LANCASTER
CITY COUNCIL
Promoting City, Coast & Countryside

Annual Reporting and Audited Statement of Accounts

For the year ended 31 March 2016

Contents **Page No.**

Status of the Contents and Declaration of the Responsible Financial Officer 3

Narrative Report 4

Auditors Report 15

Statement of Accounts

Statement of Responsibilities 18

Movement in Reserves Statement 19

Comprehensive Income and Expenditure Statement 20

Balance Sheet. 21

Cash Flow Statement 22

Notes to the Accounts 23

Housing Revenue Account and Notes 66

Collection Fund and Notes 70

Bequests, Endowments and Trust Funds 73

Glossary 75

Annual Governance Statement 81

Status of the Contents and Declaration of the Responsible Financial Officer

This booklet includes the following documents produced by the Council in relation to financial year 2015/16:

1. A narrative statement, covering financial performance and the use of resources (economy, efficiency and effectiveness).

2. The audited statement of accounts.

3. The annual governance statement, produced following annual review of the Council's arrangements.

Signed by:

Nadine Muschamp CPFA
Chief Officer (Resources) and Section 151 Officer

Date: 30 September 2016

Narrative Report

1 Introduction

This Narrative Report provides headline and other supporting information about the City Council's performance in 2015/16, in both financial and operational/service delivery terms, to give an overview of the Authority's economy, efficiency and effectiveness in its use of resources during the last year. The topics covered include the following:

- An Introduction to Lancaster City Council
- Financial Performance
- Capital Position
- Non-Financial (Operational) Performance
- People
- Pension Liabilities
- Local Taxation
- Treasury Management
- Changes in Accounting Policies
- Corporate Risks
- Conclusion

This is followed by an explanation of the Financial Statements.

2 An Introduction to Lancaster City Council

Lancaster District is the most northerly district in Lancashire. Around 70% of the district's population of 140,000 people live in the main urban areas of Lancaster, Morecambe and Heysham. The remainder reside in an extensive rural area, which includes the market town of Carnforth and parts of the Arnside/Silverdale and Forest of Bowland areas of outstanding natural beauty. The district's location on Morecambe Bay means it has strong cultural and economic links with communities in south Cumbria.

The district is located on the main north/south transport corridor with good accessibility by road and rail to most of the country via the M6 motorway and the West Coast main railway line. Completion in 2016 of a new road link from the M6 to the Heysham peninsula will radically improve accessibility to Morecambe and key employment sites in Heysham, whilst providing traffic relief to Lancaster and Carnforth.

As home to the top ten ranked Lancaster University and the main campus of the University of Cumbria, the district has a strong academic focus and capitalising on this strength is a key economic priority.

Other key economic assets include Heysham 1 and 2 nuclear power stations, the expanding port of Heysham, the visitor economy, and arts and culture. The visitor economy is focused on the City of Lancaster's cultural assets and Morecambe Bay's outstanding natural environment and traditional seaside destination. The district is viewed as being of regional importance in economic terms, particularly in terms of innovation and growth, and this is reflected in the Lancashire Enterprise Partnership's Strategic Economic Plan.

3 Financial Performance

3.1 Economic Climate

The financial performance of the Council is set against a background of continuing significant financial challenges, due to reductions in funding from Central Government along with cost pressures within services and continued volatility in respect of business rates income. This position is likely to continue until at least 2019/20, in particular in respect of government funding, which will see Revenue Support Grant dropping from £3.861M in 2015/16 to an estimated £200K by 2019/20.

Whilst the Council has balanced budgets for 2016/17 and 2017/18, without drawing on Balances, the prospects for the following two years (2018-2020) are not as healthy. The Medium Term Financial Strategy is projecting savings requirements of £2.2M in 2018/19 and £2.7M in 2019/20. A range of savings options have already been identified and are actively being investigated to go towards meeting these savings requirements, however more work is still needed.

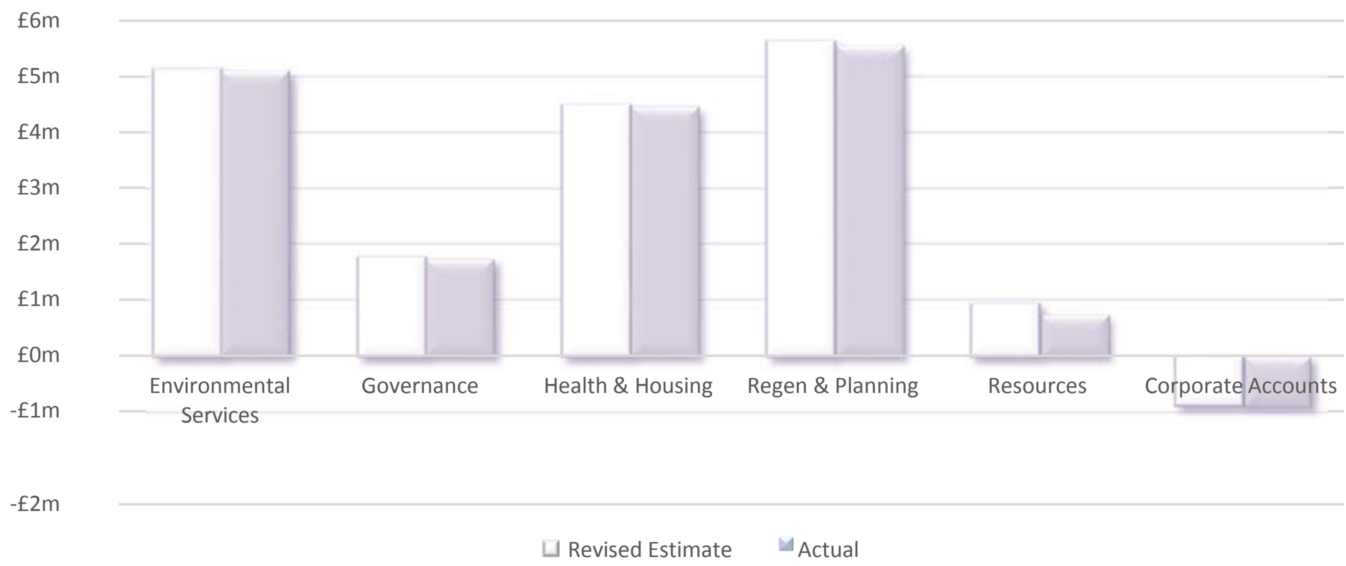
3.2 General Fund

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of council housing. The General Fund Revenue Budget for 2015/16 (including parish precepts) was originally approved by Council on 04 March 2015 at £17.583M. It assumed that Balances would be just over £3.1M at 31 March 2016, though these were increased by a further £553K following the 2014/15 outturn.

Between 2014/15 and 2015/16 the General Fund budget reduced by £1.488M or 8%, primarily as a result of Government funding reductions. Despite this challenging economic climate the financial standing of the Council remains robust, demonstrating sound financial management arrangements and these are strengthening further.

The table below summarises the General Fund revenue income and expenditure for 2015/16. It shows the actual variances for each service area but the presentation reflects the Council's organisational structures, rather than that required within the Statement of Accounts itself. The £13.6M variance shown under Resources is compensated by a contra variance of the same amount under Corporate Accounts and represents the movement in pension fund net liabilities. Such variances have to be shown in the accounts but do not impact on the overall outturn position.

	2015/16			Variance from
Expenditure:	**Original Budget** £000	**Revised Budget** £000	**Actual** £000	**Revised Budget** £000
Management Team	0	0	0	0
Environmental Services	5,551	5,130	5,271	141
Governance	1,781	1,759	1,762	3
Health & Housing	4,312	4,481	4,513	32
Regeneration & Planning	5,735	5,631	6,693	1,062
Resources	1,060	932	14,506	13,574
Corporate Accounts	(1,913)	(1,898)	(17,432)	(15,534)
Interest Payable & Similar Charges	3,084	3,084	3,085	1
General Government Grants	(1,380)	(1,427)	(1,420)	7
Contributions to/(from) Earmarked Reserves	(178)	(143)	245	388
Contribution to General Fund Balance	(1,000)	(497)	(166)	331
NET REVENUE EXPENDITURE	**17,052**	**17,052**	**17,057**	**5**
Parish Precepts	531	531	531	0
TOTAL BUDGET	**17,583**	**17,583**	**17,588**	**5**
Funded by:				
Revenue Support Grant	(3,861)	(3,861)	(3,861)	0
Retained Business Rates	(5,207)	(5,207)	(5,212)	(5)
Council Tax Payers	(8,515)	(8,515)	(8,515)	0
TOTAL FUNDING	**(17,583)**	**(17,583)**	**(17,588)**	**(5)**



At outturn for 2015/16 there has been a net underspending of £331K *(£553K for 2014/15)* against the Revised Budget. The main areas where variances have occurred are shown below:

	£000
Employees Savings	(79)
Transport & Premises Savings	(93)
Other Additional Income	(164)
Capital Financing Costs	(57)
Extra Contribution to Bad Debt Provision	60
Other Minor Variances	2
	(331)

As a result of the outturn, General Fund unallocated Balances stand at £4.460M as at 31 March 2016, which is well in excess of the newly updated minimum level of £1.5M. The use of Balances is an important element in addressing the Council's financial challenges and establishing a sustainable budget.

3.3 Housing Revenue Account (HRA)

The Local Government and Housing Act 1989 requires Councils to maintain a separate ring-fenced account for the provision of local authority housing, which cannot be subsidised by the General Fund. This account, known as the Housing Revenue Account (HRA), deals with all the transactions involving the management of the Council's housing stock. Full details of this are included later within these accounts.

The net underspend on the HRA for 2015/16 was £348K *(£536K in 2014/15)*, which has been transferred into HRA unallocated Balances. The main areas where variances have occurred are shown below:

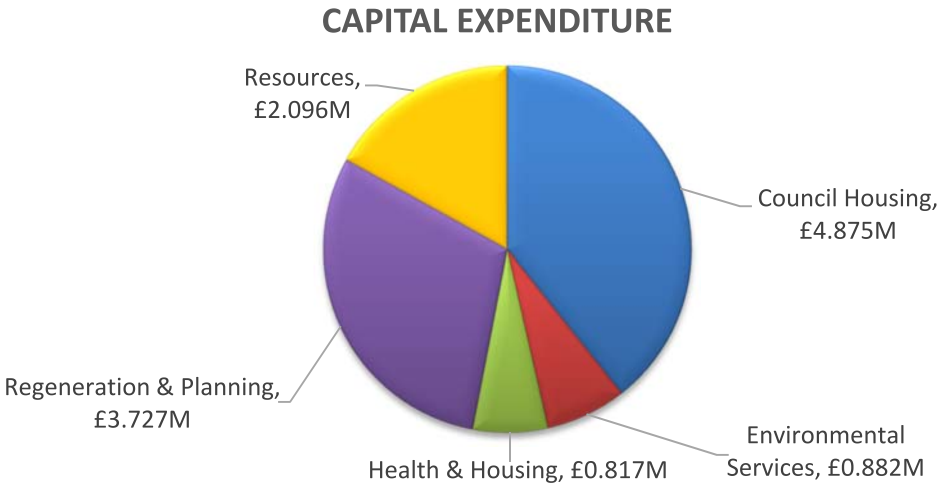
	£000
Reduced Revenue Funding towards Capital	(47)
Reduced Spend on Repairs & Maintenance	(242)
Extra contribution to Bad Debts Provision	+20
Other minor net underspends	(79)
	(348)

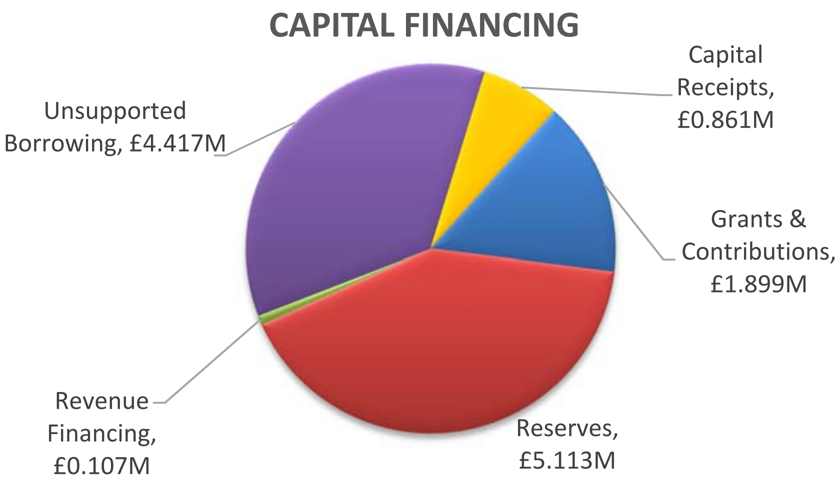
As at 31 March 2016 the HRA unallocated Balance amounted to £1.691M, which is £1.341M above the £350K approved minimum level. This minimum remains unchanged at 2015/16 outturn, but it may well increase in future, in view of the increasingly challenging financial/regulatory environment within which the HRA operates. For example, the general requirement to reduce council housing rents by 1% each year from 2016/17 to 2019/20 has had a major adverse impact on the service's business plan and its ability to deliver new build schemes.

4 Capital Position

In 2015/16 the City Council spent £12.397M on capital schemes, which is summarised below together with how that spend was financed.

Summary of Capital Expenditure and its Financing

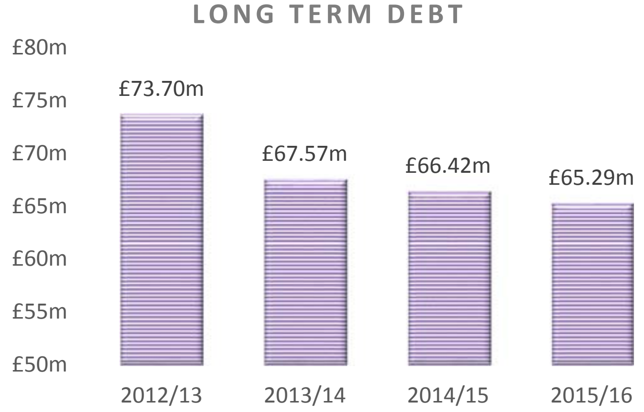




The Council's revised Capital Programme for 2015/16 was £12.526M, and net slippage of £231K has been rolled forward into 2016/17 to reflect programming delays on some schemes and accelerated spending on others.

The Capital Programme was financed from a variety of sources such as capital receipts, grants, revenue, reserves and borrowing. With regard to the latter, the Council can borrow money for capital purposes provided it can meet certain criteria, linked to affordability, sustainability and prudence, as determined by the Prudential Code Framework.

In 2015/16 the net cost of financing long term debt (i.e. interest charges) was £3.085M, and the value of long term debt owed as at 31 March 2016 amounted to £65.288M, of which £38K relates to finance lease liabilities and £65.250M relates to PWLB long term borrowing. A further £1.130M is included within short term liabilities as it is due for repayment over the next 12 months. The overall level of debt should be viewed in relation to the Council's long term assets, which had a net book value of around £241M as at 31 March 2016.



5 Non-Financial Performance

The Council's non-financial performance for 2015/16 is mapped out below against each of its Corporate Plan priorities.

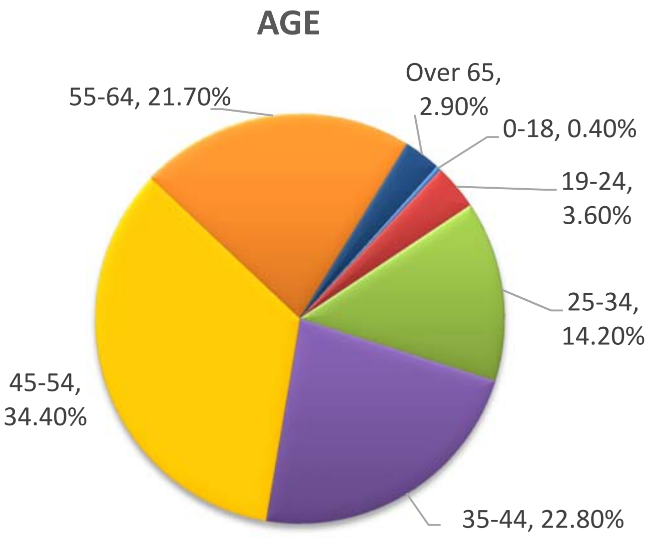
Clean and Green Places	Health & Wellbeing	Community Leadership	Sustainable Economic Growth
			
Performance Overview - 2015 - 2016			
The Council encouraged local communities and individuals to take pride in their local area and become involved in protecting and improving the quality of local areas, parks and public spaces in a way that is sustainable. The Council undertook activities to deliver waste collection, street cleansing and recycling services and developed an energy strategy aimed at reducing energy usage and carbon emissions in service delivery.	The Council supported actions to improve the health and wellbeing of residents, including improving the quality, energy efficiency and availability of council houses, housing renewal and standards in the private rented sector. The Council worked with partners to improve health outcomes through access to sports and leisure activities, keeping vulnerable people warm in their homes, tackling homelessness and rough sleeping and managing the impact of welfare reforms.	The Council faced up to the challenges presented by the current economic climate by placing an increased emphasis on the things that matter most to people of the district and by rationalising and developing its service delivery and use of resources. As a community leader the Council worked collaboratively with other public services, businesses and organisations and local community groups to deliver efficient services and make a positive impact in the district.	The Council worked in partnership to develop prospects for economic growth from opportunities relating to nuclear and renewable energy, the developing knowledge sector around Lancaster's two universities, and the Visitor Economy, capitalising on the district's arts and cultural heritage and entertainment offer, its coastline and natural landscapes.

