

# **DRAFT**

## **Statement of Accounts**

**For the year ended 31 March 2020**  
**(subject to Audit)**







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# **Introduction to the 2019/20 Statement of Accounts**

## **Councillor Anne Whitehead Cabinet Member for Finance**

During 2019/20, Lancaster City Council continued to work hard and innovate to overcome the financial challenges it faces and offer services it can be proud of and which people can rely on. Our priorities have been to take action to meet the challenges of the climate emergency, build a sustainable and just local economy that benefits people and organisations, and help people who need help the most.

Following the declaration of a climate emergency in January 2019, an action plan was produced to reduce the Council's direct CO<sub>2</sub> emissions to net zero by 2030. Actions which have already been taken include commencement of a project to plant an additional 1 million trees in the District, working in collaboration with Lancaster University, the Woodland Trust, the Forestry District Commissions and others; locating 5 public electric car charging points on car parks, and 4 for its own fleet, resulting in 25 public charging points for the District; converting 8 of the Council's small vans to electricity; drawing up feasibility plans for a Council owned solar farm, and for mitigating the carbon impact of our 3,800 Council properties; and initiating a Citizen's Assembly to deliberate Climate Change. Work began on a £10.8 million project to build new defences along the banks of the River Lune to prevent large scale flooding similar to that seen during Storm Desmond in 2015. This project is funded by the European Regional Development Fund as part of the European Structural and Investment Funds Growth Programme 2014-2020, the Environment Agency, the local levy from the regional flood and coastal committee, as well contributions from Lancaster City Council and the private sector.

Securing funding for regeneration projects has been a major activity. A bid led by Lancaster City Council has secured £1.15 million from Historic England as part of a £2.875 million project to improve the historic character of an area in the north-east of Lancaster around North Road, Lower Church Street and St Leonardgate. The project is to provide grants to buildings of heritage value that are in need of repair and improvement together with investment in high quality public realm, restoring and enhancing the historic character of the area. In addition to funding of £1.15 million from the Council, the project is also being delivered with support from Lancaster University, Lancaster Business Improvement District (BID) and Lancashire County Council. These interventions will be supported by training and engagement opportunities as well as cultural activities to create an attractive, engaging and vibrant place for people to live, work, trade, visit and play.

The Council has been working with businesses and partners to develop and submit a bid to secure some £25 million of the Government's Future High Streets fund to improve Morecambe Town Centre. It builds on extensive work undertaken to prepare and initiate delivery of the Morecambe Area Action Plan, bringing together the public and private sectors to implement many of the plan's aspirations in tandem with other investments, including those for Eden Project North. That prospect, and the Future High Streets funding, could provide us with the opportunity to 'build back better' after the impact of Covid-19 on local businesses and jobs: to invest in a town that should become greener, more prosperous and attractive as a result.

Work has focussed on the support of community networks in the Lancaster District, the development of more outward-focussing approaches and increased community engagement. Our Community Connector Team is now established within the district and they are playing a key role in the mapping of community assets (making them much more visible) and the linking up of existing community networks. We are exploring how the Council can further its role as a source of community information and community network

supporter/community wealth builder, working with Lancaster University. The Lancaster District Integrated Team grew from strength to strength, as more partner agencies 'came round the table'. It is now a recognised Early Intervention tool to prevent vulnerable families' and individuals' problems from escalating and thereby becoming a greater resource on ourselves and other agencies.

In February 2020, we set a balanced budget for 2020/21 to protect front line services, maintain full Council Tax Support to the most vulnerable and introduce additional resources to meet council priorities in the areas of climate change, economic prosperity, regeneration and housing. This year, Government reduced the amount by which District Councils could raise their Council Tax, without the need for a referendum, to 1.99% or £5 on a Band D property, whichever is the higher. The Council increased the Council Tax by £5 on a Band D property, as this amounted to a 2.2% increase. Following years of government funding reductions, it is becoming more and more difficult for the Council to provide services and meet the challenges of the future, and our main funding is from council tax and business rates.

Over the last few years, the value of all usable reserves have increased significantly, and as of March 2020 were 114% of the annual net general revenue expenditure. Our budget proposals included the use of reserves during the next four years to help us to achieve progress in our priority areas and to lead to increased income to support our priority areas. However, it will be necessary to implement alternative strategies to balance future budgets. Many of the projects are invest to save projects, that will not only help us achieve our ambitions for the district but also make the Council financially resilient. We will continue to focus on our funding the future strategy, that is implementing an outcomes-based budgeting approach, looking to make efficiency savings, implementing a commercial strategy and investing for a return or to reduce costs. Budget gaps of £1.56M, £1.23M and £1.27M were forecast for the following three years.

