deficit brought forward at 1 April	1,536	(1,993)	<b>(457)</b>	(4,175)	(2,017)	<b>(6,192)</b>
<b>(Surplus) / deficit carried forward at 31 March</b>	<b>(1,541)</b>	<b>(3,185)</b>	<b>(4,726)</b>	<b>1,536</b>	<b>(1,993)</b>	<b>(457)</b>

## **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:

### **For the Year Ended 31 March 2020**

<b>Council Tax Band</b>	<b>Valuation Band Limits</b>	<b>Calculated Number of Dwellings</b>	<b>Ratio to Band D</b>	<b>Band D Equivalent Dwellings</b>	<b>Council Tax Payable</b>
	£				£
AR	Reduced Rate	49	5/9	27	1,030
A	Up to & including 40,000	25,104	6/9	16,736	1,236
B	40,001 - 52,000	14,250	7/9	11,083	1,442
C	52,001 - 68,000	7,591	8/9	6,748	1,649
D	68,001 - 88,000	4,539	9/9	4,539	1,855
E	88,001 - 120,000	1,910	11/9	2,334	2,267
F	120,001 - 160,000	702	13/9	1,013	2,679
G	160,001 - 320,000	425	15/9	708	3,091
H	More Than 320,001	26	18/9	53	3,709
<b>Council Tax Base</b>				<b>43,241</b>	

The amount of Council Tax required for Band D, for North East Lincolnshire Council and its major preceptors, in 2019/2020 was calculated on the following basis:

(i) Preceptor's Council Tax Requirements	£80,195,133
(ii) Number of Band D equivalent Dwellings	43,241
Band D – (i) divided by (ii)	£1,855

## **Collection Fund Note 2 – Non-Domestic Rates**

Non-domestic rates are determined on a national basis by central government which sets an annual non-domestic rating multiplier amounting to 50.4p in 2019/2020 (49.3p in 2018/2019). The non-domestic rate multiplier for small businesses is 49.1p in 2019/2020 (48.0p in 2018/2019). Subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by this multiplier. Local rateable values were £152.6m in 2019/2020 (£153.0m in 2018/2019).

The council is responsible for collecting rates due from the ratepayers in its area and distributing the amount collected in the following proportions:

- 50% Central Government
- 49% North East Lincolnshire Council
- 1% Humberside Fire and Rescue Service

# GLOSSARY OF FINANCIAL TERMS

## Financial Abbreviations and Roundings

Throughout this document the standard financial abbreviations 'k' and 'm' have been used. 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, with those in the main statements being 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.

### 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 curtail significantly 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)**

Statements 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.

**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.

## **AUDIT & GOVERNANCE COMMITTEE**

<b>DATE</b>	12/11/2020
<b>REPORT OF</b>	Sharon Wroot
<b>SUBJECT</b>	Going concern
<b>STATUS</b>	Open

### **CONTRIBUTION TO OUR AIM**

The Council is required to obtain an external audit opinion on its statutory accounts on an annual basis.

### **EXECUTIVE SUMMARY**

The Council is required to assess and determine that it is appropriate to prepare its financial statements on a going concern basis. The going concern basis assumes that the Council will be able to realise its assets and liabilities in the normal course of business and that it will continue in business for the foreseeable future.

Whilst there remains a significant risk attached to the Council's future financial standing, arrangements are in place to manage and mitigate against this risk. Overall, we conclude that the financial statements should be prepared on a going concern basis and there are no matters that give rise to a material uncertainty over the going concern assertion in relation to the financial statements as a whole.

### **RECOMMENDATIONS**

Note the contents of the going concern assessment as part of the approval of the 2019/20 accounts.

### **REASONS FOR DECISION**

External audit require the Council to produce a summary report to the Audit Committee (or equivalent) to validate the going concern assertion.