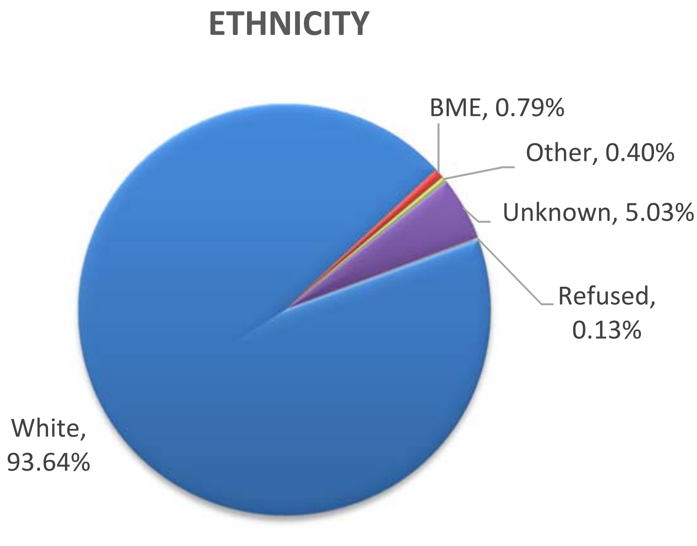
Clean and Green Places	Health & Wellbeing	Community Leadership	Sustainable Economic Growth
What we did in 2015 - 2016			
• Maintained the 'green flag' status of our major parks, including Williamson Park and Happy Mount Park • Improved public realm across the district and supported parish councils and community groups in the development and maintenance of parks and open spaces • Collected fortnightly domestic and commercial waste across the whole of the district • Recycled 42% of household waste - this is above the North West average • Carried out a review and took action aimed at reducing council business travel • Managed the Assembly Rooms, and Charter Markets in Lancaster and the Festival Market in Morecambe • Commissioned energy investment audits to identify energy and carbon reductions and savings and efficiencies in the Council's property portfolio • Maintained and repaired council housing stock (3,757 properties) – 82% of residents said that they were satisfied with the repairs and maintenance service	• Established a development partnership and £5M investment programme at Salt Ayre Leisure Centre (SASC) • Delivered an Active Health scheme to over 1,300 people referred by their GP • Won an award in the North West region for the provision of sports and activities for the disabled • Worked proactively with other public bodies to raise awareness and tackle dementia • Received and dealt with over 2,500 requests for pest control services • Appointed a part-time officer to identify and issue a fixed penalty notice for dog fouling offences • Responded to over 1,000 requests for assistance with nuisance, noise and anti-social behaviour problems • Managed council estates and tenants needs - 84% of tenants saying that they were satisfied with the service provided • Worked with Lancashire County and partners to improve air quality across the district and as a contribution to the developing *Lancaster Transport Master Plan*	• Established a Council vision and ethos that support active stewardship, places politics and public value before reliance on competitive markets, endorses collaboration and advances social justice • Made a positive contribution to discussions on the principle of a Combined Authority for Lancashire and worked on formalising proposals for public consultation • Processed new benefit claims within 21 days and just 9 days for changes in circumstances, making the Council a high performer in this area • Implemented and adapted to welfare reform changes, providing support and advice to our residents on the impact of the changes • Led on and supported community/friends/ voluntary and faith sector groups on a range of community based activities including litter picks and advice and information for vulnerable people • Worked with neighbouring councils to build working relationships and deliver services • Delivered a balanced budget and established a programme of financial savings, efficiencies and income generation • Worked with Lancaster University to support the development *of iLancaster* as a basis for digital information across the city	• Developed economic growth opportunities in the knowledge sector with Lancaster and Cumbria Universities • Considered nuclear and renewable energy opportunities arising from the Heysham Power Station development • Consulted on, completed and published key documents in Local Plan including land identified for residential development • Worked with Lancashire County Council on development and planning consents for the Heysham/M6 link road • Coordinated public consultation on proposals for the National Grid upgrade and the Morecambe Bay cable tunnel • Began work with British Land to seek to deliver an alternative Canal Corridor North development scheme • Worked with Lancaster University to develop a Health Innovation Campus aimed at creating 2,000 jobs • Started work on the Morecambe Area Action Plan to revitalise the Town Centre and the promenade, and introduced enforcement on improvements to retail premises

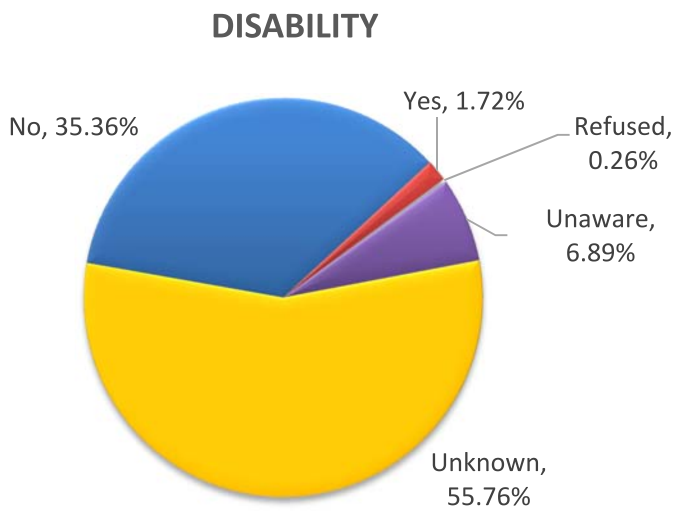
Clean and Green Places	Health & Wellbeing	Community Leadership	Sustainable Economic Growth
What we did in 2015 - 2016 (continued)			
• Invested nearly £5M on capital and planned maintenance programmes	• Improved housing standards in the private sector (1978 homes); improved access to housing (713 households helped to find permanent accommodation); and helped vulnerable residents to keep safe and warm in their own homes (554 households benefited from warm home initiatives)	• Preparation and delivery of Parliamentary, City Council and Parish Council elections • Played a leading role in tackling and dealing with the major impact on local communities and businesses from the December 2015 floods • Launched a new Council website designed to improve communications and meet the needs of our citizens	• Increased visitor numbers and spend in the district through Council run events, including *Light up Lancaster* and *Vintage by the Sea* attended by nearly 80,000 and generating £1.7M for the local area • Maintained investment in arts and culture and the provision of a museums service • Received nearly 110,000 enquiries at Lancaster and Morecambe Visitor Information Centres (VICs) • Established destination branding for Lancaster (including the Lune Valley) and Morecambe Bay which achieved good initial take up by tourism businesses

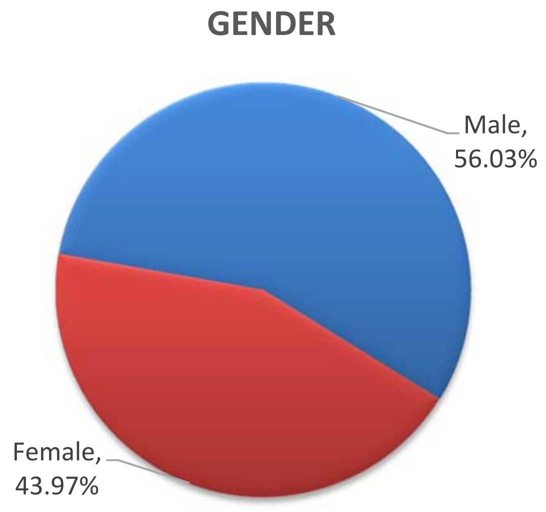
6 People

At the end of 2015/16 Lancaster City Council employed 755 staff in a mixture of full time and part time roles. The Council collects information on its workforce in respect of age, disability, ethnicity and gender profiles the details of which are shown in the following diagrams. Development of the Council's workforce strategy continues, with a particular focus on the recognised need to review pay and grading:





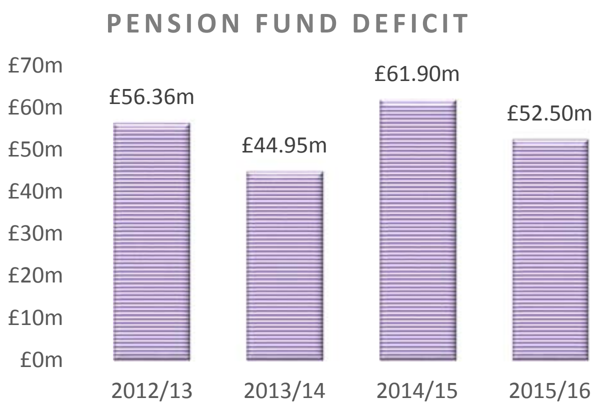




7 Pension Liabilities

In accordance with accounting practice, the Council must show the present surplus or deficit position for its share of the Pension Fund. The Local Government Pension Scheme administered by Lancashire County Council underwent a full valuation as at March 2013, the results of which were published in March 2014. This valuation saw an increase in net deficit on the Fund to £1.377M (£993M in 2010).

For the City Council, the net position as at 31 March 2016 showed a net liability of £52.496M compared to £61.902M for the previous financial year. This represents a reduction in net liabilities of £9.406M. This is largely due to an increase in the discount rate used (3.2% to 3.5%), which reduces the value of net liabilities as a result of improved financial assumptions.



Liabilities have been assessed on an actuarial basis using an estimate of the pensions that will be payable in future years, taking account of assumptions about mortality rates, salary levels etc., although clearly these may vary over time.

Also, it is emphasised that such estimated liabilities will not become due immediately or all at once, as they relate to estimated pensions payable to current scheme members on their normal retirement dates. The position represents simply a snapshot as at the end of the financial year, based on prevailing market and other economic conditions and assumptions. As such, it may fluctuate markedly from one year to the next.

8 Local Taxation

Collection Fund
The Collection Fund accounts for all the Council Tax and Business Rates income for the district with the City Council acting as billing authority. Income is collected by the City Council (Council Tax £62M and Business Rates £41M) and redistributed to the City Council's General Fund, Central Government, Lancashire County Council, Lancashire Combined Fire Authority and the Police and Crime Commissioner for Lancashire.

Council Tax
At the end of the financial year there was a surplus of £219K in relation to council tax, which is less than the £500K estimated surplus declared in January earlier this year. This has resulted from the tax base being 177 *(or 0.5%)* Band D chargeable dwellings less than estimated. As the City Council retains 13% of the surplus this would mean a potential shortfall of £32K in 2016/17 from the budgeted position.

Retained Business Rates
The position for business rates is again somewhat more complicated. A further major appeal has been made together with increases in estimated settlements on other appeals. This has meant that the overall position has gone from an estimated surplus of £8M to a deficit of £35M at the end of 2015/16.

Of the £35M deficit, the City Council's share is £14M. The complexities of the Business Rates Retention Scheme mean that this will not be recouped for some time but very importantly, any adverse impact is restricted, through the operation of a 'Safety Net'. This guarantees a minimum level of rating income for General Fund services each year.

In terms of the 2015/16 General Fund outturn therefore, fortunately there is no bottom-line impact from the deficit as the City Council is now due £9.8M back from the Government to bring net income back up to the Safety Net, as budgeted. Unfortunately, however, the settlement of the appeals does mean that the City Council has again lost the opportunity to retain general growth in other business rate income, originally estimated to be £459K.

That said, in 2015/16 the City Council did benefit from £662K of rating income from renewable energy schemes within the district. Effectively such income currently falls outside of the main rate retention scheme, and so the Council retains benefit from it. Furthermore, this source of income is set to rise from 2016/17 onwards.

9 Treasury Management

Cashflow
Total cash and cash equivalents as at 31 March 2016 were £2.122M *(£763K for 2014/15)*, in addition to short term investments of £39.247M *(£35.8M for 2014/15)*. It is anticipated that the level of investments will reduce significantly during 2016/17 following the repayment of £24M back to central government in respect of transitional relief associated with previous successful Business Rate appeals. As a result this will see investment interest drop significantly, but this has already been factored into the Council's current forecasts.

10 Changes in Accounting Policies

There are three new standards that have been issued which have been reflected in the accounting policies for 2015/16 where applicable. These are as follows:

- International Financial Reporting Standard (IFRS) 13 *Fair Value Measurement* – This requires local authorities to measure their assets and liabilities and provide disclosures where a section of the Code requires or permits fair value measurement.

- *Annual Improvements to IFRSs 2011-2013 Cycle*
  - IFRS 1: Meaning of effective IFRSs;
  - IFRS 3: Scope exceptions for joint ventures;
  - IFRS 13: Scope of paragraph 52 (portfolio exception); and
  - IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS (International Accounting Standard) 40 Investment Property, when classifying property as investment property or owner-occupied property.

- International Financial Reporting Interpretations Committee (IFRIC) 21 *Levies* – This provides guidance on when to recognise a liability for a levy imposed by the government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

These new standards have not had any material impact on the financial statements.

11 Corporate Risk

Over the course of last year, the Council's key corporate risks centred around balancing the needs and demands of the district and its communities, in the context of substantial ongoing reductions in local government funding and significant national policy changes coming through. The democratic changes arising from the May 2015 parliamentary and local elections undoubtedly added to such corporate risks.

Over the medium to longer term, the Council is currently planning to do more than it can afford to do. During the recent planning and budgeting exercise, the Council acknowledged that its risk appetite must increase, as it simply cannot expect to maintain or improve service delivery whilst managing down its annual spending (and/or increasing charging for specific services), and promoting innovation and transformation inevitably increases the inherent risks facing the Authority. Managing communities' and other stakeholders' expectations in light of this approach remains challenging, and this will grow as the impact of the City Council's (and other public sector organisations') budget decisions begins to bite.

With regard to managing such corporate and other risks, the Council adopted a pragmatic approach some years ago, and moved away from maintaining 'risk registers'. Instead, it seeks to ensure that appropriate risk management is actively undertaken through decision-making and day to day operations. A review of that approach is due to be completed over the coming year, but this itself is subject to competing work demands and pressures.

Risk management is an important aspect of the Council's Governance Arrangements and attention is drawn to the Annual Governance Statement, included elsewhere in this document.

12 Conclusion

Although the Council's General Fund budget and associated Government funding reduced again in 2015/16, it managed these reductions well, and has again strengthened its financial standing as at 31 March 2016. Balances are therefore higher than forecast, and the Council has other substantial earmarked reserves to help respond to the ongoing financial challenges expected over the coming years, in delivering against its corporate priorities. These challenges include the extent of future Government funding reductions.

Nonetheless, given likely funding prospects the Council must continue to reduce costs and increase income wherever possible – substantially more efficiency and other savings are still needed for General Fund services, in order to balance future years' budget expectations and ensure financial stability, whilst still ensuring value for money. The Council will need to manage and complete a significant programme of service reviews and organisational change over the medium term.

In terms of Council Housing provision the HRA remains in a strong position financially, although this too is facing far greater challenges regarding its financial sustainability as a result of recent national policy and associated regulatory changes.

Summary of Financial Statements

THE CORE FINANCIAL STATEMENTS

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" and other reserves. The Surplus or (Deficit) on the Provision of Services shows the true economic cost of providing the Council's services, more detail of which is shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the Housing Revenue Account for rent setting purposes, and the General Fund for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfer to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement

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

Balance Sheet

This is fundamental to the understanding of the Council's year end financial position. It shows the balances and reserves at the Council's disposal and its long term indebtedness, the net current assets employed in operations, and summarises information on fixed assets held. (It excludes Trust Funds, however).

Cash Flow Statement

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

THE SUPPLEMENTARY FINANCIAL STATEMENTS

Housing Revenue Account Income and Expenditure Account

This is prepared on the same accounting basis as the main Comprehensive Income and Expenditure Account mentioned above. It reflects a statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure and how these are met by rents and other income.

Collection Fund

This shows the transactions of the Council as a charging authority in relation to Non Domestic (Business) Rates and Council Tax. It illustrates the way in which these have been distributed to precepting authorities (such as Central Government, Lancashire County Council, Fire and Police Authorities) and the Council's own General Fund.

With regards to Business Rates, a Business Rates Retention Scheme is in operation. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the district. It does, however, also increase the financial risk due to non-collection, the outcome of appeals, and the volatility of the NNDR tax base.

Group Accounts

This statement consolidates any material interests the Council may have in subsidiary and associated companies within one set of accounts.

It should be noted that Lancaster has no material interest in any companies and as such, there are no Group Accounts included in the Statement. Details of the Council's minority interests in any companies are shown in the notes to the Balance Sheet.

Bequests, Endowments and Trust Funds

These show the accounts of various Funds for which the Council is Trustee and administrator.

We have audited the financial statements of Lancaster City Council for the year ended 31 March 2016 on pages 19 to 80. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Chief Officer (Resources) and auditor

As explained more fully in the Statement of the Chief Officer (Resources') Responsibilities, the Chief Officer (Resources) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Officer (Resources); and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

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

- the Annual Governance Statement which accompanies the financial statements does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

Conclusion on Lancaster City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether Lancaster City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Lancaster City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Lancaster City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by a local authority elector. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Timothy Cutler
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square,
Manchester,
M2 3AE

30 September 2016

Statement of Responsibilities for the Statement of Accounts

1 The Authority's Responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Officer (Resources), as Section 151 Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the audited Statement of Accounts.

2 The Chief Officer (Resources)' Responsibilities

The Chief Officer (Resources) as Section 151 Officer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdo*m ("the Code").

