

# Annual Reporting and Statement of Accounts

For the year ended 31 March 2017





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## 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 2016/17:

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:

13 September 2017

## 1 Introduction

This Narrative Report provides headline and other supporting information about the City Council's performance in 2016/17, 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 around 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 has radically improved accessibility to Morecambe and key employment sites in Heysham, whilst providing some 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 for the region 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 2020/21, in particular in respect of government funding, which will see Revenue Support Grant dropping from £2.652M in 2016/17 to nil by 2020/21. In addition, there is still uncertainty surrounding the proposed move to 100% business rates retention, and how the outcome of the Government's Fair Funding review will impact on the Council after 2020.

Whilst the Council has a balanced budget for 2017/18 without drawing on Balances, the prospects for the following three years (2018-2021) are not as healthy. The Medium Term Financial Strategy is projecting savings requirements totaling just over £2.1M by 2020/21. A range of savings options have already been identified and are actively being investigated to go towards meeting these savings requirements, although more work is still needed. As a result plans have already been put in place to identify more savings or income generation opportunities and these will be developed and taken forward as part of the forthcoming 2018/19 budget setting process.

#### 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 2016/17 (including parish precepts) was originally approved by Council on 02 March 2016 at £16.803M (£17.583M in 2015/16). It assumed that Balances would be just over £4.1M at 31 March 2017, though these were increased by a further £331K following the 2015/16 outturn.

Between 2015/16 and 2016/17 the General Fund budget reduced by £794K or 5%, 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 2016/17. It shows the actual variances for each service area.

	2016/17		Variance from	
	Original Budget	Revised Budget	Actual	Revised Budget
	£000	£000	£000	£000
<b>Expenditure:</b>				
Management Team	0	0	0	0
Environmental Services	4,254	4,798	4,875	77
Governance	1,674	1,662	1,669	7
Health & Housing	4,772	4,702	4,606	(96)
Regeneration & Planning	5,915	6,439	11,914	5,475
Resources	1,227	1,052	942	(110)
Corporate Accounts	(1,700)	(2,149)	2,062	4,211
Interest Payable & Similar Charges	3,047	3,047	3,047	0
General Government Grants	(1,917)	(1,917)	(1,938)	(21)
Contributions to/(from) Usable Earmarked Reserves	(1,070)	(1,128)	370	1,498
Contributions to/(from) Unusable Reserves	0	0	(11,292)	(11,292)
Contribution to General Fund Balance	56	17	266	249
<b>NET REVENUE EXPENDITURE</b>	<b>16,258</b>	<b>16,523</b>	<b>16,521</b>	<b>(2)</b>
Parish Precepts	545	545	545	0
<b>TOTAL BUDGET</b>	<b>16,803</b>	<b>17,068</b>	<b>17,066</b>	<b>(2)</b>
<b>Funded by:</b>				
Revenue Support Grant	(2,652)	(2,652)	(2,652)	0
Retained Business Rates	(5,250)	(5,515)	(5,513)	2
Council Tax Payers	(8,901)	(8,901)	(8,901)	0
<b>TOTAL FUNDING</b>	<b>(16,803)</b>	<b>(17,068)</b>	<b>(17,066)</b>	<b>2</b>

The table show three significant variances which are explained below:

*Regeneration & Planning* £2.763M

There are two main variances, firstly a downward revaluation of properties (£3.4M) associated with the Morecambe Area Action Plan scheme in line with the disposal and transfer of properties to the regeneration property developer taking forward the Chatsworth Gardens scheme. As revaluations are not carried out until the year end it is not possible to estimate for them and therefore variances will inevitably arise. The second item relates to grant income of £702K received from Central Government in respect of Community Housing which was subsequently transferring into a reserve for use in 2017/18. Again, when the budget was set this could not have been foreseen.

*Corporate Accounts* £8.898M

This variance is comprised of a number of items. The first is the net increase in Pension Fund liabilities of £13.267M which must be recognised in the accounts, but is a notional charge and is reversed out to an Unusable Reserve (see below). The second is the reverse entry of -£3.4M in respect of the revaluations referred to in the section above – again these are a notional charge within the accounts and are reversed out to the Revaluation Reserve in the Balance Sheet.

*Contributions from Unusable Reserves* (£13.267M)

This represents the contra to the increase in net Pension Fund liabilities referred to above, which is transferred into an unusable reserve as it cannot impact on Council Tax payers.

At outturn for 2016/17 there was a net underspending of £249K (£331K for 2015/16) against the Revised Budget. The main areas where variances occurred are as follows:

	£000
Employee Savings	(109)
Transport & Premises Savings (Net)	(171)
Net Additional Income	(91)
Extra contribution to reserves	50
Extra contribution to insurance provision	107
Other minor variances	(35)
	<u>(249)</u>

As a result of the outturn, General Fund unallocated Balances stand at £4.725M as at 31 March 2017, which is well in excess of the 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 underspending on the HRA for 2016/17 was £112K (£348K in 2015/16), which has been transferred into HRA unallocated Balances. The main areas where variances have occurred are shown below:

	£000
Employee savings	(26)
Additional repair & maintenance costs	156
Reduced rental income from tenants	23
Additional property depreciation	598
Net reduction in capital funding from revenue	(873)
Other minor variances	10
	<u>(112)</u>

As at 31 March 2017 the HRA's unallocated Balances amount to £1.937M, which is £1.437M above the recently updated £500K minimum recommended level. In March 2017 that recommended level increased from £350K to £500K, in view of the increasingly challenging financial/regulatory environment within which the HRA operates.

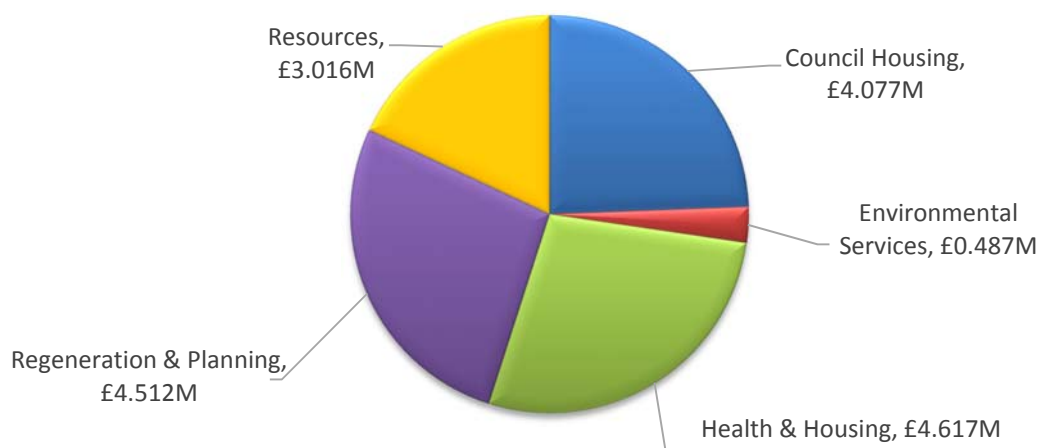
It should also be noted that a net revaluation increase in Council dwellings of £18.8M (£3.9M in 2015-16) was posted to the revaluation reserve primarily as a result of the stock valuation discount factor being increased by the Department for Communities and Local Government (DCLG) from 35% to 40%.

## 4 Capital Position

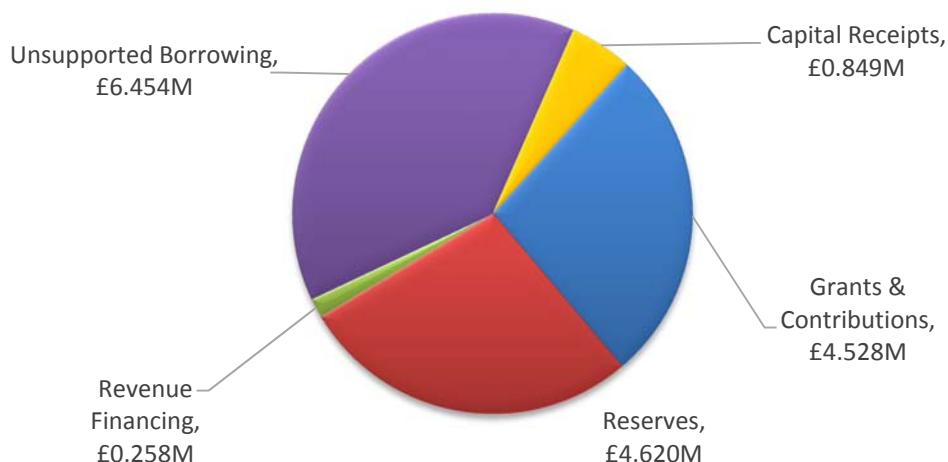
In 2016/17 the City Council spent £16.709M on capital schemes (£12.397M in 2015/16), which is summarised below together with headline information on how that investment was financed.

### Summary of Capital Expenditure and its Financing

#### CAPITAL EXPENDITURE



#### CAPITAL FINANCING

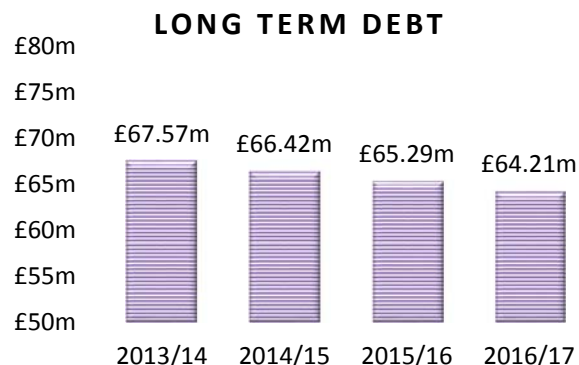


The Council's revised Capital Programme for 2016/17 was £18.810M (£12.526M in 2015/16), and net slippage of £1.924M (£231K in 2015/16) has been rolled forward into 2017/18 to reflect programming delays on some schemes. The approved capital programme for 2017/18 is £17.258M, which will rise to £19.182M after slippage from 2016/17. The main schemes for 2017/18 include £2.4M of vehicle

replacements, £2.5M for Disabled Facilities Grants, £2.9M for Sea & River Defenses, £2.7M on Corporate Property Works and £4.1M on Council Housing schemes.

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 2016/17 the net cost of financing long term debt (i.e. interest charges) was £3.047M, and the value of long term debt owed as at 31 March 2017 amounted to £64.208M (£65.25M in 2015/16), of which all relates to PWLB long term borrowing. A further £1.080M 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 £252M as at 31 March 2017.





## 5 Non-Financial Performance

The Council's non-financial performance for 2016/17 is mapped out below against each of its Corporate Plan priorities.

### Priority: Community Leadership



#### What we did in 2016 -2017

We 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 service delivery and use of resources. As a community leader we worked collaboratively with other public services, businesses and organisations and local community groups to deliver efficient services and have pride in, and make a positive impact on our communities and the wider district.

#### Outcome: Communities are brought together and the major issues affecting the district are addressed through working in partnership

- ✓ worked with other councils to develop a 5 year programme to support Syrian refugees
- ✓ made a successful bid to work in partnership with Lancashire County Council and local Town and Parish Council's to form a 'Coastal Community Team'
- ✓ took further steps to tackle anti-social behaviour through introduction of new Police powers
- ✓ joined with partners to condemn hate crime and encourage the public to report incidents anonymously

#### Outcome: Well run, value-for-money services that are valued by the public and demonstrate good governance, openness and transparency

- ✓ encouraged our residents to go online to register to vote
- ✓ presided over the election of the Police and Crime Commissioner for Lancashire; five city and county by-elections and the EU referendum
- ✓ sought residents views on the creation of a new parish council and provided governance support to 38 town, parish and neighbourhood councils across the district
- ✓ invited residents to actively scrutinise our decisions and service provision
- ✓ provided job opportunities to young people through our apprenticeship scheme
- ✓ consulted on the council tax support scheme to help people on low incomes

#### Outcome: Establish and implement the council's wider plans for 'digital' to understand and meet the changing needs of our communities

- ✓ introduced a new look and easy to use website designed to improve the customer experience
- ✓ worked with Lancaster University to develop our mobile app, iLancaster, and introduced free Wi-Fi 'hotspots' for easy access to a range of interactive services and information whilst on the move

#### Outcome: Maintain a financially stable position and strong financial forecast for the delivery of services

- ✓ balanced our budget for 2017/2018 and made difficult decisions and developed plans to invest in the long term future and financial stability of the district

## Priority: Health and Wellbeing



### What we did in 2016 - 2017

We carried out a range of actions to support the positive health and wellbeing of our residents, including maintaining the high standards and efficiency of council houses, supporting housing renewal and improving standards in the private rented sector. We took the lead and worked in partnership to improve health outcomes through: access to sports and leisure activities, keeping vulnerable people warm in their homes, tackling homelessness and rough sleeping and delivering a variety of functions in our communities, including environmental protection, food safety, a dog warden and pest control service, cemeteries, home improvement and civil contingency services.