### **1. BACKGROUND AND ISSUES**

Attached at Appendix 1 is the Council's Going Concern Assessment. This provides details of the Council's self-assessment of its financial standing. The main factors which underpin this assessment are the current financial position (2020/21), the projected financial position (2021/2024), the funding outlook, relative financial standing and governance arrangements including budget setting processes.

### **2. RISKS AND OPPORTUNITIES**

Key risks and opportunities are detailed within Appendix 1.

### **3. OTHER OPTIONS CONSIDERED**

N/A

#### **4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS**

The financial environment in which the Council is operating remains challenging and any significant financial issues will be communicated externally through a variety of media.

#### **5. FINANCIAL CONSIDERATIONS**

As set out in the report

#### **6. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

The Council's financial strategy looks towards consuming resources more efficiently, eliminating waste and supporting and developing the green economy and infrastructure. This includes recognising and realising the economic and social benefits of a high-quality environment.

#### **7. FINANCIAL IMPLICATIONS**

As set out in the report

#### **8. LEGAL IMPLICATIONS**

There are no legal issues immediately arising from the content of this report given that it is a vehicle to advise the committee on the current position.

#### **9. HUMAN RESOURCES IMPLICATIONS**

There are no direct HR implications arising from the contents of this report.

#### **10. WARD IMPLICATIONS**

All wards affected

#### **11. BACKGROUND PAPERS**

Outcomes Framework, Commissioning Plan and Budget 2020/21 – 2022/23.

#### **12. CONTACT OFFICER(S)**

Guy Lonsdale, Head of Finance and Deputy S151 Officer

**SHARON WROOT**  
**DIRECTOR OF RESOURCES**

## **Appendix 1 – 2019/20 Financial Accounts – Going concern Assessment**

### **Introduction**

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

The going concern basis assumes that the Council will be able to realise its assets and liabilities in the normal course of business and that it will continue in business for the foreseeable future.

The main factors which underpin this assessment are the current financial position (2020/21), the projected financial position (2021/2024), the funding outlook, relative financial standing and governance arrangements including budget setting processes.

### **Background**

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

International Accounting Standard (IAS) 1 requires management to make an assessment of an entity’s ability to continue as a going concern. 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, 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.

Normally, councils publish their budgets for 2020/21 in February/March, which was before Covid19 struck, therefore external audit expect local authorities to be updating their medium-term financial plans and 2020/21 budgets in response to Covid19.

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

## Current year forecast (2020/21)

The Council is forecasting an overspend of £1.4M against its approved budget for 2020/21. Financial pressures are being felt across all areas of the Council's activities predominantly as a consequence of the ongoing Coronavirus pandemic. The Council, along with other councils across the country, is facing some significant challenges as it leads the effort to support communities through the crisis.

The Council is facing additional financial burdens and pressures created by the response to the emergency, across all areas, including social care, and range from responding to pressure created by additional hospital discharge, provider sustainability, increasing costs associated with children at risk or looked after, to pressures created by delays to implementing or delivering savings programmes.

As the emergency situation continues, we anticipate the financial impact of the slowdown in the local economy will impact on the Council's income base. At present, collection rates are holding up but local taxation makes up around 80% of our income base and is therefore very sensitive to any change. This of course will also impact on future years in terms of collection and bad debts, if the economy continues to slow or stall.

The Council also generates income through other sources of fees, sales and charges such as car parking income, income from the commercial estate. All of these income streams have been impacted as a result of the current situation. The latest financial position (period 5) is shown below:

REVENUE	Budget £'M	Forecast £'M	Variance £'M
Corporate & Democratic Services	2.9	5.8	2.9
Environment	16.5	16.3	(0.2)
Economy & Growth & Housing	22.9	24.0	1.1
Childrens & Family Services	40.3	45.7	5.4
Public Health & Leisure	4.8	5.3	0.5
Adult Services	45.3	49.0	3.7
	<b>132.5</b>	<b>145.9</b>	<b>13.5</b>
Corporate Budgets	5.0	4.1	(0.9)
	<b>137.5</b>	<b>150.0</b>	<b>12.6</b>
Earmarked reserves	0.7	0.7	0.0
School Balances	(1.2)	(1.2)	0.0
<b>Total</b>	<b>137.0</b>	<b>149.6</b>	<b>12.6</b>
Funding	(137.0)	(137.0)	0.0
Covid-19 Funding	0.0	(11.2)	(11.2)
<b>Net</b>	<b>0.0</b>	<b>1.4</b>	<b>1.4</b>