In preparing this Statement of Accounts, the Chief Officer (Resources) has:

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

The Chief Officer (Resources) has also:

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

3 Chief Officer (Resources)' Certificate

I certify that the Statement of Accounts give a true and fair view of the financial position of the authority as at 31 March 2016 and the income and expenditure for the year then ended.

Nadine Muschamp CPFA
Chief Officer (Resources) and Section 151 Officer

Date: 30 June 2016

Nadine Muschamp CPFA
Chief Officer (Resources) and Section 151 Officer

Date: 06 September 2016

4 Audit Committee Chairman's Certificate

In accordance with the Accounts and Audit Regulations 2011, I certify that the Statement of Accounts was considered and approved by Audit Committee on 07 September 2016.

Cllr Abbott Bryning Abbott Bryning

Date: 14 September 2016

Movement in Reserves Statement

The Movement in Reserves Statement is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:

- the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income
- the increase or decrease in the net worth of the Council as a result of movements in the fair value of its assets
- movements between reserves to increase or reduce the resources available to the Council according to statutory provisions.

	General Fund Balance £000	General Fund Earmarked Reserves £000	HRA Balance £000	HRA Earmarked Reserves £000	Major Repairs Reserve £000	Usable Capital Receipts £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Authority Reserves £000
Balance at 31/3/2015	**4,625**	**6,160**	**1,041**	**11,093**	**0**	**0**	**107**	**23,026**	**100,025**	**123,051**
Movements in 2015/16										
Surplus/(deficit) on the provision of services	(5,544)	0	(2,802)	0	0	0	0	(8,346)	0	(8,346)
Other Comprehensive Income and expenditure	0	0	0	0	0	0	0	0	20,194	20,194
Total comprehensive income and expenditure	(5,544)	0	(2,802)	0	0	0	0	(8,346)	20,194	11,848
Adjustments between accounting & funding basis under regulations	5,624	0	2,926	0	0	0	(4)	8,546	(8,546)	0
Net Increase/Decrease before transfers to earmarked reserves	80	0	124	0	0	0	(4)	200	11,648	11,848
Transfers (to)/from earmarked reserves	(245)	245	526	(526)	0	0	0	0	0	0
Increase/(decrease) in 2015/16	**(165)**	**245**	**650**	**(526)**	**0**	**0**	**(4)**	**200**	**11,648**	**11,848**
Balance at 31/03/2016	**4,460**	**6,405**	**1,691**	**10,567**	**0**	**0**	**103**	**23,226**	**111,673**	**134,899**

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by the Council during the financial year. As the Council does not have any equity in the Balance Sheet, these gains and losses should reconcile to the overall movement in net worth.

The CIES has two sections:

- Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income.
- Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the Council as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

2014/15					2015/16		
Gross Exp £000	Gross Inc £000	NET £000		NOTES	Gross Exp £000	Gross Inc £000	NET £000
			Continuing Operations:				
2,588	(1,433)	1,155	Central Services to the Public		2,615	(1,217)	1,398
11,152	(5,256)	5,896	Cultural and Related Services		11,215	(5,073)	6,142
11,318	(6,000)	5,318	Environmental and Regulatory Services		11,542	(5,800)	5,742
7,857	(4,762)	3,095	Planning Services		8,241	(5,784)	2,457
3,579	(4,739)	(1,160)	Highways and Transport Services		3,570	(4,582)	(1,012)
23,398	(24,850)	(1,452)	Local Authority Housing (HRA)		26,030	(25,456)	574
47,333	(45,512)	1,821	Other Housing Services		45,820	(42,717)	3,103
1,887	(168)	1,719	Corporate and Democratic Core		2,088	(451)	1,637
1,781	(171)	1,610	Non Distributed Costs		2,396	(184)	2,212
110,893	**(92,891)**	**18,002**	**Cost of Services**		**113,517**	**(91,264)**	**22,253**
4,470	(2,966)	1,504	Other Operating Expenditure	*8*	2,658	(2,002)	656
12,447	(13,935)	(1,488)	Financing and Investment Income and Expenditure	*9*	11,440	(5,463)	5,977
5	0	5	(Surplus) / Deficit on discontinued operations	*28*	0	0	0
25,185	(46,868)	(21,683)	Taxation and Non Specific Grant Income	*10*	33,770	(54,310)	(20,540)
		(3,660)	**(Surplus)/Deficit on Provision of Services**				**8,346**
		(1,937)	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment Assets		0	(8,270)	(8,270)
		15,250	Actuarial (Gains)/Losses on Pension Assets/Liabilities	*40*	0	(11,924)	(11,924)
		(7,188)	Other Comprehensive Income and Expenditure		0	0	0
		6,125	**Other Comprehensive Income and Expenditure**				**(20,194)**
		2,465	**Comprehensive Income and Expenditure**				**(11,848)**

The balance of (£11.808M) corresponds to the movement between years on the Balance Sheet.

Balance Sheet

The Balance Sheet summarises the Council's financial position as at 31 March each year. In its top half it contains the assets and liabilities that it holds or has accrued with other parties. As the Council does not have equity, the bottom half is comprised of reserves that reflect the Council's net worth, falling into two categories:

- Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and

- Unusable Reserves, which include:
  - unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve)
  - adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pension Reserve).

31 March 2015 £000		NOTES	31 March 2016 £000
204,273	Property, Plant & Equipment	*11*	206,028
7,856	Heritage Assets	*12*	8,291
25,321	Investment Property	*13*	26,036
87	Intangible Assets	*14*	71
57	Assets Held for Sale	*19*	57
5	Long Term Debtors	*15*	373
237,599	**Long Term Assets**		**240,856**
35,800	Short Term Investments	*15*	39,247
379	Inventories	*16*	352
12,040	Short Term Debtors	*17*	38,325
763	Cash & Cash Equivalents	*18*	0
48,982	**Current Assets**		**77,924**
0	Bank Overdraft	*18*	(2,122)
(1,154)	Short Term Borrowing	*15*	(1,130)
(22,162)	Short Term Creditors	*20*	(48,126)
(23,316)	**Current Liabilities**		**(51,378)**
(223)	Long Term Creditors	*15*	(174)
(11,671)	Provisions	*21*	(14,545)
(66,418)	Long Term Borrowing	*15*	(65,288)
(61,902)	Other Long Term Liabilities	*23*	(52,496)
(140,214)	**Long Term Liabilities**		**(132,503)**
123,051	**Net Assets**		**134,899**
23,026	Usable Reserves	*22*	23,226
100,025	Unusable Reserves	*23*	111,673
123,051	**Total Reserves**		**134,899**

The net movement between years is £11.808M and corresponds to the balance on the Comprehensive Income and Expenditure Statement.

Cash Flow Statement

The Cash Flow Statement summarises the flows of cash that have taken place into and out of the Council's bank accounts over the financial year. It separates the flows into:

- those that have occurred as a result of the Council's operations
- those arising from the Council's investing activities (including cash flows related to non-current assets), and
- those attributable to financing decisions.

2014/15 £000		NOTES	2015/16 £000
Money (Out) / In			Money (Out) / In
3,660	Net surplus or (deficit) on the provision of services	27	(8,346)
17,173	Adjustments to net surplus or deficit on the provision of services for non-cash movements		26,228
(2,966)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(3,897)
17,867	**Net cash flows from Operating Activities**		**13,985**
(20,753)	Investing Activities	25	(9,477)
4,397	Financing Activities	26	(7,393)
1,511	**Net increase or (decrease) in cash and cash equivalents**		**(2,885)**
(748)	Cash and cash equivalents at the beginning of the reporting period		763
763	**Cash and cash equivalents at the end of the reporting period**		**(2,122)**

Notes to the Accounts

The notes to the accounts have three significant roles:

- presenting information about the basis of preparation of the financial statements and the specific accounting policies used
- disclosing the information required by the Code that is not presented elsewhere in the financial statements
- providing information that is not provided elsewhere in the financial statements, but is relevant to an understanding of any of them.

A list of the notes provided is as follows:

Note 1 Accounting Policies
Note 2 Accounting Standards that have been issued but have not yet been adopted
Note 3 Critical Judgements in Applying Accounting Policies
Note 4 Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty
Note 5 Events After the Balance Sheet Date
Note 6 Adjustments between Accounting Basis and Funding Basis under Regulations
Note 7 Transfers to/from Earmarked Reserves
Note 8 Other Operating Expenditure
Note 9 Financing and Investment Income and Expenditure
Note 10 Taxation and Non-Specific Grant Income and Expenditure
Note 11 Property, Plant and Equipment
Note 12 Heritage Assets
Note 13 Investment Properties
Note 14 Intangible Assets
Note 15 Financial Instruments
Note 16 Inventories
Note 17 Short Term Debtors
Note 18 Cash and Cash Equivalents
Note 19 Assets Held for Sale
Note 20 Short Term Creditors
Note 21 Provisions
Note 22 Usable Reserves
Note 23 Unusable Reserves
Note 24 Operating Activities
Note 25 Investing Activities
Note 26 Financing Activities
Note 27 Amounts Reported for Resource Allocation Decisions
Note 28 Acquired and Discontinued Operations
Note 29 Trading Operations
Note 30 Agency Services
Note 31 Members' Allowances
Note 32 Officers' Remuneration
Note 33 External Audit Costs
Note 34 Grant Income
Note 35 Related Parties
Note 36 Capital Expenditure and Capital Financing
Note 37 Leases
Note 38 Impairment Losses
Note 39 Termination Benefits
Note 40 Defined Benefit Pension Schemes
Note 41 Contingent Liabilities
Note 42 Contingent Assets
Note 43 Nature and Extent of Risks Arising from Financial Instruments

1 ACCOUNTING POLICIES

1.1 General

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at 31 March 2016. The accounts of the Council have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), taking account of the supplementary guidance notes issued by CIPFA on the application of the Code to local authorities, supported by International Financial Reporting Standards.

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

The purpose of this section is to explain the basis of the figures included in the accounts, as the view that they present can only be properly appreciated if these policies are explained fully and understood. Where estimation techniques are used they implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique.

1.2 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 the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3 Acquisitions and Discontinued Operations

Acquired operations
Additional policy detail is required where an authority has acquired operations (or transferred operations under machinery of government arrangements) during the financial year.

Discontinued operations
Additional policy detail is required where an authority has discontinued operations (or transferred operations under machinery of government arrangements) during the financial year.

1.4 Cash and Cash Equivalents

Cash and cash equivalents are made up purely of the Council's current bank account balance. Investment balances held in short notice deposit accounts are classed as investing activities and therefore not included in cash and cash equivalents.

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.

1.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to 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 the transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

1.6 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding 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 in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the movement in Reserves Statement for the difference between the two.

1.7 Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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.

The Local Government Pension Scheme

Generally, employees of the Council are members of the Local Government Pension Scheme, which is administered on our behalf by Lancashire County Council. It is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire 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 3.5%.

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

  - **quoted securities** – current price bid
  - **unquoted securities** – professional estimate
  - **unitised securities** – current bid price
  - **property** – market value

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

  - Service cost comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
    - net interest on the net defined benefit liability (asset), ie net interest expenses for the authority – the change during the period in the net defined benefit liability (asse) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

  - Remeasurements comprising:
    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - Contributions paid to the Lancashire County 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 the 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 Pensions Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners on any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve 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 that are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards or retirement benefits in the event of early retirement. 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.

1.8 Events After the Balance Sheet Date

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

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

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

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

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in the active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument 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 for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

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

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

- instruments with quoted market prices – the market prices.
- other instruments with fixed and determinable payments – discounted cash flow analysis.
- equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

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

Any gains or 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, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

1.10 Foreign Currency Translation

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

1.11 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 authority 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 the 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 (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced 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 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.

1.12 Business Improvement Districts

A Business Improvement District (BID) scheme applies to Lancaster City Centre. The Scheme is funded by a BID levy paid by non-domestic ratepayers. The Authority collects the levy in respect of the BID and pays this across to North & Western Lancashire Chamber of Commerce as managing body for the Scheme.

1.13 Heritage Assets

Where reliable information is available, heritage assets have been recognised in the balance sheet at valuation. Operational heritage assets have been classified within the relevant class of property, plant and equipment and valued in line with the measurement bases for the relevant class. Heritage assets will be subject to the general provisions of capital accounting for additions, disposals, revaluations and capital charges where relevant, in line with the Code.

1.14 Intangible Assets

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

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 (which is the case in practice).

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.

1.15 Inventories and Long term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is shown in the accounts at the latest replacement cost net of provision for obsolescence / reduction in value, as an estimation of the net realisable value.

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.

1.16 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or 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 dated. 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 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 properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.17 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 building 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 the specific assets.

The Council as Lessee

Finance Leases
Property, plant and equipment held under finance leases are 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 for 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 are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter that the asset's estimated useful life (where ownership of the asset does not transfer to the authority 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 impairments losses are therefore substituted by 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.

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

Lease rentals receivable are apportioned between:

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

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

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

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

1.18 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of CIPFA *Service Reporting Code of Practice 2015/16* (SeRCOP). The total absorption costing principle is used – the full costs of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- **Corporate and Democratic Core** – costs relating to the Council's status as a multi-functional, democratic organisation

- **Non Distributed Costs** – the cost of discretionary benefits awarded to employers retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

1.19 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 the administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

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

Measurement
Assets are initially measured at cost, comprising:

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

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

The costs of assets acquired other than by purchase are 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 by 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 the 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 basis:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost which is used as an estimate of current value.
- 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 that have short useful lives or low values (or both), depreciated historic cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly (but as a minimum every five years) to ensure that their carrying amount is not materially different from their current value at the year- end. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 01 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 an asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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

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

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

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

Depreciation is calculated on the following basis:

- **dwellings and other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer;

- **vehicles, plant, furniture and equipment** – straight-line allocation over 10 to 15 years depending on the type of asset;

- **infrastructure** – straight-line allocation over 10 to 40 years depending on the type of asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on the 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 continual 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 previously recognised losses 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 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 or Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

1.20 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 a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority 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 (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities

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

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

Contingent Assets

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

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

1.21 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. 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 and 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, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

1.22 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 is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

1.23 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.

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The codes require authorities to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code.

There are eight new standards that have been issued but will not be adopted by the Code until 01 April 2016. These are as follows:

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit capital plans: Employee Contributions).
- Annual Improvements to IFRSs 2010-2012 Cycle
    - IFRS 8 Operating Segments;
    - IFRS 13 Fair Value Measurement;
    - IAS 16 Property, Plant and Equipment;
    - IAS 24 Related Party Disclosures; and
    - IAS 38 Intangible Assets.
- Amendment to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations).
- Amendment to IAS 16 *Property, Plant and equipment* and IAS 38 *Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation).
- Annual Improvements to IFRSs 2012-2014 Cycle
    - These are not expected to apply to local authorities.
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure capital initiative).

- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis.

- The changes to the format of the Pension Fund Account and the Net Assets Statement.

It is not expected that these new standards will have any material impact on the information provided in the financial statements, i.e. there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services. However, in the 2016/17 year the comparator 2015/16 Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must reflect the new formats and reporting requirements as a result of the Telling the Story review of the presentation of local authority financial statements.

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1 the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

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

4 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

Business Rates
Since the introduction of the Business Rates Retention Scheme from 01 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2015/16 and earlier financial years in proportion to their share. Therefore, a provision has been recognised, based on the best estimate of the amount that businesses have been overcharged up to 31 March 2016. The main element (80%) of this estimate relates to two appeals, one of which has been settled in 2016/17, therefore in accordance with proper accounting practice the actual settlement value has been used. The remaining 20% of the estimate has been calculated using data provided by an external software provider who utilises the Valuation Office Agency (VOA) ratings list of appeals and its own extensive property list and historic rating information.

Pensions
The estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discounts used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

5 EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Chief Officer (Resources) on 30 June 2016. Events taking place after this date are not reflected in the financial statements or notes.

Where events have taken place before 30 June 2016 and they provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted as appropriate in all material respects to reflect the impact of this information.

No events have arisen after 31 March 2016 that require separate disclosure to aid understanding of the Council's financial position.

6 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

NOTE 6 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

	2014/15 Comparative Figures						2015/16					
	Usable Reserves						Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources:												
Amounts by which income and expenditure included in the Comprehensive income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.												
Pensions costs (transferred to (or from) the Pensions Reserve)	(1,507)	(200)					(2,186)	(332)				
Financial instruments (transferred to the Financial instruments Adjustments Account)	0	0					0	0				
Council tax and NDR (transfers to or from Collection Fund)	584						327					
Holiday pay (transferred to the Accumulated Absences Reserve)	(56)	(15)					42	27				
Reversal of entries included in the Surplus or Deficit on the provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(2,566)	(7,640)					(7,050)	(8,808)				
Total Adjustments to Revenue Resources	**(3,545)**	**(7,855)**	**0**	**0**	**0**	**0**	**(8,867)**	**(9,113)**	**0**	**0**	**0**	**0**
Adjustments between Revenue and Capital Resources												
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts reserve	1,994	971	(2,965)				1,396	606	(1,261)			
Admininstrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)		(23)	23					(14)	14			
Payments to the government housing receipts pool funded by a transfer from the Capital Receipts Reserve	(666)		666				(388)		388			
Posting of HRA resources from revenue to the Major Repairs Reserve		3,989		(3,989)				4,181		(4,181)		
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,540	1,041					1,569	1,041				
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,405	436					666	373				
Total Adjustments between Revenue and Capital Resources	**4,273**	**6,414**	**(2,276)**	**(3,989)**	**0**	**0**	**3,243**	**6,187**	**(859)**	**(4,181)**	**0**	**0**
Adjustments to Capital Resources												
Use of the Capital Receipts Reserve to finance capital expenditure			2,278						861			
Use of the Major Repairs Reserve to finance capital expenditure				3,989						4,181		
Application of capital grants to finance capital expenditure						(32)						4
Cash payments in relation to deferred capital receipts			(2)						(2)			
Total Adjustments to Capital Resources	**0**	**0**	**2,276**	**3,989**	**0**	**(32)**	**0**	**0**	**859**	**4,181**	**0**	**4**
Total Adjustments	**728**	**(1,441)**	**0**	**0**	**0**	**(32)**	**(5,624)**	**(2,926)**	**0**	**0**	**0**	**4**

7 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2015/16.