The Covid-19 pandemic has had and will continue to have a significant impact on our services, finances and future plans. At the start of the pandemic, Lancaster City Council's response to the COVID-19 Pandemic was to adopt a three pronged strategy - continuing to deliver our most vital services, supporting local businesses, and protecting our most vulnerable residents. The Council allocated £2 million from its reserves to help mitigate the impact of the COVID-19 emergency on residents and businesses in the District. £1million was to provide support to our most struggling local businesses, allocated in a way that is consistent with the Council's priorities of community wealth building. £1million was to provide support to our most vulnerable residents, allocated to support coordinated effort with our many voluntary partners and community groups. Whilst this strategy was necessary to respond to the emergency, it was also designed to continue to contribute to the Council's most important priorities. As we leave the crisis phase of the pandemic, its impact will be felt longer term and the basic strategy will continue to be relevant.

The Covid-19 crisis has inevitably placed additional stresses and strains on all services across the Council, and I should like to thank Council Officers for their quick and decisive action and tremendous efforts during the Covid-19 pandemic to support vulnerable people and businesses in our district, whilst maintaining vital frontline services as much as possible. I should also like to thank the finance team for all their dedication during these challenging times, in supporting the Council's pandemic response, providing financial reports and the annual statement of accounts.

Determining our priority outcomes for the Lancaster District for the longer term and ensuring that our resourcing decisions are based on these outcomes, enable us to make the best use of the Council's resources to deliver the services that residents and businesses want.

# Narrative Report of the Chief Financial Officer

## Introduction

The following Statement of Accounts give an overview of the Council's finances for 2019/20. I am pleased to report that we have maintained our strong financial position, which demonstrates once again the high standard of financial management and stewardship of the Council's resources.

The purpose of the narrative report is to give the reader an understanding of the most significant matters reported in the accounting statements, as well as a review of the Council's financial performance and economy, efficiency and effectiveness in its use of resources over the financial year. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

It is important to note that the deadlines for the preparation of the Accounts have been changed for 2019/20.

Having considered the impact of the COVID-19 pandemic and in consultation with key stakeholders, the Ministry of Housing, Communities and Local Government (MHCLG) introduced the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 which have amended the Accounts and Audit Regulations 2015. The draft Accounts must now be submitted for audit by 31 August 2020 rather than 31 May 2020 and the timeline for the conclusion of the audit is now 30 November 2020 rather than 31 July 2020.

The Statement of Accounts were published on the Council's website and submitted to the External Auditor on 28 August 2020 ahead of the revised statutory deadline.

The Finance Team aims to prepare the Statement of Accounts to the highest standards and I would like to take this opportunity to thank them all for their hard work, effort and selfless commitment throughout this challenging time which has seen them deliver not only these financial statements but provide significant support to the Council's pandemic response.

The narrative report is structured as follows:

- An Introduction to Lancaster District
- Lancaster City Council Priorities
- COVID 19 Pandemic
- Financial Performance
- Treasury Management
- Pension Fund Liability
- Local Taxation
- Strategic Risk Register
- Political Structure
- Chief Officer Structure
- Strategic and Transformational Initiatives
- Accounting Policy Changes
- Prior Period Adjustment
- Explanation of Accounting Statements

## **An Introduction to Lancaster District**

The administrative area of Lancaster City Council is the largest of all the Lancashire authorities, covering 576 square kilometres.

Lancaster is the county town of Lancashire. The district is ambitious and is at the forefront of innovation and growth, embracing the changing face of industry and welcoming new business. It boasts a portfolio of assets stretching out across two Areas of Outstanding Natural Beauty.

Lancaster is one of England's most vibrant historic cities, where culture and heritage captivate and inspire visitors. The prospect of the Eden Project in Morecambe only adds to the momentum building in the region, as businesses and organisations recognise the potential on offer.

The city is now harnessing its many sectoral opportunities, to diversify its business base, to create more opportunities for local people and local businesses and to create a stronger, more sustainable economy.