### Outcome: Enhanced quality of life of local residents through access to affordable, decent housing

- ✓ **helped people find affordable homes in social housing developments and the council's housing stock through the Ideal Choice Homes Scheme**
- ✓ **our Home Improvement Agency was awarded a prestigious national award as the Home Adaptations Service of the Year in recognition of the quality of work it provides to the disabled and the most vulnerable people in the district**

### Outcome: Health and wellbeing of our citizens is improved

- ✓ **invested in the future of resident's health and wellbeing through our ambitious redevelopment of Salt Ayre Leisure Centre**
- ✓ **reviewed and supported proposed changes to the future management of Community Swimming Pools in Hornby, Heysham and Carnforth**
- ✓ **provided support and training to local businesses and community groups to plan for and be more resilient to the risks from severe weather conditions now and in the future**
- ✓ **promoted and encouraged residents to use an online service dedicated to helping the homeless and rough sleepers day and night**
- ✓ **took strong enforcement action against businesses failing to meet standards of food safety and worked proactively to help others to achieve and maintain high standards**
- ✓ **provided free micro-chipping of dogs to help owners comply with legislation and avoid hefty fines and took enforcement action against irresponsible owners contravening dog control orders**
- ✓ **welcomed the opportunity to light up the Ashton Memorial to promote and show our support for a range of charitable organisations helping countless people suffering from illness and disease**

## Priority: Clean and Green



### What we did in 2016 -2017

We built upon our reputation of being a 'clean and green' district with much to offer. We maintained and operated our parks, recreation grounds and open spaces and encouraged and supported community groups and individuals to take pride in their local area and to be actively involved in protecting what we have in a sustainable way. We provided cleansing services to a high standard on our streets, Morecambe Promenade and on our beaches. We dealt with litter, fly-tipping, graffiti, abandoned vehicles and provided a fortnightly waste collection service for every household in the district as well as a six day collection of commercial waste, where it was viable to do so. We delivered our services in an environmentally friendly way and introduced activities and functions to become more business-focussed.

### Outcome: The impact on the environment from council operations and services will be minimised

- ✓ introduced innovative ways to clean new surfaces so that we could meet the wishes of the public and retain the popular trees in Market Square
- ✓ found a solution to retain a weed spraying service (that was due to be withdrawn as part of funding cuts)
- ✓ introduced a subscription service for the collection of green waste
- ✓ promoted recycling across the district through a series of roadshows offering recycling information advice and tips
- ✓ took firm action against proven acts of deliberate litter dropping and fly-tipping
- ✓ maintained beaches that are amongst the best in the UK
- ✓ started a review of the use of our commercial fleet to improve efficiency and reduce the impact on the environment

### Outcome: Local communities are clean and residents have a sense of pride in the district

- ✓ developed and opened new play areas
- ✓ worked with Friends Groups to maintain our parks to a high standard with our principal parks, Williamson Park and Happy Mount Park being awarded the nationally recognised 'Green Flag' status
- ✓ invested in the future of our main parks through a refurbishment of the listed Ashton Memorial and Butterfly House in Williamson Park and a masterplan for Happy Mount Park that will ensure high standards for the next 20 – 30 years
- ✓ provided individuals, businesses and community groups the opportunity to help maintain flower beds and open spaces through an 'adoption' scheme with the high take-up showing how much our residents take a pride in the district

## Priority: Sustainable Economic Growth



### What we did in 2016 - 2017

We continued to work closely with strategic partners and businesses to capitalise on the district's exceptional opportunities and its outstanding arts and cultural heritage and entertainment offer, as well as our beautiful coastline and natural landscapes. The key prospects for economic growth relate to skills retention; the energy sector; the knowledge sector and the visitor economy but we face a pressing demographic need to secure these economic benefits through new jobs and business growth. We are working hard to improve the attractiveness of central Morecambe and to develop the retail offer of Lancaster City Centre and to enhance the enjoyment and pride in its heritage assets. We facilitate festivals and events to provide economic stimulus needed to help local businesses and in our rural areas we are focussing on the natural environment to build on their tourism appeal.

In 2016, the Lancaster district was officially named as one of the 10 best places to live in the UK! This was based on data from the Office of National Statistics and the census, and statistics from surveys on key lifestyle factors, taking into account affordability of housing, jobs, business, wellbeing, culture and family life.

### Outcome: Sustainable economic growth and jobs will be created in key sectors including energy, knowledge, health and the visitor economy

- ✓ **consulted widely on the district's draft Local Plan that when adopted will set the council's strategy for employment creation, dealing with the impact of anticipated growth in population and jobs and development for new housing until at least 2031**
- ✓ **supported town and parish council consultation on neighbourhood plan applications**
- ✓ **worked in collaboration with South Lakeland District Council on the Area of Natural Beauty (AONB) Development Plan for Arnsdale and Silverdale**
- ✓ **selected by the Government as one of the first 'garden villages' with our ambitious proposals for a new community development with 3,500 homes and communal facilities**
- ✓ **pressed on with works to improve Morecambe town centre for businesses, residents and visitors**
- ✓ **collaborated with the business community to invest in Morecambe as a Business Improvement District to create a more prosperous place to live, shop, work and visit**
- ✓ **supported the proposals for a Lancashire Combined Authority**

### Outcome: The attractiveness and offer of the district as a place to visit or invest in will be improved

- ✓ **offered new opportunities to market traders to take advantage of a range of fixed term free and discounted pitches and stalls at our indoor markets and the outdoor Charter Market**
- ✓ **celebrated our designation as a 'Visit England heritage city' through an extended programme of events and access to listed buildings & venues as part of the Heritage festival**
- ✓ **progressed work on the new Morecambe Wave Reflection Wall that will create all year round access to the promenade and significantly reduce the risk of flooding to large parts of Morecambe**
- ✓ **Leck Fell, an area in the district of special scientific interest, became part of the Yorkshire Dales National Park enabling the council to play a major role in enhancing the natural beauty and promoting the quality of new areas in Lancashire and Cumbria**

### Outcome: Lancaster and Morecambe Bay will be recognised as important visitor destinations

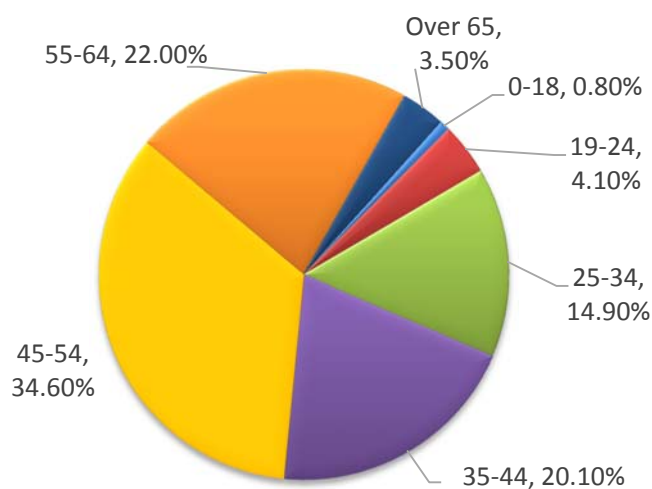
- ✓ **secured funding to give a new lease of life to Morecambe's Bay Arena as an Art Park creating a venue for festivals, arts and leisure and culture**

- ✓ invested in major local events including the very popular Vintage by the Sea and Light up Lancaster that each attract thousands of visitors to the district and provide a significant boost to the local economy
- ✓ commissioned a report on the future provision of a new and reinvigorated museums service that will provide a modern and sustainable cultural and heritage offer

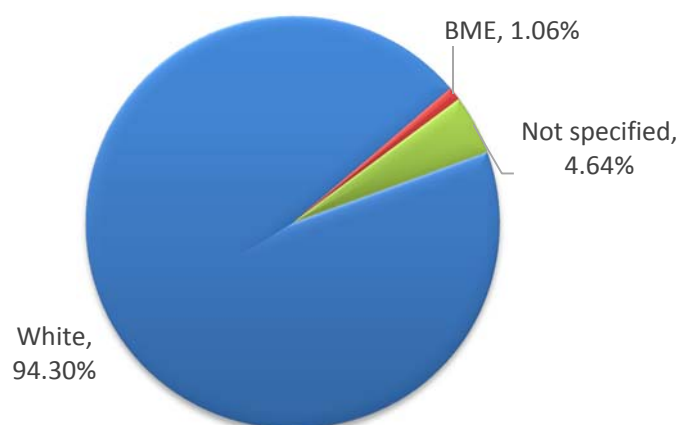
## 6 People

At the end of 2016/17 Lancaster City Council employed 751 staff (755 in 2015/16) 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, summaries 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:

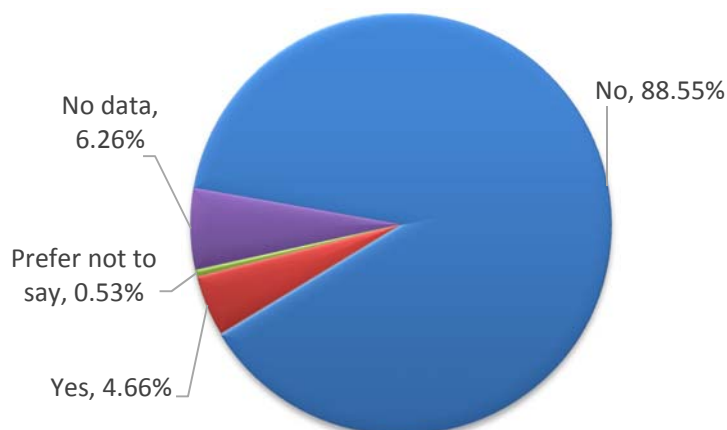
**AGE**



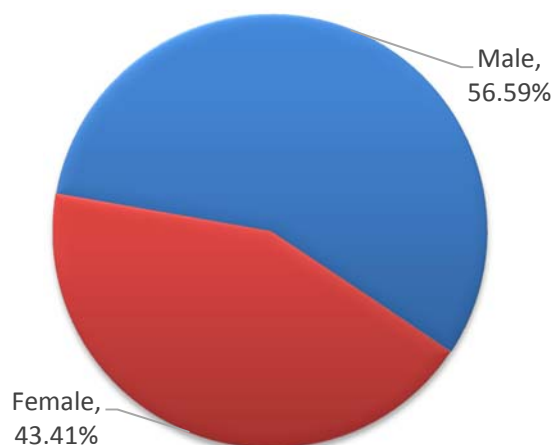
**ETHNICITY**



**DISABILITY**



**GENDER**



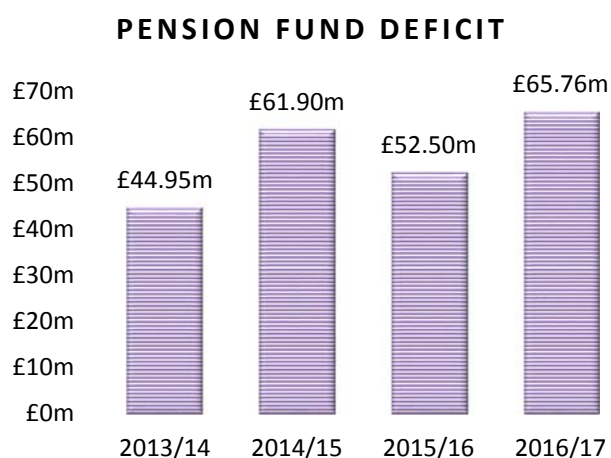


## 7 Pension Liabilities

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 2016, the results of which were published in March 2017. This valuation saw an increase in net deficit on the Fund to £1.377BN (£993M in 2010).

For the City Council, the net position as at 31 March 2017 showed a net liability of £65.76M compared to £52.50M for the previous financial year. This represents an increase in net liabilities of £13.26M. This is largely due to a reduction in the discount rate used (3.5% to 2.5%), and an increase in assumed future inflation (2.0% to 2.3%). These two factors account for an increase in liabilities of £37.9M, but this has been somewhat offset by an increase of £21M in investment returns, as well as other comparatively minor changes.

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 £65M and Business Rates £78M) 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 deficit of £197K (*£219K surplus for 2015/16*) in relation to council tax, which is a slight deterioration from the balanced position forecast back in January of this year. The deficit represents the tax base being 122 (*or 0.3%*) Band D chargeable dwellings less than estimated. As the City Council funds 13% of any deficit, this would mean a potential additional charge of £26K against the revenue budget in 2018/19, if no further changes were to arise in the meantime.

### Retained Business Rates

The position for business rates is again somewhat more complicated. A major appeal has been settled at a significantly lower value than originally estimated, generating a large in-year surplus. This has meant that the overall position has moved from an opening deficit of £40M to a final deficit of £1.8M at the end of 2016/17. Of the £1.8M deficit, the City Council's share is £720K, but this will not be recouped for some time and it will not impact directly on the Council's budget.

The complexities of the Business Rates Retention Scheme mean that, despite there still being a deficit at year end, the significant in-year surplus has translated into extra rating income being recognised, over and above that budgeted. In total that extra income amounts to £9.3M, of which 50% (£4.65M) will be paid over to the Government. The remaining 50% (£4.65M) is retained by the City Council, but will not be available for allocation until 2018/19 and there could be various other rating income changes in the meantime.

In addition, in 2016/17 the City Council also benefited from £918K (*£662K for 2105/16*) 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 full benefit from it.

## 9 Treasury Management

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Chief Officer (Resources) to make decisions on the management of the Council's debt and investment of surplus funds.

In 2016/17 the Council continued to have a comparatively low risk investment appetite with focus on high quality deposits.

Short term investments at 31 March 2017 were £30.281M (£39.247M for 2015/16), and the average interest earned over the year was down by 0.1% to 0.37% (0.47% for 2015/16). The reduction is attributable to the 0.25% cut in the base rate by the Bank of England on 04 August 2016.

## 10 Changes in Accounting Policies

There are eight new standards that have been issued which have been reflected in the accounting policies for 2016/17 where applicable. 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.

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 continued to impact on such corporate risks.

Over the medium to longer term, the Council is still 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 continue 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 still due to be completed over the coming year, but this has been delayed as a result of other competing work demands and pressures.

More contextual and supporting information on the Council's corporate risks will be included in the Council's Annual Governance Statement (AGS), to be published in September alongside the Council's audited accounts.

## **12 Conclusion**

Although the Council's General Fund budget and associated Government funding reduced again in 2016/17, it managed those reductions well, and has again strengthened its financial standing as at 31 March 2017. Balances are therefore again 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, income generation 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 still facing far greater challenges regarding its financial sustainability as a result of current 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.