The Government has recognised the efforts that councils are making and responded to concerns regarding the financial strain being put on the sector by providing additional funding and providing a commitment that they will receive the resources they need to deal with the direct impacts of the pandemic. To date the Council has received £11.2M in direct grant in year which is offsetting, to a degree, the financial pressures being faced.

Nevertheless, there is still a degree of uncertainty attached to the current forecast

position. The reported position excludes any additional income that may be receivable through fees and charges scheme and the funding position shows a nil variance as any losses will crystalize within 2021/22 through collection fund deficit.

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

### **Medium Term Financial Plan 2021/2024**

As part of the Council's response, the current financial plan, its priorities and programmes will be revisited to determine the full and detailed extent of the impact of the emergency response. As part of that work we will explore opportunities to review our plans, and to build on some of the successes of different ways of working and how they could be factored into new operating models in future.

However, there is still a great deal of uncertainty in relation to longer term impact of the pandemic. These include:

- Ability to spread collection fund losses over longer period
- Level of support for losses in income and fees and charges in future years
- Ongoing service impacts or/and whether there will be further additional Covid-19 grant allocations
- Numbers accessing LCTSS and the resultant impact on council tax base.
- Council tax price increases, social care precept and referendum limits
- LG Financial settlement & Comprehensive spending review

In addition, there is still a great deal of uncertainty linked to the impact of Brexit negotiations and any future funding.

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

### **Funding outlook**

Based upon the information that the council has available to it at the present time a range of potential funding scenarios have been modelled for 2021/22 and beyond.

These assume that the fair funding review and extension of business rate retention have been postponed and existing grants are maintained at their current level. It has also been assumed that business rate income protection arrangements will remain in place through the safety net arrangement.

The current medium-term financial plan assumes that the council would see

continued economic and housing growth over the medium term. The revised planned assumptions now assume that this growth will be impaired over medium term.

Initial indications are that the council's overall funding will be impaired in overall terms and directors have been tasked with assessing the potential impact on services of a reduction of this magnitude.

## **Capital investment**

The underlying principles of the Council's capital strategy align to the financial strategy. Capital investment should support key outcomes, follow commercial principles (where applicable) and support the economic and efficient delivery of core services. However, there is an acknowledgment that the strategy must also be affordable, prudent and sustainable.

The Council's financial and capital investment strategies remain focused on creating a sustainable funding base to allow priority services to be delivered. Through the MTFP, the Council has taken an ambitious approach to securing long term financial sustainability for the area by exploiting opportunities for inward investment, external funding and greater partnership working. The Council has demonstrated its commitment to the growth of the tax base through the 'Town Deal' and South Humber Infrastructure and Investment Programme which will deliver wider economic and housing growth in North East Lincolnshire. Only by embracing the area's economic potential and by budgeting for growth can the Council become self-sufficient and generate the resources necessary to maintain and reinvest into public services.

## **Reserves and provisions**

The Council holds reserves for three specific purposes:

- General reserves to deal with unexpected events and help smooth the impact of uneven cash flows;
- Corporate and technical reserves to smooth the Council's financial position and prevent knee-jerk reactions that would otherwise impact on service budgets; and
- Partner and Service Reserves - held for specific purposes relating to service delivery. These are held in addition to defined budget envelopes and used to support clearly defined activity and outcomes over and above business as usual

The overall financial standing of the Council is being continually monitored with a focus upon the adequacy of reserves and the stewardship of public funds. The Coronavirus pandemic will undoubtedly put additional pressure on reserves over the short to medium term and this is being addressed as part of ongoing monitoring.