### **Characteristics of the Lancaster district economy**

- 4,585 enterprises in 2018
- A skilled workforce – 36% of residents hold NVQ Level 4+ qualifications
- Economic activity rate of 77.4%, higher than the North West
- Significant growth in employment rates since the last recession
- Employee jobs have increased from 52,000 in 2009 to 57,000 in 2017
- Full-time employment has played a significant role in the growing base of jobs
- Significant reduction in unemployment over the long-term, from 7.4% in 2004/05 to 4.7% in 2017/18

Lancaster district has the highest rate of self-containment of all the Lancashire local authorities. This means that comparatively more people live and work in the district than in other places in the county. This allows great potential for the benefits of economic growth to be captured locally, for the benefit of its residents and businesses.

### **Economy**

Lancaster district sits at the heart of the Lancaster and South Cumbria City Region Partnership - one of the North's new economic "hotspots" and is fast becoming known as an emerging city region influencing an area that extends across north Lancashire, into adjacent Yorkshire and around Morecambe Bay. This is a £7 billion economic area that has seen a productivity (GVA) increase of 34% between 2010 and 2016. This places it as the third fastest growing economy in Great Britain. The Lancaster city region has a population reach of 313,000 people, including 154,000 economically active people and an employment rate (82.7%) that exceeds the English national average.

### **Digital**

Lancaster has an ever-growing cluster of digital businesses. Digital Lancaster, the local agency for the sector, has estimated that the growing business cluster in Lancaster City Centre comprises more than 300 digital companies, employing more than 1,200 people. The diversity of digital activities encompasses web design, product development, software and e-commerce.

### **Health Innovation**

The new Health Innovation Campus at Lancaster University is a £160 million investment project and a national exemplar. The campus will comprise 34,000 square metres floor space and will be divided into three phases. Business space of about 18,000 square metres will be developed with the aim of targeting business investment and occupation from health, medicine and wellbeing industries.

### **Visitor Economy**

Visitor numbers are steadily growing year-on-year, currently at more than 7.5 million visitors per annum, creating an economic impact of £477M within the local economy. The wider region is located between two Areas of Outstanding Natural Beauty, contains the sweep of Morecambe Bay, the coastline and offers ease of access to two National Parks. Beyond built heritage, this area has been recognised by Arts Council



England as having one of the most significant clusters of culture in the North West after Manchester and Liverpool. This strongly supports the visitor economy but is also an important contributor to quality of life for those that live and work in the area.

### **COVID-19 Pandemic**

The Covid-19 pandemic has had a considerable impact on the Council however we responded quickly and implemented systems and processes to

- support timely delivery of Business Support Grants instructed by Central Government making interim payments totalling £1.4M to support over 550 local business ahead of the receipt of Government funding
- develop local policy to distribute further Discretionary Grant funding to businesses
- apply expanded Business Rates relief schemes to ensure businesses were re-billed promptly
- apply Council Tax hardship relief funding to support households with the lowest income
- temporarily cease charges for car parking
- temporarily suspend the chasing of outstanding debt
- identify requirements for and provide support to those in need e.g. housing, and those who are the most vulnerable in the community
- issue information to businesses, residents, visitors, and partners to promote COVID secure behaviours and practices and raise awareness of the support and advice available for those in need
- work with other agencies and bodies including town and parish councils, the NHS, Lancashire County Council, Lancashire Police to respond to the needs of citizens and businesses
- ensure that all staff who were able to do so worked from home and IT support was provided to enable remote working
- support staff through a range of advice, guidance, and access to mental health resources.

In addition to these support measures, in March the Council allocated £2M from its reserves to support local businesses and its most vulnerable residents.

### Financial Impact

The Government's lockdown announced on 23 March 2020 meant that many of the businesses within the District have been forced to close. This has had a significant impact on the local economy, which in turn impacts on the Council's income.

As the Covid-19 pandemic struck right at the very end of the financial year the full impact is not reflected in this statement of accounts. However, the true scale of its impact on the Council's finances will be felt during 2020/21, and beyond. Changes to District Council funding over the years has resulted in less dependence on central government grants but means they are now more highly geared to other forms of income such as fees & charges, commercial rents etc. As a result, the exposure to the loss of fees and charges income is felt disproportionately hard by District Councils.