### **Expenditure and Funding Analysis (Included in the Notes to the Accounts)**

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council’s services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

## 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.

## Independent auditor's report to the members of Lancaster City Council

We have audited the financial statements of Lancaster City Council for the year ended 31 March 2017 on pages 20 to 76. 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 2016/17.

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 2017 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 2016/17.

### 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' (CIPFA/SOLACE 2016 Edition); 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 its 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 2016, 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 2017.

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 2016, 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 2017.

### **Delay in certification of completion of the audit due to matters brought to our attention by a local authority elector**

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 relating to 2016/17. 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

27 SEPTEMBER 2017

# STATEMENT OF ACCOUNTS

## 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 Kingdom* ("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 2017 and the income and expenditure for the year then ended.

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

Date: 30.06.17

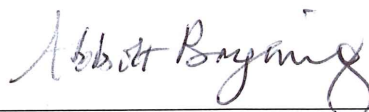
  
Nadine Muschamp CPFA  
Chief Officer (Resources) and Section 151 Officer

Date: 13.09.17

### 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 13 September 2017.

Cllr Abbott Bryning



Date:

13/9/17.



## 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.

2016/17	General Fund Balance £000	General Fund Earmarked Reserves £000	HRA Earmarked Reserves £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
<b>Balance at 31/03/2016</b>	<b>4,460</b>	<b>6,405</b>	<b>1,691</b>	<b>10,567</b>	<b>0</b>	<b>0</b>	<b>103</b>	<b>23,226</b>	<b>111,673</b>	<b>134,899</b>
<b>Movements in 2016/17</b>										
Total Comprehensive Income and Expenditure	2,505	0	4,239	0	0	0	0	6,744	8,184	14,928
Adjustments between accounting & funding basis under regulations	(2,135)	0	(3,851)	0	0	0	0	(5,986)	5,986	0
Net Increase/(Decrease) before transfers to earmarked reserves	370	0	388	0	0	0	0	758	14,170	14,928
Transfers (to)/from earmarked reserves	(105)	105	(142)	142	0	0	0	0	0	0
<b>Increase/(decrease) in 2016/17</b>	<b>265</b>	<b>105</b>	<b>246</b>	<b>142</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>758</b>	<b>14,170</b>	<b>14,928</b>
<b>Balance at 31/03/2017</b>	<b>4,725</b>	<b>6,510</b>	<b>1,937</b>	<b>10,709</b>	<b>0</b>	<b>0</b>	<b>103</b>	<b>23,984</b>	<b>125,843</b>	<b>149,827</b>

2015/16	General Fund Balance £000	General Fund Earmarked Reserves £000	HRA Earmarked Reserves £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
<b>Balance at 31/03/2015</b>	<b>4,625</b>	<b>6,160</b>	<b>1,041</b>	<b>11,093</b>	<b>0</b>	<b>0</b>	<b>107</b>	<b>23,026</b>	<b>100,025</b>	<b>123,051</b>
<b>Movements in 2015/16</b>										
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
<b>Increase/(decrease) in 2015/16</b>	<b>(165)</b>	<b>245</b>	<b>650</b>	<b>(526)</b>	<b>0</b>	<b>0</b>	<b>(4)</b>	<b>200</b>	<b>11,648</b>	<b>11,848</b>
<b>Balance at 31/03/2016</b>	<b>4,460</b>	<b>6,405</b>	<b>1,691</b>	<b>10,567</b>	<b>0</b>	<b>0</b>	<b>103</b>	<b>23,226</b>	<b>111,673</b>	<b>134,899</b>

# 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.

2015/16				2016/17			
Gross Exp	Gross Inc	NET		NOTES	Gross Exp	Gross Inc	NET
£000	£000	£000			£000	£000	£000
Restated			Continuing Operations:				
755	(755)	0	Management Team		665	(665)	0
24,925	(19,654)	5,271	Environmental Services		23,899	(19,024)	4,875
2,512	(750)	1,762	Governance		2,614	(955)	1,659
7,661	(3,147)	4,514	Health & Housing		8,527	(3,912)	4,615
18,281	(17,707)	574	Housing Revenue Account		11,120	(17,319)	(6,199)
9,564	(2,871)	6,693	Regeneration & Planning		14,700	(2,786)	11,914
47,344	(46,522)	822	Resources		43,483	(42,541)	942
3,229	(612)	2,617	Central Services		3,354	(1,030)	2,324
114,271	(92,018)	22,253	Cost of Services		108,362	(88,232)	20,130
2,658	(2,002)	656	Other Operating Expenditure	10	2,090	(1,263)	827
11,440	(5,463)	5,977	Financing and Investment Income and Expenditure	11	11,777	(11,662)	115
0	0	0	(Surplus) / Deficit on discontinued operations	29	0	0	0
33,770	(54,310)	(20,540)	Taxation and Non Specific Grant Income	12	25,138	(52,954)	(27,816)
		8,346	(Surplus)/Deficit on Provision of Services				(6,744)
		(8,270)	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment Assets				(19,476)
		(11,924)	Actuarial (Gains)/Losses on Pension Assets/Liabilities	41			11,292
		(20,194)	Other Comprehensive Income and Expenditure				(8,184)
		(11,848)	Comprehensive Income and Expenditure				(14,928)

The 2015/16 Cost of Services figures have been restated in accordance with the new presentation requirements which are based on the organisational structure of the authority.

The net expenditure of £14.928M in year corresponds to the movement between years in net worth 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 2016 £000		NOTES	31 March 2017 £000
206,028	Property, Plant & Equipment	13	227,119
8,291	Heritage Assets	14	8,291
26,036	Investment Property	15	31,200
71	Intangible Assets	16	305
57	Assets Held for Sale	21	57
373	Long Term Debtors	17	1
<b>240,856</b>	<b>Long Term Assets</b>		<b>266,973</b>
39,247	Short Term Investments	17	30,281
352	Inventories	18	369
38,325	Short Term Debtors	19	10,503
0	Cash & Cash Equivalents	20	0
<b>77,924</b>	<b>Current Assets</b>		<b>41,153</b>
(2,122)	Bank Overdraft	20	(3,385)
(1,130)	Short Term Borrowing	17	(1,080)
(48,126)	Short Term Creditors	22	(21,065)
<b>(51,378)</b>	<b>Current Liabilities</b>		<b>(25,530)</b>
(174)	Long Term Creditors	17	(224)
(14,545)	Provisions	23	(2,574)
(65,288)	Long Term Borrowing	17	(64,208)
(52,496)	Other Long Term Liabilities	25	(65,763)
<b>(132,503)</b>	<b>Long Term Liabilities</b>		<b>(132,769)</b>
<b>134,899</b>	<b>Net Assets</b>		<b>149,827</b>
23,226	Usable Reserves	24	23,984
111,673	Unusable Reserves	25	125,843
<b>134,899</b>	<b>Total Reserves</b>		<b>149,827</b>

The net movement between years is £14.928M 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.

2015/16 £000		NOTES	2016/17 £000
Money (Out) / In			Money (Out) / In
(8,346)	Net surplus or (deficit) on the provision of services		(6,744)
26,228	Adjustments to net surplus or deficit on the provision of services for non-cash movements		8,678
(3,897)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		3,193
<b>13,985</b>	<b>Net cash flows from Operating Activities</b>		<b>5,127</b>
(9,477)	Investing Activities	27	(8,012)
(7,393)	Financing Activities	28	1,622
<b>(2,885)</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>(1,263)</b>
763	Cash and cash equivalents at the beginning of the reporting period		(2,122)
<b>(2,122)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>(3,385)</b>

# 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:

<b>Note 1</b>	Accounting Policies
<b>Note 2</b>	Accounting Standards that have been issued but have not yet been adopted
<b>Note 3</b>	Critical Judgements in Applying Accounting Policies
<b>Note 4</b>	Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty
<b>Note 5</b>	Events After the Balance Sheet Date
<b>Note 6</b>	Notes to the Expenditure and Funding Analysis
<b>Note 7</b>	Expenditure and Income Analysed by Nature
<b>Note 8</b>	Adjustments between Accounting Basis and Funding Basis under Regulations
<b>Note 9</b>	Transfers to/from Earmarked Reserves
<b>Note 10</b>	Other Operating Expenditure
<b>Note 11</b>	Financing and Investment Income and Expenditure
<b>Note 12</b>	Taxation and Non-Specific Grant Income and Expenditure
<b>Note 13</b>	Property, Plant and Equipment
<b>Note 14</b>	Heritage Assets
<b>Note 15</b>	Investment Properties
<b>Note 16</b>	Intangible Assets
<b>Note 17</b>	Financial Instruments
<b>Note 18</b>	Inventories
<b>Note 19</b>	Short Term Debtors
<b>Note 20</b>	Cash and Cash Equivalents
<b>Note 21</b>	Assets Held for Sale
<b>Note 22</b>	Short Term Creditors
<b>Note 23</b>	Provisions
<b>Note 24</b>	Usable Reserves
<b>Note 25</b>	Unusable Reserves
<b>Note 26</b>	Operating Activities
<b>Note 27</b>	Investing Activities
<b>Note 28</b>	Financing Activities
<b>Note 29</b>	Acquired and Discontinued Operations
<b>Note 30</b>	Trading Operations
<b>Note 31</b>	Agency Services
<b>Note 32</b>	Members' Allowances
<b>Note 33</b>	Officers' Remuneration
<b>Note 34</b>	External Audit Costs
<b>Note 35</b>	Grant Income
<b>Note 36</b>	Related Parties
<b>Note 37</b>	Capital Expenditure and Capital Financing
<b>Note 38</b>	Leases
<b>Note 39</b>	Impairment Losses
<b>Note 40</b>	Termination Benefits
<b>Note 41</b>	Defined Benefit Pension Schemes
<b>Note 42</b>	Contingent Liabilities
<b>Note 43</b>	Contingent Assets
<b>Note 44</b>	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 2016/17 financial year and its position at 31 March 2017. 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 Council Tax and Non-Domestic Rates**

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

### **Accounting for Council Tax and NDR**

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

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

## **1.8 Employee Benefits**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled wholly 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 2.5%.
- 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:
  - **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 arising from current year decisions 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
  - **interest cost** - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - **expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - **gains or losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - **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 – debited to the Pensions Reserve.
  - **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.

## **1.9 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.

## **1.10 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).

### **1.11 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.

### **1.12 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.

### **1.13 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 Council 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.

### **1.14 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.

### **1.15 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.

### **1.16 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.

### **1.17 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.

### **1.18 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 than 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.

## **1.19 Overheads and Support Services**

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

## **1.20 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:

- **dwelling 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.

## **1.21 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.

## **1.22 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.

## **1.23 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.

## **1.24 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.

## **1.25 Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorized within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than the quoted prices included within Level 1 that are observable for the asset or

liability, either directly or indirectly

- Level 3 – unobservable inputs for the asset or liability.

## **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 two new standards that have been issued but will not be adopted by the Code until 01 April 2017. These are as follows:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

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.

## **3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in Note 1 the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The 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 Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. 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 2016/17 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 2017. The provision has significantly reduced during 2016/17 following settlement of two significant appeals. The remaining estimate of appeals have 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 2017. Events taking place after this date are not reflected in the financial statements or notes.

Where events have taken place before 30 June 2017 and they provided information about conditions existing at



31 March 2017, the figures in the financial statements and notes have been adjusted as appropriate in all material respects to reflect the impact of this information.

There has been one event that has arisen after 31 March 2017 that requires separate disclosure to aid understanding of the Council's financial position. This relates to the transfer of Chatsworth Gardens properties to the developer Place First as part of the phase 2 redevelopment. On 07 August 2017, Cabinet will consider whether or not to approve the transfer and if it does then the value of each property will be reduced to £1, which is lower than the current carrying value in the Balance Sheet. As this is a decision taking place after 30 June 2017 no adjustments have been made to the financial statements.

## 6 THE EXPENDITURE AND FUNDING ANALYSIS

2015/16			2016/17		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000	£000
<i>Continuing Operations:</i>					
(18)	(18)	0	(1)	(1)	0
3,693	(1,579)	5,272	3,410	(1,465)	4,875
1,734	(28)	1,762	1,656	(3)	1,659
3,737	(776)	4,513	3,818	(797)	4,615
(7,916)	(8,490)	574	(7,176)	(977)	(6,199)
3,100	(3,593)	6,693	3,227	(8,687)	11,914
402	(419)	821	295	(647)	942
2,577	(41)	2,618	2,256	(68)	2,324
<b>7,309</b>	<b>(14,944)</b>	<b>22,253</b>	<b>7,485</b>	<b>(12,645)</b>	<b>20,130</b>
(7,513)	6,394	(13,907)	(8,243)	18,631	(26,874)
<b>(204)</b>	<b>(8,550)</b>	<b>8,346</b>	<b>(758)</b>	<b>5,986</b>	<b>(6,744)</b>
22,919			23,123		
204			758		
<b>23,123</b>			<b>23,881</b>		

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

<b>Adjustments between Funding and Accounting Basis 2016/17</b>				
<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts</b>	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	£000	£000	£000	£000
Management Team	0	(2)	1	(1)
Environmental Services	(1,431)	(18)	(16)	(1,465)
Governance	0	(3)	0	(3)
Health & Housing	(794)	(9)	6	(797)
Housing Revenue Account	(963)	(8)	(6)	(977)
Regeneration & Planning	(8,681)	(7)	1	(8,687)
Resources	(639)	(8)	0	(647)
Central Services	0	(68)	0	(68)
<b>Net Cost of Services</b>	<b>(12,508)</b>	<b>(123)</b>	<b>(14)</b>	<b>(12,645)</b>
Other income and expenditure from the Expenditure and Funding Analysis	14,969	(1,852)	5,514	<b>18,631</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>2,461</b>	<b>(1,975)</b>	<b>5,500</b>	<b>5,986</b>

<b>Adjustments between Funding and Accounting Basis 2015/16</b>				
<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts</b>	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	£000	£000	£000	£000
Management Team	0	(17)	(1)	(18)
Environmental Services	(1,414)	(175)	10	(1,579)
Governance	0	(29)	1	(28)
Health & Housing	(736)	(75)	35	(776)
Housing Revenue Account	(8,449)	(68)	27	(8,490)
Regeneration & Planning	(3,527)	(65)	(1)	(3,593)
Resources	(354)	(64)	(1)	(419)
Central Services	0	(41)	0	(41)
<b>Net Cost of Services</b>	<b>(14,480)</b>	<b>(534)</b>	<b>70</b>	<b>(14,944)</b>
Other income and expenditure from the Expenditure and Funding Analysis	8,054	(1,986)	326	<b>6,394</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(6,426)</b>	<b>(2,520)</b>	<b>396</b>	<b>(8,550)</b>

**Adjustments for Capital Purposes** - this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

#### **Net Change for the Pensions Adjustments**

Net change for the removal of pension contributions and the addition of *IAS19 Employee Benefits* pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES

#### **Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For financing and investment income and expenditure the other differences column recognizes adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forwards in future Surpluses or Deficits on the Collection Fund.