General fund reserves, set aside to deal with any unforeseen events, remained at

£8.3m at the end of the 2019/20 financial year. This is in line with the medium-term financial plan and considered to be a prudent level considering the increased level of risk to which the Council is currently exposed. As part of the planning process, we the level of this reserve to ensure its continued adequacy. An additional earmarked reserve has been established to manage the additional Coronavirus funding received from Government. These reserves will be drawn down in 2020/21 as the impacts of Coronavirus are recognised within the Council's accounts. Other earmarked reserves will continue to be utilised to support transformational change and initiatives designed to deliver longer term returns.

The Council is continuing to experience ongoing pressures and uncertainty in relation to business rates which are being negatively affected by valuations and appeals and ongoing economic uncertainty. Consequently, the Council continues to hold a provision in its accounts based upon the level of appeals received from businesses, the likelihood of success and potential write offs. The provision is subject to regular review considering the number of appeals and the latest information on the probability of success.

## **Cash**

The Council continues to operate within its approved treasury management strategy and focus is on the efficient management of working capital. Returns on investments remain lower than those payable on borrowing and therefore the council maintains minimum cash balances to reduce the cost of carry.

The Coronavirus pandemic has already led to some material changes in the Council's normal cash flows and this has necessarily required increased oversight in terms of the treasury management function. Maintaining liquidity in the current environment is considered essential.

The Council maintains short and long-term cash flow projections, and manages its cash, investments and borrowing in line with the Council approved Treasury Management Strategy. No cash flow concerns are anticipated during the 2020/21 financial year.

## **Governance and Oversight**

The council has a well-established and robust corporate governance framework.

The latest Annual Governance Statements (AGS) has been reviewed taking into account external and internal audit reviews, our risk assessments and knowledge of our control environment. The review of our governance arrangements has concluded that they are effective. However given the current challenges and uncertainties, there will be an increase level of political engagement within the budget process for the period 2021/24.

These will be the introduction of Star Chamber approach to deal with a major suite of challenges, across our responsibilities and our budget. The Star Chamber is effectively an informal meeting of cabinet members supported by senior officers.



Its primary purpose will be to examine the current and future finance and commissioning plans with the aim of achieving improved value for money, identifying efficiencies and ensuring resources focused on priority areas. The forum will provide a focus for ensuring that existing finance and commissioning plans are being delivered or alternative plans are being brought forward. These enhanced governance arrangements will review delivery and progress against existing commissioning plans and shape Service Plan objectives and key actions for 21/22 and beyond.

The Leader and PfH finance will hold / retain a degree of independence from the rest of the Cabinet during the budget process and focus on fostering a collective responsibility approach across the portfolios.

## **Conclusion**

The Council's accounts have been prepared on the presumption of going concern but acknowledge the significant impact that Covid-19 has had. The Council's current financial plan was established prior to the covid-19 outbreak and therefore will require significant revision as part of this years budget refresh.

No immediate financial concerns are anticipated during the 2020/21 financial year. Whilst the council has seen a significant financial impact this has been largely offset by additional grant income received from Government in year. The residual financial risk attached to the in year budget is not considered to be material.

At the present time there is a significant degree of uncertainty attached to the Council's future funding position. Therefore a range of potential scenarios have been modelled and preparatory work is already underway to assess the impact on budgets and future service provision. A clear budget timetable has been established and enhanced governance arrangement put in place to challenge assumptions.

In conclusion, whilst there remains a significant risk attached to the council's future financial standing, arrangements are in place to manage and mitigate against this risk. Overall, we conclude that the financial statements should be prepared on a going concern basis and there are no matters that give rise to a material uncertainty over the going concern assertion in relation to the financial statements as a whole.

## **AUDIT & GOVERNANCE COMMITTEE**

<b>DATE</b>	12/11/2020
<b>REPORT OF</b>	Sharon Wroot
<b>SUBJECT</b>	Mandatory questions to management and those charged with governance ('audit and governance committee')
<b>STATUS</b>	Open

### **CONTRIBUTION TO OUR AIM**

The Council is required to obtain an external audit opinion on its statutory accounts on an annual basis.