### *Income Losses*

The Council is expecting substantial losses across many of its largest income streams. These include the loss of fees and charges associated with the closure of facilities such as Salt Ayre leisure centre, museums, and Williamson Park but also car parking, trade refuse, licensing, and planning fees. It is also anticipated that the Council will suffer significant rental losses from its Investment Property portfolio.

### *Additional Cost Pressures*

Key areas of additional pressure include accommodation and support for rough sleepers and vulnerable people as well as provision of a foodbank and enhanced ICT support.

### *Government Funding*

The Council has received £1.816M in Government funding to date to help address these cost pressures, however, it is likely that the eventual cost will be higher than this in 2020/21 and possibly future years. At this stage estimates are indicative only and subject to a number of factors such as a potential second

wave, easing of lockdown measures and economic recovery. For several years, the Council has sought to build up its general fund balances to ensure it remains financially resilient. The Council is therefore able to draw on these reserves in 2020/21 to balance its budget and so at this stage we do not expect this to affect the overall financial sustainability of the Council. Should further government funding not be made available and should significant impacts continue beyond 2020/21, then future plans will need to be re-visited.





























Moving forward, the Council will reset its Medium-Term Financial Strategy (MTFS) in the autumn to recognise the impact of the pandemic on the Council's strategic objectives. Cabinet has started to consider how the Council may look in recovery and the opportunities to refocus the authority and its finances around a 'new normal'. This will also require the Council to review the structural position of its budget and how that needs to change going forward.

### **Lancaster City Council Priorities**

Lancaster City Council agreed its new priorities in outline form in January 2020, with success measures and performance indicators in development to support these. Below is a summary categorising our achievements and activities in relation to each of the new priorities, plus three cross-cutting themes: Climate Emergency, Community Wealth-Building and Community Engagement.

The Council's comprehensive response to supporting its residents and business through the Covid-19 pandemic is not captured within this summary. However, in March 2020 the council agreed to allocate £1M of its reserves to supporting vulnerable people and businesses, respectively.

The impact of these funding allocations will be summarised in a future document.

A Sustainable District	An Inclusive and Prosperous Local Economy	Healthy and Happy Communities	A Co-operative, Kind and Responsible Council
<p> Convened a People's Jury on Climate Change to hear evidence and collectively make recommendations on how our district can respond to the Climate Emergency</p> <p> Established a Climate Change Advisory Group to host regular discussions between partners</p> <p> Maintained our low levels of Residual Waste collection at 79.4kg per household</p> <p> Continued to reduce our diesel consumption year on year</p> <p> Achieved three Green Flag awards for the quality of our parks and open spaces</p> <p> Continued to partner with 'Friends of' and volunteer groups to improve and maintain our open spaces</p> <p> Won two Seaside Awards for our popular Morecambe North and South beaches</p> <p> Established Wildflower Corridors to support bees &amp; pollinating insects across our district</p>	<p> Continued developing exciting plans for transformational projects including Eden Project North and Canal Quarter</p> <p> Developed our Future High Streets Fund bid to transform Morecambe town centre</p> <p> Hosted a multitude of successful events, including Vintage By the Sea, Light Up Lancaster and an expanded Lancaster On Ice</p> <p> Completed a Royal Town &amp; Planning Institute award-winning Local Plan for Arnside &amp; Silverdale Area of Outstanding Natural Beauty</p> <p> Maintained high performance by completing 98% of Planning Applications within agreed timescales</p> <p> Contributed to the establishment of a Responsible Business Partnership for the district</p> <p> Established a Community Wealth-Building Partnership with anchor institutions and our</p>	<p> Supported community and self-build housing projects across our district</p> <p> Received £129,000 to support rough sleepers alongside our partners in Wyre and Fylde</p> <p> Continued to increase the number of visitors welcomed to Salt Ayre Leisure Centre by a further 12% year on year</p> <p> Brought 59 empty properties back into use</p> <p> Completed 358 Disabled Facilities Grants to support our residents in remaining in their homes</p> <p> Won the Caseworker of the Year award at the Healthy Housing Awards 2019</p> <p> Maintained 90% of food businesses attaining a food hygiene score of 4 or above</p> <p> Established a Cultural Compact alongside partners in Barrow and</p>	<p> Recruited a team of Community Connectors to build and support connections between residents, communities and services across our district</p> <p> Continued to work closely with colleagues around Morecambe Bay in Barrow and South Lakeland to pursue shared objectives for our communities</p> <p> Established a Wellbeing Advisory Group to provide a focal point for promoting and supporting wellbeing in our district</p> <p> Developed closer links with our Voluntary, Community and Faith Sector partners, including integrating Citizens' Advice services into our customer service team</p> <p> Continued to increase our levels of social media interaction and engagement to keep in tune with the authentic voice of our residents</p>