## **7 EXPENDITURE AND INCOME ANALYSED BY NATURE**

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

	2015/16	2016/17
	£000	£000
Employee benefits expenses	18,246	18,368
Other services expenses	69,579	65,181
Support service recharges	13,586	13,367
Depreciation, amortisation, impairment	15,028	13,541
Interest payments	3,809	3,047
Precepts and levies	531	5,249
Payments to Housing Capital Receipts Pool	388	745
Gain on the disposal of assets	(263)	(463)
<b>Total Expenditure</b>	<b>120,904</b>	<b>119,035</b>
Fees, charges and other service income	(51,986)	(53,273)
Interest and investment income	(81)	(5,032)
Income from council tax, non domestic rates, district rate income	(12,178)	(22,349)
Government grants and contributions	(48,313)	(45,125)
<b>Total Income</b>	<b>(112,558)</b>	<b>(125,779)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>8,346</b>	<b>(6,744)</b>

## 8 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 8 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION	2015/16 Comparative Figures							2016/17						
	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	
<b>Adjustments to the Revenue Resources:</b>														
<b>Amounts by which income and expenditure included in the Comprehensive income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.</b>														
Pensions costs (transferred to (or from) the Pensions Reserve)	(2,186)	(332)						(1,705)	(270)					
Financial instruments (transferred to the Financial instruments Adjustments Account)	0	0						0	0					
Council tax and NDR (transfers to or from Collection Fund)	327							5,514						
Holiday pay (transferred to the Accumulated Absences Reserve)	42	27						(8)	(6)					
Reversal of entries included in the Surplus or Deficit on the provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(7,050)	(8,808)						(3,434)	(1,710)					
<b>Total Adjustments to Revenue Resources</b>	<b>(8,867)</b>	<b>(9,113)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>367</b>	<b>(1,986)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Adjustments between Revenue and Capital Resources</b>														
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts reserve	1,396	606	(1,261)					31	1,215	(1,246)				
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)		(14)	14						(25)	25				
Payments to the government housing receipts pool funded by a transfer from the Capital Receipts Reserve	(388)		388					(745)		745				
Posting of HRA resources from revenue to the Major Repairs Reserve		4,181	(4,181)						3,450	(3,450)				
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,569	1,041						1,208	1,041					
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	666	373						1,273	156					
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>3,243</b>	<b>6,187</b>	<b>(859)</b>	<b>(4,181)</b>	<b>0</b>	<b>0</b>		<b>1,767</b>	<b>5,837</b>	<b>(476)</b>	<b>(3,450)</b>	<b>0</b>	<b>0</b>	
<b>Adjustments to Capital Resources</b>														
Use of the Capital Receipts Reserve to finance capital expenditure			861							849				
Use of the Major Repairs Reserve to finance capital expenditure				4,181							3,450			
Application of capital grants to finance capital expenditure						4							0	
Cash payments in relation to deferred capital receipts			(2)							(372)				
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>859</b>	<b>4,181</b>	<b>0</b>	<b>4</b>		<b>0</b>	<b>0</b>	<b>477</b>	<b>3,450</b>	<b>0</b>	<b>0</b>	
<b>Total Adjustments</b>	<b>(5,624)</b>	<b>(2,926)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>		<b>2,134</b>	<b>3,851</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	

## 9 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 2016/17.

	Balance at 31 March 2015	Transfers Out	Transfers In	Balance at 31 March 2016	Transfers Out	Transfers In	Balance at 31 March 2017
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund:</b>							
Corporate Property Reserve	342	(14)	0	328	(14)	104	418
Open Spaces Commuted Sums	129	(24)	0	105	(23)	0	82
Other Commuted Sums	1,120	(190)	176	1,106	(670)	128	564
Restructuring - Budget Support	603	0	0	603	(386)	333	550
Renewals	708	(500)	605	813	(358)	402	857
Capital Support	299	(8)	236	527	(249)	174	452
Invest to Save Reserve	1,501	(32)	0	1,469	0	351	1,820
Business Rates Retention Reserve	381	0	0	381	0	0	381
Welfare Reforms Reserve	308	(19)	107	396	(190)	60	266
MAAP Implementation Reserve	224	(109)	0	115	(86)	0	29
Highways Reserve	279	(60)	0	219	(219)	0	0
Other Reserves £100K and under	266	(72)	149	343	(127)	138	354
<b>Total</b>	<b>6,160</b>	<b>(1,028)</b>	<b>1,273</b>	<b>6,405</b>	<b>(2,322)</b>	<b>1,690</b>	<b>5,773</b>

<b>HRA:</b>							
Hsg Mgt System Replacement	591	0	0	591	(46)	57	602
Flats Planned Maintenance	923	(232)	0	691	(156)	133	668
Fixed Lifeline Equipment	16	(20)	4	0	0	0	0
Sheltered Housing Reserves	870	(266)	208	812	(16)	168	964
Business Support Reserve	8,613	(176)	0	8,437	0	0	8,437
Other Reserves £100K and under	80	(47)	3	36	0	3	39
<b>Total</b>	<b>11,093</b>	<b>(741)</b>	<b>215</b>	<b>10,567</b>	<b>(218)</b>	<b>361</b>	<b>10,710</b>

## 10 OTHER OPERATING EXPENDITURE

	2015/16	2016/17
	£000	£000
Parish council precepts	531	545
Payments to the Government Housing Capital Receipts Pool	388	745
(Gains)/losses on the disposal of non-current assets	(263)	(463)
	<b>656</b>	<b>827</b>

## 11 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2015/16	2016/17
	£000	£000
Interest payable and similar charges	3,085	3,047
Pensions interest cost and expected return on pensions	2,168	2,096
Interest receivable and similar income	(214)	(189)
Income and expenditure in relation to investment properties and changes in their fair value	866	(4,840)
Other investment income and expenditure	72	1
	<b>5,977</b>	<b>115</b>

## 12 TAXATION AND NON SPECIFIC GRANT INCOME

	2015/16 £000	2016/17 £000
Council tax income	(8,585)	(8,884)
Non domestic rates	(5,468)	(11,044)
Non-ringfenced government grants	(5,281)	(4,590)
Capital grants and contributions	(1,206)	(3,298)
	<b>(20,540)</b>	<b>(27,816)</b>

## 13 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
<b>Cost/Valuation</b>								
<b>Balance as at 1 April 2016</b>	<b>160,269</b>	<b>91,063</b>	<b>15,667</b>	<b>41,795</b>	<b>8,315</b>	<b>257</b>	<b>11,585</b>	<b>328,951</b>
additions	4,077	3,686	2,354	0	4	0	3,503	<b>13,624</b>
revaluation increases/(decreases) recognised in the Revaluation Reserve	18,844	(88)	0	0	65	655	0	<b>19,476</b>
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	1,756	0	0	0	(185)	(6,390)	0	<b>(4,819)</b>
derecognition - disposals	(805)	0	(66)	0	0	0	0	<b>(871)</b>
assets reclassified (to)/from Assets Held for Sale	0	0	0	0	0	0	0	<b>0</b>
other transfers	0	573	0	1,527	334	699	(2,625)	<b>508</b>
<b>Balance as at 31 March 2017</b>	<b>184,141</b>	<b>95,234</b>	<b>17,955</b>	<b>43,322</b>	<b>8,533</b>	<b>(4,779)</b>	<b>12,463</b>	<b>356,869</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>Balance as at 1 April 2016</b>	<b>(57,749)</b>	<b>(37,349)</b>	<b>(10,387)</b>	<b>(17,309)</b>	<b>(14)</b>	<b>(115)</b>	<b>0</b>	<b>(122,923)</b>
depreciation charge	(2,718)	(1,419)	(1,292)	(1,362)	(5)	(126)	0	<b>(6,922)</b>
derecognition - disposals	35	0	60	0	0	0	0	<b>95</b>
<b>Balance as at 31 March 2017</b>	<b>(60,432)</b>	<b>(38,768)</b>	<b>(11,619)</b>	<b>(18,671)</b>	<b>(19)</b>	<b>(241)</b>	<b>0</b>	<b>(129,750)</b>
<b>Net Book Value</b>								
<b>at 31 March 2016</b>	<b>102,520</b>	<b>53,714</b>	<b>5,280</b>	<b>24,486</b>	<b>8,301</b>	<b>142</b>	<b>11,585</b>	<b>206,028</b>
<b>at 31 March 2017</b>	<b>123,709</b>	<b>56,466</b>	<b>6,336</b>	<b>24,651</b>	<b>8,514</b>	<b>(5,020)</b>	<b>12,463</b>	<b>227,119</b>

### Depreciation

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

- Council Dwellings: depreciated on a componentised basis, ranging from 5 – 80 years
- Other Land and Buildings: 5 - 40 years
- Vehicles, Plant, Furniture and Equipment: 5 -15 years
- Infrastructure: 10 - 40 years

### Capital Commitments

At 31 March 2017, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18 anticipated to cost £2.814M. Similar commitments at 31 March 2016 were £4.344M. The major commitments are:

- Sea and Flood Defence £818k
- Vehicle Replacement Programme £942k
- Disabled Facilities Grants £737k
- Regeneration £317k

## 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.

	<b>Council Dwellings</b>	<b>Other Land and Buildings</b>	<b>Total</b>
	£000	£000	£000
Adjustments to fair value by year:	Increase / (Decrease)		
31 March 2017	20,600	(88)	<b>20,512</b>
31 March 2016	2,932	3,890	<b>6,822</b>
31 March 2015	76	10,156	<b>10,232</b>
31 March 2014	3,358	5,430	<b>8,788</b>
31 March 2013	1,133	(2)	<b>1,131</b>
<b>Net valuation over 5 year cycle</b>	<b>28,099</b>	<b>19,386</b>	<b>47,485</b>

## 14 HERITAGE ASSETS

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

	<b>2015/16</b>	<b>2016/17</b>
	£000	£000
<b>Opening Balance</b>		
Civic Regalia and other donated items	607	607
Museum Collections	7,132	7,567
Public Art Works	100	100
Art Collection	17	17
	<b>7,856</b>	<b>8,291</b>
<b>Disposals</b>	<b>0</b>	<b>0</b>
<b>Revaluations</b>	<b>435</b>	<b>0</b>
<b>Closing Balance</b>		
Civic Regalia and other donated items	607	607
Museum Collections	7,567	7,567
Public Art Works	100	100
Art Collection	17	17
	<b>8,291</b>	<b>8,291</b>



### 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. Note that there was no valuation uplift for 2016/17.

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.

## 15 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.

	2015/16 £000	2016/17 £000
Rental income from investment property	(940)	(880)
Direct operating expenses arising from investment property	727	726
<b>Net (gain)/loss</b>	<b>(213)</b>	<b>(154)</b>

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.