	Balance at 31 March 2014 Restated	Transfers Out Restated	Transfers In restated	Balance at 31 March 2015 Restated	Transfers Out	Transfers In	Balance at 31 March 2016
	£000	£000	£000	£000	£000	£000	£000
General Fund:							
Corporate Property Reserve	386	(44)	0	342	(14)	0	328
Open Spaces Commuted Sums	164	(35)	0	129	(24)	0	105
Other Commuted Sums	1,233	(350)	237	1,120	(190)	176	1,106
Restructuring - Budget Support	603	0	0	603	0	0	603
Renewals	931	(540)	317	708	(500)	605	813
Capital Support	469	(170)	0	299	(8)	236	527
Invest to Save Reserve	1,514	(13)	0	1,501	(32)	0	1,469
Business Rates Retention Reserve	1,699	(1,318)	0	381	0	0	381
Welfare Reforms Reserve	257	(17)	68	308	(19)	107	396
MAAP Implementation Reserve	16	(7)	215	224	(109)	0	115
Highways Reserve	213	0	66	279	(60)	0	219
Other Reserves £100K and under	246	(97)	117	266	(72)	149	343
Total	**7,731**	**(2,591)**	**1,020**	**6,160**	**(1,028)**	**1,273**	**6,405**

HRA:							
Hsg Mgt System Replacement	591	0	0	591	0	0	591
Flats Planned Maintenance	1,210	(287)	0	923	(232)	0	691
Fixed Lifeline Equipment	28	(24)	12	16	(20)	4	0
Sheltered Housing Reserves	881	(198)	187	870	(266)	208	812
Business Support Reserve	8,613	0	0	8,613	(176)	0	8,437
Other Reserves £100K and under	84	(7)	3	80	(47)	3	36
Total	**11,407**	**(516)**	**202**	**11,093**	**(741)**	**215**	**10,567**

8 OTHER OPERATING EXPENDITURE

	2014/15	2015/16
	£000	£000
Parish council precepts	508	531
Payments to the Government Housing Capital Receipts Pool	666	388
(Gains)/losses on the disposal of non-current assets	330	(263)
	1,504	**656**

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2014/15	2015/16
	£000	£000
Interest payable and similar charges	3,128	3,085
Pensions interest cost and expected return on pensions	2,135	2,168
Interest receivable and similar income	(165)	(214)
Income and expenditure in relation to investment properties and changes in their fair value	(6,666)	866
Other investment income and expenditure	80	72
	(1,488)	**5,977**

10 TAXATION AND NON SPECIFIC GRANT INCOME

	2014/15 £000	2015/16 £000
Council tax income	(8,160)	(8,585)
Non domestic rates	(5,388)	(5,468)
Non-ringfenced government grants	(6,868)	(5,281)
Capital grants and contributions	(1,267)	(1,206)
	(21,683)	**(20,540)**

11 PROPERTY, PLANT AND EQUIPMENT

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	**Total Property, Plant and Equipment £000**
Cost/Valuation								
Balance as at 1 April 2015	**157,717**	**87,552**	**14,579**	**41,817**	**8,754**	**321**	**9,880**	**320,620**
additions	0	1,684	1,005	0	17	0	1,812	**4,518**
revaluation increases/(decreases) recognised in the Revaluation Reserve	3,945	3,890	0	0	0	1	0	**7,836**
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	(1,013)	0	0	0	0	(7)	0	**(1,020)**
derecognition - disposals	(380)	(38)	0	0	0	0	0	**(418)**
assets reclassified (to)/from Investment Properties	0	(2,025)	83	(22)	(456)	(58)	(107)	**(2,585)**
Balance as at 31 March 2016	**160,269**	**91,063**	**15,667**	**41,795**	**8,315**	**257**	**11,585**	**328,951**
Accumulated Depreciation and Impairment								
Balance as at 1 April 2015	**(55,072)**	**(36,049)**	**(9,182)**	**(15,922)**	**(10)**	**(112)**	**0**	**(116,347)**
depreciation charge	(2,691)	(1,302)	(1,205)	(1,387)	(4)	(3)	0	**(6,592)**
derecognition - disposals	14	2	0	0	0	0	0	**16**
Balance as at 31 March 2016	**(57,749)**	**(37,349)**	**(10,387)**	**(17,309)**	**(14)**	**(115)**	**0**	**(122,923)**
Net Book Value								
at 31 March 2015	**102,645**	**51,503**	**5,397**	**25,895**	**8,744**	**209**	**9,880**	**204,273**
at 31 March 2016	**102,520**	**53,714**	**5,280**	**24,486**	**8,301**	**142**	**11,585**	**206,028**

Depreciation

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

- Council Dwellings: depreciated using Major Repairs Allowance as a proxy
- Other Land and Buildings: 5 - 40 years
- Vehicles, Plant, Furniture and Equipment: 5 -15 years
- Infrastructure: 10 - 40 years

Capital Commitments
At 31 March 2016, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 anticipated to cost £4.344M. Similar commitments at 31 March 2015 were £1.869M. The major commitments are:

- Sea and Flood defence £3,246K
- Vehicle Replacement Programme £32K
- Disabled facilities grants £478K
- Regeneration £588K

Revaluations
The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years, with Investment property being revalued annually. All valuations were carried out internally by professionally qualified valuers. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. Carrying values of vehicles, plant, furniture and equipment are based on depreciated cost.

The significant assumptions applied in estimating the fair values are:

- Values are given as at 01 April for the given year.
- Existing Use Market values are used except where items are of a specialist nature when depreciated historic cost is used as a proxy, or for investment properties where the highest and best consideration is used.

	Council Dwellings	Other Land and Buildings	Total
	£000	£000	£000
Adjustments to fair value by year:	Increase / (Decrease)		
31 March 2016	2,932	3,890	**6,822**
31 March 2015	76	10,156	**10,232**
31 March 2014	3,358	5,430	**8,788**
31 March 2013	1,133	(2)	**1,131**
31 March 2012	4,772	7,520	**12,292**
Net valuation over 5 year cycle	**12,271**	**26,994**	**39,265**

12 HERITAGE ASSETS

Reconciliation of transactions and carrying value of Heritage Assets held by the Council.

	2014/15	2015/16
	£000	£000
Opening Balance		
Civic Regalia and other donated items	609	607
Museum Collections	7,132	7,132
Public Art Works	168	100
Art Collection	17	17
	7,926	**7,856**
Additions	**0**	**0**
Donations	**0**	**0**
Disposals	**70**	**0**
Revaluations	**0**	**435**
Closing Balance		
Civic Regalia and other donated items	607	607
Museum Collections	7,132	7,567
Public Art Works	100	100
Art Collection	17	17
	7,856	**8,291**

The Code recommends a five year summary, however, it is not practical to do so at present therefore a two year summary has been provided. Further information on Heritage Assets is provided as follow:

Civic Regalia and other donated assets
There are 82 pieces of civic regalia and other donated assets, with some of the more valuable items including the mayoral chains, and the Lancaster and Morecambe maces. In addition to these are numerous items of silverware, china and glassware. The majority of these items are held at Lancaster Town Hall and can be viewed at the annual Heritage Open Day held every September in addition to any guided town hall tours that may be held throughout the year.

Museums' Collections
The Council owns over 3,500 items which are either on display or stored at the Maritime, Cottage and City museums in Lancaster. The museums themselves are managed through a partnership arrangement with Lancashire County Council. Some of the more valuable items include paintings of Sir Richard Owen dating back to the early 1800's, in addition to a Roman cavalry tombstone circa 80 AD which was discovered in an archaeological dig at Aldcliffe Road in 2005. The museum collections account for 90% of the value represented on the balance sheet.

Public Artwork
The Council has commissioned numerous pieces of public art as part of the Tern and River Lune Millennium Park projects. The most famous and valuable of these is the Eric Morecambe statue which was sculpted by Graham Ibbeson and unveiled by HM Queen in July 1999, and is one of the centre pieces of the Tern project in Morecambe.

Works of Art
The Council also owns over 50 pieces of artwork, the majority of which are held in the Ashton Memorial at Williamson Park. In addition, several pieces of artwork are on display at Lancaster Town Hall in various meeting and function rooms.

Further details of the nature and scale of the collections is available on the Council's website within the 'History of Lancaster Town Hall' and Williamson Park sections, as well as via the County Council museums service website.

The Council is not actively seeking material additions to the collections; material additions would need to be considered on a case by case basis as part of the wider capital programme. The museums partnership makes additions in accordance with its development policy although these have been below de-minimis for recognition as non-current assets in recent years.

The records in relation to both the museum catalogues and town hall collections are in development; there is not currently a full listing of all heritage assets and their current values available. As such, the insurance valuations have been used as a proxy for the value of the collections.

The Council also owns the Queen Victoria monument in Dalton Square and various items of ornate wooden furniture held in Lancaster Town Hall such as the oak Gillow table in the Mayor's parlour. Valuations for these items have not been obtained as the Council does not deem it currently necessary to do so.

13 INVESTMENT PROPERTIES

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

	2014/15 £000	2015/16 £000
Rental income from investment property	(908)	(940)
Direct operating expenses arising from investment property	679	727
Net (gain)/loss	**(229)**	**(213)**

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

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

	2014/15	2015/16
	£000	£000
Balance as at 1 April	**19,063**	**25,321**
Additions:		
- Construction	56	309
Disposals:	(652)	(1,322)
Net gains/losses from fair value adjustments	6,854	(857)
Transfers:		
- to/from Property, Plant & Equipment	0	2,585
Balance as at 31 March	**25,321**	**26,036**

Fair Value Hierarchy
Details of the authority's investment properties and information about the fair value hierarchy at 31 March 2016 are as follows:

2015/16	**Quoted prices in active markets for identical assets (Level 1)**	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair Value as at 31 March 2016**
Recurring fair value measurements using:	**£000**	**£000**	**£000**	**£000**
Office	0	0	4,602	4,602
Retail	0	0	3,208	3,208
Agriculture & Allotments	0	0	370	370
Commercial Land	0	6,900	1,945	8,845
Commercial Buildings	0	0	1,852	1,852
Mixed Commercial	0	0	7,159	7,159
Total	**0**	**6,900**	**19,136**	**26,036**

There were no transfers between Levels 1 and 2 during the year

Valuation Techniques used to determine Level 2 and 3 Fair Values for Investment Properties

Significant Observable Inputs – Level 2

The fair value for the Commercial Land has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Significant Unobservable Inputs – Level 3

The remainder of the Investment Properties located in the local authority area are measured using the income approach, by means of the discounted cash flow method, where the expected cash flows from the properties are discounted (using a market derived discount rate) to establish the present value of the net income stream. The approach has been developed using the authority's own data requiring it to factor in assumptions such as the duration and timing of cash inflows and outflows, rent growth, occupancy levels, bad debt levels, maintenance costs etc.

The properties are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions)

Highest and best use of Investment Properties
With the exception of a piece of Commercial Land at Burrow Beck Lancaster, in estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

The Commercial Land at Burrow Beck Lancaster were it to be sold has a potential alternative use as residential housing land. It has, therefore, been valued at £6.9m which is deemed to be its highest and best use value.

Valuation Techniques
There has been no change in the valuation techniques used during the year for investment properties.

Reconciliation of Fair Value Measurement (using Significant Unobservable Inputs) Categorised within Level 3 of the Fair Value Hierarchy

	2015/16 £000
Balance as at 1 April	**21,006**
Total gains/losses for the period included in Surplus or Deficit on the Provision of Services resulting from changes in fair value	(857)
Additions	309
Disposals	(1,322)
Balance as at 31 March	**19,136**

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

14 INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful life assigned to the major software suites used by the Council is 5 years.

Key software licences are held for the Salt Ayre income management system, Local Land and Property Gazetteer, Housing Rents and Repairs system, Cash Receipting system, National Non Domestic Rating system, Asset Management system, PC based software and Customer Relationship Management System.

	2014/15 £000	2015/16 £000
Balance at start of year:		
- Gross carrying amounts	313	336
- Accumulated amortisation	(199)	(249)
Net carrying amount at start of year	**114**	**87**
Additions:		
- Purchases	23	25
Amortisation for the period	(50)	(41)
Net carrying amount at the end of year	**87**	**71**
Comprising:		
- Gross carrying amounts	336	361
- Accumulated amortisation	(249)	(290)
Balance as at 31 March	**87**	**71**

In line with the Code, Intangible assets are carried at amortised cost.

15 FINANCIAL INSTRUMENTS

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

	Long-term		Current	
	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000
Investments				
Loans and receivables	0	0	35,800	39,247
Total investments	**0**	**0**	**35,800**	**39,247**
Debtors				
Loans and receivables	5	373	12,040	38,325
Total Debtors	**5**	**373**	**12,040**	**38,325**
Total assets	**5**	**373**	**47,840**	**77,572**
Borrowings				
Financial liabilities at amortised cost	66,291	65,250	1,041	1,041
Finance lease liabilities	127	38	113	89
Total borrowings	**66,418**	**65,288**	**1,154**	**1,130**
Creditors				
Financial liabilities at amortised cost	223	174	22,162	48,126
Total Creditors	**223**	**174**	**22,162**	**48,126**
Bank overdraft	0	0	(763)	2,122
Total liabilities	**66,641**	**65,462**	**22,553**	**51,378**

Income, Expenses, Gains and Losses

	2014/15					2015/16				
	Financial Liabilities measured at amortised cost £000	Financial Assets:Loans and receivables £000	Financial Assets:Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets:Loans and receivables £000	Financial Assets:Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest payable	3,128	0	0	0	3,128	3,085	0	0	0	3,085
Losses on derecognition	0	0	0	0	0	0	0	0	0	0
Reductions in fair value	0	0	0	0	0	0	0	0	0	0
Impairment losses	0	34	0	0	34	0	0	0	0	0
Total expense in Surplus or Deficit on the Provision of Services	**3,128**	**34**	**0**	**0**	**3,162**	**3,085**	**0**	**0**	**0**	**3,085**
Interest income	0	(119)	0	0	(119)	0	(214)	0	0	(214)
Interest income accrued on impaired financial assets	0	0	0	0	0	0	0	0	0	0
Increases in fair value	0	0	0	0	0	0	(4)	0	0	(4)
Gains and derecognition	0	0	0	0	0	0	0	0	0	0
Total income in Surplus or Deficit on the Provision of Services	**0**	**(119)**	**0**	**0**	**(119)**	**0**	**(218)**	**0**	**0**	**(218)**
Gains on revaluation	0	0	0	0	0	0	0	0	0	0
Losses on revaluation	0	0	0	0	0	0	0	0	0	0
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	0	0	0	0	0	0	0	0	0	0
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net (gain)/loss for the year	**3,128**	**(85)**	**0**	**0**	**3,043**	**3,085**	**(218)**	**0**	**0**	**2,867**

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Carrying values are assumed to be equal to the fair value of short term assets and liabilities held. The value of long term creditors is reviewed at each balance sheet date based on the current values outstanding and best estimates of amounts required to settle liabilities of uncertain timing or amount. PWLB loans are the only financial instrument where the fair value is judged to be different from the carrying amount. The fair value is calculated based on premature repayment rates between 1.76% and 2.21%.

	31 March 2015		31 March 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	89,734	130,449	116,666	158,799
Long-term creditors & provisions	11,894	11,894	14,719	14,719
Total	**101,628**	**142,343**	**131,385**	**173,518**

The fair value of the liabilities is greater (a larger liability) than the carrying amount because the current repayment rates are below that of the Council's existing debt. The fair value adjustment is estimated using the early repayment premia that would be applicable at the balance sheet date.

	31 March 2015		31 March 2016	
	Carrying amount Restated	Fair value Restated	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and receivables	36,563	36,563	39,247	39,247
Long-term debtors	5	5	373	373
Total	**36,568**	**36,568**	**39,620**	**39,620**

The amortised cost of assets is judged as a fair measure of their fair value, the vast majority of these being current assets.

16 INVENTORIES

	Consumable Stores		Maintenance Materials		Items for Resale		Client Services Work in Progress		Total	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	**2014/15 £000**	**2015/16 £000**
Balance as at 1 April	36	36	236	231	104	112	0	0	**376**	**379**
Movement in Year	0	(12)	(5)	3	8	(18)	0	0	**3**	**(27)**
Balance as at 31 March	**36**	**24**	**231**	**234**	**112**	**94**	**0**	**0**	**379**	**352**

17 SHORT TERM DEBTORS

	31 March 2015 £000	31 March 2016 £000
Council Taxpayers	586	3,461
Central Government Bodies	5,954	11,285
Housing Rents	490	557
Other Local Authorities	208	241
Commercial Ratepayers	2,068	19,427
Other entities and individuals	2,734	3,354
	12,040	**38,325**

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are made up purely of the Council's bank current account balance. Investment balances are at their lowest at the year end and so any residual balances in short notice deposit accounts are assumed to be investing activities and not in support of short term cash management.