Pledged and begun planting one million trees in our district to mitigate the effects of Climate Change



communities to support an inclusive and prosperous local economy

Organised and hosted the inaugural and highly successful Lancaster Grand Prix cycle race



Sponsored the North Lancashire Expo including business-to-business and business-to-customer events



Supported a variety of Business Support events and workshops including sessions on digital marketing and export



Received an award of £1.28M to establish a High Streets Heritage Action Zone in Lancaster



Started work on a major Flood Defence Scheme to protect businesses in a key employment area



Published our Digital Strategy (THINK) to support Technology, Health, Innovation, Nature and Knowledge in our district

South Lakeland to promote our cultural offer around Morecambe Bay



Convened a Culture, Heritage, Arts & Leisure Advisory Group to take a collective approach to health and happiness in our district



Maintained high performance of 24 days in reletting our council homes



Won the Leisure Team of the Year award at the APSE Service Awards 2019, and were nominated for Catering Team and Innovation of the Year



Commenced a wide-ranging Agile Working programme to deliver better, more efficient services and use of our buildings



Maintained high performance in processing benefit claims, taking on average 14.83 days to decide new claims

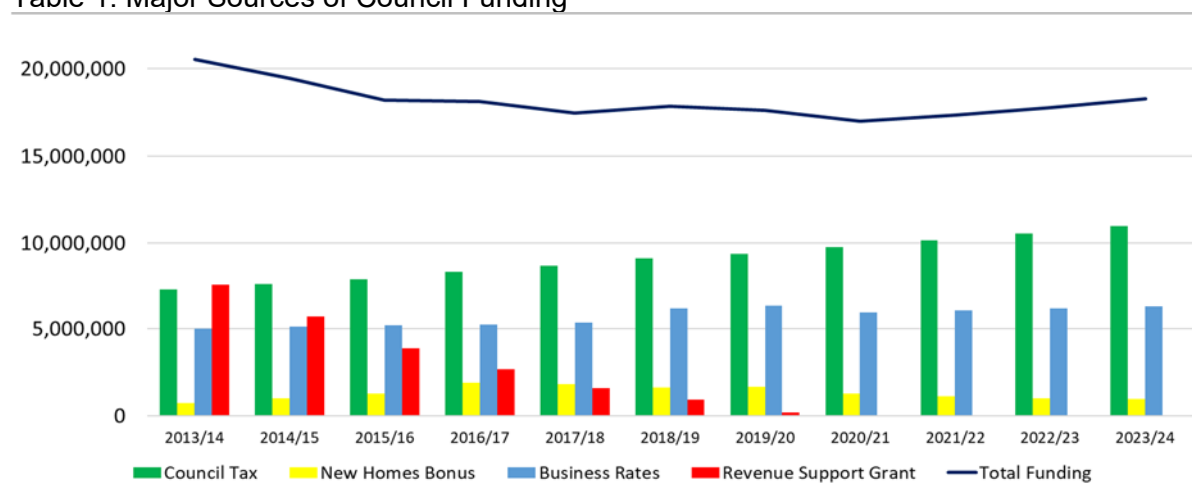
## Financial Performance

### Economic Climate

The economy continues to present challenges for the Council. Low Bank of England base interest rates continue to drive low returns on Council investments with the impacts of the Brexit process creating additional uncertainty in the economy at present. Reductions in Central Government funding are set to continue for the foreseeable future with the Council's Revenue Support Grant (RSG) reducing from £941K in 2018/19 to £200K in 2019/20 before it is phased out altogether.

There are other significant areas of uncertainty including proposed reductions in New Homes Bonus allocations and the outcomes of the Government's Fair Funding Review. As a result of these reductions and uncertainties there is increased pressure to increase Council Tax as well as realising significant budget savings. Changes to the Business Rates system has enabled local authorities to retain a higher proportion of local business rates and the Council has received significant cash windfalls from renewable energy facilities. This income however remains in doubt as the government considers the future system of business rates retention for local authorities. Table 1 below provides details of changes to Council funding:

Table 1: Major Sources of Council Funding



### Council Tax 2019/20

The Government allows District Councils to increase Council Tax by up to 3%, or £5 a year on a Band D equivalent property, without triggering a local referendum.