	2015/16 £000	2016/17 £000
<b>Balance as at 1 April</b>	<b>25,321</b>	<b>26,036</b>
Additions:		
- Construction	309	837
Disposals:	(1,322)	0
Net gains/losses from fair value adjustments	(857)	4,834
Transfers:		
- to/from Property, Plant & Equipment	2,585	(507)
<b>Balance as at 31 March</b>	<b>26,036</b>	<b>31,200</b>



## Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy at 31 March 2017 are as follows:

2016/17	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 2017
<i>Recurring fair value measurements using:</i>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Office	0	0	3,177	3,177
Retail	0	0	2,873	2,873
Agriculture & Allotments	0	5,089	247	5,336
Commercial Land	0	6,984	3,020	10,004
Commercial Buildings	0	32	1,999	2,031
Mixed Commercial	0	0	7,779	7,779
<b>Total</b>	<b>0</b>	<b>12,105</b>	<b>19,095</b>	<b>31,200</b>

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, a Commercial Building on Dorrington Road, Commercial Land on York Road and Agricultural Land on Ashford Road, in estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

If the properties were to be sold they have a potential alternative use as residential housing land. They have, therefore, been valued at £12.1m which is deemed to be the 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

	2016/17
	£000
<b>Balance as at 1 April</b>	<b>19,136</b>
Transfers in	257
Transfers out	(5,969)
Total gains/losses for the period included in Surplus or Deficit on the Provision of Services resulting from changes in fair value	4,834
Additions	837
Disposals	0
<b>Balance as at 31 March</b>	<b>19,095</b>

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

## 16 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.

	2015/16	2016/17
	£000	£000
<b>Balance at start of year:</b>		
- Gross carrying amounts	336	361
- Accumulated amortisation	(249)	(290)
<b>Net carrying amount at start of year</b>	<b>87</b>	<b>71</b>
Additions:		
- Purchases	25	327
Amortisation for the period	(41)	(93)
<b>Net carrying amount at the end of year</b>	<b>71</b>	<b>305</b>
<b>Comprising:</b>		
- Gross carrying amounts	361	688
- Accumulated amortisation	(290)	(383)
<b>Balance as at 31 March</b>	<b>71</b>	<b>305</b>

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

## 17 FINANCIAL INSTRUMENTS

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

	Long-term		Current	
	31 March	31 March	31 March	31 March
	2016	2017	2016	2017
	£000	£000	£000	£000
<b>Investments</b>				
Loans and receivables	0	0	39,247	30,281
<b>Total investments</b>	<b>0</b>	<b>0</b>	<b>39,247</b>	<b>30,281</b>
<b>Debtors</b>				
Loans and receivables	373	1	38,325	10,503
<b>Total Debtors</b>	<b>373</b>	<b>1</b>	<b>38,325</b>	<b>10,503</b>
<b>Total assets</b>	<b>373</b>	<b>1</b>	<b>77,572</b>	<b>40,784</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	65,250	64,208	1,041	1,041
Finance lease liabilities	38	0	89	39
<b>Total borrowings</b>	<b>65,288</b>	<b>64,208</b>	<b>1,130</b>	<b>1,080</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	174	224	48,126	21,065
<b>Total Creditors</b>	<b>174</b>	<b>224</b>	<b>48,126</b>	<b>21,065</b>
<b>Bank overdraft / (Cash in Hand)</b>	<b>0</b>	<b>0</b>	<b>2,122</b>	<b>3,385</b>
<b>Total liabilities</b>	<b>65,462</b>	<b>64,432</b>	<b>51,378</b>	<b>25,530</b>

## Income, Expenses, Gains and Losses

	2015/16					2016/17				
	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	3,085	0	0	0	3,085	3,047	0	0	0	3,047
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	0	0	0	0	0	0	0	0	0
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>3,085</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,085</b>	<b>3,047</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,047</b>
Interest income	0	(214)	0	0	(214)	0	(189)	0	0	(189)
Interest income accrued on impaired financial assets	0	0	0	0	0	0	0	0	0	0
Increases in fair value	0	(4)	0	0	(4)	0	0	0	0	0
Gains and derecognition	0	0	0	0	0	0	0	0	0	0
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(218)</b>	<b>0</b>	<b>0</b>	<b>(218)</b>	<b>0</b>	<b>(189)</b>	<b>0</b>	<b>0</b>	<b>(189)</b>
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
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net (gain)/loss for the year</b>	<b>3,085</b>	<b>(218)</b>	<b>0</b>	<b>0</b>	<b>2,867</b>	<b>3,047</b>	<b>(189)</b>	<b>0</b>	<b>0</b>	<b>2,858</b>

## 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 2016		31 March 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	116,666	158,799	89,738	142,158
Long-term creditors & provisions	14,719	14,719	2,798	2,798
<b>Total</b>	<b>131,385</b>	<b>173,518</b>	<b>92,536</b>	<b>144,956</b>

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 2016		31 March 2017	
	Carrying amount Restated	Fair value Restated	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and receivables	39,247	39,247	30,281	30,281
Long-term debtors	373	373	1	1
<b>Total</b>	<b>39,620</b>	<b>39,620</b>	<b>30,282</b>	<b>30,282</b>

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

## 18 INVENTORIES

	Consumable Stores		Maintenance Materials		Items for Resale		Client Services Work in Progress		Total	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance as at 1 April</b>	36	24	231	234	112	94	0	0	379	352
Purchases	28	41	865	957	261	332	0	0	1,154	1,330
Recognised as an expense in the year	(40)	(32)	(862)	(920)	(277)	(334)	0	0	(1,179)	(1,286)
Written off balances	0	0	0	(24)	(2)	(3)	0	0	(2)	(27)
Reversals of write-offs in previous years	0	0	0	0	0	0	0	0	0	0
<b>Balance as at 31 March</b>	<b>24</b>	<b>33</b>	<b>234</b>	<b>247</b>	<b>94</b>	<b>89</b>	<b>0</b>	<b>0</b>	<b>352</b>	<b>369</b>

## 19 SHORT TERM DEBTORS

	31 March 2016 RESTATE £000	31 March 2017 £000
Council Taxpayers	620	667
Central Government Bodies	11,285	2,641
Housing Rents	557	647
Other Local Authorities	3,042	3,776
Commercial Ratepayers	19,427	174
Other entities and individuals	3,394	2,598
	<b>38,325</b>	<b>10,503</b>

## 20 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 2016 £000	31 March 2017 £000
Bank current account	(2,122)	(3,385)

## 21 ASSETS HELD FOR SALE

	Current		Non Current	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
<b>Balance as at 1 April</b>	<b>0</b>	<b>0</b>	<b>57</b>	<b>57</b>
Assets newly classified as held for sale:				
- Property, plant and equipment	0	0	0	0
Impairment losses	0	0	0	0
<b>Balance as at 31 March</b>	<b>0</b>	<b>0</b>	<b>57</b>	<b>57</b>

## 22 SHORT TERM CREDITORS

	31 March 2016 £000	31 March 2017 £000
Council Taxpayers	(169)	(144)
Central Government Bodies	(26,361)	(12,027)
Housing Rents	(149)	(165)
Other Local Authorities	(1,012)	(1,816)
Commercial Ratepayers	(274)	(1,559)
Other entities and individuals	(20,161)	(5,354)
	<b>(48,126)</b>	<b>(21,065)</b>

## 23 PROVISIONS

	Insurance £000	Business Rate Appeals £000	Legal £000	Total £000
<b>Balance as at 1 April 2016</b>	<b>(400)</b>	<b>(13,981)</b>	<b>(164)</b>	<b>(14,545)</b>
Contribution to Provision	(151)	0	(11)	(162)
Amounts Paid	293	12,467	0	12,760
New Liabilities	0	(87)	0	(87)
Reassessment of Provision	(107)	(469)	36	(540)
<b>Balance as at 31 March 2017</b>	<b>(365)</b>	<b>(2,070)</b>	<b>(139)</b>	<b>(2,574)</b>

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.

## 24 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 2016 £000	31 March 2017 £000
General Fund Balance	4,459	4,725
HRA Balance	1,692	1,937
HRA Business Support Reserve	8,437	8,437
Housing Mgt System Replacement Reserve	591	602
Flats Planned Maintenance	691	668
Sheltered Equipment	241	304
Sheltered Planned Maintenance	126	215
Sheltered Support Grant Maintenance	445	445
Renewals Reserve	684	711
Capital Support	526	452
Other Commuted Sums	1,106	564
Corporate Property Reserve	328	417
Restructuring/Budget Support Reserve	603	550
Welfare Reforms Reserve	396	266
Invest to Save Reserve	1,470	1,820
Capital Grants Unapplied	103	102
Other Reserves under £100K	778	395
Business Rates Retention Reserve	381	381
Local Plan Reserve	72	150
Car Parks Renewals Reserve	97	106
Revenue Grants Unapplied	0	737
<b>Total usable reserves</b>	<b>23,226</b>	<b>23,984</b>

## 25 UNUSABLE RESERVES

	31 March 2016 £000	31 March 2017 £000
Revaluation Reserve	44,427	62,180
Financial Instruments Adjustment Account	(143)	(143)
Capital Adjustment Account	118,163	122,720
Pensions Reserve	(52,496)	(65,763)
Deferred Credits	743	371
Accumulated Absences Account	(149)	(163)
Collection Fund Adjustment Account	1,128	6,641
<b>Total unusable reserves</b>	<b>111,673</b>	<b>125,843</b>

## Revaluation Reserve

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

	2015/16 £000	2016/17 £000
<b>Balance as at 1 April</b>	<b>37,294</b>	<b>44,427</b>
Upwards revaluation of assets	10,482	19,499
Downwards revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,212)	(22)
Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	8,270	19,477
Difference between fair value depreciation and historical cost depreciation.	(1,036)	(1,585)
Accumulated gains on assets sold or scrapped	(101)	(139)
Amount written off to the Capital Adjustment Account	(1,137)	(1,724)
<b>Balance as at 31 March</b>	<b>44,427</b>	<b>62,180</b>

## Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction 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 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2015/16 £000	2016/17 £000
<b>Balance as at 1 April</b>	<b>124,187</b>	<b>118,163</b>
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	(6,566)	(6,905)
- Revaluation losses on Property, Plant and Equipment	(5,882)	(4,817)
- Amortisation of Intangible Assets	(41)	(93)
- Revenue Expenditure funded from Capital under statute.	(2,680)	(1,921)
- 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	(1,724)	(775)
<b>Sub total</b>	<b>108,335</b>	<b>104,693</b>
Adjusting amounts written out of the Revaluation Reserve	1,137	1,724
<b>Net written out amount of the cost of non current assets consumed in the year.</b>	<b>109,472</b>	<b>106,417</b>
Capital financing applied in the year:		
- Use of Capital Receipts Reserve	861	849
- Use of the Major Repairs Reserve	4,181	3,450
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement (including those in respect of donated assets)	1,895	4,526
- Application of grants to capital financing from the Capital Grants Unapplied Account.	4	1
- Statutory provision for the financing of capital investment charged against General Fund and HRA balances	1,569	1,208
- Capital expenditure charged against the General Fund and HRA balances	1,039	1,429
<b>Sub total</b>	<b>119,021</b>	<b>117,880</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure statement	(858)	4,840
<b>Balance as at 31 March</b>	<b>118,163</b>	<b>122,720</b>

### 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 to HRA will be effectively written off in 2016/17.

	2015/16 £000	2016/17 £000
<b>Balance as at 1 April</b>	<b>(142)</b>	<b>(143)</b>
Premiums and discounts incurred in previous years to be charged against the General Fund and HRA in accordance with statutory requirements	(1)	0
<b>Balance as at 31 March</b>	<b>(143)</b>	<b>(143)</b>

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, 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.

	2015/16 £000	2016/17 £000
<b>Balance as at 1 April</b>	<b>(61,902)</b>	<b>(52,496)</b>
Actuarial gains or (losses) on pensions assets and liabilities	11,924	(11,292)
Reversal of items relating to the retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(5,697)	(5,172)
Employer's pension contribution and direct payments to pensioners payable in the year	3,179	3,197
<b>Balance as at 31 March</b>	<b>(52,496)</b>	<b>(65,763)</b>

### 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.

	2015/16 £000	2016/17 £000
<b>Balance as at 1 April</b>	<b>801</b>	<b>1,128</b>
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	327	(5,084)
<b>Balance as at 31 March</b>	<b>1,128</b>	<b>(3,956)</b>

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement 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.

	2015/16 £000	2016/17 £000
<b>Balance as at 1 April</b>	<b>(218)</b>	<b>(149)</b>
Settlement or cancellation of accrual made at the end of the preceding year	218	149
Amounts accrued at the end of the current year	(149)	(163)
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	69	(14)
<b>Balance as at 31 March</b>	<b>(149)</b>	<b>(163)</b>

## 26 CASH FLOW STATEMENT – OPERATING ACTIVITIES (INTEREST)

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

	2015/16 £000	2016/17 £000
Interest received	(192)	(218)
Interest paid	3,070	3,053

## 27 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2015/16 £000	2016/17 £000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(9,353)	(14,350)
Receipts from sale of Property, Plant and Equipment, investment property and intangible assets	1,263	1,619
Other payments from investing activities	161	628
Acquisition of short and long term borrowing	(3,443)	0
Other receipts from investing activities	1,895	4,091
<b>Net cash flows from investing activities</b>	<b>(9,477)</b>	<b>(8,012)</b>

## 28 CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2015/16 £000	2016/17 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(113)	(88)
Repayment of short-term and long-term borrowing	(1,066)	(1,091)
Payments and receipts relating to NNDR	(6,214)	2,801
<b>Net cash flows from financing activities</b>	<b>(7,393)</b>	<b>1,622</b>

## 29 ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquisitions or discontinued operations during 2016/17.

## 30 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 five years is shown in the following table.

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
<b>Highways</b>					
Turnover	(1,094)	(820)	(1,178)	(1,043)	0
Expenditure	998	836	1,104	1,103	0
(Surplus)/Deficit	(96)	16	(74)	60	0
<b>Trade Waste</b>					
Turnover	(1,070)	(1,104)	(1,275)	(1,241)	(1,241)
Expenditure	878	843	824	929	1,104
(Surplus)/Deficit	(192)	(261)	(451)	(312)	(137)
<b>Markets</b>					
Turnover	(889)	(407)	(394)	(404)	(419)
Expenditure	2,349	333	321	319	310
(Surplus)/Deficit	1,460	(74)	(73)	(85)	(109)
<b>Commercial Properties / Industrial Units</b>					
Turnover	(763)	(941)	(888)	(946)	(1,062)
Expenditure	686	748	729	797	872
(Surplus)/Deficit	(77)	(193)	(159)	(149)	(190)
<b>Consolidated</b>					
Turnover	(3,816)	(3,272)	(3,735)	(3,634)	(2,722)
Expenditure	4,911	2,760	2,978	3,148	2,286
(Surplus)/Deficit	1,095	(512)	(757)	(486)	(436)

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.

