Public Document Pack

West Lindsey District Council

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AGENDA

<u>This meeting will be recorded and the video archive published on our website</u>

Governance and Audit Committee
Tuesday, 14th March, 2023 at 10.00 am
Council Chamber - The Guildhall

Members: Councillor John McNeill (Chairman)
Councillor Mrs Jackie Brockway (Vice-Chairman)
Councillor Stephen Bunney
Councillor Mrs Tracey Coulson
Councillor Christopher Darcel
Councillor Mrs Caralyne Grimble
Councillor Mrs Angela White
Alison Adams
Andrew Morriss

1. **Apologies for Absence**

2. **Public Participation Period**
Up to 15 minutes are allowed for public participation. Participants are restricted to 3 minutes each.

3. **Minutes of Previous Meeting** (PAGES 3 - 9)
To confirm and sign as a correct record the Minutes of the Meeting of the Governance and Audit Committee held on Tuesday 24 January 2023.

4. **Members Declarations of Interest**
Members may make any declarations of interest at this point but may also make them at any point during the meeting.

5. **Matters Arising Schedule** (PAGES 10 - 12)
Matters Arising schedule setting out current position of previously agreed actions as at 6 March 2023.

Ian Knowles
Head of Paid Service
The Guildhall
Gainsborough

Monday, 6 March 2023

WEST LINDSEY DISTRICT COUNCIL

MINUTES of the Meeting of the Governance and Audit Committee held in the Council Chamber - The Guildhall on 24 January 2023 commencing at 10.00 am.

Present:	Councillor John McNeill (Chairman)
	Councillor Mrs Jackie Brockway (Vice-Chairman)
	Councillor Stephen Bunney
	Councillor Mrs Tracey Coulson
	Councillor Christopher Darcel
	Councillor Mrs Angela White
	Alison Adams
	Andrew Morriss

In Attendance:

Emma Foy	Director of Corporate Services and Section 151 Officer
Emma Redwood	Assistant Director of People and Democratic Services
Peter Davy	Financial Services Manager (Deputy Section 151 Officer)
Mark Dalton	Director, Mazar's (External Auditor)
Alastair Simson	Principal Auditor, Lincolnshire County Council
Katie Storr	Democratic Services & Elections Team Manager
Ele Snow	Senior Democratic and Civic Officer
Andrew Warnes	Democratic and Civic Officer

Apologies: Councillor Mrs Caralyne Grimble

38 PUBLIC PARTICIPATION PERIOD

There was no public participation.

39 MINUTES OF PREVIOUS MEETING

RESOLVED that the Minutes of the previous Meeting of the Governance and Audit Committee held on 29 November 2022 be approved and signed as a correct record.

40 MEMBERS DECLARATIONS OF INTEREST

There were no declarations of interests made at this point in the meeting.

41 MATTERS ARISING SCHEDULE

With no comment, the Matters Arising Schedule was duly **NOTED**.

42 AUDITOR'S ANNUAL REPORT (YEAR ENDED 31 MARCH 2022)

Members considered the Auditor's Annual Report, which presented to those charged with governance, the work undertaken by Mazar's (the Council's External Auditor) for the year ended 31 March 2022. The External Auditor introduced the report and provided Members with brief contextualisation as to the report's purpose, highlighting the key headlines as follows:-

- An unqualified audit opinion on the 2021/22 Statement of Accounts;
- That no significant weaknesses in Value for Money arrangements were identified and no recommendations arose from the work done; and
- No questions or objections in respect of the Council's financial statements were received by the auditor's under the Local Government and Accountability Act 2014.

Members were advised that the report confirmed the information given at the previous meeting of the Committee, in that Mazar's had given an unqualified audit opinion in November 2022, and there were no further points to bring to the Committee's attention.

The wider responsibilities of complying with HM Government's accounts reporting requirements, and the obligatory aspects to submitting information was also highlighted to the Committee. The Value for Money for arrangements were assessed looking at three key points:-

- Financial Sustainability;
- Governance, and;
- Improving economy, efficiency and effectiveness.

Section 3 of the report provided further Value for Money commentary. Section 4 of the report detailed the fees of the auditor's work, which the Auditor explained that the fees had been made in consultation with Management Team. In concluding his presentation, the External Auditor re-iterated no significant weaknesses had been identified through the work and there were no arising recommendations for the Council to address.

Debate ensued, and Members praised the clarity of the report and the different stylisation of previous reports. The Chairman emphasised that this was likely to be the last annual report to be conducted by Mazar's, and asked successors to take note of the Committee's request for user friendly, and larger font reports.

A Member raised a query about the number of other local authorities audited by Mazars, to enquire the benchmarking tools employed by the Auditor. In response, Members were advised the External Auditor had over one hundred clients, and whilst benchmarking was not explicit, due to the nature of the work and natural comparisons made, it was implicit. Members were reassured that the report had positive commentary, and gave praise to the results.

Having been moved and seconded on being put to the vote it was unanimously

RESOLVED that the content of the report be accepted.

43 INTERNAL AUDIT QUARTER 3 REPORT 2022/23

Members considered the Internal Audit Quarter 3 Report 2022/23 by Assurance Lincolnshire against the 2022/23 Annual programme agreed by the Governance and Audit Committee in March 2022.

In presenting the report, the Officer highlighted to the Committee that during the period since the last report, Internal Audit had completed two assurance audits and had seven further audits in progress.

The audits which had been completed were:-

- Contract Management – Substantial Assurance
- Housing Benefit Subsidy – no issues identified

The audits at draft report were:-

- Levelling Up Fund phase 1 – indicative opinion High Assurance
- Staff Resilience – indicative opinion High Assurance
- ICT Patch Management – indicative opinion High Assurance
- Risk Management – indicative opinion Substantial Assurance

The audits in progress were:-

- Combined Assurance – Fieldwork
- ICT Patch Management – Fieldwork
- CRM System – Terms of Reference agreed, work to start in February 2023

The Principal Auditor highlighted the recent staffing changes within Assurance Lincolnshire, which included the newly appointed Head of Internal Audit having started her post. Members also learned that following the Committee's communication to LCC, flood management had been included in the County's Audit Plan for next year. Reference was made to the work which had commenced in formulating the Annual Audit Plan 23/24 for West Lindsey, Members had previously raised Whistle-blowing as a potential area and other indicative areas were detailed on page 53 of the pack.

Debate ensued on the contents of the report. A Member questioned the contract management assurance, enquiring about the statement, on page 48, that there was evidence of engagement with contractors to monitor performance at the intervals specified and whether there was an any assessment on the quality of that engagement. The Principal Auditor confirmed his belief that it solely related to discussions on the contract performance but would confirm his understanding to Members outside of the meeting.

In response to a set of queries on the lack of low-level rated assurances and the consideration of other issues, the Principal Auditor assured Members that the Audit plan measured issues that had no recent review, or were previously rated high risk issues Members heard that consideration of the audit plans was continuous, and were in liaison with the Management Team.

In responding to questions around capacity, the Principal Auditor confirmed he considered capacity was sufficient to deliver the plan and the Committee would continue to receive its quarterly plans.

Having been moved and, seconded, on being put to the vote it was unanimously

> **RESOLVED** that having considered the content of the report, no further actions be identified.

44 DRAFT TREASURY MANAGEMENT STRATEGY 2023/24

Members considered the Draft Treasury Management Strategy 2023/24, Prudential indicators, Minimum Revenue Provision (MRP) Policy, and the capital investment strategy, introduced by the Financial Services Manager and Deputy Section 151 Officer, and present to the committee for scrutiny prior to being presented for approval by Full Council in March.

Prior to the Officer's presentation, the Chairman sought assurance from the Section 151 Officer with regard to the training requirements. The Officer confirmed that five of the Members sitting on the Committee had received or participated in the required training, in line with constitutional requirements.

The Strategy had been devised against a back drop of economic uncertainty with high levels of inflation and high interest rates not seen for many years. The Authority's Treasury position was impacted by this in two principal ways, namely he amount it received on invested funds was increasing but the cost of holding debt was higher when it was re-financed. The decisions of when to invest and when to borrow were key to maximising returns and limiting interest costs. The Council's Treasury Advisers predicted that interest rates would increase in the short term and then reduce in the mid-term. This meant if borrowing was required then it should be undertaken on a short-term basis, allowing refinancing at lower rates. The Strategy contained details of the current economic picture at Appendix C.

The Strategy incorporated the requirements of the new 2021 CIPFA Prudential Code. For the Authority, new Prudential indicators had been included which reflected the Borrowing Liability Benchmark and which illustrated the lowest risk level for borrowing, Commercial income as a percentage of Net Revenue Expenditure and due consideration was now required to be given to environmental, social and governance (ESG) factors where possible when investing.

The Treasury Management Strategy brought together a number of strategies and policies, these being:-

- The Borrowing Strategy, which ensured consideration is given to affordability and sustainability for the repayment of debt.
- The Annual Investment Strategy which was to provide security of the investment, considered liquidity and cashflow requirements, and finally yield, all of which were

considered in the context of the Authority's risk appetite.
- The MRP policy which determined how the Authority would repay prudential borrowing on an annual basis.
- The Committee was also requested to consider the Capital Investment Strategy, which is the framework by which capital investment and financing decisions will be made.

Draft prudential and treasury indicators were calculated in December 2022. These would therefore be updated based on the final Capital Programme and Medium-Term Financial Analysis prior to the final version being submitted to Full Council in March 2023. There was one change of note in relation to the Minimum Revenue Provision Policy, and in accordance with expected changes in legislation, namely:

- A Minimum Revenue Provision charge was to be made on an annual basis to reduce the level of borrowing attributed to commercial investment properties. This was rather than the existing policy of a voluntary revenue position reviewed on an annual basis.

In relation to the Authority's investment property portfolio, changes to the conditions for borrowing from the Public Works Loans Board, excluded borrowing for commercial purposes, where the primary objective was to secure a yield. This meant that any additional property acquisitions (subject to legal advice) would need to be funded from the Authority's own resources in the future.

With regards to investments, the counterparty list within the Strategy was the latest information supplied by Link asset services but would be updated when new information was available or if ratings changed. The Treasury function was carried out in line with the Treasury Management Code of Practice and the Prudential Code. The Treasury Management Function was last audited in 2020/21 and was given a high assurance rating in relation to its procedures and risk management.

Debate ensued, and Members of the Committee asked a number of further questions, and made statements. During the debate, Members raised multiple points related to the Levelling Up fund (LUF) programme. Members heard from the Section 151 Officer that the capital expenditure prudential indicator was rising due to the delay in the receiving of the relevant grant. It was also learned that the three million pounds put aside for the commercial activities was for another property outside of the LUF consideration.

Following the discussion about the LUF programme, Members heard from the Financial Services Manager about the history of the Minimum Revenue Policy and policies in other local authorities that had seen high risk ventures back fire. The Strategy proposed by West Lindsey District Council was that the new indicator of "amount of commercial income in percentage of net revenue expenditure." gave assurance that the level of borrowing was not exposing the taxpayers to unnecessary risk and protected against any potential volatility.