### **EXECUTIVE SUMMARY**

This report summarises the joint Management and Audit and Governance Committee response to the enquiries made by external audit as part of their audit procedures.

### **RECOMMENDATIONS**

Note the contents of the report as part of the approval of the 2019/20 accounts.

### **REASONS FOR DECISION**

External audit is required to make enquiries of Management and the Audit and Governance Committee (representing 'those charged with governance') as part of their external audit procedures. Specific questions are posed to inform the external auditor's assessment of the risk of fraud and error within the financial statements.

### **1. BACKGROUND AND ISSUES**

Attached at Appendix 1 is the joint response from management and the Audit and Governance Committee. Appendix 2 details further questions relating specifically to fraud.

### **2. RISKS AND OPPORTUNITIES**

Key issues are detailed within Appendix 1 and 2

### **3. OTHER OPTIONS CONSIDERED**

N/A

### **4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS**

The financial environment in which the Council is operating remains challenging and any significant financial issues will be communicated externally through a variety of media.

### **5. FINANCIAL CONSIDERATIONS**

As set out in the report

## **6. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

The Council's financial strategy looks towards consuming resources more efficiently, eliminating waste and supporting and developing the green economy and infrastructure. This includes recognising and realising the economic and social benefits of a high-quality environment.

## **7. FINANCIAL IMPLICATIONS**

As set out in the report

## **8. LEGAL IMPLICATIONS**

There are no legal issues immediately arising from the content of this report given that it is a vehicle to advise the committee on the current position.

## **9. HUMAN RESOURCES IMPLICATIONS**

There are no direct HR implications arising from the contents of this report.

## **10. WARD IMPLICATIONS**

All wards affected

## **11. BACKGROUND PAPERS**

Outcomes Framework, Commissioning Plan and Budget 2020/21 – 2022/23.

## **12. CONTACT OFFICER(S)**

Guy Lonsdale, Head of Finance and Deputy S151 Officer

**SHARON WROOT**  
**DIRECTOR OF RESOURCES**

## **Appendix 1 – Joint Management and Audit and Governance Committee (‘Those Charged with Governance’) Response to Mazars Request For Information**

### **Introduction**

Mazars are required to make annual enquiries of Management and the Audit and Governance Committee (representing ‘those charged with governance’) as part of their external audit procedures. International Auditing Standards require auditors to enquire about arrangements the Council has put in place to:

- prevent and detect fraud;
- comply with applicable law and regulations; and
- assess the appropriateness of the going concern assumption.

Key questions for the year ended 31 March 2020 are detailed below.

#### **1) How do you exercise oversight of management's processes in relation to:**

- **undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error;**
- **identifying and responding to risks of fraud in the Council, please detail any specific risks of fraud which management have identified, and**
- **classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;**
- **communicating to employees its view on business practice and ethical behaviour; and**
- **communicating to you the processes for identifying and responding to fraud or error.**

The Audit and Governance Committee contributes to the achievement of effective oversight by seeking and receiving assurance on systems of risk management, governance and internal control.

The committee play a key role in the approval of the annual statements of accounts on behalf of the Council. The committee consider the content of the external auditor's Annual Governance Report and where appropriate challenge officers and the external auditors on the content of the accounts. Ahead of the formal consideration of the Statement of Accounts, the committee review proposed accounting policies.

The Statement of accounts themselves are subject to detailed Quality Assurance processes and overall review by senior officers. Working papers are prepared for all material balances within the accounts which can be reconciled back to the financial ledger and supporting working papers. Throughout the year, the Audit and Governance Committee receive regular updates on the annual accounts

process, preparation and progress, and have the opportunity to discuss any issues with the external auditor and Head of Internal Audit during and after scheduled meetings.