	31 March 2015 £000	31 March 2016 £000
Bank current account	763	(2,122)

19 ASSETS HELD FOR SALE

	Current		Non Current	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Balance as at 1 April	**0**	**0**	**1,957**	**57**
Assets newly classified as held for sale:				
- Property, plant and equipment	0	0	0	0
Impairment losses	0	0	(1,900)	0
Balance as at 31 March	**0**	**0**	**57**	**57**

20 SHORT TERM CREDITORS

	31 March 2015 £000	31 March 2016 £000
Council Taxpayers	(218)	(169)
Central Government Bodies	(12,037)	(26,361)
Housing Rents	(150)	(149)
Other Local Authorities	(1,085)	(1,012)
Commercial Ratepayers	(2)	(274)
Other entities and individuals	(8,670)	(20,161)
	(22,162)	**(48,126)**

21 PROVISIONS

	Insurance	Business Rate Appeals	Legal	Total
	£000	£000	£000	**£000**
Balance as at 1 April 2015	**360**	**11,136**	**175**	**11,671**
Additional provisions made	149	2,845	147	**3,141**
Amounts used	(109)	0	(158)	**(267)**
Balance as at 31 March 2016	**400**	**13,981**	**164**	**14,545**

The closing balance on the insurance provision is in respect of outstanding insurance claims to be settled by the Council. The Council provides an element of self-insurance whereby it pays varying levels of excess depending upon the type of insurance policy. The balance on the provision is assessed throughout the year to ensure it is sufficient to meet all anticipated claims.

The Business Rates (NNDR) appeals provides cover for the Council's share of estimated liabilities arising as a result of ratepayers appealing to the Valuation Office against the rateable values for their property; where successful, they will receive a refund backdated to the date the appeal was lodged.

The legal provision provides cover for settlements and legal costs associated with known litigation cases.

22 USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and in the following tables. These include revenue and capital reserves available to meet future expenditure.

	31 March 2015	31 March 2016
	£000	£000
General Fund Balance	4,625	4,459
HRA Balance	1,041	1,692
HRA Business Support Reserve	8,613	8,437
Housing Mgt System Replacement Reserve	591	591
Flats Planned Maintenance	922	691
Sheltered Equipment	366	241
Sheltered Planned Maintenance	225	126
Sheltered Support Grant Maintenance	279	445
Renewals Reserve	578	684
MAAP Implementation Reserve	224	114
Capital Support	299	526
Open Spaces Commuted Sums	129	104
Other Commuted Sums	1,119	1,106
Corporate Property Reserve	343	328
Restructuring/Budget Support Reserve	603	603
Welfare Reforms Reserve	308	396
Invest to Save Reserve	1,502	1,470
Highways Reserve	279	220
Capital Grants Unapplied	107	103
Other Reserves under £100K	492	509
Business Rates Retention Reserve	381	381
Total usable reserves	**23,026**	**23,226**

23 UNUSABLE RESERVES

	31 March 2015 £000	31 March 2016 £000
Revaluation Reserve	37,294	44,427
Financial Instruments Adjustment Account	(142)	(143)
Capital Adjustment Account	124,187	118,163
Pensions Reserve	(61,902)	(52,496)
Deferred Credits	5	743
Accumulated Absences Account	(218)	(149)
Collection Fund Adjustment Account	801	1,088
Total unusable reserves	**100,025**	**111,633**

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

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

The Reserve contains only revaluation gains accumulated since 01 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2014/15 £000	2015/16 £000
Balance as at 1 April	**25,759**	**37,294**
Upwards revaluation of assets	14,787	10,482
Downwards revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,273)	(2,212)
Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	12,514	8,270
Difference between fair value depreciation and historical cost depreciation.	(894)	(1,036)
Accumulated gains on assets sold or scrapped	(85)	(101)
Amount written off to the Capital Adjustment Account	(979)	(1,137)
Balance as at 31 March	**37,294**	**44,427**

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

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 01 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2014/15 £000	2015/16 £000
Balance as at 1 April	**122,693**	**124,187**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non current assets	(9,398)	(6,566)
- Revaluation losses on Property, Plant and Equipment	(1,721)	(5,882)
- Amortisation of Intangible Assets	(49)	(41)
- Revenue Expenditure funded from Capital under statute.	(1,644)	(2,680)
- HRA self financing payment.	1,041	1,041
- Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,372)	(1,724)
Sub total	109,550	108,335
Adjusting amounts written out of the Revaluation Reserve	979	1,137
Net written out amount of the cost of non current assets consumed in the year.	110,529	109,472
Capital financing applied in the year:		
- Use of Capital Receipts Reserve	2,278	861
- Use of the Major Repairs Reserve	3,989	4,181
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement (including those in respect of donated assets)	3,430	1,895
- Application of grants to capital financing from the Capital Grants Unapplied Account.	0	4
- Statutory provision for the financing of capital investment charged against General Fund and HRA balances	1,352	1,569
- Capital expenditure charged against the General Fund and HRA balances	(4,273)	1,039
Sub total	117,305	119,021
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure statement	6,882	(858)
Balance as at 31 March	**124,187**	**118,163**

Financial Instruments Adjustment Account (FIAA)

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in line with statutory provisions. The Council uses the Account to manage premiums and discounts paid on the early redemption of loans. Premiums and discounts are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund and HRA balance to the FIAA in the Movement in Reserves Statement. Over time, the expense and income is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2015 will be reversed into the General Fund over the next 38 years. The element relating the HRA will be effectively written off in 2016/17.

	2014/15 £000	2015/16 £000
Balance as at 1 April	**(141)**	**(142)**
Premiums and discounts incurred in previous years to be charged against the General Fund and HRA in accordance with statutory requirements	(1)	(1)
Balance as at 31 March	**(142)**	**(143)**

Pensions Reserve

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

	2014/15 £000	2015/16 £000
Balance as at 1 April	**(44,945)**	**(61,902)**
Actuarial gains or (losses) on pensions assets and liabilities	(15,250)	11,924
Reversal of items relating to the retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(4,817)	(5,697)
Employer's pension contribution and direct payments to pensioners payable in the year	3,110	3,179
Balance as at 31 March	**(61,902)**	**(52,496)**

Collection Fund Adjustment Account

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

	2014/15 £000	2015/16 £000
Balance as at 1 April	(1,100)	801
Amount by which council tax and business rates income credited to Comprehensive Income and Expenditure statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	1,901	327
Balance as at 31 March	**801**	**1,128**

Accumulated Absences Account

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

	2014/15 £000	2015/16 £000
Balance as at 1 April	**(147)**	**(218)**
Settlement or cancellation of accrual made at the end of the preceding year	147	218
Amounts accrued at the end of the current year	(218)	(149)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	**(71)**	**69**
Balance as at 31 March	**(218)**	**(149)**

24 CASH FLOW STATEMENT – OPERATING ACTIVITIES (INTEREST)

The cash flows for operating activities include the following interest items:

	2014/15 £000	2015/16 £000
Interest received	(86)	(240)
Interest paid	3,136	3,083

25 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2014/15 £000	2015/16 £000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(9,782)	(9,353)
Receipts from sale of Property, Plant and Equipment, investment property and intangible assets	2,968	1,263
Other payments from investing activities	0	161
Acquisition of short and long term borrowing	(13,924)	(3,443)
Other receipts from investing activities	(15)	1,895
Net cash flows from investing activities	**(20,753)**	**(9,477)**

26 CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2014/15 £000	2015/16 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(158)	(113)
Repayment of short-term and long-term borrowing	(1,117)	(1,066)
Payments and receipts relating to NNDR	5,672	(6,214)
Net cash flows from financing activities	**4,397**	**(7,393)**

27 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice.* However, decisions about resource allocation are taken by the Cabinet and Council on the basis of budget reports analysed across services. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no notional charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payments of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to services.

The following table provides different analyses of income and expenditure.

Income and Expenditure 2015/16	*Corporate Accounts* £000	*Environmental Services* £000	*Governance* £000	*Health and Housing* £000	*Office of Chief Executive* £000	*Regeneration & Planning* £000	*Resources* £000	TOTAL £000
Customer Fees & Charges	(43,573)	(6,146)	(618)	(17,574)	(1)	(2,012)	(6,537)	**(76,461)**
Government Grants	(6,240)	0	(203)	(98)	0	(63)	(41,653)	**(48,257)**
Interest	(3,690)	(4)	0	(641)	0	0	(3,542)	**(7,877)**
Other Grants & Contributions	(3,551)	(1,585)	(1)	(481)	0	(539)	(711)	**(6,868)**
Total income	**(57,054)**	**(7,735)**	**(822)**	**(18,794)**	**(1)**	**(2,614)**	**(52,443)**	**(139,463)**
Employee expenses	2,453	8,429	1,270	5,004	624	2,581	2,695	**23,056**
Premises	0	6,304	12	6,313	0	513	2,328	**15,470**
Transport	1	1,323	16	227	3	36	27	**1,633**
Supplies & Services	36,147	4,372	1,281	1,696	20	2,003	7,342	**52,861**
Total expenditure	**38,601**	**20,428**	**2,579**	**13,240**	**647**	**5,133**	**12,392**	**93,020**
Net expenditure	**(18,453)**	**12,693**	**1,757**	**(5,554)**	**646**	**2,519**	**(40,051)**	**(46,443)**

Income and Expenditure 2014/15	*Corporate Accounts* £000	*Environmental Services* £000	*Governance* £000	*Health and Housing* £000	*Office of Chief Executive* £000	*Regeneration & Planning* £000	*Resources* £000	TOTAL £000
Customer Fees & Charges	(37,699)	(6,315)	(618)	(17,498)	(2)	(1,115)	(6,120)	**(69,367)**
Government Grants	(7,787)	0	(286)	(50)	0	(60)	(44,570)	**(52,753)**
Interest	(13,985)	(4)	0	(684)	0	0	(4,459)	**(19,132)**
Other Grants & Contributions	(132)	(1,579)	(14)	(492)	0	(972)	(809)	**(3,998)**
Total income	**(59,603)**	**(7,898)**	**(918)**	**(18,724)**	**(2)**	**(2,147)**	**(55,958)**	**(145,250)**
Employee expenses	2,361	7,774	1,199	4,536	559	2,319	2,538	**21,286**
Premises	0	6,195	15	6,040	0	652	2,153	**15,055**
Transport	0	1,428	25	218	4	50	25	**1,750**
Supplies & Services	27,023	4,153	1,192	1,705	4	1,963	7,530	**43,570**
Total expenditure	**29,384**	**19,550**	**2,431**	**12,499**	**567**	**4,984**	**12,246**	**81,661**
Net expenditure	**(30,219)**	**11,652**	**1,513**	**(6,225)**	**565**	**2,837**	**(43,712)**	**(63,589)**

Reconciliation of Service Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statements.

	2014/15 £000	2015/16 £000
Net expenditure in Service analysis	**(63,589)**	**(46,443)**
Net expenditure of services and support services not included in the analysis	(4,019)	**(4,435)**
Amounts in the Comprehensive Income and Expenditure statement not reported to management in the analysis	55,717	**55,999**
Amounts included in the analysis not included in the Comprehensive Income and Expenditure statement	29,893	**17,132**
Cost of Services in the Comprehensive Income and Expenditure Statement	18,002	**22,253**

Reconciliation of Subjective Analysis

This reconciliation shows how the figures in the analysis of service income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2015/16	Service Analysis £000	Services included in Analysis but not NCS £000	**Net Cost of Services** **£000**	Corporate amounts £000	**Total** **£000**
Customer Fees and Charges	(76,461)	47,281	**(29,180)**	0	**(29,180)**
Government Grants	(48,257)	7,100	**(41,157)**	0	**(41,157)**
Interest	(7,877)	7,796	**(81)**	0	**(81)**
Other Grants and Contributions	(6,868)	3,357	**(3,511)**	0	**(3,511)**
Recharges	0	(16,520)	**(16,520)**	0	**(16,520)**
Capital Financing Income	0	(815)	**(815)**	0	**(815)**
Taxation & Non Specific Grant Inc	0	0	**0**	(20,540)	**(20,540)**
Total Income	**(139,463)**	**48,199**	**(91,264)**	**(20,540)**	**(111,804)**
Employee expenses	23,056	(7,584)	**15,472**	0	**15,472**
Premises	15,470	(776)	**14,694**	0	**14,694**
Transport	1,633	(63)	**1,570**	0	**1,570**
Supplies & Services	52,861	(41,353)	**11,508**	0	**11,508**
Other Operating Expenditure	0	0	**0**	656	**656**
Financing & Investment Inc & Exp	0	0	**0**	5,977	**5,977**
Transfer Payments	0	41,786	**41,786**	0	**41,786**
Support Services	0	13,459	**13,459**	0	**13,459**
Capital Charges	0	15,028	**15,028**	0	**15,028**
Total expenditure	**93,020**	**20,497**	**113,517**	**6,633**	**120,150**
Surplus or Deficit on the Provision of Services	**(46,443)**	**68,696**	**22,253**	**(13,907)**	**8,346**

2014/15 Comparative Figures	Service Analysis	Services included in Service Analysis but not NCS	**Net Cost of Services**	Corporate amounts	**Total**
	£000	£000	£000	£000	**£000**
Customer Fees and Charges	(69,368)	41,170	**(28,198)**	0	**(28,198)**
Government Grants	(52,753)	8,706	**(44,047)**	0	**(44,047)**
Interest	(19,132)	19,101	**(31)**	0	**(31)**
Other Grants and Contributions	(3,998)	210	**(3,788)**	0	**(3,788)**
Recharges	0	(15,887)	**(15,887)**	0	**(15,887)**
Capital Financing Income	0	(940)	**(940)**	0	**(940)**
Taxation & Non Specific Grant Inc	0	0	**0**	(21,683)	**(21,683)**
Total Income	**(145,251)**	**52,360**	**(92,891)**	**(21,683)**	**(114,574)**
Employee expenses	21,286	(6,443)	**14,843**	0	**14,843**
Premises	15,056	(586)	**14,470**	5	**14,475**
Transport	1,750	(64)	**1,686**	0	**1,686**
Supplies & Services	43,570	(33,131)	**10,439**	0	**10,439**
Other Operating Expenditure	0	0	**0**	(396)	**(396)**
Financing & Investment Inc & Exp	0	0	**0**	412	**412**
Transfer Payments	0	44,545	**44,545**	0	**44,545**
Support Services	0	12,798	**12,798**	0	**12,798**
Capital Charges	0	12,112	**12,112**	0	**12,112**
Total expenditure	**81,662**	**29,231**	**110,893**	**21**	**110,914**
Surplus or Deficit on the Provision of Services	**(63,589)**	**81,591**	**18,002**	**(21,662)**	**(3,660)**

28 ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquisitions during 2015/16. However, the Highways function (shown below) ceased to trade on 31 March 2016 with the operation transferring back to Lancashire County Council.

29 TRADING OPERATIONS

Trading services cover undertakings with the public or with other third parties, and include such activities as highways maintenance, trade waste collection, markets and the letting of commercial properties and industrial units. Details of these trading areas and their respective (surpluses) or deficits for the last three years is shown in the following table.

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement and form an integral part of the Council's services to the public. No costs are recharged to the Net Operating Expenditure of Continuing Operations but are included within Financing and Investment Income and Expenditure.

	2011/12	2012/13	2013/14	2014/15	**2015/16**
Highways	£000	£000	£000	£000	£000
Turnover	(1,149)	(1,094)	(820)	(1,178)	(1,043)
Expenditure	1,087	998	836	1,104	1,103
(Surplus)/Deficit	(62)	(96)	16	(74)	60
Trade Waste					
Turnover	(1,032)	(1,070)	(1,104)	(1,275)	(1,241)
Expenditure	997	878	843	824	929
(Surplus)/Deficit	(35)	(192)	(261)	(451)	(312)
Markets					
Turnover	(1,081)	(889)	(407)	(394)	(404)
Expenditure	1,214	2,349	333	321	319
(Surplus)/Deficit	133	1,460	(74)	(73)	(85)
Commercial Properties / Industrial Units					
Turnover	(736)	(763)	(941)	(888)	(946)
Expenditure	541	686	748	729	797
(Surplus)/Deficit	(195)	(77)	(193)	(159)	(149)
Consolidated					
Turnover	**(3,998)**	**(3,816)**	**(3,272)**	**(3,735)**	**(3,634)**
Expenditure	**3,839**	**4,911**	**2,760**	**2,978**	**3,148**
(Surplus)/Deficit	**(159)**	**1,095**	**(512)**	**(757)**	**(486)**

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Net (surplus)/deficit on trading operations	(159)	1,095	(512)	(757)	(486)
Trading expenditure and income included within Surplus or Deficit on the Provision of Services	0	0	0	0	0
Net (surplus)/deficit	**(159)**	**1,095**	**(512)**	**(757)**	**(486)**

30 AGENCY SERVICES

The Council provides highways grounds maintenance for Lancashire County Council for which it is reimbursed subject to defined limits. The net deficit represents the amount by which the council contributes to the agency.