There were several queries about the borrowing facilities employed by the Authority. The first was about who the Authority borrows from, which Members heard was from the Public Works Loan Board for longer term debt concerns. The Authority looked at other local authorities for short term borrowing up to a year. This was due to the rates afforded and when those rates started to fall, the Officer explained that a conversion of the short-term debt into long-term debt was possible.

A Member queried whether the reserve in the Minimum Revenue Provision would be reduced over the medium term to reflect the implementation of an annual minimum Revenue provision. The Financial Services Manager explained that the provision set money aside, and reduced the Authority's capital financing requirements, or when that debt had matured and need to be repaid. The voluntary revenue provision would only assist in paying off just the debt. The current debt rate was between 1 - 2% due to the timing of the rates.

The Security, Liquidity, and Yield (SLY) attributes of the commercial investments were the top priority. Some Members expressed a desire for Environmental, Social, and Governance (ESG) to be a future priority in future capital investments. The Financial Services Manager assured Members that investment products that had 'green' credentials would be part of the decision in investments. The Section 151 Officer further explained that investments were using council taxpayers' funds, and so careful consideration using the ESG would be done in the same way as SLY investments, which focused on safe opportunities but security of the investment had to be the paramount consideration

Having been moved and seconded on being put to the vote it was

RESOLVED that:

a) having reviewed, commented on and scrutinised the Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) Policy 2023/24, it be **RECOMMENDED** to Council for approval;

b) the Committee had reviewed, commented on and scrutinised the Capital Investment Strategy in conjunction with the Treasury Management Strategy.

c) delegated authority be granted to the Director of Corporate Services (Section 151 Officer) in consultation with the Chair of the Governance and Audit Committee to make any changes to the Capital Strategy and Minimum Revenue Provision (MRP) Policy and Prudential Indicators prior to the final strategy being presented to Council in March.

45 MEMBER DEVELOPMENT - 2023 FULL MEMBER INDUCTION PROGRAMME

Members considered the Member Development – 2023 Full Member Induction Programme. The Governance and Audit Committee was responsible for the monitoring of Member Development and, at its meeting on 11 October 2022, resolved to receive an additional report at its January 2023 meeting, in order to consider, and approve, the timetable for the 2023 Full Member Induction Programme.

As detailed in the Member Development Annual Report 2021/2022, Officers had begun preparations for the 2023 Full Member Induction Programme earlier in 2022, using the programme from 2019 as a strong foundation to build from. Where suggestions for improvements or additional sessions had been received, these had been incorporated into the proposals for 2023. The Senior Democratic and Civic Officer informed Members that there had been changes to the timings of sessions in response to feedback, along with an expansion to the subject matters to be considered. This approved version of the timetable was to be in the candidate packs as an early indication of the 2023 Induction Programme.

It was requested that the Committee approved the 2023 Full Member Induction Programme timetable as provided at Appendix 1.

Debate ensued, and Members were appreciative of the report, and highlighted past positive experiences of the induction process. During the debate, Members expressed that the sessions following their elections and re-elections had helped significantly, and there was encouragement for a ‘buddy’ system for newly elected councillors. In a later exchange, Members discussed the timings of the required planning training for Members wishing to sit on the Planning Committee, agreeing with the proposed compromise of separate sessions.

In response to a query about the procedures and standing orders within committees and full council, the Officer explained that there was a session on standing orders that was to run in advance of Annual Council, which was to provide procedural advice on committees. There was to be a further session for Chairmen and Vice Chairmen, that would go into more detail and focus on their specific roles and powers within a meeting.

Having been proposed and seconded, it was unanimously

> **RESOLVED** that the 2023 Full Member Induction Programme timetable be approved.

46 WORKPLAN

The Chairman noted the large amount of reports to be considered at the March and April 2023 meeting. In response to a query about the workplan and if there were any scheduled training, Members were informed that no training sessions were planned for any of the reports at the next two committee meetings.

The Chairman thanked Emma Redwood for her leadership and professionalism as the Monitoring Officer over recent years and wished her well in her new job.

With no further comment, the Workplan as set out in the report was **NOTED**.

The meeting concluded at 10.50 am.

Chairman

Governance & Audit Committee Matters Arising Schedule

Purpose:
To consider progress on the matters arising from previous Governance & Audit Committee meetings.

Recommendation: That members note progress on the matters arising and request corrective action if necessary.

Matters arising Schedule

Meeting	**Governance and Audit Committee**				
Status	**Title**	**Action Required**	**Comments**	**Due Date**	**Allocated To**
Black	Concerns over pension liability	during the SOA debate on 29/11/22. Members raised some points of concern and had questions which the Chairman suggested be brought to the attention of the Councils Member Rep on the LCC Pensions Committee	Summary of the relevant debate and link to webcast to be shared /brought to the attention of Councillor Bob Waller on behalf on the G and A Cttee for him raise at next pension cttee meeting. Update 24 February - Draft letter approved to be sent to Cllr Waller.	31/01/23	Andrew Warnes
Black	Query about Contract Management in Internal Audit Quarter 3 Report 2022/23	Minute taken from Committee Meeting on 24 January 2023: "Debate ensued on the contents of the report. A Member questioned the contract management assurance, enquiring about the statement, on page 48, that there was evidence of engagement with contractors to monitor performance at the intervals specified and whether there was an any assessment on the quality of that engagement. The Principal Auditor confirmed his belief that it solely related to discussions on the contract performance but would confirm his	See Action required - Democratic and Civic Officer to follow up with Principal Auditor from Internal Audit for answer. Update (14 February 2023) - Answer from Principal Auditor follows:- "Performance management is part of contract management meetings. However we did find that KPIs were not always aligned to service failure areas and we also found that action point responsibility wasn't assigned to staff in the notes. We have recommended that both of these areas are reviewed and rectified as part of our recommendations, and this	06/03/23	Andrew Warnes

		understanding to Members outside of the meeting."	has been agreed. We will track this to confirm that it is in place."		
Black	Question relating to changes to capital expenditure difference/delay	At the Governance and Audit Committee on 24 January 2023, Member raised queries about the prudential indicators for the capital expenditure, and the appearance to the large difference between the original and revised estimate, particularly in respect of "Our People" and "Our Places". Members sought indication as to the reasons for this and whether this should be cause for concern. In responding, the Section 151 Officer advised Members that in respect of "Our Place" this was due to delays and delivery on the LUF programme, but undertook to provide greater detail to all Members outside of the meeting in coming weeks.	All Members were directed (email on 17 Feb) to the Q3 budget monitoring report considered by the Corporate Policy and Resources Committee, at its meeting on 9 February, where performance against Capital Budgets is reported and explained. Both the Executive Summary and Section 3 of the report refers. The report can be viewed here: Q3 Budget Monitoring Report	17/02/23	Emma Foy
Black	Purple lidded bin rollout costs in SOA	Officers to ascertain particulars of the costs listed - re purple lidded bin rollout as it had been believed these were been covered at County level	Please provide information as requested.	16/01/23	Emma Foy
Green	West Lindsey District Council owned companies - meeting their objectives	Arising from the mtg on 29/11 having noted where the Business Plans and accounts for subsidiary companies were reported to, the cttee wanted to ensure there was a route by which the subsidiary companies were reviewed to ensure they still met their objectives were fit for purpose etc, served a need, were still the appropriate mechanism and that there was transparency around that process. It was suggested inclusion in the IA Annual Plan should be considered	See action required.	30/06/23	Emma Foy

Green	Request to include Whistleblowing Service into 2023/24 Internal Audit Plan	taken from draft minutes of 29/11/22 Committee Meeting: in response to comments expressed during the debate the Chairman suggested that having some assurance on the Value for Money aspect of the Wb service would be useful and suggested this be considered in next year's audit plan. or via a separate small piece of work	See action required.	18/04/23	Emma Foy

	GOVERNANCE AND AUDIT COMMITTEE
	Tuesday, 14 March 2023

Subject: Year End 31st March 2023: Accounting Matters

Report by:	Director of Corporate Services (Section 151 Officer)
Contact Officer:	Peter Davy Financial Services Manager peter.davy@west-lindsey.gov.uk
Purpose / Summary:	To review and approve the accounting policies, actuarial assumptions and materiality levels that will be used for the preparation of the 2022/23 accounts

RECOMMENDATION(S):

1. To approve the proposed Accounting Policies (included at Appendix 1)
2. To consider and make comment on the pension assumptions (as included at Appendix 2)
3. To consider and make comment on the risk assessment (at Appendix 3).
4. To approve the proposed materiality levels as included at section 5.
5. To consider and make comment on the key closedown dates at Section 7
6. To accept the main accounting changes for 2022/23 and onwards as shown at section 2.

IMPLICATIONS

Legal: The External Audit element of the report is in accordance with the Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015.

Financial: FIN/164/23/PD None directly from this report. However, the accounting policies and actuarial assumptions used for the accounts will have an impact on the amounts contained within the Statement of Accounts for 2022/23. The levels of materiality set will have minimal impact. The additional costs associated with the delivery of the Statement of Accounts by the statutory deadline are met from existing budgets. The Annual Audit fee 2022/23 is anticipated to be £40,486, similar to 2021/22 fee. The Council has provided a budget of £45,300 for the payment of these fees.

Staffing: Additional temporary staffing resources have been appointed for the process period, in addition, overtime hours are likely to be worked by some members of the Finance Team to ensure the Statutory deadline is met.

Equality and Diversity including Human Rights: None arising as a result of this report

Data Protection Implications: None arising as a result of this report

Climate Related Risks and Opportunities: None arising as a result of this report

Section 17 Crime and Disorder Considerations: None arising as a result of this report

Health Implications: None arising as a result of this report

Title and Location of any Background Papers used in the preparation of this report:
CIPFA Code of Practice on Local Authority Accounting 2022/23 Accounts CIPFA Guidance Notes for Practitioners 2022/23 Accounts Both documents are held electronically

Risk Assessment:
There is a risk of material errors should incorrect accounting policies be applied or if the actuary uses inaccurate assumptions. An assessment of all risks is attached at Appendix 3.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**x**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

Executive Summary

The Audit and Accounts Regulations 2015 require Local Authorities to produce and publish their Statement of Accounts by 31 May (changed for both 2020/21 and 2021/22 to 31 July) and an Audited Statement of Accounts by 31 July annually (changed in both 2020/21, 2021/22 and 2022/23 to 30 September)

In producing the Statement of Accounts, the Council follows the CIPFA Code of Practice on Local Authority Accounting 2022/23 (the Code). There have been minimal changes for 2022/23 (see Section 2).

No changes of accounting policies have been made since the production of the 2020/21 financial statements.

The Actuary for the Pension Fund is Barnett Waddingham. The assumptions used by the actuary are included in Appendix 2. At this point in time there are no known proposals in the near future that could impact on these assumptions and therefore it is not recommended that these are challenged.