The Audit and Governance Committee play a key oversight role in relation to fraud and error identification. The committee receive both an interim and annual report on anti-fraud activities taking place within the Council and also approve the Council's Anti-Fraud and Corruption Strategy. The annual report provides assurance in relation to the effectiveness of the Council's anti-fraud and corruption approach as required by its terms of reference.

A risk assessment has been carried out by the fraud team, the outcome of which is referred to in the Annual Fraud Report. The risk assessment helps prioritise the work of both the audit team and fraud team.

The Council has a code of conduct which describes the standards of conduct and practice which all Council employees should follow. The code of conduct is a key component of the Council's code of governance which is part of the Constitution. In particular, core principle A lays out the Council's arrangements for "behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law section".

The code of conduct is designed to:

- a) promote fairness and consistency in the treatment of individuals.
- b) assist in the effective operation of the Council.
- c) establish the required standards of conduct of employees of the Council ; and
- d) maintain satisfactory relationships within the workforce and between the employees and management.

The code is a key element in the employment relationship and an integral part of the contract of employment, forming the basis of an employee's induction. Managers and supervisors are required to ensure that all employees are aware of and understand the code, providing support and guidance where required to meet the code.

The Council operates a Policy for Raising a Concern (Incorporating the Whistleblowing Policy) and enables any individual to register, in confidence, any concerns regarding alleged misconduct and fraudulent or corrupt activity. This can be found on the Council's intranet.

Employees are required to not allow their personal interests to conflict with the Council's requirements in either their official or personal capacity nor use their position to improperly confer an advantage or disadvantage on any person or organisation. Employees are required to declare any potential conflicts of interest that they have, or a relative, associate or close friend has in connection with the Council.

**2) How do you oversee management processes for identifying and responding to possible breaches of internal control? Are you aware of any significant breaches of internal control during the financial year?**

It is the responsibility of management to develop and maintain sound systems of risk management; internal control and governance. This includes the requirement to identify and respond to any identified breaches of internal control.

However, it is noted that internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making; human error; control processes being deliberately circumvented by employees and others; management overriding controls and unforeseeable circumstances.

The Council operates the three lines of defence model of assurance as described in both the Code of Governance and the Annual Governance Statement. In terms of oversight, the Council's internal audit function plays a key role in this regard. Internal audit work is not a substitute for management's responsibilities for the design and operation of these systems, and is not responsible for identifying all significant control failures. However, the internal audit team has an important role in providing assurance on the Council's control environment and providing a view on the council's processes for identifying control failures, and endeavours to plan its work so that work is focused on those areas where the likelihood of a significant control failure is greatest. A risk based audit plan is produced based on best practice, reference to the strategic and operational risk register, and engagement with senior managers. The methodology for prioritising audit work is set out in the audit plan. The Audit and Governance Committee receive a range of assurances/reports during the year which touch upon aspects of internal control.

These reports support the committee to discharge its oversight responsibilities. Reports in 2019/20 have included:-

- Audit Plans (internal and external audit)
- Head of Internal Audit Report and internal audit updates
- Annual Governance Statement
- Accounting policies, Annual Accounts and External audit Annual Governance Report
- External Audit Management Letter
- Partnership Governance updates
- Treasury management annual report and updates
- Annual Fraud reports and updates
- Risk management update / Strategic Risk register

We are not aware of any significant breaches of internal control during the 2019/20 financial year.

**3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of significant non-compliance during the financial year?**

The Council is subject to a range of legal and regulatory frameworks. Regular monitoring of compliance with laws and regulations is undertaken by the Council's Monitoring officer. All cabinet and council reports are subject to legal, financial and HR review and comment to ensure key issues are identified. Key risks in relation to compliance with laws and regulations are captured within the Council's risk register. Further information is detailed within the Council constitution which is available on the Council's website. As part of the compilation of the Annual Governance Statement the Monitoring Officer is asked to provide assurance as to whether he is aware of any significant material legalities in year.

We are not aware of any instances of significant non-compliance during the financial year.