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Net (surplus)/deficit on trading operations	1,095	(512)	(757)	(486)	(436)
Trading expenditure and income included within					
Surplus or Deficit on the Provision of Services	0	0	0	0	0
<b>Net (surplus)/deficit</b>	<b>1,095</b>	<b>(512)</b>	<b>(757)</b>	<b>(486)</b>	<b>(436)</b>

### 31 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.

	2015/16 £000	2016/17 £000
Expenditure on agency arrangement	214	192
Income on agency arrangement	(168)	(139)
<b>Net deficit arising on agency arrangements</b>	<b>46</b>	<b>53</b>

### 32 MEMBERS ALLOWANCES

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

	2015/16 £000	2016/17 £000
Basic Allowances	199	199
Special Responsibility Allowances	81	81
Expenses	3	3
<b>Total</b>	<b>283</b>	<b>283</b>

### 33 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)
<b>2016/17</b>	£000	£000	£000	£000	£000	£000
Chief Executive (Previous to 30/06/16)	27	0	0	27	3	30
Chief Executive (New from 01/07/16)	81	0	0	81	11	92
Chief Officer (Environmental)	66	0	0	66	9	75
Chief Officer (Resources)	66	0	0	66	9	75
Chief Officer (Governance)	0	0	0	0	0	0
Chief Officer (Health & Housing)	66	0	0	66	9	75
Chief Officer (Regeneration & Planning)	66	0	0	66	9	75
<b>2015/16</b>						
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

Note that the previous Chief Executive retired on 30 June 2016 with the new postholder starting on 01 July 2017.

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	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £	2016/17 £
£0 - £20,000	0	0	5	26	5	26	62,550	172,309
£20,001 - £40,000	0	0	2	2	2	2	57,076	41,102
£40,001 - £60,000	0	0	0	1	0	1	0	40,677
£60,001 - £80,000	0	0	0	1	0	1	0	63,578
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>30</b>	<b>7</b>	<b>30</b>	<b>119,626</b>	<b>317,666</b>

### 34 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.

	2015/16 £000 Restated	2016/17 £000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	58	58
Fees payable for the certification of grant claims and returns for the year	10	11
<b>Total</b>	<b>68</b>	<b>69</b>

Note that the 2015/16 restatement relates to the certification of grant claims and returns which has been reduced by £13K as it previously included costs relating to 2014/15.

### 35 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17.

	2015/16 £000	2016/17 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	3,861	2,652
New Homes Bonus	1,297	1,928
Efficiency Savings Grant	84	0
ERDF Lancaster Square Routes	0	68
Environment Agency Wave Reflection Wall Construction	992	3,132
Heritage Lottery Fund - Townscape Heritage Initiative 2	145	0
Other Grants Under £50K	108	108
<b>Total</b>	<b>6,487</b>	<b>7,888</b>

	2015/16	2016/17
<b>Credited to Services</b>	£000	£000
DCLG Disabled Facilities Grant	557	997
Morecambe TH12 Heritage Lottery Grant	0	229
Discretionary Housing Payments	115	127
Supporting People	173	222
Active Lives: Other Grants	113	145
Parliamentary/European/Police/Individual Elections	202	355
Armside & Silverdale AONB Grants	133	136
Benefits DWP grant	107	234
Storm Relief	151	358
Affordable Warmth	64	0
Standard Rent Allowances: Government Grants	31,272	27,957
DCLG Community Housing	0	737
Rent Rebates - Council Housing: Government Grants	9,250	8,591
NNDR Administration: Government Grants	227	225
Other Grants Under £50K	358	330
<b>Total</b>	<b>42,722</b>	<b>40,643</b>

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:

	2015/16	2016/17
<b>Capital Grants Receipts in Advance</b>	£000	£000
DFG Grant	386	902
Environment Agency	19	265
Other Grants Under £50K	76	96
<b>Total</b>	<b>481</b>	<b>1,263</b>

## 36 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 Note 7 on expenditure and income analysed by nature. Grant receipts outstanding at 31 March 2017 are contained within debtors Note 19.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in Note 32. There are no other material transactions to disclose in respect of elected members.

### Officers

Senior officer remuneration is disclosed in Note 33, and there are no other material transactions to disclose in respect of officers.

### Members of the Families and Households of Members and Officers

There are no material transactions to disclose in respect of members of the families and households of Members and 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 totaling £152.5K was made to the company in 2016/17 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 £1K was made during 2016/17 towards the 2016 Light Up Lancaster (LUL) Programme. The Council's Lancaster and Morecambe Visitor Information Centre's also sold a small number of tickets on behalf of the Dukes during the year for some of its productions including LUL and retained 10% commission on any sales. 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.

## 37 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.

	2015/16 £000	2016/17 £000
<b>Opening Capital Financing Requirement</b>	<b>76,113</b>	<b>77,893</b>
<i>Capital investment:</i>		
Property, Plant and Equipment	9,382	13,624
Investment Properties	310	837
Intangible Assets	25	327
Revenue Expenditure Funded from Capital Under Statute	2,680	1,921
<i>Sources of financing:</i>		
Capital receipts	(861)	(849)
Government Grants and other contributions	(1,899)	(4,528)
Direct revenue contributions	(1,039)	(1,429)
Minimum Revenue Provision	(2,610)	(2,250)
Depreciation of HRA non dwellings	(27)	(24)
Major Repairs Reserve	(4,181)	(3,450)
<b>Closing Capital Financing Requirement</b>	<b>77,893</b>	<b>82,072</b>
<i>Explanation of movements in year:</i>		
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	1,780	4,179
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>1,780</b>	<b>4,179</b>

## 38 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 2016 £000	31 March 2017 £000
Finance lease liability re-assessment	(113)	(88)
Vehicles, Plant, Furniture & Equipment	239	126
<b>Total</b>	<b>126</b>	<b>38</b>

	31 March 2016 £000	31 March 2017 £000
Finance lease liabilities (net present value of minimum lease payments):		
- Current	88	38
- Non-current	38	0
Finance costs payable in future years	9	2
<b>Minimum lease payments</b>	<b>135</b>	<b>40</b>

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

	Minimum lease payments		Finance cost	
	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000
Not later than 1 year	88	38	7	2
Later than 1 year and not later than 5 years	38	0	2	0
Later than 5 years	0	0	0	0
<b>Minimum lease payments</b>	<b>126</b>	<b>38</b>	<b>9</b>	<b>2</b>

### 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 2016 £000	31 March 2017 £000
Not later than 1 year	457	545
Later than 1 year and not later than 5 years	1,100	1,215
Later than 5 years	1,526	1,483
<b>Minimum lease payments</b>	<b>3,083</b>	<b>3,243</b>

## 39 IMPAIRMENT LOSSES

During 2016/17 the Council has not recognised any impairment losses in relation to non-current asset valuations.

## 40 TERMINATION BENEFITS

The Council approved the early retirement / voluntary redundancy (ER/VR) of a number of employees in 2016/17, incurring liabilities of £237K (£85K in 2015/16) in respect of redundancy costs. This was paid to 29 officers from 2 different services whose applications for ER/VR were approved as part of the Council's overall review of services.

## 41 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:

	<b>Local Government Pension Scheme</b>	
	<b>2015/16</b>	<b>2016/17</b>
Comprehensive Income and Expenditure Statement	£000	£000
<i>Cost of services:</i>		
Current service cost	3,671	3,252
Past Service cost	0	0
Administration expenses	56	69
Settlements and curtailments	41	68
<i>Financing &amp; Investment Income &amp; Expenditure:</i>		
Interest costs	6,034	6,405
Expected return on scheme assets	(4,105)	(4,622)
<b>Total Post Employment Benefit Charged to Provision of Services</b>	<b>5,697</b>	<b>5,172</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:</i>		
Actuarial gains and losses	(11,924)	11,292
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(6,227)</b>	<b>16,464</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for net Provision of Services for post employment benefits in accordance with the Code	(5,697)	(5,172) *
Reversal of actuarial gains and losses recognised in other Comprehensive Income and Expenditure	11,924	(11,292) *
<b>Net charge in relation to pension adjustments</b>	<b>0</b>	<b>0</b>
Actual amount charged against Funds for pensions in the year - employers contributions	3,179	3,197 *
<b>* Net Movement on Pension Fund Reserve</b>	<b>9,406</b>	<b>(13,267)</b>



### 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	
	2015/16	2016/17	2015/16	2016/17
	£000	£000	£000	£000
Present value of the defined benefit obligation	182,213	218,391	3,544	4,039
Fair value of plan assets	(133,261)	(156,667)	0	0
<b>Net liability arising from defined benefit obligation</b>	<b>48,952</b>	<b>61,724</b>	<b>3,544</b>	<b>4,039</b>

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

	Local Government Pension Scheme	
	2015/16	2016/17
	£000	£000
<b>Opening fair value of scheme assets</b>	<b>129,436</b>	<b>133,261</b>
Interest income	4,105	4,622
Remeasurement gain/(loss)	2,085	21,236
Administration expenses	(56)	(69)
Employer contributions	3,179	3,197
Contributions by scheme participants	905	886
Benefits paid	(6,393)	(6,466)
<b>Closing fair value of scheme assets</b>	<b>133,261</b>	<b>156,667</b>

### Reconciliation of Present Value of the Scheme Liabilities:

	Funded Liabilities		Unfunded Liabilities	
	2015/16	2016/17	2015/16	2016/17
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	<b>187,524</b>	<b>182,213</b>	<b>3,814</b>	<b>3,544</b>
Current service cost	3,671	3,252	0	0
Interest cost	5,916	6,287	118	118
Contributions from scheme participants	905	886	0	0
Remeasurement (gains) and losses	(9,716)	31,893	(123)	635
Past service cost	0	0	0	0
Curtailments	41	68	0	0
Benefits paid	(6,128)	(6,208)	(265)	(258)
<b>Closing balance at 31 March</b>	<b>182,213</b>	<b>218,391</b>	<b>3,544</b>	<b>4,039</b>

## Local Government Pension Scheme assets comprised

	2015/16	2016/17
	£000	£000
Equities:	6,774	0
Consumer Discretionary	7,703	0
Energy	572	0
Financials	8,083	0
Health Care	4,836	0
Industrials	5,773	0
Information Technology	8,201	0
Materials	1,650	0
Telecommunication Services	1,106	0
Utilities	1,104	0
Bonds:		
UK corporate	1,915	571
Overseas corporate	799	2,002
UK Fixed gilts	0	300
UK index linked	2,678	2,800
Property:		
Offices	2,693	2,891
Offices/Warehouse	275	289
Industrial/Warehouse	3,147	3,868
Shops	1,597	1,362
Retail Warehouse	2,304	2,270
Shopping Centre	664	632
Multi let Commercial Building	2,129	2,489
Alternatives:		
UK private equity	2,173	1,776
Overseas private equity	5,852	8,307
Infrastructure	10,648	18,904
Credit funds	33,534	35,107
Indirect Property Funds	1,840	2,209
Overseas Pooled Equity Funds	10,628	69,264
Cash:		
Cash and cash equivalents	4,583	1,626
<b>Closing fair value of scheme assets</b>	<b>133,261</b>	<b>156,667</b>

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	222,430	218,768	226,153	223,137	226,882
Assets	(156,667)	(156,667)	(156,667)	(156,667)	(156,667)
Deficit/(Surplus)	65,763	62,101	69,486	66,470	70,215
Projected Service Cost for next year	4,733	4,601	4,871	4,733	4,831
Projected Net Interest Cost for next year	1,602	1,571	1,699	1,623	1,717

## 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 £3.197M expected contributions to the scheme in 2016/17 (£3.179M in 2015/16).

The weighted average duration of the defined benefit obligation for scheme members is 17 years, 2016/17, (17 years 2015/16).

## 42 CONTINGENT LIABILITIES

The following material contingent liabilities existed as at 31 March 2017:

**Luneside East Regeneration Scheme** – In assembling the land for this project, the Council used compulsory purchase order (CPO) powers and protracted legal action followed. In January 2017, the Council was informed that the company concerned had been placed into Administration. It is unclear whether or not the Administrators will pursue any claim against the Council, although it is considered unlikely that any claim will be pursued.

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 2017 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 2017. 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.

## 43 CONTINGENT ASSETS

There were no material contingent assets as at 31 March 2017.

## 44 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 2016/17 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
		<b>Colour (and long term rating where applicable)</b>		<b>Money Limit</b>		<b>Time Limit</b>		
<b>Banks /UK Govt. backed instruments*</b>		yellow		£12m		≤1 year		
<b>Banks</b>		purple		£6m		≤1 year		
<b>Banks</b>		orange		£6m		≤1 year		
<b>Banks – part nationalised</b>		blue		£12m		≤1 year		
<b>Banks</b>		red		£6m		≤6 mths		
<b>Banks</b>		green		£3m		≤100 days		
<b>Banks</b>		No colour		Not to be used				
<b>Limit 3 category – Council's banker (for non-specified investments)</b>		n/a		£500K		1 day		
<b>DMADF</b>		AAA		unlimited		≤6 months		
<b>Local authorities**</b>		n/a		£12m		≤1 year		
		<b>Fund rating</b>		<b>Money and/or % Limit</b>		<b>Time Limit</b>		
<b>Money market funds</b>		AAA		£6m		liquid		
<b>Enhanced money market funds with a credit score of 1.25</b>		Dark pink / AAA		£6m		liquid		
<b>Enhanced money market funds with a credit score of 1.5</b>		Light pink / AAA		£6m		liquid		

The Council's maximum exposure to credit risk in relation to its investments of £30.250M 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 £30.250M, there was no evidence at 31 March 2017 that this was likely to materialise.

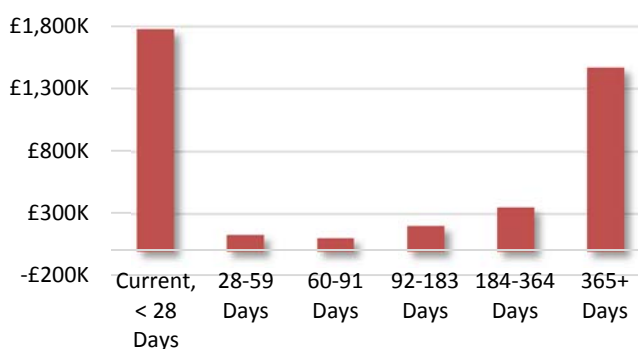
The following analysis (excluding Icelandic investments) summarises the Council's potential maximum exposure to credit risk on other financial assets, based on past experience of default and non-collectability, adjusted to reflect current market conditions.