External Audit have set a materiality level for the Council of £935,000 for 2022/23 and amounts less than £28,000 are considered trivial (i.e., not significant).

An assessment of the risks associated with closing the Council's accounts and producing the Financial Statements has been undertaken and the risk assessment is attached at Appendix 3. After applying the planned mitigation, the majority of risks are coloured green (low risk) with only two risks identified as being high (red).

In 2022/23 the Council reported under the themes of Our People, Our Place and Our Council. There have been no changes to this structure.

1 Background

1.1 The Audit and Accounts Regulations 2015 require Local Authorities to produce and publish their Statement of Accounts by 31 May (changed for both 2020/21 and 2021/22 to 31 July) and an audited Statement of Accounts by 31 July annually (changed for both 2020/21, 2021/22 and 2022/23 to 30 September)

1.2 In producing the Statement of Accounts, the Council follows the CIPFA Code of Practice on Local Authority Accounting 2022/23 (the Code).

1.3 The Council is required to ensure that the Statement of Accounts provides a true and fair view of the financial positon, financial performance and cash flows of the authority. A true and fair presentation requires a faithful representation of the effects of transactions, other events and conditions in accordance with the definitions criteria for assets and liabilities, income and expenses set out in the Code. Compliance with the Code will therefore meet this requirement.

1.4 This report is asking for Members to review a number of matters such as accounting policies, materiality and actuarial assumptions (used for determining the pensions estimates) that will be used for drawing up the financial statements for the year. This review then forms part of the scrutiny process for the Statement of Accounts 2022/23.

1.5 External Audit – 2022/23 Audit Planning

The Accounts and Audit Regulations 2015 require local authorities to approve and publish their Statement of Accounts by 31 May and the audited statements by 30 September respectively for 2022/23.

The Auditor will ultimately give his opinion on whether the Statement of Accounts is compliant with statutory requirements and that they have been prepared in accordance with proper accounting practices, and that adequate arrangements are in place to achieve Value for Money in the use of resources.

The audit will take a risk-based approach, which will be reassessed throughout the process.

2. Changes to the Code of Practice

2.1 The following changes to the Code are effective for the 2022/23 and onwards financial statements:

Code Change	Impact on WLDC	Progress
Confirmation in Module 1 Appendix B of the New or Amended Standards introduced in the 2022/23 Code.	No impact, purely confirmation.	Fully compliant
Updates to the methodology in Module 2, Section G for calculating year-end apportionment of NDR and council tax surpluses and deficits where an authority declared an exceptional deficit in accordance with SI 2020/1202, the Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020.	No impact.	Fully compliant
Updates to the guidance in module 3, Section I on the disclosures for the Dedicated Schools Grant in accordance with the provisions in the Accounts and Audit Regulations 2015.	This is not applicable to the Authority as it does not receive dedicated schools' grant.	Fully compliant
Augmentations to the Appendix to Module 3, i.e., the example financial statements and notes to the accounts; these include changes to the accounting policies, critical judgements in accounting policies disclosure and other clarifications to the reserves disclosures.	No impact.	Fully compliant
Explanation of the interaction of the example disclosures and accounting policies in the Appendix to Module 3 with the illustrations in CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution	No impact	Fully compliant
Confirmation in Module 4, Section F of the Code's provisions to allow authorities to voluntarily adopt the provisions of IFRS 16 Leases in advance of mandatory implementation, in line with the requirements set out in Appendix F	No impact. The Council is not looking to adopt IFRS 16 in advance of the mandatory date.	Fully compliant

Confirmation in Module 4, Section G (service Concession Arrangements) that if IFRS 16 is adopted in advance of mandatory implementation, then the service concession arrangement liability is measured in accordance with the measurement requirements of IFRS 16, as set out in Appendix F. Note that CIPFA/LASAAC is currently considering the accounting requirements for this transaction following central government changes. Separate guidance will follow CIPFA/LASAAC's pronouncements.	No impact. The Council is not looking to adopt IFRS 16 in advance of the mandatory date.	Fully compliant
Discussion in Module 4 of the application of the Scottish Local Government Finance Circular 10/2022 – finance leases and service concession arrangements: statutory guidance.	Not applicable to Authorities in England	Fully compliant
Discussion in Module 4 Section L of the application of the Code's impairment provisions to infrastructure assets	The Council has minimal infrastructure assets.	Fully compliant
Amendments to Module 8, Section B to clarify the treatment of social benefits under IAS37/IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets	No impact	Fully compliant

2.2 In 2023/24 there will be significant accounting changes to IFRS 16 Leases. Under the existing standard, lessees account for lease transactions as either operating or finance leases depending on certain tests and rules, this results in either all or nothing being recognised on the balance sheet. Under the new IFRS 16 all leases will need to be accounted for on the balance sheet as at 31/03/2024.

2.3 No restatement will be required for the 2023/24 accounts, but the Council will need to convert every operating lease to a finance lease unless it is short term (<365 days) or low value (the Council's de-minimis is £10,000 for items added to the balance sheet and this will be applied to the new IRFS 16)

2.4 The Council has been preparing for these changes for the last three years, we have assessed every lease using a model which external audit has been provided with in the last two financial years audit papers. Each year we review all contracts for embedded leases and the finance business partners liaise with services for any new leases. We will have assessed all operating leases and finance leases by the end of March 2024

3. Accounting Policies

3.1 The proposed accounting policies are as detailed at Appendix 1. These have been reviewed to ensure that they reflect the requirements of the latest Code and that they are still appropriate, accurately reflect what has occurred during the year and have been consistently applied.

3.2 Members should note only material accounting policies will be included within the Statement of Accounts.

3.3 No changes of accounting policies have been made since the production of the 2020/21 financial statements.

4. Actuarial Report and Assumptions

4.1 The Council's pension scheme is administered by Lincolnshire County Council with pension contributions included in the county wide pension fund.

4.2 The County Council uses Barnett Waddingham as the actuary for assessing the year end assets and liabilities of the pension fund and the use of these assumptions determines the estimates of its share of the pension fund that the Council is required to reflect within its accounts.

4.3 The actuary completes a formal valuation of the pension fund every three years, with 2019 being the year of the latest valuation which relates to the financial years 2020/21- 2022/23.

The purpose of the formal actuarial valuation is to:

- Calculate the Council's funding position within the fund, and
- Determine the contributions that the Council will pay from April 2020 to March 2023.

4.4 The pension values are comparatively large when taken in the context of the Council's overall budget and spend levels, so any assumptions used for these values will inevitably have a major impact on the Council's accounts, albeit this is a long-term liability which is projected to be funded within 20 years. It is appropriate therefore that they should receive special scrutiny.

4.5 Although the assumptions have been determined by Barnett Waddingham, ultimately it is the Council that is responsible for ensuring that any assumptions used are accurate and will lead to the best estimates possible for use in the accounts for 2022/23.

4.6 The actuarial assumptions report as provided by Barnett Waddingham is included at Appendix 2.

4.7 When reviewing the assumptions used, the Council is required to consider if these assumptions are appropriate having regard to local circumstances. Matters that could impact on any assumptions used usually relate to proposals that may have a major impact on the future i.e., makeup of the workforce, such as pay increases in excess of 3% or outsourcing more than 5% of the workforce.

4.8 At this point in time there are no known proposals in the near future that could impact and therefore it is not recommended that the actuary's assumptions are challenged.

4.9 Estimated values of contributions and deficit reduction payments are submitted to the actuary to take into account when calculating the final IAS19 report for inclusion within the accounts.

4.10 We will also be asking for two reports from the Actuary, the first report to be received in April using estimate investment returns to enable us to process the accounting adjustments required within the statutory deadline. The second report will be received at the end of May and will be on Actual Investment returns. If there is a material difference in the two reports, then further adjustments to the accounts will be required.

4.11 The liabilities for the McCloud/Sargeant judgements (public service pension age discrimination cases) were captured for the 31 March 2022 IAS19 balance sheet figures, as will be the case for 31 March 2023.

4.12 The McCloud/Sargeant judgements relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of gender and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

4.13 On 13 May 2021 the Government issued a ministerial statement on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases relating to age discrimination. The statement confirms that changes will be made to the LGPS Regulations to compensate members directly affected by the change to career average benefits from 1st April 2014. Draft regulations are expected in 2023 and are expected to come into force on 1st October 2023.

5. Materiality Levels for 2022/23

5.1 Members now approve materiality levels that will be applied as part of the closedown process with the expectation that these will greatly assist with speeding up the closedown process and meeting the statutory deadline of 31 May.

5.2 Information is said to be material if omitting it or misstating it could influence decisions that users make on the basis of an entity's financial statements. There are no set materiality levels and each organisation needs to set levels having regard to the size and any special circumstances of the organisation.

- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and

- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

5.3 Materiality is an amount that makes a difference to the understanding of the readers of the accounts - an audit never provides 100% assurance - only “reasonable assurance." For instance, if a company has overstated its revenues by £5 million when its total revenues are £4 billion, then this £5 million is considered 'immaterial.' However, if the company's total revenues are only £50 million, then this £5 million overstatement would be considered 'Material."

5.4 External Audit have set a materiality level for the Council of £935,000 for 2022/23 and amounts less than £28,000 are considered trivial (i.e., not significant).

5.5 In order to meet the very tight statutory deadline there is a fine balance to strike between having absolute accuracy and accepting that there may be minor adjustments to make as part of the audit which would be included in the ISA260 Audit Report. Overall, it would be worth accepting the risk of small under/overspends year on year and possible minor audit adjustments to the accounts since they will not materially affect the Council's overall financial position or the financial statements that will still show "a true and fair view".

5.6 The following levels of materiality are suggested for particular classes of transactions, account balances or disclosures. They remain at the same level as approved for 2021/22.

1. Disclosure of material items of income and expenditure (Note 5) £700,000
2. Manual Accruals - limit of £2,000
3. Disclosures - £750,000
4. 5% of income for continuing operations
5. Related party transactions £10,000
6. Stocks – anything less than £10,000 is charged to revenue in year
7. Fixed assets (Property, Plant & Equipment) – Major components £500,000. Only assets with a value greater than £500,000 will be subject to the componentisation rules as per our policy.

6. Risk Assessment

6.1 An assessment of the risks associated with closing the Council's accounts and producing the Financial Statements has been undertaken and the risk assessment is attached at Appendix 3.

6.2 Each risk has been scored in terms of the likelihood that the event will happen and the severity of the impact if the event happens. Multiplying these two scores together then gives the calculated risk severity. A traffic light colouring system is used to highlight the level of severity.

6.3 These risks are then scored again after applying any actions to be taken to mitigate the risk.

6.4 Members should note that after applying the planned mitigation the majority of risks are coloured green (low risk) with only two risks identified as being high (red).