The City Council decided to maximise its spending power potential whilst keeping costs low for residents and continue providing the Council's vital front-line services. Our Council Tax, (excluding other major preceptors) was set at £226.95 for a Band D equivalent property, representing an increase of £6.59 or 2.99% from 2018/19.

### 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, except for council housing. The General Fund Revenue Budget for 2019/20 was approved by Cabinet and Full Council 27 February 2019 and in total the Council planned to spend £15.937M (£16.204M 2018/19) delivering services. This spending was to be financed by Government Grants, Council Tax and Business Rate income, as well as income derived from fees and charges.

### Year End Position

Despite the financial challenges faced by the Council outlined above, the financial standing of the Council remains healthy.

The table below provides details of the General Fund revenue income and expenditure for 2019/20 and shows variances for each service area. The format includes the removal of various accounting entries such as internal recharging and notional items such as pension adjustments and capital charges.

The net overspend on the General Fund was £668K, which has been transferred from the General Fund unallocated reserve.

	2019/20			Remove	Variance
	Original	Working	Actual	Reserve	from
	Budget	Budget		Funded	Working
	£000	£000	£000	Variances	Budget
<b>Expenditure:</b>					
Central Services	270	575	615	(3)	(43)
Communities & Environment	9,733	10,027	9,503	(431)	93
Economic Growth & Regeneration	6,223	6,383	6,323	(152)	(92)
Corporate Services	4,845	4,821	6,042	(77)	(1,298)
Other Corporate Income & Expenditure Items	(5,134)	(5,869)	(5,878)	663	672
Contribution from General Fund Balance	-	-	(668)	-	668
<b>NET REVENUE EXPENDITURE</b>	<b>15,937</b>	<b>15,937</b>	<b>15,937</b>	<b>-</b>	<b>-</b>
<b>Funded by:</b>					
Revenue Support Grant	(200)	(200)	(200)	-	-
Retained Business Rates	(6,341)	(6,341)	(6,341)	-	-
Council Tax Payers	(9,396)	(9,396)	(9,396)	-	-
<b>TOTAL FUNDING</b>	<b>(15,937)</b>	<b>(15,937)</b>	<b>(15,937)</b>	<b>-</b>	<b>-</b>

At 31 March 2020, and as a result of outturn, the General Fund's unallocated reserve balance stands at £5.045M which is £3.545M above the £1.5M minimum recommended level. Balances are a fundamental component in protecting the Council's financial standing, as well as being an important element in helping to address the council's financial challenges and establishing a sustainable budget, through their appropriate use.

## **Communities & Environment**

### **Employee Costs (£147K underspend)**

See also 'Provision for Staff Turnover' in the 'Corporate Services' section below. The directorate undertook a restructure at management level within the previous financial year and achieved the £151K savings target which was included in the base budget and subsequently contributed £147K to the corporate staff turnover target, once redundancy costs, supplementary agency workers plus income not achieved through turnover relating to externally funded initiatives had been accounted for.

### **Salt Ayre Repairs & Maintenance (£103K cost, no overall variance)**

Repairs to poolside columns paid directly from SALC but utilising budgets held within Economic Growth & Regeneration (Property Services) where a corresponding underspend can be seen. All future R&M spend for the centre has now been mapped out, including a fully funded asset management plan, and is controllable within the budget framework.

### **Disabled Facilities Grant Income (£90K additional income)**

The core capital DFG has been increasing year on year and for 2019/20 was £1.89M. Grants are allocated, and an 18% admin fee is levied on completion. More money has meant an increased number of grant allocations and streamlined procedures have increased the number of completed jobs hence the subsequent rise in admin fee income.

### **Nurseries (£51K overspend)**

Long term absence of a key staff member and also the pandemic led to income targets not being achieved (from contract work and the retail outlet). In the short term this also meant plants last summer were bought



in at a higher cost and not grown in-house, which increased costs. A plan for future delivery has been developed (grassland management plan) and will provide a streamlined, more cost-effective service.

## **Economic Growth & Regeneration**

### **Works in Default (£75K overspend)**

Mainly relates to emergency works required to a dangerous building in Carnforth which is subject to a land charge. Action will be taken to recover the costs but it is not known at this juncture as to when this will happen.