	Balance 31/03/17	Historical experience of default	Exposure at 31/03/17	Exposure at 31/03/16
	£000	%	£000	£000
	(a)	(b)	(a * b)	
AAA rated counterparties	30,250	0.00%	0	0
AA rated counterparties	0	0.03%	0	1
A rated counterparties	0	0.08%	0	5
Trade debtors	2,598	Bad debt provision	2,366	1,962
<b>Total</b>	<b>32,848</b>		<b>2,366</b>	<b>1,968</b>

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 £2.260M of the £4.037M sundry debt balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31/03/16	31/03/17
	£000	£000
Current, < 28 Days	1,658	1,777
28-59 Days	257	131
60-91 Days	193	106
92-183 Days	231	203
184-364 Days	357	352
365+ Days	1,308	1,468
<b>Total</b>	<b>4,004</b>	<b>4,037</b>



## 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.

	31/03/16	31/03/17
	£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	6,248	5,207
More than 30 Years	39,215	39,215
<b>Total</b>	<b>66,290</b>	<b>65,249</b>

## 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 2016/17.

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 0.37%, an increase of 1% on interest rates during 2016/17 would have had the following marginal effect:

	<b>Actual £000</b>	<b>+1% £000</b>
<b>New or variable investments:</b>		
Call accounts	173	472
<b>Total</b>	<b>173</b>	<b>472</b>

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.

# Housing Revenue Account

## 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.

2015/16		NOTES	2016/17	
£000			£000	£000
	<b>Expenditure</b>			
4,495	Repairs and maintenance		5,116	
3,115	Supervision and management		3,007	
179	Rent, rates, taxes and other charges		184	
8,585	Depreciation and impairment of non-current assets	4&5	988	
1	Debt management costs		1	
165	Movement in the allowance for bad debts	8	161	
0	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	9	0	
<b>16,540</b>	<b>Total Expenditure</b>			<b>9,457</b>
	<b>Income</b>			
(13,686)	Dwelling rents		(13,656)	
(210)	Non-dwelling rents		(227)	
(1,780)	Charges for services and facilities		(1,662)	
(8)	Contributions towards expenditure		(8)	
(89)	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP		(103)	
<b>(15,773)</b>	<b>Total Income</b>			<b>(15,656)</b>
<b>767</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>			<b>(6,199)</b>
<b>0</b>	HRA services' share of Corporate and Democratic Core			<b>0</b>
<b>0</b>	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services			<b>0</b>
<b>767</b>	<b>Net Cost for HRA Services</b>			<b>(6,199)</b>
	<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>			
(225)	Gain or Loss on sale of HRA non-current assets		(421)	
2,004	Interest payable and similar charges		1,954	
(77)	Interest and investment income		(57)	
449	Pension interest cost and expected return on pension assets	7	506	
(116)	Capital grants and contributions receivable		(22)	
<b>2,802</b>	<b>(Surplus) or deficit for the year on HRA Services</b>			<b>(4,239)</b>

## 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.

2015/16 £000		2016/17 £000
(1,041)	Balance on the HRA at the end of the previous year	(1,691)
2,802	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	(4,239)
307	Adjustments between accounting basis and funding basis under statute	313
<b>3,109</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>	<b>(3,926)</b>
(3,759)	Transfers to or (from) reserves	3,680
<b>(650)</b>	<b>(Increase) or decrease in year on the HRA</b>	<b>(246)</b>
<b>(1,691)</b>	<b>Balance on the HRA at the end of the year</b>	<b>(1,937)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2017 the Council held the following number of dwellings, noting that during the year 19 properties were disposed of under the Right to Buy Scheme and there was some minor re-classification of property types:

	2015/16	2016/17
Bedsits	92	93
1 Bedroom		
Houses & Bungalows	656	654
Flats & Maisonettes	530	533
2 Bedroom		
Houses & Bungalows	489	490
Flats & Maisonettes	678	675
3 Bedroom		
Houses & Bungalows	1,218	1,198
Flats & Maisonettes	8	8
4 or more bedroomed dwellings	86	87
<b>TOTAL DWELLINGS</b>	<b>3,757</b>	<b>3,738</b>



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

	Value as at 1 April 2016 £000	Value as at 31 March 2017 £000
<b>Operational Assets:</b>		
Council Dwellings	102,520	123,709
Other land and buildings	85	85
	<b>102,605</b>	<b>123,794</b>
<b>Non-operational Assets</b>	1,453	1,447
<b>TOTAL</b>	<b>104,058</b>	<b>125,241</b>



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 £24.678M 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 2016 was £300.546M. The difference between this and the EUV-SH valuation of £125.857M (i.e. the update figure after the valuation exercise effective as of 01 April 2016 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:

	2015/16 £000	2016/17 £000
<b>Opening Balance 01 April</b>	<b>0</b>	<b>0</b>
Transfer to HRA – Depreciation	2,718	2,738
Transfer to HRA - Depreciation Adjustment	(27)	(18)
Transfer to HRA - Additional Capital Financing	1,490	730
Capital Expenditure - Houses	(4,181)	(3,450)
<b>Closing Balance 31 March</b>	<b>0</b>	<b>0</b>

## 3 CAPITAL EXPENDITURE

Capital expenditure of £4.077M was incurred during the year relating to works on improvements to dwellings. This was financed as follows:

	2015/16 £000	2016/17 £000
Usable Capital Receipts	205	448
Earmarked Reserves	373	156
Majors Repairs Reserve	4,181	3,450
Grants and Contributions	116	23
<b>Total Capital Financing</b>	<b>4,875</b>	<b>4,077</b>

Capital receipts totaling £1.217M were received during the year from the following sources:

	2015/16 £000	2016/17 £000
Sale of dwellings	606	1,215
Repayment of Principal on Mortgages	2	2
<b>Total Capital Receipts</b>	<b>608</b>	<b>1,217</b>

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:

	2015/16 £000	2016/17 £000
Council Dwellings	2,691	2,720
Other land and buildings	0	0
Non-operational Assets	18	18
Deferred Charges on Intangible Assets	9	0
<b>TOTAL</b>	<b>2,718</b>	<b>2,738</b>

## 5 IMPAIRMENT CHARGES

No impairment charges in respect of Council Dwellings was made to the HRA for the financial year 2016/17. There was, however, a revaluation downwards of £4.077M in respect of non-enhancing capital expenditure on Council Housing stock. This was offset by £8.877M upward revaluation as a result of the full revaluation exercise. There was an impairment charge of £3K in respect of non-dwelling assets.

## 6 INTANGIBLE ASSETS

No material charge was made during the year in respect of intangible assets.

## 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 2017 amounted to £808K (£695K for 2015/16). An amount of £522K (£516K for 2015/16) 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 are no exceptional or extraordinary items, and no prior year adjustments.

## 11 NOTES TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

	2015/16 £000	2016/17 £000
<b>Adjustments between accounting basis and funding basis under statute</b>		
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)	0
Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements.	27	6
Gain or loss on sale of HRA non-current assets.	239	421
HRA share of contributions to or from the Pension Reserve.	(332)	(270)
Capital Expenditure funded by the Housing Revenue Account	373	156
	<b>306</b>	<b>313</b>
<b>Transfers to or (from) reserves</b>		
Transfer to/(from) Major Repairs Reserve	1,491	730
Transfer to/(from) Earmarked Reserves	(526)	142
Transfer to/(from) the Capital Adjustment Account	(4,724)	2,808
	<b>(3,759)</b>	<b>3,680</b>

## 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.

2015/16		NOTES	2016/17
£000			£000
INCOME			
Council Tax			
(61,481)	Income from Council Tax	1	(64,769)
Business Rates			
(41,495)	Income from Business Ratepayers	2	(78,541)
0	Transitional Protection Payments	2	0
Contributions towards previous year's estimated Collection Fund deficit			
0	Business Rates		(14,333)
(102,976)	TOTAL INCOME		(157,643)
EXPENDITURE			
Precepts and Demands			
43,497	Lancashire County Council	3	46,642
8,384	Lancaster City Council (including parish precepts)		8,841
6,124	Lancashire Police Authority		6,440
2,497	Lancashire Fire Authority		2,600
Business Rates			
30,600	Shares of non-domestic rating income to major preceptors and the billing authority	2	30,092
30,600	Payments made to central government in respect of central share		30,092
0	Transitional Protection Payments		23,311
227	Cost of Collection Allowance		223
165	Write-offs of uncollectable amounts		351
7,114	Allowance for Impairment	2	(29,445)
Council Tax Bad and Doubtful Debts			
168	Write-offs of uncollectable amounts		294
315	Allowance for Impairment		148
Contribution towards previous year's estimated Collection Fund surplus			
1,000	Council Tax		495
7,808	Business Rates		0
138,499	TOTAL EXPENDITURE		120,084
35,523	(SURPLUS) / DEFICIT ON FUND		(37,559)
MOVEMENT ON THE FUND			
Opening Balances			
(1,007)	Council Tax		(503)
5,016	Business Rates		40,035
Closing Balances			
(503)	Council Tax		188
40,035	Business Rates		1,785
Movement on Fund			
504	Council Tax		691
35,019	Business Rates		(38,250)
35,523	TOTAL MOVEMENT ON FUND		(37,559)

## 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 2016/17 the numbers are as follows:-

	<b>Chargeable Dwellings</b>	<b>Band D Equivalents</b>
Band A	15,493	8,386
Band B	13,354	9,305
Band C	10,702	8,710
Band D	5,872	5,560
Band E	3,684	4,323
Band F	1,858	2,592
Band G	802	1,269
Band H	44	87
<b>Total</b>	<b>51,809</b>	<b>40,232</b>
<i>Collection Rate</i>		98.68%
<b>Council Tax Base</b>		<b>39,700</b>

### 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 49.7p per £ for 2016/17 (49.3p for 2015/16). For local businesses with a rateable value of less than £15,000, a discount of 1.3p was allowed giving a rate of 48.4p per £. The total rateable value for the district at 31 March 2017 was £153,979,216 (£153,645,813 for 2015/16).

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 2016/17 was £20.216M (£19.763M in 2015/16).

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 2016/17 is £4.856M (£4.816M for 2015/16). 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.

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 2017. Appeals are charged and provided for in proportion to the precepting shares. The total provision as at 31 March 2017 has been estimated at £5.176M (£34.954M in 2015/16), the Council's share of which is £2.070M (as shown in Note 23).

### 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	Deficit Recovery	
	£000	£000	£000	£000	
Lancashire County Council	46,642	363	5,416	(1,290)	51,131
Lancashire Police Authority	6,440	51	0	0	6,491
Lancashire Fire Authority	2,600	21	602	(143)	3,080
Lancaster City Council	8,841	60	24,074	(5,733)	27,242
	<b>64,523</b>	<b>495</b>	<b>30,092</b>	<b>(7,166)</b>	<b>87,944</b>

## 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 2017 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 01/04/16 £	Income £	Transfers Out £	Expenditure £	Balance c/f 31/03/17 £
<b>Bequests and Endowments</b>					
(a) Council sole trustee					
Ashton Memorial	0	0	0	0	0
Williamson Park	0	0	0	0	0
Other	(4,223)	(3,923)	0	3,758	(4,388)
(b) Council not sole trustee	(137)	0	0	0	(137)
<b>School etc. Prize Funds</b>					
(a) Council sole trustee	(3,175)	(1,070)	0	0	(4,245)
(b) Council not sole trustee	0	0	0	0	0
<b>TOTAL</b>	<b>(7,535)</b>	<b>(4,993)</b>	<b>0</b>	<b>3,758</b>	<b>(8,770)</b>

	2015/16 £	2016/17 £
<b>Bequests and Endowments</b>		
<b>(a) Council sole trustee</b>		
Capital		
Ashton Memorial	0	0
Williamson Park	0	0
Other	0	0
Revenue	0	0
Cash and Debtors	52,122	52,288
<b>(b) Council not sole trustee</b>		
Capital	0	0
Revenue	646	646
Cash and Debtors	491	491
<b>School etc. Prize Funds</b>		
<b>(a) Council sole trustee</b>		
Capital	0	0
Revenue	3,175	4,245
Cash and Debtors	0	0
<b>(b) Council not sole trustee</b>		
Capital	0	0
Revenue	0	0
Cash and Debtors	0	0
<b>TOTAL</b>	<b>56,434</b>	<b>57,670</b>

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.

<b>Income &amp; Expenditure Account</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£</b>	<b>£</b>
<b>Income</b>		
Interest	(3,973)	(4,993)
Capital	0	0
	<b>(3,973)</b>	<b>(4,993)</b>
<b>Expenditure</b>		
Ashton Memorial	1,084	1,078
William Smith Festival	178	152
Whalley Playground	658	658
Lune Bank Gardens	10	8
Williamson Park	1,862	1,861
War Memorial Fund	2	1
Crook of Lune	0	0
William Briggs	2,000	0
Transfers Out	0	0
	<b>5,794</b>	<b>3,758</b>
<b>Excess (Income)/Expenditure</b>	<b>1,821</b>	<b>(1,235)</b>

<b>Balance Sheet</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£</b>	<b>£</b>
<b>Assets</b>		
Investments	3,821	4,891
Debtors	2,021	2,021
Bank	50,592	50,758
	<b>56,434</b>	<b>57,670</b>
<b>Represented by:</b>		
Reserves as at 31st March	54,613	56,434
Income in year	1,821	1,236
	<b>56,434</b>	<b>57,670</b>

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.

**Curtailement**

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 significant 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
- (vii) its other key management personnel, and
- (viii) 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.