6.5 Ensuring adequate skilled resources are in place to deliver to the statutory deadline will include a mixture of solutions, interim agency, additional hours and overtime payments

7. Key Closedown Timetable

7.1 In order to achieve the closedown for the 2022/23 accounts, officers have been working hard over the last few years to reduce the length of time to achieve tasks and also to bring forward the deadlines.

7.2 Tasks and work practices have been reviewed to take on board both accounting changes and the need to streamline/reduce workload and work more efficiently.

7.3 Last year the Statement of Accounts was published on the Council website within the revised statutory deadline of 31 July 22 due the Coronavirus pandemic. The finance team are committed to achieve the end of May deadline as in previous financial years.

7.4 A detailed timetable is produced (with some 300+ tasks) for officers' use that not only produces the Statement of Accounts but is also used to produce the working papers as required by the Council's external auditors.

7.5 Within the detailed timetable there are certain key dates that represent those key milestones that we need to focus on achieving.

7.6 The following table shows those key tasks and dates for the 2022/23 closedown process.

Item	**Key Dates 2022/23**
Planning and Preparation	01/01/2023 – 31/01/2023
Balance Sheet Review	27/01/2023
External Audit Liaison Meeting	24/02/2023
Report to Governance and Audit Committee: Closedown Matters	14/03/2023
Interim Audit	20/03/2022
Close Period 12	03/04/2023
Accruals/Prepayments Input to System	07/04/2023
All Accounts Closed	01/05/2023
Balance Sheet and Comprehensive Income and Expenditure Statement Completed	01/05/2023
Narrative Report Draft	15/05/2023
Statement of Accounts Completed	22/05/2023
Draft Statement of Accounts Signed Off by Section 151 Officer	29/05/2023
Send Statement of Accounts to Auditors	31/05/2023
Outturn Position Report to Corporate Policy and Resources Committee	08/06/2023
Audit of Accounts	10/07/2023
Whole of Government Accounts (subject to date of issue)	31/07/2023
Governance and Audit Committee Approval of Statement of Accounts and Annual Governance Statement	26/09/2023
Publish Statement of Accounts on Website and Issue Public Notice	27/09/2023

8. Accounting Changes 2022/23

8.1 There are no major accounting changes that will affect the 2022/23 Statement of Accounts.

1. ACCOUNTING POLICIES

i General Principles

The Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (The Code) and the Service Reporting Code of Practice 2022/23, supported by the International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the Local Government Act 2003.

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 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.

- 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. Expenses incurred, which relate to employees, are not accrued for as they are considered to be relatively stable year on year and omitting them would not result in a material error.

- Interest receivable on investments and payable on borrowings is accounted for 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 income 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.

iii Acquisitions

All operations acquired in year will be treated in line with the Council's accounting policies and if material disclosed separately on the face of the Comprehensive Income and Expenditure Statement.

iv Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition or as at the balance sheet date and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

v 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 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.

vi Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding fixed 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 fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the 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.

vii Council Tax and National Non-Domestic Rates (Business Rates)

Billing authorities act as agents, collecting council tax and non-domestic rates (NNDR) on behalf of the major preceptors (including government for NNDR) and, as principals, collecting council tax and NNDR for themselves. Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NNDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NNDR collected could be less or more than predicted.

The council tax and NNDR income included in the Comprehensive Income and Expenditure Statement (CIES) is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NNDR 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 NNDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

viii Employee Benefits

The Council accounts for employment and post-employment benefits when employees earn them and the Council is committed to providing them, even if the actual provision might be many years into the future. Employee benefits are accounted for in the following four categories:

a) Benefits Payable During Employment

Short-term employee benefits are those due to be settled payable within twelve months of the Balance Sheet date and include, wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits, and similar payments and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the holiday entitlements (or any form of leave, e.g., time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b) Termination Benefits

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

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

c) Post – Employment Benefits

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

d) The Local Government Pension Scheme

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

- Liabilities of the Lincolnshire 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.

- Liabilities are discounted to their value at current prices, using a discount rate of 2% determined by reference to market yields at the end of the reporting period on high quality corporate bonds (iBoxx AA over 15-year index).

- The assets of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet at fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

The assessment process takes the most recent triennial actuarial valuation and updates it to reflect current conditions.

The change in the net pensions 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 Costs – 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-measurement comprising:

Return on scheme 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 net pension 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 Pension Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Lincolnshire Pension Fund

Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Further information can be found in the Lincolnshire Local Government Pension Fund Annual Report. Which is available at the following link.

https://www.lincolnshire.gov.uk/local-democracy/finances-and-budget/

Option: Lincolnshire Pension Fund.

or the following address.

Treasury and Financial Strategy,
Lincolnshire County Council,
County Offices
Newland,
Lincoln, LN1 1YG

ix Events after the Reporting Period

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are 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.

x 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.

Financial liabilities are classified into two types:

- amortised cost – liabilities that are not held for trading, such as operational creditors and borrowings; and

- fair value through profit or loss – liabilities held for trading.

The Council currently only has liabilities carried at amortised cost relating to Finance Leases and borrowing, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the lease or loan agreement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

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 financial instrument.

For most of the financial assets held by the Council, 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.

The Council has made no soft loans (loans at less than Market Rate) as at 31/03/2023.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], 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 portfolio of loans to measure lifetime expected losses, this will be assessed on each individual instrument basis. This will take into account materiality, history of default, and impact sensitivity of amendments such as interest rate changes.

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 Council 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.

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. 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 Council 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 de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

The Council currently holds no financial instruments at fair value through Other Comprehensive Income.

xi 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 acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants or 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 or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be utilised for infrastructure projects to support the development of the area. As a collecting and charging authority an element of the charge is credited to the Comprehensive Income and Expenditure Statement for administration costs, the income is shared with Parish Councils and Lincolnshire County Council to support agreed infrastructure schemes. Amounts will be held on the Balance Sheet until paid over to the relevant bodies.

xii Heritage Assets – General

The Council holds Civic Regalia as a Heritage Asset

Heritage assets are recognised and measured (including the treatment of valuation gains and losses) in accordance with the Council's policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The carrying amount of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – (see Accounting Policy xviv Property Plant and Equipment) in this summary of significant accounting policies.

xiii 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, rights to use land) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. All such expenditure is accounted for on an accruals basis and capitalised as a non-current asset.

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 (research expenditure cannot be capitalised).

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

xiv. Interests in Companies and Other Entities

The Council has interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses. The judgement by the S151 Officer is that there is no material impact on the Statement of Accounts. Group Accounts are therefore not required for 2022/23.

xv Inventories and long-term contracts

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

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

xvi Investment Properties

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.

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

xvii Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and the resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly

xviii 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 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 debt) 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 of the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

xix 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 possible 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 assets potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred. Assets acquired above a de-minimis of £10,000 are capitalised.

Measurement

Assets are initially measured at cost, comprising;

- The purchase price

- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The cost of assets acquired other than by purchase is deemed to be its 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 line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure assets, community assets and assets under construction – depreciated historical cost

- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective

- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their 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 CIES 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 in the Comprehensive Income and Expenditure Statement.

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

Impairment

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

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight line allocation over the life of the property as estimated by the valuer with the exception of a number of leased shops, where the remaining term of the lease is used

- Vehicles, plant and equipment – straight line allocation over the life of the asset, as advised by a suitably qualified officer

- Infrastructure – straight line allocation.

Asset Useful Economic Lives assumed

Assets	Useful Life Range (years)
Offices/Leisure Centre	25 to 60
Crematorium	60
Depots & Stores	52
Shops	25-60
Public Conveniences	49
CCTV Systems/IT Equipment/Wheeled Bins/Office Equipment /Led Lighting/ Crematorium Equipment	1 to 25
Vehicles/Bin Lifters	1 to 7
Infrastructure Assets	16-28
Dwellings	54

Where an item of PPE asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Materiality levels have been assessed and a materiality level of £0.5m for major components has been applied.

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 previous losses 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 CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and credited to the Capital Receipts Reserve. The balance on the Capital Receipts Reserve 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). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided 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.

xx Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will 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, 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 when 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 only 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.

xxi Reserves

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

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

xxii 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 CIES 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.

xxiii Value Added Tax (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.

xxiv 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:

a) In the principal market for the asset or liability, or

b) 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 assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring 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

Accounting reporting as at

31 March 2023

Employer briefing note pre-accounting date

Barnett Waddingham LLP

13 February 2023

Contents

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Introduction and executive summary

This briefing note is addressed to employers participating in the LGPS and details our standard approach to the 31 March 2023 accounting exercise. This document is based on market conditions as at 31 January 2023. It sets out our recommended assumptions along with key changes since the previous accounting date. Unless noted otherwise in this briefing note, or in the employer's results report, the approaches adopted as at 31 March 2023 are in line with the approaches set out in this briefing note and are consistent with that at the employer's last accounting date.

A summary of our standard assumptions at durations 5 to 30 years is set out in Appendix 1.

This briefing note assumes a previous accounting date of 31 March 2022. For employers whose previous accounting date was not 31 March 2022, this briefing note provides a summary of our recommended assumptions for 31 March 2023 only; should a summary of the key changes since an employer-specific previous accounting date be required then please let us know. Additional fees will apply.

This note complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

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How has the balance sheet changed over the year?

The change in the balance sheet position over the year is dependent on the following key variables. In the table below we detail the approximate impact and each of these variables is discussed in more detail in this briefing note:

Variable/assumption	Impact on balance sheet?	Comments
Asset returns	↓	Asset returns have been lower than the discount rate assumed at the previous accounting date which will worsen the balance sheet position.
Discount rate	↑	Discount rates have increased which will improve the balance sheet position.
Inflation	↑	Future inflation assumptions have decreased which will improve an employer's balance sheet position.
Allowance for actual pension increases	↓	The 2023 pension increase is higher than previously assumed which will worsen the balance sheet position.
Mortality	↑	Allowing for the results of the recent 2022 actuarial valuation for employers participating in English or Welsh LGPS funds is likely to see a reduction in the average life expectancy and an improvement to the balance sheet position.
Overall	↑	**Overall, due to the significant increase in the discount rate and decrease in the future inflation assumption, we expect the balance sheet position to improve compared with last year.**

Please note that these general principles are based on an average employer in an average fund with a duration of 20 years. The actual effect of the change in these variables and assumptions will depend on each employer's individual circumstances.

As a participating employer, what do I need to do?

The assumptions set out in this report are the standards that we intend to use unless instructed otherwise. We therefore recommend employers discuss this note with their auditors and agree whether the standard approach is appropriate. The salary increase assumption, for example, is often tailored by the employer to reflect their anticipated pay increase awards.

ACTION: The employer must let the fund know if they want to adopt a different approach or set of assumptions. To assist in this decision, we can provide employers with a deficit modeller which provides an indication of the impact of any changes to their accounting position.

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How much will my IAS19/FRS102 report cost?