**4) Are you aware of any actual or potential litigation or claims that would affect the financial statements?**

We are not aware of any significant litigation or claims against the Council. All material issues would be reported within financial statements in the form of either provisions or contingent liability note. As part of the closedown processes, managers across the Council are consulted as to whether they are aware of any actual or potential litigation or claims affecting the accounts. Furthermore, there is ongoing review of any emerging financial risks through the Assurance Board.

**5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern?**

Going concern has been assessed as part of Council's budget setting process in February 2020. The budget setting process requires the Council's S151 Officer (Director of Resources and Governance) to provide a view on the robustness of estimates and the adequacy of reserves.

No issues in relation to going concern were highlighted as part of the report presented alongside the financial accounts to Audit and Governance Committee in August 2019.

In March 2020, the Council was significantly impacted by the worldwide Coronavirus pandemic. This has affected all aspects of the Council's activities, its cash flows, transformation plans and ways of working. Income has been impaired and additional costs incurred as part of the Council's response. Additional grant has been received from Government to offset the impacts and there is ongoing engagement with MHCLG regarding the future funding model for Local Government. As part of the budget setting process for 2021/22 and review of the MTFP the impacts of Coronavirus are being considered with a range of funding scenarios considered.

## **Appendix 2 - Further questions relating specifically to fraud to inform the external auditor's assessment of the risk of fraud and error within the financial statements**

### **1. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2019 -31 March 2020?**

A number of suspected / alleged instances of fraud occurred during 2019/20. These are detailed within the Council's Annual Fraud Report for 2019/20 (received by audit and governance committee in July 2020). Cases included those related to housing benefit/council tax, insurance claims. No material frauds to report.

### **2. Do you suspect fraud may be occurring within the organisation?**

As detailed above, instances of fraud have been identified during 2019/20. However these examples are isolated in nature and have been identified through the Council's internal control and fraud response mechanisms.

### **3. Have you identified any specific fraud risks within the Council?**

The key fraud risks within the Council include:-

- Council tax supports and discounts
- Housing benefits
- False or exaggerated insurance claims.
- Misuse of Council assets.

### **4. Are you satisfied that internal controls, including segregation of duties, exist and work effectively (if 'yes', please provide details)? If not where are the risk areas?**

The Council had adopted the three lines of defence model of assurance. Based upon the Audit and Governance Committee's work programme and reviews undertaken by internal audit, satisfactory assurance has been obtained that there is a sound system of internal control in place. Key controls such as the segregation of duties, management review and supervision and authorisation and approval are evident in each of the Council's core systems. In overall terms, internal audit have concluded that controls are effective.

Where appropriate other sources of assurance, such as work by other inspectorates and peer reviews, or internal reviews carried out within the Council has been relied upon by the audit and governance committee.

It is acknowledged that maintaining an effective control environment is challenging in a time of reducing resources and a changing operating environment. For this reason, internal audit will have a continued role in supporting the council in ensuring that an adequate but appropriate control



environment is in place.

**5. How do you encourage staff to report their concerns about fraud?**

The Council promotes a zero tolerance toward fraud and promotes a culture that enables individuals to identify potential fraud and empowers them to report their concerns in a safe and secure manner to the appropriate people at the right time.

The means by which employees can report fraud are publicised on the Council's intranet. Fraud issues are widely communicated both internally and externally to provide a deterrent to fraudsters by highlighting the Council's commitment to identify fraud and take proactive action to pursue fraudsters.

**6. What concerns about fraud are staff expected to report?**

The Council's Anti-Fraud and Corruption Strategy requires managers to ensure all employees are aware of their responsibilities under the anti-fraud and anti-corruption framework and ensure employees are aware of the process for reporting allegations of fraud.

Employees are expected to have an understanding of expected behaviour and of their responsibility to report suspected fraud or corruption and the appropriate methods to do so. The Council has a zero tolerance attitude towards fraud and promotes a culture whereby they are able to recognise fraud and abuse and know how and where to report.