	2014/15 £000	2015/16 £000
Expenditure on agency arrangement	200	214
Income on agency arrangement	(167)	(168)
Net deficit arising on agency arrangements	**33**	**46**

31 MEMBERS ALLOWANCES

The Council paid the following amounts to members of the council during the year.

	2014/15 £000	2015/16 £000
Basic Allowances	196	199
Special Responsibility Allowances	83	81
Expenses	3	3
Total	**282**	**283**

32 OFFICERS REMUNERATION

The remuneration paid to the Council's senior employees is as follows.

	Salary, Fees and allowances	*Expenses & Benefits in Kind*	*Redundancy Payments*	***Total Remuneration (excluding pension contributions)***	*Employer Pension contribution*	***Total Remuneration (including pension contributions)***
2015/16	£000	£000	£000	£000	£000	£000
Chief Executive	107	2	0	**109**	14	**123**
Chief Officer (Environmental)	66	0	0	**66**	8	**74**
Chief Officer (Resources)	66	0	0	**66**	8	**74**
Chief Officer (Governance)	60	0	0	**60**	8	**68**
Chief Officer (Health & Housing)	66	0	0	**66**	8	**74**
Chief Officer (Regeneration & Planning)	66	0	0	**66**	8	**74**
2014/15						
Chief Executive	107	2	0	**109**	14	**123**
Chief Officer (Environmental)	64	0	0	**64**	8	**72**
Chief Officer (Resources)	64	0	0	**64**	8	**72**
Chief Officer (Governance)	64	1	0	**65**	8	**73**
Chief Officer (Health & Housing)	64	0	0	**64**	8	**72**
Chief Officer (Regeneration & Planning)	64	1	0	**65**	8	**73**

There were no other employees, who are not classed as senior officers, who received remuneration above £50,000 (excluding employer's pension contributions).

The numbers of exit packages with total costs (redundancy and pension strain) per band are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15 £	2015/16 £
£0 - £20,000	0	0	8	5	**8**	**5**	54,142	62,550
£20,001 - £40,000	0	0	0	2	**0**	**2**	0	57,076
£40,001 - £60,000	0	0	1	0	**1**	**0**	55,000	0
£60,001 - £80,000	0	0	0	0	**0**	**0**	0	0
£80,001 - £100,000	0	0	0	0	**0**	**0**	0	0
£100,001 - £150,000	0	0	0	0	**0**	**0**	0	0
Total	**0**	**0**	**9**	**7**	**9**	**7**	**109,142**	**119,626**

33 EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors.

	2014/15 £000	2015/16 £000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	80	58
Fees payable for the certification of grant claims and returns for the year	16	23
Total	**96**	**81**

34 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16.

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

Credited to Taxation and Non Specific Grant Income	2014/15 £000	2015/16 £000
Revenue Support Grant	5,700	3,861
New Burdens	113	0
New Homes Bonus	1,045	1,297
Efficiency Savings Grant	0	84
Regent Park & Langridge Place Playgrounds	96	0
Environment Agency Wave Reflection Wall Construction	149	992
DCLG Lancaster Square Routes (Phases 1 and 2)	922	0
Heritage Lottery Fund - Townscape Heritage Initiative 2	34	145
Other Grants Under £50K	76	108
Total	**8,135**	**6,487**

Credited to Services	2014/15 £000	2015/16 £000
DCLG Disabled Facilities Grant	669	557
Grant: Sefton BC Strategic Monitoring	13	12
HCA Winning Back the West End	174	33
Discretionary Housing Payments	173	115
Lancs County Council C&YP	22	6
Supporting People	129	173
Strand 2 - Exercise Referral Project: Other Grants	118	113
Parliamentary/European/Individual Elections	286	200
Arnside & Silverdale AONB Grants	133	133
Benefits DWP grant	96	107
Storm Relief	0	151
Natural England Mcmbe Bay Improvement Area	242	0
Standard Rent Allowances: Government Grants	33,776	31,272
War Widows Benefit Grant: Government Grants	38	0
Rent Rebates - Council Housing: Government Grants	9,437	9,250
NNDR Administration: Government Grants	229	227
Other Grants Under £50K	423	373
Total	**45,958**	**42,722**

Capital Grants Receipts in Advance	2014/15 £000	2015/16 £000
DFG Grant	202	386
Lancaster Square Routes	66	0
Other Grants Under £50K	207	95
Total	**475**	**481**

35 RELATED PARTIES

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

Central Government
Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis Note 27 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2016 are contained within debtors Note 17.

Members
Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in Note 31. There are no other material transactions to disclose in respect of elected members.

Officers
Senior officer remuneration is disclosed in Note 32, and there are no other material transactions to disclose in respect of officers.

Entities Controlled or Significantly Influenced by the Authority
The Council nominates four of its City Councillors as trustees of the Dukes Playhouse Ltd. There is no ultimate controlling party, however. Payment of revenue grant support totalling £150.2K was made to the company in 2015/16 for its core activities, i.e. to promote and advance artistic and aesthetic education and the public appreciation of the arts and manage a theatre, which is at the service of the whole community. This included the provision of grant in lieu of rent free Council accommodation to the value of £12.5K. A further revenue grant of £7K was made during 2015/16 to assist the company in completing specialist architectural work to prepare a bid for capital grant funding to Arts Council England. In addition, the Council also provided revenue grant totalling

£64.8K in its role as Accountable body for the Arts Council England funding towards the 2015/16 Light Up Lancaster Programme. The Youth Arts Centre occupies a former church, which is also owned by the Council. The company maintains the building and pays an annual rent of £8K to the Council in respect of this.

The Council nominates one of its Councillors onto the Board of Heysham Mossgate (Community Facilities) Company Ltd. There is no ultimate controlling party, however and the Council made no financial support to the company during 2015/16. The principal activity of the company is the development of community facilities in the Mossgate area of Heysham on a non-profit making basis.

36 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2014/15 £000	2015/16 £000
Opening Capital Financing Requirement	**78,449**	**76,113**
Capital investment:		
Property, Plant and Equipment	8,705	9,382
Investment Properties	56	310
Intangible Assets	21	25
Revenue Expenditure Funded from Capital Under Statute	1,644	2,680
Sources of financing:		
Capital receipts	(2,278)	(861)
Government Grants and other contributions	(2,025)	(1,899)
Direct revenue contributions	(1,842)	(1,039)
Minimum Revenue Provision	(2,628)	(2,610)
Depreciation of HRA non dwellings	0	(27)
Major Repairs Reserve	(3,989)	(4,181)
Closing Capital Financing Requirement	**76,113**	**77,893**
Explanation of movements in year:		
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(2,336)	1,780
Increase/(decrease) in Capital Financing Requirement	**(2,336)**	**1,780**

37 LEASES

Finance Leases

Under IFRS the vast majority of the Council's operating leases have been reclassified as finance leases. This means that assets are recognised on the balance sheet with a matching liability to represent the substance of the lease agreement which is an asset funded by borrowings. The lease charges are then split between a finance charge and repayment of the debt. A capital charge for the asset is posted to the cost of the services.

	31 March 2015 £000	**31 March 2016** £000
Finance lease liability re-assessment	(226)	(113)
Vehicles, Plant, Furniture & Equipment	427	239
Total	**201**	**126**

Finance lease liabilities (net present value of minimum lease payments):	**31 March 2015** £000	**31 March 2016** £000
- Current	113	88
- Non-current	127	38
Finance costs payable in future years	22	9
Minimum lease payments	**262**	**135**

The minimum lease payments will be payable over the following periods:

	Minimum lease payments		Finance cost	
	31 March 2015	31 March 2016	31 March 2015	31 March 2016
	£000	£000	£000	£000
Not later than 1 year	113	88	13	7
Later than 1 year and not later than 5 years	127	38	9	2
Later than 5 years	0	0	0	0
Minimum lease payments	**240**	**126**	**22**	**9**

Operating Leases
As noted above, all of the items from the leasing register that were previously disclosed as operating leases have been re-classified as finance leases. Expenditure on other ad hoc operating leases was not material. However, the Council does act as lessor for a number of operating leases on land and buildings in the district. The minimum future lease payments under these agreements are summarised below:

	Minimum lease payments	
	31 March 2015	31 March 2016
	£000	£000
Not later than 1 year	629	457
Later than 1 year and not later than 5 years	1,140	1,100
Later than 5 years	1,603	1,526
Minimum lease payments	**3,372**	**3,083**

38 IMPAIRMENT LOSSES

During 2015/16 the Council has not recognised any impairment losses in relation to non-current asset valuations. It has however recognised £5.876m downward revaluations. These relate to downward revaluations (£1.103m) and non-enhancing capital expenditure (£4.863m) on the Council Housing stock.

39 TERMINATION BENEFITS

The Council approved the early retirement / voluntary redundancy (ER/VR) of a number of employees in 2015/16, incurring liabilities of £85K (£97K in 2014/15) in respect of redundancy costs. This was paid to 5 officers from 3 different services whose applications for ER/VR were approved as part of the Council's overall review of services.

40 DEFINED BENEFIT PENSION SCHEMES

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

The Council participates in one employment scheme. The Local Government Pension Scheme for civilian employees, administered by Lancashire County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, those contributions being calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post-employment Benefits
The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Comprehensive Income and Expenditure Statement	Local Government Pension Scheme 2014/15 £000	2015/16 £000
Cost of services:		
Current service cost	2,758	3,671
Past Service cost	15	0
Administration expenses	54	56
Settlements and curtailments	80	41
Financing & Investment Income & Expenditure:		
Interest costs	7,025	6,034
Expected return on scheme assets	(5,115)	(4,105)
Total Post Employment Benefit Charged to Provision of Services	**4,817**	**5,697**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
Actuarial gains and losses	15,250	(11,924)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**20,067**	**(6,227)**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for net Provision of Services for post employment benefits in accordance with the Code	(4,817)	(5,697)
Reversal of actuarial gains and losses recognised in other Comprehensive Income and Expenditure	(15,250)	11,924
Net charge in relation to pension adjustments	**0**	**0**
Actual amount charged against Funds for pensions in the year - employers contributions	3,110	3,179
** Net Movement on Pension Fund Reserve*	*(16,957)*	*9,406*

Pensions Assets and Liabilities Recognised in the Balance Sheet
The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	Funded Liabilities		Unfunded Liabilities	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Present value of the defined benefit obligation	187,524	182,213	3,814	3,544
Fair value of plan assets	(129,436)	(133,261)	0	0
Net liability arising from defined benefit obligation	**58,088**	**48,952**	**3,814**	**3,544**

Reconciliation of the Movements in the Fair Value of Scheme Assets:

	Local Government Pension Scheme 2014/15 £000	2015/16 £000
Opening fair value of scheme assets	**117,702**	**129,436**
Interest income	5,115	4,105
Remeasurement gain/(loss)	9,574	2,085
Administration expenses	(54)	(56)
Employer contributions	3,110	3,179
Contributions by scheme participants	872	905
Benefits paid	(6,883)	(6,393)
Closing fair value of scheme assets	**129,436**	**133,261**

Reconciliation of Present Value of the Scheme Liabilities:

	Funded Liabilities		Unfunded Liabilities	
	2014/15	2015/16	2014/15	2015/16
	£000	£000	£000	£000
Opening balance at 1 April	159,046	187,524	3,601	3,814
Current service cost	2,758	3,671	0	0
Interest cost	6,873	5,916	152	118
Contributions from scheme participants	872	905	0	0
Remeasurement (gains) and losses	24,493	(9,716)	331	(123)
Past service cost	15	0	0	0
Curtailments	80	41	0	0
Benefits paid	(6,613)	(6,128)	(270)	(265)
Closing balance at 31 March	**187,524**	**182,213**	**3,814**	**3,544**

Local Government Pension Scheme assets comprised

	2014/15	2015/16
	£000	£000
Equities:	6,738	6,774
Consumer Discretionary	7,571	7,703
Energy	1,028	572
Financials	7,669	8,083
Health Care	4,399	4,836
Industrials	6,211	5,773
Information Technology	7,317	8,201
Materials	1,753	1,650
Telecommunication Services	901	1,106
Utilities	965	1,104
Bonds:		
UK corporate	1,246	1,915
Overseas corporate	550	799
UK index linked	4,062	2,678
Property:		
Offices	2,683	2,693
Offices/Warehouse	274	275
Industrial/Warehouse	3,135	3,147
Shops	2,307	1,597
Retail Warehouse	2,295	2,304
Shopping Centre	662	664
Multi let Commercial Building	832	2,129
Alternatives:		
UK private equity	3,248	2,173
Overseas private equity	4,600	5,852
Infrastructure	7,204	10,648
Credit funds	33,347	33,534
Indirect Property Funds	948	1,840
Overseas Pooled Equity Funds	11,220	10,628
Cash:		
Cash and cash equivalents	6,271	4,583
Closing fair value of scheme assets	**129,436**	**133,261**

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

Impact on the Defined Benefit Obligation in the Scheme

		+0.1% p.a. discount rate	+0.1% p.a. inflation	+0.1% p.a. pay growth	+1 year life expectancy
	£000	£000	£000	£000	£000
Liabilities	185,757	182,588	188,981	186,430	189,427
Assets	(133,261)	(133,261)	(133,261)	(133,261)	(133,261)
Deficit/(Surplus)	52,496	49,327	55,720	53,169	56,166
Projected Service Cost for next year	3,345	3,242	3,453	3,345	3,419
Projected Net Interest Cost for next year	1,782	1,718	1,899	1,810	1,915

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis and the most recent valuation carried out was at 31 March 2013 which determines contribution rates effective from 01 April 2014 to 31 March 2017.

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

The Council anticipated paying £3.179M expected contributions to the scheme in 2015/16 (£3.110M in 2014/15).

The weighted average duration of the defined benefit obligation for scheme members is 17 years, 2015/16, (17 years 2014/15).

41 CONTINGENT LIABILITIES

The following material contingent liabilities existed as at 31 March 2016:

Luneside East Regeneration Scheme – In assembling the land for this project, the Council used compulsory purchase order (CPO) powers and protracted legal action followed. Given the nature of the case, it is not yet certain whether all matters have been finally settled and therefore, potentially, further liabilities may arise although these cannot be measured with any certainty.

Furthermore the Council has accounted for European Regional Development Funding of £2.5M in connection with this project to date, for which clawback liabilities may arise if the scheme does not achieve the set outcomes, in particular concerning 'Business Space' created. The Council transferred Phase 1 land to its development partner (Luneside East Limited, formerly CTP Securities Limited) on 02 April 2012 and the developer is working to bring forward a beneficial scheme subject to planning and statutory consents. It is uncertain as at 31 March 2016 whether all outputs will be achieved, however, and whether any subsequent clawback will fall upon the Council. No provision has been made for any such clawback liabilities arising.

NNDR Appeals – The Council has made provision for NNDR appeals based on its best estimate of the actual liability as at 31 March 2016. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts. Appeals have been made by NHS Trusts across the country to be recognised as charities and therefore not be liable for business rates. As this is a major national issue it has been taken up by the Local Government Association on behalf of Councils and at this early stage as the legality of such a claim is complex, no provision has been made.

42 CONTINGENT ASSETS

Following recent Court of Appeal ruling regarding the Luneside East Scheme mentioned above, there were no material contingent assets as at 31 March 2016.

43 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

The Council's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the treasury management team, under policies approved by Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk
Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Standard and Poor, Moody's and Fitch. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

As per the 2015/16 approved Treasury Management Policy, the credit criteria in respect of financial assets held by the Council are as detailed in the following table:

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money Limit	Time Limit
Banks /UK Govt. backed instruments*	yellow	£12m	1 yr
Banks	purple	£6m	1 yr
Banks	orange	£3m	1 yr
Banks – part nationalised	blue	£10m	1 yr
Banks	red	£2m	6 mths
Banks	green	£1m	100 days
Banks	No colour	Not to be used	
Limit 3 category – Council's banker (for non-specified investments)	n/a	£500K	1 day
DMADF	AAA	unlimited	6 months
Local authorities	n/a	£12m	1 yr
	Fund rating	Money and/or % Limit	Time Limit
Money market funds	AAA	£6m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£6m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£6m	liquid

The Council's maximum exposure to credit risk in relation to its investments of £39.216M cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare, but not impossible, for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Council's deposits, but for the £39.216M, there was no evidence at 31 March 2016 that this was likely to materialise.

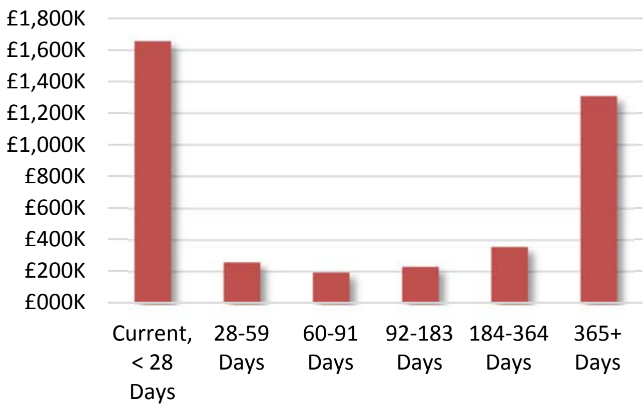
The following analysis (excluding Icelandic investments) summarises the Council's potential maximum exposure to credit risk on other financial assets, based on past experience of default and non-collectability, adjusted to reflect current market conditions.