The fund will communicate fees to employers. There may be additional fees if there are particular features or events for an employer which need to be taken into account including:

- where an employer chooses their own assumptions;
- if there are additional calculations to be carried out if a surplus is revealed;
- when there are any staff transfers/movements to allow for;
- allowance for actual inflation experience;
- if additional disclosures are required;
- an employer asks to receive their report by a particular deadline; or
- if auditors ask queries following receipt of the report.

Where can I get further information?

We appreciate that some of the terminology in this report may not be familiar and therefore we would recommend also reading our Glossary and FAQs document for a more detailed explanation on some of the jargon used here.

ACTION: Please get in touch with the fund or your usual Barnett Waddingham contact if you have any queries.

We also publish regular briefings and webinars on our website. You can keep up to date on the latest information by joining our mailing list here.

Valuation of the employer's assets

Asset performance

Asset returns can be very volatile from year to year and will vary by LGPS fund.

A typical LGPS fund might have achieved a return of around -6% for the period from 31 March 2022 to 31 January 2023. This is based on a fund investing 75% in equities, 5% in gilts and 20% in corporate bonds. This could vary considerably depending on each fund's investment strategy and depending on asset performance for the remaining two months to 31 March 2023.

If the actual asset return for the Fund over the year is lower than the previous discount rate, this will lead to an actuarial loss on the assets; worsening the overall position.

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How are my assets valued?

To calculate the asset share for an individual employer, we roll forward the assets allocated to each employer at the latest valuation date allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the fund by and in respect of the employer and its employees.

Valuation of the employer's liabilities

To value the employer's liabilities at 31 March 2023, we roll forward the value of the liabilities calculated for the latest full funding valuation using financial assumptions compliant with IAS19 and FRS102. Please note that for employers participating in English or Welsh funds, this will involve an update this year to be based on the fund's 2022 funding valuation.

The full actuarial valuation involved projecting future cashflows to be paid from the fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2023 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2023 should not introduce any material distortions in the results provided that the actual experience of the employer and the fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

As required under the IAS19 and FRS102 accounting standards, we have used the projected unit credit method of valuation.

Financial assumptions

The key financial assumptions required for determining the defined benefit obligation for accounting are the discount rate, linked to high quality corporate bond yields, and the rate of future inflation.

We set out our standard approach to the derivation of these assumptions and sample assumptions using market conditions at 31 January 2023.

Discount rate

Under both the IAS19 and FRS102 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Our standard approach to derive the appropriate discount rate is known as the Single Equivalent Discount Rate (SEDR) methodology.

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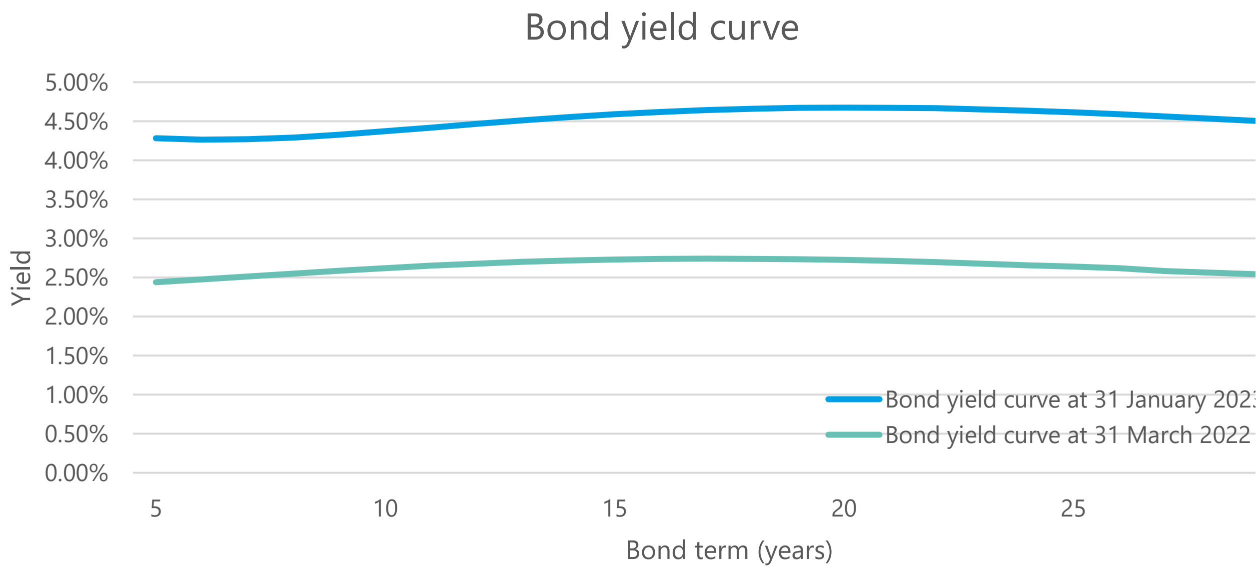
beyond the expected

We use sample cashflows for employers at each duration year (from 1 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30 year point.

The sample cashflows are updated on a three-yearly basis using a full valuation of membership data. These are currently based on cashflows derived as at 31 March 2022. As at 31 March 2022, each employer's duration is calculated and corresponds to the set of sample cashflows with the same duration. As an employer's duration changes, the duration of the corresponding sample cashflows is expected to change in a similar way, so over time the assumptions derived using those same sample cashflows will remain appropriate for the employer. Therefore, the standard assumptions for an employer will be set using the 31 March 2022 sample cashflows which the employer was allocated to.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 31 January 2023:



These curves reflect the yields that underlie the SEDR calculations and are not the estimates of the standard discount rate assumption. Sample SEDR assumptions are set out in the table overleaf.

You will see that the bond yield at 31 January 2023 is higher at all terms than at 31 March 2022. As a result, the discount rate assumed for employers will be higher than that assumed at the previous accounting date.

Source: Merrill Lynch

All else being equal, a higher discount rate will result in a lower value being placed on the defined benefit obligation and an improvement in the overall position.

Sample SEDRs are set out in the table below based on market conditions at 31 January 2023 with the equivalent 31 March 2022 SEDRs also shown for comparison. It also sets out the estimated effect of the change in discount rate assumed based on the same sample durations:

Duration at 31 March 2022 (years)	Discount rate		Estimated impact of change on liabilities
	31 January 2023	31 March 2022	
10	4.50%	2.60%	Decrease of 17%
15	4.50%	2.60%	Decrease of 24%
20	4.50%	2.60%	Decrease of 30%
25	4.50%	2.60%	Decrease of 36%

Assumptions are rounded to the nearest 0.05%.

Please note this is illustrative only. The actual effect of the change in the discount rate assumption will depend on each employer's membership and the assumption to be adopted this year compared to last year.

Sample SEDRs for durations of 5 years up to 30 years are provided in Appendix 1.

Comparison to previous accounting date

Unless specified otherwise in the employer's results report, this approach is the same as at the previous accounting date.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which the benefits increase.

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. The BoE implied inflation curve is assumed to be flat beyond the 40 year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH (Consumer Prices Index with Housing) from 2030, our view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% at medium and longer terms (from 10 years). This results in an overall IRP of between 0.0% p.a. and 0.3% p.a. depending on the term of the liabilities (for terms ranging from 1 year up to 30 years).

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 1 to 30 years) in deriving the assumptions for employers.

Sample RPI assumptions are set out in the table below based on market conditions at 31 January 2023, with the equivalent 31 March 2022 SEIRs (based on our standard derivation at that time) also shown for comparison:

Duration at 31 March 2022 (years)	RPI	
	31 January 2023	31 March 2022
10	3.15%	4.00%
15	3.15%	3.75%
20	3.15%	3.55%
25	3.10%	3.45%

Difference between RPI and CPI

It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result of the proposed alignment of RPI to CPIH (and CPI) from that date. We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of between 0.25% p.a. and 0.80% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

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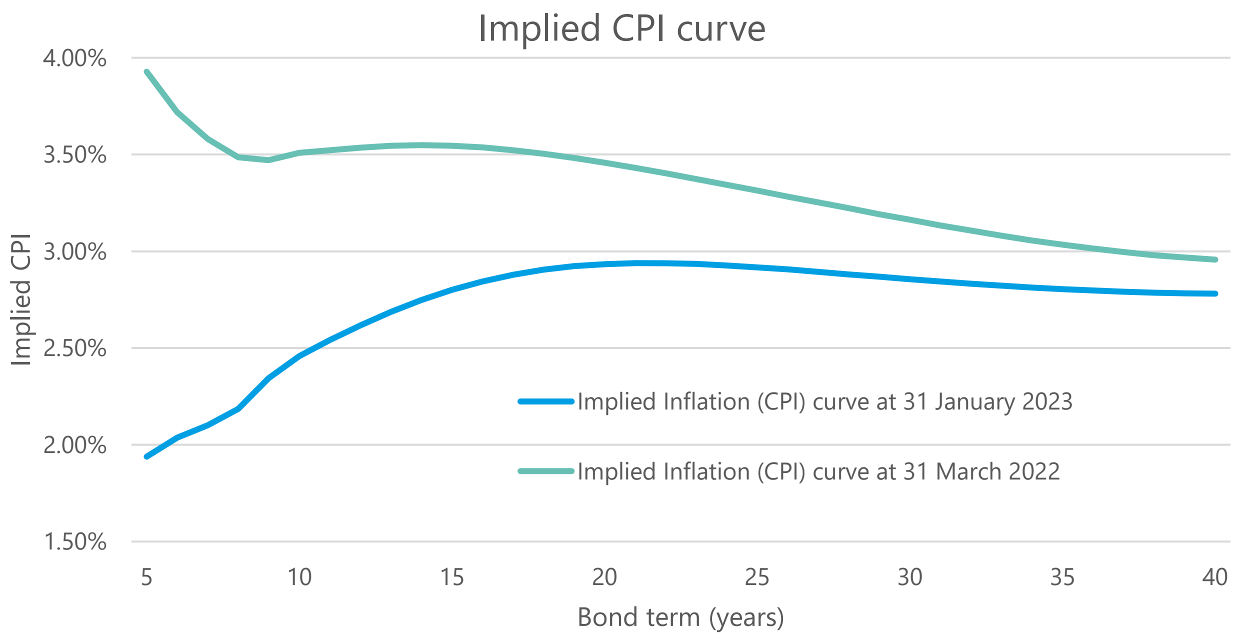
Consumer Prices Index (CPI) assumption

Using a similar approach described above to calculate the SEIR for our RPI assumption, we have calculated a single equivalent rate of CPI increase that results in the same liability value as would be calculated by applying the implied CPI curve.

The resulting implied CPI curve at 31 January 2023 is shown below along with the implied CPI curve at the last accounting date for comparison:



These curves reflect the yields that underlie the SEIR calculations and are not the estimates of the standard CPI inflation assumption. Sample SEIR assumptions are set out in the table overleaf.

As shown in the graph, the implied CPI curve at 31 January 2023 is lower at all durations. As a result, the assumed level of future pension increases will be lower than that assumed at the previous accounting date.