The fraud response plan lays out the reporting mechanisms and how any subsequent investigations will be carried out

**7. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?**

We are not aware of any related party relationships or transactions that could give rise to instances of fraud.

**8. How do you mitigate the risks associated with fraud related to related party relationships and transactions?**

Disclosure of significant related party relationships is required for both members and officers in positions of influence.

Any allegations involving employees are dealt with through the council discipline procedure and where cases are proven appropriate sanctions issued which may include dismissal.

**9. Are you aware of any entries made in the accounting records that you believe or suspect are false or intentionally misleading?**

We are not aware of any accounting entries which are suspected to be false or

intentionally misleading. Should management become aware of any suspect accounting entries, these would be subject to immediate investigation through internal audit.

**10. Are there particular balances in the accounts where fraud is more likely to occur?**

Investigations mainly relate to allegations of fraud in respect of false claims for Council Tax discounts and support and into abuses of the Disabled persons Blue Badge Scheme. In response the Council undertakes periodic reviews of eligibility.

**11. Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?**

We are not aware of any assets, liabilities or transactions that have been improperly included or omitted from the Council's accounts. Should any issues arise it is expected that these would be identified through review and approvals processes.

**12. Could a false accounting entry escape detection? If so, how?**

Although all allegations are investigated and pursued, there is an underlying risk that some instances of potential fraud, corruption and misconduct may not be identified and thus brought to the attention of those with the responsibility of investigating allegations. For example, whilst it has been concluded that there is a sound system of internal control in place, there is always the risk that individuals could collude in order to avoid detection.

In mitigation, the Council undertake a proactive work programme including substantive testing of areas identified as high risk.

**13. Are there any external fraud risk factors?**

All public bodies are at risk from fraud in one form or another, acknowledging this fact is vital in developing an effective anti-fraud response. Individual services need to understand where the risk of fraud lies and the consequences of those frauds (whether that be financial, reputation or other consequence) to enable them to develop an appropriate risk based response.

Current and emerging risks are identified from a number of sources including the National Anti-Fraud Network (NAFN) and other law enforcement agencies. These are disseminated to relevant Council teams to raise awareness. Examples of fraud risk continue to be shared in the 'risk roundup' publication that is publicised on the Council's internal network.

We have also publicised specific fraud threats that are targeted at our residents to help keep them safe. This included the recent threat from fraudsters purporting

to be from the Council offering residents a refund on their Council tax. A warning was sent to all staff, publicised on the website and through our various social media outlets.

**14. Are you aware of any organisational or management pressure to meet financial or operating targets?**

Despite continued financial challenges within the Local Government sector, we are not aware of any organisational or management pressure to meet financial or operating targets.

**15. Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?**

Further to the response above, we are not aware of any inappropriate organisational or management pressure being applied, or incentives offered, to meet financial or operating targets.

**16. What arrangements has the Council put in place in response to the Bribery Act 2010?**

The Council has a published Anti Bribery and Corruption Policy which applies to all activities and employees. Employees include but are not limited to those who are directly employed, agency staff, contractors, non-executives, agents, Members (including independent members), volunteers and consultants.

For partners and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy. Both Cabinet and Senior Leadership Team are committed to preventing bribery by persons associated with the council. The Policy states that the Council will not offer bribes or any other improper inducements to anyone for any purpose, nor will they accept bribes or improper inducements.

The Council has a strong Counter Fraud Strategy that is reviewed as a minimum bi-annually and approved by the Audit Committee. It contains a clear and unambiguous message that the council will not tolerate fraud and corruption. The Council regularly assesses the nature and extent of its exposure to potential external and internal risks of bribery on a periodic basis. It is assessed on both financial risk and reputation risk.

The Council seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the council through internal and external communication, including training and e-learning that is proportionate to the risks it faces.

**17. Please detail any other areas of concern in relation to management processes and arrangements you wish to raise with us.**

No other areas of concern have been noted.