## 1.0 INTRODUCTION

1.1 Local authorities are statutorily required to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (the Framework) fulfils this requirement. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and properly accounted for; and
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

1.2 The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met. Key elements of the Council's governance framework are summarised below;

### **Council, Cabinet and Leader**

- Provide leadership, develop and set policy
- Develop and set policy to maintain the City's standing
- Support the City's diverse communities and distinctive neighbourhoods to thrive and succeed

### **Management Team and Statutory Officers**

- The Head of Paid Service is the Chief Executive who is responsible for all Council staff and leading an effective corporate management team of Chief Officers
- The Chief Officer (Resources) is the Council's Section 151 Officer and is responsible for safeguarding the Council's financial position and ensuring value for money
- The Interim Head of Legal Services is the Council's Monitoring Officer, who is responsible for ensuring legality and promoting high standards of public conduct

### **Decision making**

- Meetings are held in public
- Agendas, minutes and decisions are recorded on the Council's website

### **Scrutiny and Review**

- Overview and Scrutiny Committee reviews Council policy and can challenge decisions
- Budget and Performance panel reviews operational and financial performance
- Audit Committee reviews internal control, fraud, risk management and governance

## 2.0 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The system of internal control is a significant part 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 and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Lancaster City Council for the year ended 31 March 2017 and up to the date of approval of the statement of accounts.

## 3.0 HOW WE COMPLY WITH THE CIPFA/SOLACE FRAMEWORK

- 3.1 The Council has approved and adopted:
- a Code of Corporate Governance;
  - the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016; and
  - a number of specific strategies and processes for strengthening corporate governance.
- 3.2 Set out below is how the Council has complied with the seven principles set out in the CIPFA/SoLACE Framework during 2016/17. New or enhanced arrangements as part of the Council's continuous improvement in its governance have been highlighted in **bold**.

### PRINCIPLE A

#### **Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

- The Constitution sets out the responsibilities of staff and elected members by defining decision-making powers, providing clear terms of reference and describing roles and functions.
- The Council has a Code of Conduct for elected and co-opted Members and a Code of Corporate Governance which provides guidance for officers and Members on expected standards of behaviour to ensure integrity.
- **The Council has recently developed a new values and behaviours framework, which will be used as part of the appraisal process.**
- A register of gifts, hospitality and registering interests is maintained for both members and officers.
- The Council has set four priorities which are: to put community leadership and working with partners at the heart of all it does, promote and support the positive health and wellbeing of residents; maintain and build upon the district's reputation for being 'clean and green'; and take advantage of opportunities and demographic need to develop the local economy.

- Members and officers receive training in Code of Conduct and behaviour issues.
- The Standards Committee and Monitoring Officer keep Codes of Conduct up to date and investigate any suspected breaches.
- The Raising Concerns at Work policy places emphasis on the agreed ethical values of Members and employees, providing protection for individuals to raise concerns in confidence about suspect behaviour or poor performance and ensuring that any concerns raised are properly investigated.
- All Council decisions have to consider legal implications which are recorded on the Council's website. Senior officers and other key post holders receive support from Legal Services in this regard and if specialist legal advice is required then the Council will engage external advisors.
- The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to elected Members.
- The Council complies with the Chartered Institute of Public Finance and Accountant (CIPFA) statement on the Role of the Chief Financial Officer in Local Government.
- **The Council has recently strengthened its decision making procedures through the introduction of Equality Impact Assessments.**

## PRINCIPLE B

### Ensuring openness and comprehensive stakeholder engagement

- All meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council's website together with details of forthcoming consultation exercises, surveys and, public meetings, except those determined as exempt from publication.
- The Council's constitution sets out how it engages with stakeholders and partners through a combination of joint working arrangements, partnership boards and representation on the governing bodies of external organisations including local NHS bodies, neighbourhood forums, local business and other local authorities.
- The council has carried out a wide range of community consultation, for example, to inform the draft Lancaster District Local Plan 2011-31. In addition, a number of services monitor customer satisfaction.
- The Council sends every household the annual magazine – *Your District Council Matters*. The Council also sends all its housing tenants the 'Your Council Housing Matters' magazine twice each year. These publications are also available online and the Council utilises various online communication channels including Twitter and Facebook.
- **This year, the Council introduced a new look and easy to use website designed to improve the customer experience, and also introduced free Wi-Fi 'hotspots' for easy access to a range of interactive services and information whilst on the move**
- **The Council, in collaboration with Lancaster University launched in 2016 the mobile app *iLancaster* providing a wealth of local information resources for residents, students and visitors.**
- **The council has undertaken significant stakeholder engagement as part of its preparation of a new Local Plan for the district.**



## PRINCIPLE C

### Defining outcomes in terms of sustainable, economic, social and environmental benefits

- The Council's strategic vision for the district is set out in its Corporate Plan 2016-2020, and development of a refreshed corporate strategy is currently in progress. To ensure that it delivers this vision the Council develops various strategies to define specific outcomes for key service areas.
- Each Council service determines how it will deliver the outcomes relevant to its area of work in the context of the agreed budget for the year ahead and the overall Medium Term Financial Strategy (MTFS).
- To maintain a focus on delivering sustainable social and environmental benefits, the Council is currently developing an Economic Growth Strategy as well as a number of environmental strategies, including the Greener Action Plan and the Air Quality Strategy. Environmental impact assessments for major capital works and infrastructure development are mandatory.
- Budget proposals are developed by services and challenged by members.
- The Council works with ward councillors, parish and town councillors, community / friends of groups and other partner organisations to identify local issues and priorities.
- The development of the local plan specifically addresses the important and demographic challenges that could undermine the sustainability of the local economy in future years.

## PRINCIPLE D

### Determining the interventions necessary to optimise the achievement of the intended outcomes

- All service decisions are subject to scrutiny by lead Members, review of options and risk by officers and Members and key performance indicators are in place for directorates.
- Limits of lawful activity are recognised by the ultra vires doctrine and managers strive to utilise their powers to the full benefit of the council and the community.
- Professional advice on matters that have legal or financial implications are available and recorded in advance of decisions making and used appropriately.
- The MTFS, revenue budget and capital programme are set in context of the requirements of the Corporate Plan to help ensure sustainability going forward and are published annually.
- An efficiency programme compliments the MTFP ensuring sustainability going forward.

## PRINCIPLE E

### Developing the entity's capacity, including the capability of its leadership and the individuals within it

- **The Council's new Chief Executive took up her post on 1 July 2016.** The Council is developing its senior management capacity through the establishment of an Assistant Chief Executive post for 12 months and also a Chief Officer (Legal and Governance) post.

- Managerial communication and capability has been developed through the establishment of a corporate Leadership Team of senior service managers and a wider Leadership Group of line managers.
- **The Council's Performance Appraisal process aims to ensure that all employees have regular individual meetings with their manager and a personal training and development plan.**
- The Council has a new Online Learning Portal available to all employees and covering a range of key topics including mandatory training.
- **The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to optimise capacity by delivering services in the most effective and efficient way.**
- The Council is preparing for its re-accreditation of the Investors in People award. The inspection will be carried out in August 2017 with the results being delivered in October 2017.
- The Council is developing, ready for a summer launch a 'Celebrating success awards scheme' to recognise achievement, commitment and contribution of its employees.
- Work started in March 2017 to assess the council's critical and key positions within each service to assist with its succession planning and the challenge it faces in delivering a number of major corporate regeneration and other projects concurrently.

## PRINCIPLE F

### Managing risks and performance through robust internal control and strong financial management

- The Council has recognised the need to develop its performance management arrangements and is in the process of implementing a new corporate framework.
- Alongside this, the Council is also reviewing its Risk Management Strategy covering the corporate approach to identifying and controlling risk. The monitoring of risk management effectiveness is a function of the Audit Committee.
- Financial performance is monitored monthly by managers and operational and financial performance are monitored and reported quarterly to both the Council's Cabinet and Budget and Performance Panel.
- The Council's Financial Regulations set out expected standards in, and responsibilities for, financial planning, management and reporting and in the control and use of resources.
- 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 four-year Medium Term Financial Strategy to inform and support the council's key priorities and objectives.
- The Council's has an Anti-Fraud, Bribery and Corruption strategy and a dedicated counter-fraud team operating in collaboration with Preston City and Fylde Borough councils.

- The internal audit team provides regular reports on the effective management of risk and operation of internal controls, together with an annual assessment and opinion on the overall control environment.

## PRINCIPLE G

### Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- All council decisions are published online together with supporting information to outline why that decision was chosen above other options. The Council follows the Government Communication Service guidance on providing clear and accurate information.
- The Council publishes information on its website in accordance with the requirements of the Government's Transparency Code.
- The Council reports performance against targets and financial targets on a regular basis. This reporting incorporates services provided by all models of delivery including services shared with other authorities, partnerships and contracted out services.
- **The Council published its annual review of the Corporate Plan.**
- Internal Audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and the CIPFA statement on "The role of the head of internal audit in public service organisations" (2010). All audit conclusions and progress with resulting action plans are reported to the Audit Committee, to ensure that appropriate action is taken.

## 4.0 REVIEW OF EFFECTIVENESS

- 4.1 The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below:

### Assurance from Internal and External Audit

One of the key assurance statements the Council receives is the annual report and opinion of the Internal Audit and Assurance Manager. During 2016/17 the Internal Audit and Assurance Manager reported that internal audit work had not identified significant issues regarding the council's framework of governance, risk management and control, and it was therefore his opinion that reasonable assurance could be provided for the period. No issues were identified for disclosure in the Governance Statement.

The Council's external auditor, KPMG, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. In the most recent Audit Letter, issued in October 2016, the auditor issued an unqualified opinion on the council's financial statements for 2015/16 and provided an unqualified conclusion on the council's arrangements for securing value for money. The external auditors made no high priority recommendations as a result of their 2015/16 audit work.

### Self-assessment and review of key performance indicators

A self-assessment review has been undertaken to confirm that the arrangements described above have been in place throughout the year. Management Assurance Statements, signed by senior officers, have also been obtained to provide confirmation that Codes of Conduct, Financial Regulations, and other corporate governance

processes, have been operating as intended throughout the year so far as they are aware.

The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2016/17 is set out in the table below:

Indicator	Performance in 2016/17
Formal reports issued by the Section 151 Officer or Monitoring Officer	None issued
Outcomes from Standards Committee or Monitoring Officer investigations	No breaches of the Codes of Conduct have been reported to Standards Committee
Proven frauds carried out by councillors or members of staff	None identified in 2016/17
Objections received from local electors	One objection received
Local Government Ombudsman (LGO) referrals upheld	Out of 12 cases considered by the LGO, 3 were subject to detailed investigation. The LGO upheld 2 of those 3 complaints. Both upheld complaints have now been closed by the LGO following implementation of their recommended actions

## 5.0 CONCLUSION AND SIGNIFICANT GOVERNANCE ISSUES

5.1 The Council is satisfied that appropriate governance arrangements are in place however it remains committed to maintaining and where possible improving these arrangements.

5.2 The significant issues identified in 2016/17 are as follows;

**Information Governance** – In preparation for the new General Data Protection Regulations, the Council has commissioned independent specialist advice and is currently implementing an action plan which has been formulated to assist with compliance.

**Staffing capacity** - Staffing resources and capacity is still an issue corporately. The organisation will be looking at ways to improve the resilience of the Council ensuring it can be flexible enough to respond to new challenges. This will include working on strategic prioritisation, reviewing how the council can recruit and retain its staff in key positions, a corporate approach to succession planning and looking at new ways of working for delivering our services.

**Risk Management** – At present, the Council does not have an embedded risk management strategy. Work has been carried out to develop operational risk registers, however at present they are only used by internal audit to priorities work and develop the audit plan. Work will commence this year to develop and implement a risk management strategy which will provide the council the assurances it requires that both its strategic and operational key risks are being managed effectively.

**Business Planning and Performance Management** - At present the council does not have a corporate approach to business planning. Guidance has recently been developed and rolled out requiring services to develop business plans that align with the council's corporate plan and priorities and its recently adopted values and behaviours.

5.3 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will

monitor their implementation through quarterly monitoring and as part of our next annual review.

## **6.0 MINOR GOVERNANCE ISSUES**

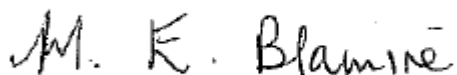
- 6.1 Following the workshop with the council's Chief Officers, minor issues have also been identified which will be documented in an action plan that will be monitored by Management Team on a quarterly basis.

## **7.0 REVIEWING AND REPORTING ARRANGEMENTS**

- 7.1 The CIPFA/SOLACE guidance recommends that authorities should undertake annual reviews of their governance arrangements to ensure continuing compliance with best practice as set out in the framework.
- 7.2 Each year, prior to the publication of the Annual Governance Statement (AGS), a governance workshop is held with key officers of the council who have the most appropriate knowledge, expertise and levels of seniority to consider the extent to which the organisation complies with the principles set out in the good governance framework. The principles are discussed in length and evidence is put forward to demonstrate how the council is meeting each of the principles. It is also an opportunity to identify any issues or gaps that could lead to a weaker governance structure. Following this meeting, the AGS and an action plan of minor issues is submitted for consideration by the Leader and Chief Executive who then sign to certify they are aware of the governance issues within the Council and of the measures that are required to improve the controls around the council's governance framework.

## **8.0 CERTIFICATION**

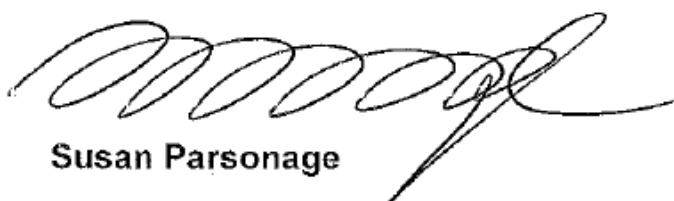
As the Leader of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2017 is satisfactory.



**Cllr Eileen Blamire**

**Leader of Lancaster City Council**

As the Chief Executive of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2017 is satisfactory.



**Susan Parsonage**

**Chief Executive of Lancaster City Council**