Source: Barnett Waddingham based on Bank of England data

All else being equal, a lower pension increase assumption will result in a lower value being placed on the defined benefit obligation and an improvement in the overall position.

The tables below set out the assumed pension increase (CPI) assumptions at sample durations, as well as the estimated effects due to the change in the inflation assumption from last year's standard assumption to this year's:

Duration at 31 March 2022 (years)	CPI		Estimated impact of change on liabilities
	31 January 2023	31 March 2022	
10	2.55%	3.45%	Decrease of 8%
15	2.70%	3.30%	Decrease of 8%
20	2.80%	3.20%	Decrease of 7%
25	2.80%	3.15%	Decrease of 7%

Assumptions are rounded to the nearest 0.05%.

Please note this is illustrative only. The actual effect of the change in the pension increase assumption will depend on each employer's membership and the assumption to be adopted this year compared to last year.

Details of the RPI and CPI assumptions for durations of 5 years up to 30 years are shown in Appendix 1.

Comparison to previous accounting date

Unless specified otherwise in the employer's results report, this approach is the same as at the previous accounting date.

Salary increases

Where an employer has requested a bespoke salary increase assumption last year, if still appropriate, we will continue the same salary increase assumption adopted at the last accounting date. For all other employers, we will adopt the standard approach which is in line with the latest actuarial valuation. For more information please see the latest valuation report.

ACTION: The employer must let the fund know if they want to adopt a different salary increase assumption. Please note that bespoke financial assumptions will incur additional fees.

Comparison to previous accounting date

Unless specified otherwise in the employer's results report, this approach is the same as at the previous accounting date.

Overall impact of changes to financial assumptions

The effect of the changes in the financial assumptions on an employer's liabilities are dependent on the assumptions adopted as well as the specific duration of the employer's liabilities. Typically, employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term. The table below describes the estimated effects for employers with liability durations of exactly 10, 15, 20 and 25 years: based on assumptions derived as at 31 January 2023:

Duration at 31 March 2022 (years)	Estimated effect of change in financial assumptions on employer's liabilities
10	Decrease of 24%
15	Decrease of 30%
20	Decrease of 35%
25	Decrease of 41%

Based on market conditions at 31 January 2023, most employers will see the value of their defined benefit obligation decrease. However, the extent of this will depend on employer's membership profile, cashflows over the year and any bespoke assumptions or approaches.

ACTION: We are also happy to use bespoke financial assumptions. The employer must let the fund know if they want to adopt any different financial assumptions and we would suggest that these are agreed in advance with the employer's auditors.

Please note that any bespoke financial assumptions will incur additional fees.

Demographic assumptions

Mortality assumption

The key demographic assumption is the mortality assumption and there are two main steps in setting this assumption:

- Making a current assumption of members' mortality (the base mortality); and
- Projecting these current mortality rates into the future, allowing for further potential improvements in mortality. Future members' mortality is almost impossible to predict and therefore there is a lot of judgment involved and we naturally have to refine our view on this over time.

Base table mortality

The base table mortality assumptions adopted for the funds' latest triennial funding valuations were best estimate assumptions and we will therefore be using the same assumptions as standard for accounting.

For employers participating in an English or Welsh LGPS fund, our standard approach is to update the mortality assumption to be based on those adopted for the fund's 2022 actuarial valuation.

For employers participating in a Scottish LGPS Fund, the next actuarial valuation of the Fund is as at 31 March 2023, with results and reports due to be finalised by 31 March 2024, and therefore our standard approach for the 31 March 2023 disclosures is to continue using the fund's base table mortality assumption from the 2020 actuarial valuation.

Future improvements to mortality

To project future improvements in mortality, we use a model prepared by the Continuous Mortality Investigation Bureau (CMI). The CMI update their model on an annual basis, incorporating the latest mortality data in the national population.

For employers participating in an English or Welsh LGPS fund, similar to the base table assumption our standard approach is to update the improvements model to be based on that adopted for the fund's 2022 actuarial valuation.

For employers participating in a Scottish LGPS Fund, the majority of employers have updated their disclosure to use the CMI_2020 model. For these employers, our standard approach is to continue with this assumption this year. For any employers who did not update to use the CMI_2020 Model, our standard approach will be to update the mortality assumption to use CMI_2020 with a 2020 weight parameter of 25%.

ACTION: We are also happy to use bespoke assumptions. The employer must let the fund know if they want to adopt a different mortality assumption. We would suggest that these are agreed in advance with the employer's auditors.

Please note that any changes to demographic assumptions, including changes to be in line with the fund's latest actuarial valuation, will incur additional fees.

Other demographic assumptions

Unless stated otherwise in the employer's accounting report, the other key demographic assumptions are:

Assumption	Detail
Commutation	Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations
Normal retirement	Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age
50:50 take up	The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same

This is in line with the assumption adopted for the fund's latest actuarial valuation.

Additional requirements

Experience items allowed for since the previous accounting date

2022 valuation update

For employers in English of Welsh LGPS funds, the liability roll forward will be updated to be based on the fund's 2022 valuation. This update ensures the accounting results are based on the latest information available. The impact of this update will result in experience items on the liabilities and the assets, and could be a positive or negative effect. The experience item reflects how experience over the intervaluation period has differed from that assumed as part of the roll forward approach.

Further detail on the experience item can be provided on request and will incur additional fees.

Allowance for actual pension increases

Our default approach is to allow for actual pension increases up to the accounting date. Any difference between this and the pension increase previously assumed will give rise to an experience item.

ACTION: Please note that additional fees will be incurred to incorporate the actual pension increase experience and therefore the employer should opt out of this standard approach if they do not want these additional calculations to be carried out.

The 2023 pension increase is higher than previously assumed which will result in a higher value being placed on the defined benefit obligation and a worsening in the overall position.

Accounting modeller

Employers have an option to purchase our accounting modeller to help inform their decision on the financial and demographic assumptions used to produce their IAS19 or FRS102 pensions accounting report. For example, the modeller allows employers to change the 31 March 2023 assumptions to bespoke assumptions and see the impact this would have on the closing position as at 31 March 2023 and also on the Profit and Loss projections for the year to 31 March 2024. We would be happy to provide further information on the modeller features and the associated fees if required.

Valuation of unfunded benefits

Employers may need to include the value of unfunded benefits for their accounts.

For employers in English or Welsh funds, where the unfunded benefits are included as part of the latest actuarial valuation data, the unfunded liability roll forward will be updated to be based on the fund's 2022 valuation. Where separate unfunded benefits are included in an employer's accounts, we will be in touch separately about the approach required.

For employers in Scottish funds, the unfunded liability will continue to be based on a roll forward of the results at the previous accounting date.

ACTION: Our default approach is to carry out a roll forward from the latest fund valuation. We would be happy to provide further information and the associated fees around the full valuation of unfunded benefits at the accounting date if required.

Other considerations

McCloud/Sargeant judgments

There are currently uncertainties in relation to LGPS benefits due to the McCloud and Sargeant judgments. Remedial regulations are expected in 2023 and uncertainty over the benefit changes proposed for the LGPS will remain until these have been finalised.

Impact on liabilities

The McCloud remedy may impact the value of the liabilities in respect of accrued benefits and therefore an allowance may need to be included in an employer's report.

If an allowance was already made for McCloud at a previous accounting date in an employer's IAS19/FRS102 report then no explicit adjustment will be made in our results this year. For employers in English and Welsh funds, the estimated cost of McCloud will be updated as part of the 2022 valuation update and this will reflect the approach adopted at the valuation in estimating the cost of the McCloud remedy. The difference between this cost and the cost previously incorporated into the employer's accounting liabilities will be reflected in the liability experience item and we do not expect this to be material. It should be noted that the cost of the McCloud remedy varies with member experience (for example due to salary increases), and therefore the cost calculated at each actuarial valuation will vary, however, generally we do not expect this to be material. For employers in Scottish funds the McCloud costs were estimated as part of the 2020 valuation and no update is required this year.

Please see FAQs for further details.

> If no previous allowance has been made and allowance is now required then we will be in touch via the fund to discuss the requirements.

Settlements and curtailments

Employers accounting under the IAS19 standard

When determining any past service cost or gain or loss on settlement IAS19 requires that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. Common events for LGPS employers that this may apply to include outsourcings and unreduced early retirements.

Additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not.

Employers accounting under the FRS102 standard

We note that the FRS102 standard is silent on the treatment of settlements and curtailments, and in particular there is no explicit requirement to adopt a similar approach to that set out above for the IAS19 standard.

ACTION: Our default approach for IAS19 reports is to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. We provide each administering authority with a summary of the events we are aware of and these will be communicated to each employer. If the employer does not want to treat all the events in this way then we would strongly recommend that they engage with their auditor in advance of the preparation of their report to understand their materiality limit and establish which events fall outside of this.

Unless instructed otherwise we will proceed with our default approach and please note that additional fees will apply, details of which can be provided by the administering authority.

Our default approach for FRS102 reports is to not remeasure the net defined benefit liability at the event date, and this is consistent with the approach at the last accounting date. We are happy to adopt an approach in line with that set out above for the IAS19 reports if requested by the employer, but please note that this will incur additional charges.

Details of whether the remeasurement approach has been adopted at an event date or not will be set out in the employer's report.

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Please see FAQs for further details.

Goodwin case

We do not intend to make any adjustments to accounting valuations as a result of the Goodwin case. Please see FAQs for further details.

Guaranteed Minimum Pension (GMP) equalisation and indexation

Impact of Lloyds judgment on past transfer values

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and DLUHC on this. Whilst no guidance nor data is available, our standard approach currently is to make no allowance to reflect this judgment. Please see FAQs for further details.

GMP Indexation Consultation response

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

Our standard assumption for GMP is that the fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome. Please see FAQs for further details.

Associated risks of participating in a defined benefit scheme

In general, participating in a defined benefit pension scheme means that an employer is exposed to a number of risks:

Risk	Comment
Investment risk	The fund may hold investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long term, the short-term volatility can cause additional funding to be required if a deficit emerges.
Interest rate risk	The fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
Inflation risk	All of the benefits under the fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
Longevity risk	In the event that the members live longer than assumed a deficit will emerge in the fund. This may be mitigated by a longevity insurance contract if held by the fund. There are also other demographic risks.
Climate risk	Climate risk can be grouped into two categories; Physical and Transitional risks. Physical risks are direct risks associated with an increased global temperature such as heatwaves and rising sea levels. Transitional risks are the costs of transitioning to a low carbon economy. These risks will manifest themselves in many of the other risks detailed above which the fund is exposed to, for example investment returns may be affected.
Regulatory risk	Regulatory uncertainties could result in benefit changes to past of future benefits which could result in additional costs.
Orphan risk	As many unrelated employers participate in each fund, there is an orphan liability risk where employers leave the fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers in that fund.

All of the risks above may also benefit an employer e.g. higher than expected investment returns or employers leaving the fund with excess assets which eventually get inherited by the remaining employers.