	Balance 31/03/16	Historical experience of default	Exposure at 31/03/16	Exposure at 31/03/15 Restated
	£000	%	£000	£000
	(a)	(b)	(a * b)	
AAA rated counterparties	30,216	0.00%	0	0
AA rated counterparties	3,000	0.03%	1	2
A rated counterparties	6,000	0.08%	5	5
Trade debtors	3,354	Bad debt provision	1,962	1,169
Total	**42,570**		**1,968**	**1,176**

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

With regard to other financial instruments, such as sundry debtors, the Council does not generally allow credit for customers, such that £2.346M of the £4.004M sundry debt balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31/03/15	31/03/16
	£000	£000
Current, < 28 Days	1,777	1,658
28-59 Days	285	257
60-91 Days	148	193
92-183 Days	342	231
184-364 Days	234	357
365+ Days	1,159	1,308
Total	**3,945**	**4,004**



Liquidity Risk

The Council manages its liquidity position through the risk management procedures above as well as through a cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All deposits in year were held on either instant access or terms of less than 6 months with the Debt Management Office (DMO) and part-nationalised banks. Balances held in Icelandic banks are split between current and long term assets in line with CIPFA's projected repayment timetable, as per Note 15.

	31/03/15	31/03/16
	£000	£000
Less than 1 Year	1,041	1,041
1-2 Years	1,041	1,041
3-5 Years	3,124	3,124
6-10 Years	5,207	5,207
11-20 Years	10,414	10,414
21-30 Years	7,290	6,248
More than 30 Years	39,215	39,215
Total	**67,332**	**66,290**

Market Risk

Interest Rate Risk

The Council has a small exposure to interest rate risk on its borrowings as all borrowings are taken at fixed interest rates and mostly over long periods. No new long or short term loans were taken out during 2015/16.

The Council's investments held within instant access Call accounts are affected by movements in interest rates. The prevailing bank rate at the balance sheet date was 0.5%, meaning that returns have remained at very low levels during the year. Had the prevailing rates been higher, it would have seen a corresponding increase in income. The overall rate of return on the council's portfolio was 0.39%, an increase of 1% on interest rates during 2015/16 would have had the following marginal effect:

	Actual	+1%
	£000	£000
New or variable investments:		
Call accounts	221	457
Total	**221**	**457**

This highlights that investments are very sensitive and given that current rates on the Council's investments are below 1%, an increase of 1% would result in a significant increase in returns.

THE HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

2014/15 £000 *Restated*		*NOTES*	2015/16 £000	£000
	Expenditure			
4,369	Repairs and maintenance		4,495	
2,928	Supervision and management		3,115	
158	Rent, rates, taxes and other charges		179	
7,228	Depreciation and impairment of non-current assets	*4&5*	8,585	
1	Debt management costs		1	
140	Movement in the allowance for bad debts	*8*	165	
0	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	*9*	0	
14,824	**Total Expenditure**			**16,540**
	Income			
(13,498)	Dwelling rents		(13,686)	
(210)	Non-dwelling rents		(210)	
(1,845)	Charges for services and facilities		(1,780)	
(8)	Contributions towards expenditure		(8)	
(88)	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP		(89)	
(15,649)	**Total Income**			**(15,773)**
(825)	**Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement**			**767**
0	HRA services' share of Corporate and Democratic Core			**0**
0	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services			**0**
(825)	**Net Cost for HRA Services**			**767**
Restated	**HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement**			
(315)	Gain or Loss on sale of HRA non-current assets			(225)
2,041	Interest payable and similar charges			2,004
(27)	Interest and investment income			(77)
416	Pension interest cost and expected return on pension assets	*7*		449
0	Capital grants and contributions receivable			(116)
0	Self Financing Debt Repayment			0
1,290	**(Surplus) or deficit for the year on HRA Services**			**2,802**

Restatement Note: The HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement has been restated for clarity and consistency with General Fund. The self-financing debt repayment has been disclosed within "adjustments between accounting basis and funding under statute" in line with the disclosure of Minimum Revenue Provision. The gain on the sale of HRA non-current assets which had been shown as an "adjustment between accounting basis and funding basis under statute" has been disclosed between "Net cost of services and surplus/deficit on provision of services". Neither of these presentational restatements impact on the HRA balance.

MOVEMENT ON THE HRA STATEMENT

The overall objective for the movement on the HRA Statement and the general principles for its construction are the same as those generally for the Movement in Reserves Statement, into which it is consolidated. The statement takes the outturn on the HRA Income and Expenditure statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

2014/15 £000		2015/16 £000
(401)	**Balance on the HRA at the end of the previous year**	**(1,041)**
1,290	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	2,802
558	Adjustments between accounting basis and funding basis under statute	306
1,848	**Net (increase) or decrease before transfers to or from reserves**	**3,108**
(2,488)	Transfers to or (from) reserves	(3,759)
(640)	**(Increase) or decrease in year on the HRA**	**(651)**
(1,041)	**Balance on the HRA at the end of the year**	**(1,692)**

NOTES TO THE HOUSING REVENUE ACCOUNT

1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2016 the Council held the following number of dwellings:

		2014/15	2015/16
Bedsits		92	92
1 Bedroom	Houses & Bungalows	657	656
	Flats & Maisonettes	534	530
2 Bedroom	Houses & Bungalows	494	489
	Flats & Maisonettes	676	678
3 Bedroom	Houses & Bungalows	1,216	1,218
	Flats & Maisonettes	8	8
4 or more bedroomed dwellings		91	86
TOTAL DWELLINGS		**3,768**	**3,757**

The Balance Sheet value of assets held in the Housing Revenue Account was as follows:

	Value as at 1 April 2015 £000	Value as at 31 March 2016 £000
Operational Assets:		
Council Dwellings	102,644	102,520
Other land and buildings	83	85
	102,727	**102,605**
Non-operational Assets	1,432	1,453
TOTAL	**104,159**	**104,058**

Dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH). This basis was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA, with values then being rebased annually, with periodic full revaluation exercises every 5 years, the third of which has now updated all values to 01 April 2015. This has resulted in a net increase in asset values of £2.932M in the year, which forms part of the net movement in asset values shown above in the recent full revaluation. Non-dwelling assets were also revalued as at 01 April 2015.

The vacant possession value of dwellings held on 01 April 2015 was £300.601M. The difference between this and the EUV-SH valuation of £105.211M (i.e. the update figure after the valuation exercise effective as of 01 April 2015 but before depreciation, disposals etc.) represents the economic cost to the Government of providing Council Housing at less than open market rents.

2 MOVEMENT ON THE MAJOR REPAIRS RESERVE

Movements on the Major Repairs Reserve for the year were as follows:

	2014/15 £000	2015/16 £000
Opening Balance 01 April	**0**	**0**
Transfer to HRA – Depreciation	2,065	2,718
Transfer to HRA - Depreciation Adjustment	(18)	(27)
Transfer to HRA - Additional Capital Financing	1,942	1,490
Capital Expenditure - Houses	(3,989)	(4,181)
Closing Balance 31 March	**0**	**0**

3 CAPITAL EXPENDITURE

Capital expenditure of £4,863M was incurred during the year relating to works on improvements to dwellings and £12K on Non Operational Assets. This was financed as follows:

	2014/15 £000	2015/16 £000
Usable Capital Receipts	284	205
Earmarked Reserves	436	373
Majors Repairs Reserve	3,989	4,181
Grants and Contributions	0	116
Total Capital Financing	**4,709**	**4,875**

Capital receipts totalling £608K were received during the year from the following sources:

	2014/15 £000	2015/16 £000
Sale of dwellings	972	606
Repayment of Principal on Mortgages	2	2
Total Capital Receipts	**974**	**608**

The above amounts are shown gross, before deducting administration fees. Previously under the Local Government and Housing Act 1989, 75% of council house sales were to be set aside for debt redemption, however the Local Government Act 2003 (section 11(2)(b)) now requires all or part of the receipt to be paid over to the Secretary of State. The aim is to preserve and strengthen the principle of redistributing the spending power generated by the sale of such assets.

4 DEPRECIATION

Total depreciation charges for the year were as follows:

	2014/15 £000	2015/16 £000
Council Dwellings	2,047	2,691
Other land and buildings	2	0
Non-operational Assets	16	18
Deferred Charges on Intangible Assets	14	9
TOTAL	**2,079**	**2,718**

5 IMPAIRMENT CHARGES

No impairment charges in respect of Council Dwellings was made to the HRA for the financial year 2015/16. There was, however, a revaluation downwards of £4.862M in respect of non-enhancing capital expenditure on Council Housing stock. This was offset by £2.932M upward revaluation as a result of the full revaluation exercise. There was a revaluation upwards of £0.014M in respect of non-dwelling assets.

6 INTANGIBLE ASSETS

A charge of £9K was made during the year. This represents the final year charge for the remaining Central Control Equipment from Abritas. These assets have been amortised to revenue over a 5 year period which is consistent with the consumption of the economic benefit controlled by the Council.

7 CONTRIBUTIONS TO/FROM PENSIONS RESERVE

In accordance with the requirements of International Accounting Standard 19, the current service cost has been included within the Net Cost of Services and the net of the interest cost and the expected return on assets included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Movements in the HRA balance.

8 RENT ARREARS

Total arrears of rent at 31 March 2016 amounted to £695K (£618K for 2014/15). An amount of £516K (£494K for 2014/15) was held as provision for bad debts; this covers rent arrears and all other debts outstanding to the Housing Revenue Account. The provision gives cover of 95% for arrears from former tenants and 25% for arrears from current tenants and leaseholders, in addition to 95% of other outstanding debts.

9 TRANSFERS TO/FROM GENERAL FUND AS DIRECTED BY SECRETARY OF STATE

There have been no transfers to or from the General Fund as directed by the Secretary of State.

10 EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

There is one exceptional item which relates to impairment charges which are detailed in Note 5 above. There are no extraordinary items. There are no prior year adjustments.

11 NOTES TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

	2014/15 £000	2015/16 £000
Adjustments between accounting basis and funding basis		
Difference between interest payable and similar charges including amortisation of premiums & discounts determined in accordance with the Code & those determined in accordance with statute.	(1)	(1)
Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements.	(15)	27
Gain or loss on sale of HRA non-current assets.	338	239
HRA share of contributions to or from the Pension Reserve.	(200)	(332)
Capital Expenditure funded by the Housing Revenue Account	436	373
	558	**306**
Transfers to or (from) reserves		
Transfer to/(from) Major Repairs Reserve	1,942	1,491
Transfer to/(from) Earmarked Reserves	(314)	(526)
Transfer to/(from) the Capital Adjustment Account	(4,116)	(4,724)
	(2,488)	**(3,759)**

Collection Fund

The Collection Fund is an "agent's statement" that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2014/15 £000		NOTES	2015/16 £000
	INCOME		
	Council Tax		
(59,356)	Income from Council Tax	1	(61,481)
	Business Rates		
(51,684)	Income from Business Ratepayers	2	(41,495)
(16,783)	Transitional Protection Payments	2	0
	Contributions towards previous year's estimated Collection Fund deficit		
(12,565)	Business Rates		0
(140,388)	**TOTAL INCOME**		**(102,976)**
	EXPENDITURE		
	Precepts and Demands		
42,094	Lancashire County Council	3	43,497
8,107	Lancaster City Council (including parish precepts)	3	8,384
5,926	Lancashire Police Authority	3	6,124
2,419	Lancashire Fire Authority	3	2,497
	Business Rates		
31,647	Shares of non-domestic rating income to major preceptors and the billing authority	2	30,600
31,647	Payments made to central government in respect of central share		30,600
229	Cost of Collection Allowance		227
433	Write-offs of uncollectable amounts		165
18,798	Allowance for Impairment	2	7,114
	Council Tax Bad and Doubtful Debts		
104	Write-offs of uncollectable amounts		168
615	Allowance for Impairment		315
	Contribution towards previous year's estimated Collection Fund surplus		
1,000	Council Tax		1,000
0	Business Rates		7,808
143,019	**TOTAL EXPENDITURE**		**138,499**
2,631	**(SURPLUS) / DEFICIT ON FUND**		**35,523**
	MOVEMENT ON THE FUND		
	Opening Balances		
(1,916)	Council Tax		(1,007)
3,294	Business Rates		5,016
	Closing Balances		
(1,007)	Council Tax		(503)
5,016	Business Rates		40,035
	Movement on Fund		
909	Council Tax		504
1,722	Business Rates		35,019
2,631	**TOTAL MOVEMENT ON FUND**		**35,523**

NOTES TO THE COLLECTION FUND

The following notes are intended to explain figures contained in the Collection Fund Statement.

1 COUNCIL TAX

Council Tax is charged based on the value of residential properties as determined by the VOA; these are classified into eight valuation bands estimating 01 April 1991 values for charging purposes. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lancashire County Council, Lancaster City Council, Lancashire Fire and Rescue Authority and the Police and Crime Commissioner for Lancashire for the forthcoming year and dividing this by the Council Tax base.

The Council Tax base represents the number of chargeable dwellings in each banding (i.e. the number of properties, adjusted for discounts etc.) multiplied by a set proportion to give the number of Band D equivalents. The estimated collection rate is then applied to the Band D equivalent total, to give the Council's Tax Base for that year. For 2015/16 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	15,261	7,986
Band B	13,183	9,030
Band C	10,552	8,496
Band D	5,773	5,417
Band E	3,597	4,229
Band F	1,834	2,497
Band G	804	1,278
Band H	44	83
Total	**51,048**	**39,016**
Collection Rate		*98.68%*
Council Tax Base		**38,500**

2 BUSINESS RATES

The Council collects National Non-Domestic Rates (NNDR) for its area based on rateable values set by the Valuation Office Agency (VOA), multiplied by a uniform business rate set by Central Government. For most businesses, this was set at 49.3p per £ for 2015/16 (48.2p for 2014/15). For local businesses with a rateable value of less than £18,000, a discount of 1.3p was allowed giving a rate of 48p per £. The total rateable value for the district at 31 March 2016 was £153,645,813 (£163,980,127 for 2014/15).

In 2013/14, the administration of NNDR changed following the introduction of the Business Rates Retention Scheme. This aims to give councils a greater incentive to grow businesses but also increases the financial risks associated with volatility, appeals and non-collection rates. Instead of paying NNDR to a central pool, local authorities retain a proportion of the total collectable rates due. For the City Council the local share is 40%. The remainder is distributed to Central Government (50%), Lancashire County Council (9%) and Lancashire Fire and Rescue Authority (1%).

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates, allowing for any top up amount to ensure that all authorities receive their baseline income. Tariffs payable to Government are used to finance such top ups to those authorities who do not achieve their targeted baseline funding. The tariff payable by the Council during 2015/16 was £19.763M (£19.392M in 2014/15).

The total income from business rate payers collected in 2015/16 was £41.495M (£51.684M in 2014/15).

In addition to tariffs, a 'safety net' is calculated at 92.5% of the baseline amount, which ensures that authorities are protected to this level of Business Rate income. For the Council, the safety net figure for 2015/16 is £4.816M. The comparison of business rate income to the safety net uses the total income collected from business rate payers and adjusts for losses in collection, losses on appeal, transitional protection payments, the cost of collection and Small Business Rate Relief. The amount of safety net payment due to the Council in 2015/16 is £9.766M (£3.597M in 2014/15).

In addition to the local management of business rates, authorities are expected to finance appeals in respect of rateable values, as determined by the VOA. As such, authorities are required to make a provision for business rate appeals outstanding as at 31 March 2016. Appeals are charged and provided for in proportion to the precepting shares. The total provision as at 31 March 2016 has been estimated at £34.954M (£27.840M in 2014/15), the Council's share of which is £13.981M (as shown in Note 21).

3 MAJOR PRECEPTORS

The major preceptors on the fund are set out in the following table, together with the distributed share of surpluses and deficits.

	Council Tax		Business Rates		Total
	Precept	Surplus Allocation	Precept	Surplus Allocation	
	£000	£000	£000	£000	£000
Lancashire County Council	43,497	725	5,508	703	50,433
Lancashire Police Authority	6,124	102	0	0	6,226
Lancashire Fire Authority	2,497	42	612	78	3,229
Lancaster City Council	8,384	131	24,480	3,123	36,118
	60,502	**1,000**	**30,600**	**3,904**	**96,006**

Bequests, Endowments and Trust Funds

The Council is responsible for the administration of a number of trust funds on behalf of their specified trustees. These funds do not represent assets of the Council and are therefore not included in the Council's Balance Sheet.

At 31 March 2016 the Council was responsible for 12 of these Trust Funds, the balances of which are shown in the tables below:

Revenue Accounts	Balance b/f 01/04/15 £	Income £	Transfers Out £	Expenditure £	Balance c/f 31/03/16 £
Bequests and Endowments					
(a) Council sole trustee					
Ashton Memorial	0	0	0	0	**0**
Williamson Park	0	0	0	0	**0**
Other	(4,054)	(3,963)	3,794	0	**(4,223)**
(b) Council not sole trustee	(2,127)	(10)	2,000	0	**(137)**
School etc. Prize Funds					
(a) Council sole trustee	(3,175)	0	0	0	**(3,175)**
(b) Council not sole trustee	0	0	0	0	**0**
TOTAL	**(9,356)**	**(3,973)**	**5,794**	**0**	**(7,535)**

	2014/15 £	2015/16 £
Bequests and Endowments		
(a) Council sole trustee		
Capital		
Ashton Memorial	0	0
Williamson Park	0	0
Other	0	0
Revenue	0	0
Cash and Debtors	51,953	52,122
(b) Council not sole trustee		
Capital	0	0
Revenue	646	646
Cash and Debtors	2,481	491
School etc. Prize Funds		
(a) Council sole trustee		
Capital	0	0
Revenue	3,175	3,175
Cash and Debtors	0	0
(b) Council not sole trustee		
Capital	0	0
Revenue	0	0
Cash and Debtors	0	0
TOTAL	**58,255**	**56,434**

It is a requirement of the Charity Commission for all Bequests, Endowments and Trust funds, for which the Council is responsible for, that an Income and Expenditure account is produced for those Trusts with an income under £10,000. This must also be accompanied by a Balance sheet.