For further details on the funding strategy please see the relevant LGPS fund's latest Funding Strategy Statement.

BARNETT WADDINGHAM
beyond the expected

Appendix 1 Financial assumptions

Duration (years)	Discount rate	RPI	RPI/CPI Gap	CPI
5	4.40%	3.05%	0.80%	2.25%
6	4.45%	3.10%	0.75%	2.35%
7	4.45%	3.15%	0.70%	2.45%
8	4.50%	3.15%	0.65%	2.50%
9	4.50%	3.20%	0.60%	2.60%
10	4.50%	3.15%	0.60%	2.55%
11	4.50%	3.15%	0.55%	2.60%
12	4.50%	3.20%	0.55%	2.65%
13	4.50%	3.20%	0.50%	2.70%
14	4.50%	3.15%	0.50%	2.65%
15	4.50%	3.15%	0.45%	2.70%
16	4.50%	3.15%	0.45%	2.70%
17	4.50%	3.15%	0.40%	2.75%
18	4.50%	3.15%	0.40%	2.75%
19	4.50%	3.15%	0.40%	2.75%
20	4.50%	3.15%	0.35%	2.80%
21	4.50%	3.10%	0.35%	2.75%
22	4.50%	3.10%	0.35%	2.75%
23	4.50%	3.10%	0.35%	2.75%
24	4.50%	3.10%	0.30%	2.80%
25	4.50%	3.10%	0.30%	2.80%
26	4.50%	3.10%	0.30%	2.80%
27	4.50%	3.10%	0.30%	2.80%
28	4.50%	3.10%	0.30%	2.80%
29	4.50%	3.10%	0.25%	2.85%
30	4.50%	3.05%	0.25%	2.80%

Final Accounts 2022/23 Risk Register

ID	Date Opened	Status	Service Area	Risk Type	Risk Owner	Event (description of risk)	Consequences of Event occurring	Existing Mitigation	Existing Assurances	Score with Existing Mitigation: Likelihood 1 Minor 2 Moderate 3 High	Score with Existing Mitigation: Impact 1 Minor 2 Moderate 3 High	Score with Existing Mitigation: Calculated Risk Severity	Risk Option Chosen	Planned Mitigation (if any): Action	Planned Mitigation (if any): Lead	Score with Planned Mitigation: Likelihood 1 Minor 2 Moderate 3 High	Score with Planned Mitigation: Impact 1 Minor 2 Moderate 3 High	Score with Planned Mitigation: Calculated Risk Severity	Contingency (should the Event actually occur)
1	05/11/2016	Open	Financial Control	Internal Financial Systems and Funding Risks	Emma Foy	External auditor will detect a material mis-statement in the accounts.	Could impact on the financial health of the Council and reputation of Financial Services	Regular review of GL transactions against budget, reconciliations, quality review of final account working papers, PBC owners designated	Senior officers review reconcilations and working papers. Checking systems throughout the year are in place. Tracey does a final review.	1	1	1	Accept risk as is	no further actions identified	Emma Foy	1	2	2	Amend the financial statements and report to members
2	05/11/2016	Open	Financial Control	Internal Governance - Risks around Non-Compliance re: Technical accounting	Emma Foy	The correct accounting treatment has not been followed due to omission, error in interpretation	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial Services	Updated procedures, up to date technical reference library, attendance at external briefings, learning & development framework	Internal audit reports. Final accounts working papers signed off by senior officer. Working papers are subject to second review by different senior officer.	2	1	2	Mitigate risk (reduce)	QA on all working papers undertaken by expert.	Emma Foy	1	2	2	Amend the GL entries and financial statements
3	05/11/2016	Open	Systems	Internal Financial Systems and Funding Risks	Emma Foy	Errors are made in year end procedure for closing financial system	Could lead to late production of accounts, impact on the reputation of Financial Services and possible additional costs.	Technology One closedown timetable and documented procedures	Written procedure notes	2	1	2	Accept risk as is	Balance Sheet Review to December. Regular checking of control account balances over year end period to ensure no further movement after closing system.	Emma Foy	1	1	1	Restore Technology One and re-process data with IT support
4	05/11/2016	Open	Financial Control	Risks around Employment and People	Emma Foy	Team members do not comply or are unable to comply with the timetable	Could lead to late production of accounts, impact on the reputation of Financial Services and the Council and possible additional costs.	Final accounts closedown timetable that is clearer to follow and devolved responsibilities. Training delivered annually as part of closedown process	Flexi rules suspended, 1-2-1 meetings with PBC owners, support and learning, procedures built into working papers, code guidance	2	2	4	Mitigate risk (reduce)	More support for officers in time management, improve communication over the closedown plan. Expectation that additional hours will be required to manage workload during this period	Emma Foy	1	2	2	reprioritise work, bring in weekend working if necessary and external resources
5	05/11/2016	Open	Financial Control	Risks around Employment and People	Emma Foy	Team members leave or are ill, together with in-experienced team members taking on new roles.	Could lead to late production of accounts, impact on the reputation of Financial Services and the Council and possible additional costs.	Procedure notes for main areas	Procedures built into working papers. Earlier preparation, so QA in January, flexible working	2	2	4	Mitigate risk (reduce)	Work with PBC owners to identify issues. Mentor new officers and provide training where necessary to ensure all work areas have sufficient cover so that no one officer has the sole knowledge	Emma Foy	1	2	2	reprioritise work, bring in overtime - external resources
6	05/11/2016	Open	Financial Control	Risks around Employment and People	Emma Foy	Team members do not provide adequate working papers	Could lead to additional audit costs by delaying time for completion.	standard template in place	Two senior officer signs off working papers. PBC owner reviews	2	2	4	Mitigate risk (reduce)	All WP's include instructions. Officers responsible for checking against the Code. QA twice	Peter Davy	1	2	2	Rework any defficient WPs
7	05/11/2016	Open	Systems	Internal Financial Systems and Funding Risks	Emma Foy	There are issues with the asset register	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial Services	Capital closedown procedure notes in place. Principal Accountant supported by the Corporate Finance Team Manager understand capital and year end requirements	Principal Accountant oversees the work area. Team Manager Review	2	2	4	Mitigate risk (reduce)	Support to be provided to Corporate Principal Accountant if necessary. Capital closedown work to be reviewed by senior officer. New capital WP's templates set up	Peter Davy	1	2	2	re-work asset figures and transactions
8	05/11/2016	Open	Financial Control	Operational Service Delivery Risks	Emma Foy	Not providing audit with correct information in a timely manner.	Could lead to additional audit costs by delaying time for completion.	New protocol established including WP's to meet PBC requirments	Regular liaison with audit	2	2	4	Mitigate risk (reduce)	Regular meeting with Audit Lead. Working Papers QA twice	Peter Davy	1	1	1	
9	05/11/2016	Open	Financial Control	Internal Financial Systems and Funding Risks	Emma Foy	Ensuring all accounts are reconciled where there are system related imbalances	Could lead to additional audit costs by delaying time for completion.	policies established including balance sheet recs	Monitored by senior officer and at monthly team meeting	1	2	2	Accept risk as is	no further actions identified	Emma Foy	1	2	2	
10	05/11/2016	Open	Financial Statement	Client Risk managed by Financial Services	Emma Foy	Service managers do not comply with closedown timetable or provide adequate information.	Could lead to additional audit costs by delaying time for completion.	Training and Briefings. Meetings with Key Stakeholders	No issues in prior years	1	1	1	Mitigate risk (reduce)	regular liaison, no previous year issues	Business Partners	1	1	1	
11	05/11/2016	Open	Financial Statement	Client Risk managed by Financial Services	Emma Foy	Elected members do not return related party questionnaires	Could lead to additional audit costs by delaying time for completion.	liaise with key members	Monitoring and reminders issued. Members who leave during year now complete a return as part of exit process	3	1	3	Mitigate risk (reduce)	Engage the support of the Chair/Vice Chair of G&A. Early liaison with S151 and member services. Capture disclosures from any member/officer leaving during the year	Peter Davy	1	1	1	
12	05/11/2016	Open	Financial Statement	Client Risk and Financial Services Risk	Emma Foy	Material MisStatement due to Fraud	Could lead to material misstatement and impact on the financial health of the Council and reputation of Financial Services	Systems of internal control including internal audit	Audit reports monitored by Senior managers and CMT	1	3	3	Mitigate risk (reduce)	Regular budget and reconciliation monitoring, internal controls incl authorisations and separation of duties	Peter Davy	1	1	1	Amend the financial statements
13	07/06/2017	Open	Financial Statement	Client Risk managed by Financial Services	Emma Foy	Subsidiaries/other companies do not provide the data needed for group accounting	Not issuing the Statement for publication by 31/05/22	Liason with key officers. Financial services control accounting	Minimal and no issues last year. Group accounts not material	2	2	4	Mitigate risk (reduce)	Plan with external accounts when statement of accounts to be completed by and if they require auditiing	Caroline Bird	1	2	2	
14	05/11/2016	Open	Financial Statement	Statutory Deadline exceeded	Ian Knowles	Not issuing the Statement for publication by 31/05/2023	Reputation, more items identified for amendement on Audit. ISA 260 recommendations, material misstatements if estimates to be used more	Prior years working towards earlier closedown, successfully achieved	Tighter timetable monitoring, ownership of tasks, any issues picked up on audit are amended.	1	3	3	Mitigate risk (reduce)	Work closer with Auditor, agreement of estimates and process and PBC list, deal with issues as they come along. Appoint agency support and or additional working hours	Rosie Shaw	1	2	2	Communicate with Audtior and Members as national publication for those authorities which do not achieve deadline - reputational risk
15	12/11/2020	Open	Financial Statement	Client Risk managed by Financial Services	Emma Foy	Impact from Covid-19 Pandemic	A de-escalation in the impact of the Covid-19 pandemic resulting in year. A lessening in the material change impact to the valuation of Property at the 31/03/2023, with particular reference to those assets valued using rental income as a factor. A lessening of adverse effect on the economy with slowly increasing interest rates and but increasing inflation rates. A lessening of the material change to the Valuation of the Pension Fund/Investments due to fluctuations in equities and so forth.Weakening in the detrimental effect on balance sheet. Staff illness and absence impacting on the resource to close the Council's accounts	Liason with key officers, external valuers Wilks, Head and Eve and Pension Fund Administrators Lincolnshire County Council and Actuary. Financial Services control accounting. Additional resource for the Finance Team to secure sustainability	Uncertainty remains on the long term impact of covid-19 and the economy. However, the widespread vaccination programme and other mitigating measures have effectively returned things to a relative state of normality.	2	2	4	Mitigate risk (reduce)	Work closely with Auditor and External Valuers to agree the level of assurance and evidence required for Property valuations Close the accounts using the Pension Estimate report and make the relevant accounting adjustments, then obtain an actual report in May to compare for material change. If a material change is deemed to of occured the relevant accounting amendments will be made prior to the publication of the draft financial statements 31/05/2023. Embed addtional resource into the team in January for familiarisation of processes	Rosie Shaw	1	2	2	Communicate with Auditor and external experts for updated reports and assurance on valuations. Embed additional resource into the team in Janaury to provide resilience and familiarisation of processes
16	14/11/2019	Open	Financial Statement	Client Risk managed by Financial Services	Emma Foy	Impact from Brexit	A lessening in the material change to the valuation of property at the 31/03/2023, with particular reference to those assets valued on the Direct Replaceable Cost (DRC method). A lessening in the material change to the valuation of the Pension Fund due to fluctuations in equities and so forth.	Liason with key officers, external valuers Wilks, Head and Eve and Pension Fund Administrators Lincolnshire County Council and Actuary. Financial Services control accounting.	The uncertainty of the effects of Brexit have reduced with the paassing of time.	2	2	4	Mitigate risk (reduce)	Work closely with Auditor and External Valuers to agree the level of assurance and evidence required for Property valuations Close the accounts using the Pension Estimate report and make the relevant accounting adjustments, then obtain an actual report in May to compare for material change. If a material change is deemed to of occured the relevant accounting amendments will be made prior to the publication of the draft financial statements 31/05/2023	Rosie Shaw	1	2	2	Additional funds to be set aside to mitigate financial risk of capital loss on sale of assets. Higher contributions to pension fund over the long term

Governance & Audit Committee
Tuesday 14th March 2023

Subject: Annual Governance Statement 2021/22 Action Plan Update (Areas for Improvement During 2022/23)

Report by:	Assistant Director People & Democratic Services
Contact Officer:	Emma Redwood Assistant Director People & Democratic & Monitoring Officer
Purpose / Summary:	To review the progress with the Annual Governance Statement 2021/22 Action Plan

RECOMMENDATION(S):

That members seek assurance that the current position of the AGS Action Plan for 2021/22 will bring improvements to the identified areas.

IMPLICATIONS

Legal: The AGS must comply with the Accounts and Audit (England) Regulations 2011

(N.B.) Where there are legal implications the report MUST be seen by the MO

Financial: FIN/172/23/SL

There are none from this report.

Staffing: There are none from this report.

(N.B.) Where there are staffing implications the report MUST have a HR Ref

Equality and Diversity including Human Rights:

None

Data Protection Implications: None

Climate Related Risks and Opportunities: None

Section 17 Crime and Disorder Considerations: None

Health Implications: None

Title and Location of any Background Papers used in the preparation of this report:

None.

Risk Assessment: None

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	**x**

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**		**No**	**x**

1. Introduction

1.1 The Annual Governance Statement is the formal statement of the quality of the Council's governance arrangements, in accordance with the Accounts and Audit (England) Regulations 2011.

1.2 In July 2022 (draft) and November 2022 (Final), the Governance and Audit Committee agreed the Annual Governance Statement for 2021/22 and noted the areas identified for improvement to be delivered in 2022/23.

2. Areas for Improvement

2.1 The areas identified for improvement are shown below:

- Loss of key staff – ensure that processes are fully documented, succession plans in place where appropriate, identify activities which are overly reliant on one individual
- Financial settlement – continue to update the MTFS as we gain greater certainty on the level of funding for future years
- Preparing for all out elections in May 2023 – ensure robust election planning and deliver and a full member induction plan
- New finance system – ensure it is effective and compliant
- Continue review of corporate procurement procedures (carried forward from last year). The Council historically has bought in services from Lincolnshire but due to vacant posts, Lincolnshire County Council can only provide a limited service.
- Implementation of CIPFA FM Code requirements

3 The Action Plan

3.1 Progress is being made across the identified areas, further detail is contained in the table below:

3.2 Members will receive a final closure report in July 2023, along with the draft Annual Governance Statement for 2022/23.

Annual Governance Statement 2021/22 Action Plan – to be delivered during 2022/23

Description	Action Taken	Action to be Taken	Officer	BRAG
Loss of key staff – ensure that processes are fully documented, succession plans in place where appropriate, identify activities which are reliant on one individual	Business / service plans in place for services Business continuity plans for services Directors exploring options for increasing resilience across services Notice periods in place with handover procedures	This needs to be a continuing piece of work across the council to ensure resilience	Emma Redwood	Green
Financial settlement – continue to update the MTFS as we gain greater certainty on the level of funding for future years	The MTFS has been updated on an ongoing basis and we have built in all information known from Policy Statements into future years.	Ongoing review and savings programme launched in June 2023.	Emma Foy	Green
Preparing for all out elections in May 2023 – ensure robust election planning and deliver a full member induction plan	Elections as 14/2 VAC (Voter Authority Cards) portal now open and local process for temp VACs established. Local comms plan implemented regarding Voter ID . Briefing info to Members and Parishes. Website Updated. Polling stations booked and staff recruitment almost complete. Induction Plan Induction Timetable was approved by G And A committee in January agreeing timings and subjects to be covered as part of induction. External trainers booked where identified	Elections Nominations Packs to be made available Nominations to open and all Nominations to be published by 4 April Candidate and Agent Training Material to be made available Candidate packs to developed Continue with Comms Plan Allocate staff to positions and Train Staff. Arrangements for Postal vote opening Logistics map of ballot box, fill, collection and return prior to polling day and on day of poll Finalise Count Plan arrangement Induction Plan	Ian Knowles (Returning Officer)	Green

	Learning Pool roll-out completed in January and will support new on-line training element of 23 Induction. Member IT Offer approved and in procurement	Working with Officers and Training Providers to build the content of each session . Democratic Services to create and build the handbooks and guides which support Members and the induction period.		
New finance system – ensure it is effective and compliant	Tech One implemented. 2023-24 Budget built on Tech One budget module. Financial Statements 2022-23 successfully closed.	Dashboards to be completed for all budget managers June 2023.	Emma Foy	Green
Continue review of corporate procurement procedures (carried forward from last year).	External review of function undertaken with recommendations reported to Management Team. Procurement Lincs refining support offer and will report in time for new financial year. Assessment of officer training needs undertaken New procurement legislation due imminently	Management Team to consider refreshed offer from Procurement Lincs Officer training scheduled for Spring 2023 Procurement Lincs advising senior officers on implications of new legislation	Ady Selby	Green
Implementation of the CIPFA Financial Management code requirements	Full implementation of long term MTFS planning.	Dashboards to be completed for all budget managers June 2023 Finance training for non-budget managers (July 2023)	Emma Foy	Green

Governance and Audit Committee Workplan as at 6 March 2023

Purpose:
This report provides details of reports scheduled for committee for the 2022/23 and 2023/24 electoral cycles.

Recommendation:
1. That members note the report.

Date	Title	Lead Officer	Purpose of the report
14 MARCH 2023			
14 Mar 2023	Annual Governance Statement Action Plan Update	Jeanette McGarry, Interim Assistant Director - People and Democratic Services	To update progress on the Annual Governance Statement 21-22 Action Plan
14 Mar 2023	Accounts Closedown 2022/23 Accounting Matters	Emma Foy, Director of Corporate Services and Section 151 Officer	To review and approve the accounting policies, actuary assumptions and materiality levels that will be used for the preparation of the 2022/23 accounts.
18 APRIL 2023			
18 Apr 2023	External Audit Strategy Memorandum (Plan) 2022/23	Emma Foy, Director of Corporate Services and Section 151	To present the 2022/23 External Audit Strategy from our External Auditors, Mazars.
18 Apr 2023	Combined Assurance Report 2022/23	Alastair Simson, Principal Auditor, Lincolnshire County Council	To present the Report from the Combined Assurance aspect for 2022/23
18 Apr 2023	Internal Audit Draft Annual Plan 2023/24	Alastair Simson, Principal Auditor, Lincolnshire County Council	To present the Draft Annual Plan for Internal Audit for the 2023/24 committee year.
18 Apr 2023	Annual Constitution Review & Monitoring Officer Report	Emma Redwood, Assistant Director - People and Democratic Services	To review the Constitution and provide the MO annual report

18 Apr 2023	Contract and Financial Procedure (CPRS and FPRS) Review	Emma Foy, Director of Corporate Services and Section 151 Officer	To review West Lindsey District Council's contract and financial procedure rules
18 Apr 2023	6 Month Review of Strategic Risks	Jeanette McGarry, Interim Assistant Director - People and Democratic Services	To present the 6 month review of strategic risks
13 JUNE 2023			
13 Jun 2023	Internal Audit Quarter 4 Report 2022/23	Alastair Simson, Principal Auditor, Lincolnshire County Council	To present the Quarter 4 report from Internal Audit.
13 Jun 2023	Annual Counter Fraud Report 2022/23	Emma Foy, Director of Corporate Services and Section 151 Officer	To inform members of counter fraud activity, instances of fraud during the year and future
13 Jun 2023	Draft Annual Governance Statement 2022/23	Jeanette McGarry, Interim Assistant Director - People and Democratic Services	To present the draft AGS for 2022-23
25 JULY 2023			
25 Jul 2023	Member Development Annual Report 2022/2023	Ele Snow, Senior Democratic and Civic Officer	To review Member Development for the previous Civic Year and to agree relevant actions for the current Civic Year
25 Jul 2023	Internal Audit Annual Report 2022/2023	Alastair Simson, Principal Auditor, Lincolnshire County Council	To present the internal audit annual report.
25 Jul 2023	Annual Voice of the Customer Report 2022/23	Natalie Kostiuk, Customer Experience Officer	To summarise customer feedback from the year 2022/23 and analyse customer contact and demand data to provide a clear view of the voice of the customer.
25 Jul 2023	Annual Governance Statement 2022-23 and Closure of Action Plan 2021-22	Jeanette McGarry, Interim Assistant Director - People and Democratic Services	To present the AGS for 2022/23, and closure of the action plan from 2021/22.
26 SEPTEMBER 2023			
26 Sep 2023	Internal Audit Quarter 2 Report 2023/24	Alastair Simson, Principal	To present the Quarter 2 report 2023/24 from Internal

		Auditor, Lincolnshire County Council	Audit.
26 Sep 2023	Local Government and Social Care Ombudsman (LGSCO) Annual Review Letter Report 2022/23	Natalie Kostiuk, Customer Experience Officer	Report on the Local Government and Social Care Ombudsman (LGSCO) Annual Review letter 2022/23 covering complaints referred to them between April 2022 and March 2023. Examining upheld complaints, learning actions and benchmarking with other authorities.
26 Sep 2023	6 Month Review of Strategic Risks	Jeanette McGarry, Interim Assistant Director - People and Democratic Services	To present the 6 month review of strategic risks
28 NOVEMBER 2023			
28 Nov 2023	Review of Whistleblowing Activity	Jeanette McGarry, Interim Assistant Director - People and Democratic Services	To present data on Whistleblowing Activity in the previous civic year.
28 Nov 2023	Annual Governance Statement Update	Jeanette McGarry, Interim Assistant Director - People and Democratic Services	To present an update to the Annual Governance Statement