The Council consolidates all the Bequests, Endowments and Trusts into one account; these are shown in the following table.

Income & Expenditure Account	2014/15 £	2015/16 £
Income		
Interest	(3,538)	(3,973)
Capital	0	0
	(3,538)	**(3,973)**
Expenditure		
Ashton Memorial	1,080	1,084
William Smith Festival	204	178
Whalley Playground	658	658
Lune Bank Gardens	8	10
Williamson Park	1,861	1,862
War Memorial Fund	1	2
Crook of Lune	0	0
William Briggs	0	2,000
Transfers Out	0	0
	3,812	**5,794**
Excess (Income)/Expenditure	**274**	**1,821**

Balance Sheet	2014/15 £	2015/16 £
Assets		
Investments	3,821	3,821
Debtors	2,021	2,021
Bank	52,413	50,592
	58,255	**56,434**
Represented by:		
Reserves as at 31st March	57,980	54,613
Income in year	275	1,821
	58,255	**56,434**

Below is a list and description of Bequests & Endowments where the Capital value exceeds £1,000.

Ashton Memorial
The Ashton Memorial, a historic folly, was built in 1907 and given to the City of Lancaster by Lord Ashton. The building is open to the public on 362 days a year and has free access.

Williamson Park
The annual interest is used for the cutting, pruning, trimming, hedging and the general upkeep of the grounds within Williamson Park.

William Smith Festival
The annual interest is used to provide prizes etc. at the Annual Easter Festival for schoolchildren.

Whalley Playground
The annual interest is used for the upkeep, maintenance and supervision of the Whalley Playground.

Lune Bank Gardens
The annual interest is available for the upkeep of Lune Bank Gardens.

Crook of Lune
The interest is passed to Lancashire County Council contributing towards the Hermitage Field Access for all and environmental enhancement works.

Glossary of Terms used in the Accounting Statements

Accounting Policies

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through

- recognising
- selecting measurement bases for, and
- presenting

assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or Balance Sheet it is to be presented.

Acquired Operations
Operations comprise services and divisions of service as defined in BVACOP. Acquired operations are those operations of the local authority that are acquired in the period.

Actuarial Gains and Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:
(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or
(b) the actuarial assumptions have changed.

Capital Expenditure
Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Class of Tangible Fixed Assets
The classes of tangible fixed assets required to be included in the accounting statements are:

Property, plant and equipment
Investment property
Assets held for sale

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

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

Constructive Obligation
An obligation that derives from an authority's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and

(b) as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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

Contingent Liability
A contingent liability is either:

(a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control, or

(b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

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

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailment
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

(a) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business, and

(b) termination, or amendment to the terms, of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Defined benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Discontinued Operations
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met: Operations not satisfying all these conditions are classified as continuing.

(a) The termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
(b) The activities related to the operation have ceased permanently.
(c) The termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting either from its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations.
(d) The assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Discretionary benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local

Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Estimation Techniques
The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves. Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

(a) methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period
(b) different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole, rather than individual balances.

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

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

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

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

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

Finance Lease
A finance lease is one that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially all of the fair value of the leased asset.

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

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

Infrastructure Assets
Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Interest Cost (Pensions)
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Inventories
Assets in the form of materials or supplies to be consumed in the production process, distributed in the provision of services, held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution.

Long-term Contracts
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

Net book value
The amount at which fixed assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost
The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Debt
The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Non-operational Assets
Fixed assets held by a local authority but not used or consumed in the delivery of services or for the service or strategic objectives of the authority. Examples of non-operational assets include investment properties and assets that are surplus to requirements, pending their sale. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property; it would be deemed an investment property only if the asset is held solely for investment purposes and does not support the service or strategic objectives of the authority and the rental income is negotiated at arm's length.

Operating Leases
A lease other than a finance lease.

Past Service Cost
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Prior Period Adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Projected Unit Method
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to: The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

(a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
(b) The accrued benefits for members in service on the valuation date.

Related Parties
Two or more parties are related parties when at any time during the financial period:

(i) one party has direct or indirect control of the other party, or
(ii) the parties are subject to common control from the same source, or
(iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests, or
(iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:
(i) central government
(ii) local authorities and other bodies precepting or levying demands on the council tax
(iii) its subsidiary and associated companies
(iv) its joint ventures and joint venture partners
(v) its members

(vi) its chief officers, and
(vii) its pension fund.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

(i) members of the close family, or the same household, and
(ii) partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

Related Party Transaction
A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

(i) the purchase, sale, lease, rental or hire of assets between related parties
(ii) the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund
(iii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party
(iv) the provision of services to a related party, including the provision of pension fund administration services
(v) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as council tax, rents and payments of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

Remuneration
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Residual value
The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Scheme Liabilities
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Settlement (re pension matters)
An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

(a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits
(b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and
(c) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme

Tangible Fixed Assets
Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

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

Vested Rights
In relation to a defined benefit scheme, these are:

(a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme
(b) for deferred pensioners, their preserved benefits
(c) for pensioners, pensions to which they are entitled.

SCOPE OF RESPONSIBILITY

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

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

Lancaster City Council has approved and adopted a *Code of Corporate Governance*, which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government*. A copy of the code is on the council's website or can be obtained from the Internal Audit and Assurance Manager, Town Hall, Dalton Square, Lancaster, LA1 1PJ.

This statement explains how the council has complied with the Code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to reviewing the effectiveness of the system of internal control and the publication of an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework consists of the systems and processes, and culture and values by which the authority is directed and controlled and the activities through which the council accounts to, engages with and leads the community. The framework enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control forms a key element of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Lancaster City Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Lancaster City Council for the year ended 31 March 2016 and up to the date of publication of this *Annual Governance Statement* and the *Statement of Accounts*.

THE GOVERNANCE FRAMEWORK

The following paragraphs set out the key elements (as incorporated in the Code of Corporate Governance) that the council relies upon to deliver effective corporate governance.

- An annual review of the council's vision for the local area, consulting directly with the community. The council's vision, priorities and objectives are brought together and published in the three-year *Corporate Plan*. In February 2014, the council adopted and included in its Corporate Plan the ethos of an "Ensuring

Council" which steers the way that the council connects with and acts on behalf of the area and its citizens

- A performance management framework which establishes clear priorities, objectives and plans of action at corporate, service, team and individual levels
- Performance management systems which measure and monitor the quality of services delivered and provide elected members and officers with the information to help ensure that they are delivered in accordance with the authority's objectives.
- Arrangements for the executive to manage performance through the Corporate Management Team and portfolio performance review meetings.
- Review and challenge of performance through the overview and scrutiny function and particularly via the Budget & Performance Panel.
- The council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by service managers, the overview and scrutiny function, Internal Audit and those conducted by the external auditors and other external agencies.
- The council's *Constitution* is the keystone to establishing the roles and responsibilities of the executive, non-executive, scrutiny and officer functions. The *Constitution* sets out how the council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.
- The council's commitment to high standards of conduct and integrity is supported by established codes of conduct for employees and elected Members. Standards of probity are set out through the *Anti-Fraud, Bribery and Corruption Policy*, the *Raising Concerns at Work Policy* and the council's *Complaints Policy.*
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972 and in compliance with the CIPFA Statement on The Role of the Chief Financial Officer (2010).
- The council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the council's key priorities and objectives. Rules for financial management and the scheme of delegation of the council are set out in the *Financial Regulations and Procedures* within the *Constitution.* Key financial systems are documented to define how decisions are taken and the processes and controls required to manage risks.
- The council's Audit Committee is charged with overseeing and, independently of the Executive and overview and scrutiny function, providing the council with assurance of the adequacy of its corporate governance arrangements, including the risk management framework and the associated control environment.
- Internal Audit are in the process of developing the Council's wider assurance framework with a view to ensuring that assurances from all relevant sources are captured, reviewed and reported as appropriate. In addition to this, the Internal Audit and Assurance Manager is reviewing and revising the council's Risk Management Strategy.
- Until 29th February 2016, the Chief Officer (Governance) was the council's designated Monitoring Officer. However, following this Officer's retirement, Council at its meeting on the 03 February 2016 designated the Deputy Monitoring Officer, as Monitoring Officer with effect from the 01 March 2016. The Monitoring Officer has responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to

full Council and supports the Standards Committee in its function of promoting and maintaining high standards of conduct of councillors and co-opted Members.

- The Cabinet is responsible for taking key decisions in line with the council's overall budget and policy framework; individual Cabinet members are responsible for taking non-key decisions. Any key decisions outside of the budget and policy framework are referred to Full Council. The council publishes details of key decisions which are to made on behalf of the council by Cabinet and by senior officers under their delegated powers.
- In taking decisions, compliance with relevant laws and regulations and with internal policies and procedures is promoted through a requirement for views to be obtained from relevant officers, including the Monitoring Officer and statutory Financial Officer (Section 151 Officer).
- The council aims to identify and meet the development needs of both elected members and officers.
- The *Code of Corporate Governance* sets out the council's commitment and approach to incorporating good governance arrangements in respect of its significant partnerships.
- The council's internal audit service is delivered by an in-house team required to take account of professional standards set out in the *'Public Sector Internal Audit Standards'.* The council has also set out a commitment to maintain an objective and professional relationship with its external auditors and other statutory inspectors.

REVIEW OF EFFECTIVENESS

Lancaster City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit & Assurance Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The following are the main processes applied in maintaining and reviewing the systems of internal control and governance and the key factors influencing their effectiveness:

- The council's Audit Committee and the Monitoring Officer have a duty to monitor and review the operation of the *Constitution* to ensure that its aims and principles are given full effect. It is a function of full Council to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972. To support and reinforce this role, the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government (2010)
- The council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by the executive, via portfolio performance review meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The council promotes and maintains high standards of conduct by its elected members in accordance with the adopted Code of Conduct and the requirements of the Localism

Act 2011. The Standards Committee has a role to provide assistance and advice to the council in this respect, and to deal with complaints of breaches of the Code of Conduct.

- The senior management structure has continued to develop, and aspects of the council's constitution, such as the scheme of delegation, have been updated to reflect this.
- It has been recognised that the diverse political makeup of the council, set in the context of the council's current democratic model (Cabinet and Scrutiny) can inhibit achieving consensus in the decision making process. Managing these pressures and maintaining efficiency in decision-making remains an important consideration as the period of austerity and ongoing budgetary constraints continues.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and considers and monitors the external audit plan.
- Internal Audit operates in accordance with the CIPFA statement on "the role of the head of internal audit in public service organisations" (2010) and is responsible for providing assurance on the effectiveness of the council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and inspect Internal Audit work.
- The Internal Audit and Assurance Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the council's systems of internal control.
- In October 2015 the council's external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the council's financial statements for 2014/15. They also provided an unqualified conclusion on the council's arrangements for securing value for money and reported that they were *"…satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness."*. The external auditors made no high priority recommendations as a result of their 2014/15 audit work.
- Following the audit of the 2015/16 accounts, the external auditors are due to submit their ISA260 report (Report to those charged with governance) to meet the statutory deadline of 30th September 2016.
- The work carried out by both the council's external and internal auditors has indicated that effective internal financial controls exist within the council's main financial systems to ensure the accuracy and integrity of the information they provide.

SIGNIFICANT GOVERNANCE ISSUES

Four ongoing governance issues were highlighted in the 2014/15 Governance Statement. These are updated as follows:

- **Information management and governance arrangements**

  It has been identified that the Council needs to develop and improve its standards of information governance generally throughout the organisation. A self-assessment of the Council's position concluded that corporately, resources and arrangements devoted to information management were insufficient to maintain appropriate standards into the future. Proposals to expand and develop the in-house corporate information governance function were approved by Cabinet in September 2015 and are in the process of being implemented.

- **Democratic structures and cultural aspects of governance**

  Following the Council elections in May 2015 there remains a position of no overall control, but with the executive in the hands of a single party Cabinet. Budgetary constraints from the ongoing period of austerity and the associated increasing pressures in terms of resources and capacity, continue to present a significant factor and challenge.

  Together, these factors require that democratic processes continue to operate efficiently and effectively and provide an environment in which all elected members, officers, and partners are able to develop and operate positively with mutual trust and respect, whilst fostering a healthy culture of challenge and confident decision making.

- **Performance management, risk management and assurance**

  In the face of increasing resource pressures and the consequent process of change required, the council recognises the need to continually review its performance management and risk management processes as a contribution to effective governance and to ensure the delivery of value for money. A revised corporate performance management framework has been approved and is being implemented.

  There is a recognition that, in appropriate circumstances, the Council needs to be more risk embracing and less risk averse than in recent years. Arrangements are underway to develop and implement a revised risk management strategy which embraces this change in outlook and to develop an assurance framework which provides the council with confidence that its key risks and activities are being effectively managed.

- **Senior management changes**

  The council's current Chief Executive is retiring at the end of June 2016 after some 16 years in post. In responding to the announcement of his retirement, the council was presented with a significant governance challenge to ensure it had effective and efficient future senior management arrangements to take forward the council and its plans and priorities. The ensuing recruitment process has concluded in the appointment of a new Chief Executive who is due to take up the post on 1st July 2016.

  The Chief Officer (Governance) was the council's designated Monitoring Officer up until her retirement on 29th February 2016. Council at its meeting on the 03 February 2016 designated the Deputy Monitoring Officer, as Monitoring Officer with effect from the 01 March 2016. Recognising that this officer is not legally qualified, an agreement has been reached with Preston City Council for them to provide legal support. This arrangement is now in place, a contract being drawn up, and the situation is to be reviewed in the following months.

Alongside the above, interim appointments have been made to the Head of Legal Services and Head of Human Resources positions, to ensure the provision of effective legal and HR support services to the Council. In connection with the issue regarding information governance, the interim Head of Legal Services will fulfil the role of Senior Information Risk Owner (SIRO).

The following new issues have arisen during the 2015/16 year and in the period up to production of this statement:

- **Regional Funding Issues**

  The direct implications for the council of reduced government funding have been recognised in both this and previous years' governance statements. During 2015/16 the council has felt the additional impacts and pressures arising from significant budget and service reductions made by other public sector organisation including Lancashire County Council.

- **Lancashire Combined Authority**

  In April 2016, following public consultation, the council has agreed to become a constituent member of the combined authority for Lancashire. Leaders from the constituent authorities have developed ambitions for Lancashire. They have recognised that some of these ambitions can be delivered through the existing partnership arrangements in place across the County. However, in order to attract and maintain economic growth and achieve a prosperous Lancashire for all, there is a need to demonstrate that Lancashire means business and to provide reassurance that collectively there are strong, robust governance arrangements in place and a commitment to work together.

- **Impact of Storm Desmond**

  In common with large sections of Cumbria and North Lancashire, the council's area was severely affected on 5th December 2015 by Storm Desmond (with further albeit lesser impact from the later Storm Eva). The impact of Storm Desmond on Lancaster District was significant. Dealing with the emergency and recovery phases presented a steep learning curve for the City Council but, built onto the existing foundation of civil contingency planning already adopted by the City Council, the experience will make the handling of future events easier.

  The key role to be played by the City Council in both emergency and recovery phases became evident, even though the County Council remains the Lead Flood Authority. It became clear that the resources, knowledge and skills of the City Council proved invaluable in assisting the community into recovery. Inevitably, however, the demands on resources in both the emergency response phase and the (ongoing) recovery phase have impacted on the council's abilities to deliver its plans in a number of areas.

- **Staffing Resources and Capacity**

  Alongside the consequences being felt from the changes in Senior Management, reported above, the council is feeling the impact of the loss of experience and knowledge in a variety of positions throughout the workforce. Allied to this, and exacerbating the situation, are difficulties being experienced in recruiting and retaining staff in a number of key positions. Work is ongoing to resolve these issues and mitigate the impacts.

- **National politics**

  The climate of political uncertainty at a national level in the immediate aftermath of the country's referendum decision to withdraw from the European Union represents a new and unpredictable external factor for the council.

Once again, the council's overriding challenge continues to be that of ensuring that the council and its partners can identify and meet the needs of the district's citizens, whilst responding to current and future financial constraints. The need to reduce services, be more efficient and generate more income is therefore expected to increase and over the coming year, a range of major service reviews will have to be considered.

It is recognised that this challenge requires ongoing attention to maintain and improve standards of governance and continuous review will be necessary in key areas including:

- Developing the ways in which the council formulates its plans and priorities, enabling local people to be at the forefront of decision making, whilst raising awareness of the limitations imposed by financial constraints;
- Continuing to develop and put into practice the council's vision and ethos as an Ensuring Council;
- Strengthening services through the continuing development of both the workforce itself and of the organisation's leadership and management values and practices, including those relating to financial management.

The council proposes, over the coming year, to take steps to address the above matters to further enhance its governance arrangements. The council is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next governance review.

E Blamire
Leader of the Council

S Parsonage
Chief Executive

D Chambers
Monitoring Officer

N Muschamp
Section 151 Officer