### **Planning Fee Income and Local Plan (£319K shortfall)**

Uncertainty ahead of local plan adoption deterring developers and impact of pandemic lockdown in the final quarter led to the delay in the submission of other applications leading to a £277K shortfall in fee income. Evidence gathering and examination costs for local plan slipped from the previous financial year at a cost of £42K.

### **Property, Investment and Regeneration Services (£320K underspend)**

As the Building Condition Works Programme draws to a close, and a lot of the essential upgrade works completed to the Council's buildings, the amount spent on one off repairs has reduced again by £86K across the service and this has been utilised to fund the repairs at SALC together with net savings of £21K on building cleaning across the municipal buildings. The drive to increase rental income also resulted in an additional £139K rental income for the year, including new property purchased at 17-21 Penny Street and the Bus Station. Additional staff time charged to the Caton Road FRMS project also resulted in a saving of £41K.

## **Corporate Services**

### **Provision for Staff Turnover (£518K reversal, £380K shortfall)**

Each year the Council sets a target to be included within the budget to meet turnover relating to employee costs which therefore benefits the budgets and enables the support of other funding decisions. The target set was based on historic performance in this area.

Previously, the target was apportioned across services but starting this financial year, the turnover target of £518K was held centrally resulting in staffing variances being directly attributable to the appropriate directorate and not net of their turnover target. Performance on employee costs once restructuring costs, supplementary agency workers, locums and consultants plus income not achieved through turnover relating to externally funded initiatives had been accounted for, is shown in the table below :-

	<b>£000</b>
Communities & Environment	147
Economic Growth & Regeneration	45
Corporate Services	(20)
Central Services	(34)
<b>Total</b>	<b>138</b>

The employee savings of £138K achieved therefore result in a shortfall of £380K against the corporate turnover target of £518K. However, it should be noted that throughout the year, capacity was identified to deliver on corporate objectives which caused some higher one off costs in key areas, for instance specialist staff/consultants.

### **Bad Debt Provision (£155K increase)**

Following the review of historic information and the levels of collectability regarding debt, the annual contribution was deemed insufficient and increased in-line with current income projections.

### **Legal Services (£165K overspend)**

Due to long delays in the recruitment of replacement and new Lawyers the Legal Services needed to

employ several Legal Agency Locums during the year (£69K) and engage more external professional advice (£51K). The service for 2020/21 is now fully staffed. There was also a fall in the number of Search Fees of £35K.

#### Housing Benefit Overpayments (£218K shortfall)

There was a reduction in 2019/20 in Housing Benefit Overpayment Recoveries of £540K as the number of claimants and overpayments reduced as more people move across to Universal Credit leaving a net cost of £218K after net spend on benefits awarded and in year overpayments are taken into account.

#### Collection Fund Court Cost Recovery (£167K shortfall)

There was a reduction in Court Costs income of £167K. Difficult to budget for Council Tax/NNDR Court Cost income as numbers of court cases can vary quite significantly year on year and estimates are based on previous years' numbers. 2019/20 was based on a large number of cases which didn't materialise. Reductions may be required in 2020/21.

### **Other Corporate Income & Expenditure Items**

#### Green Energy Disregard (£2.081M credit)

The Council have benefitted from Renewable Energy payments due, largely from Walney Sub-Station which weren't included in estimates throughout the year. Further amounts due will be included in future income projections.

#### Business Rates Appeals (£1.449M provision)

An assessment of potential future appeals relating to business rates was undertaken and in particular the Power Station was scrutinised for planned maintenance programmes and possible outages, which inevitably could lead to lower income levels receivable. On this basis and following external advice, further provision was made which demonstrates prudence and should the provision not be required, it can be brought back into general fund and utilised differently at that point.

### **Housing Revenue Account**

At the end of the financial year, the council owns 3,677 homes generating rental income of over £13.6M. The Local Government & Housing Act 1989 requires that this income and associated expenditure is held in a ring-fenced account, the Housing Revenue Account (HRA). Full details of the HRA is included within these accounts.

The net underspend on the HRA was £1.019M resulting in a net surplus for 2019/20 on the HRA of £623K (£218K 2018/19), which has been transferred into the HRA unallocated reserve.

	<b>£000</b>
Salary savings from staff turnover and vacant posts	54
Repairs & Maintenance costs	43
Reassessment of contribution to the Bad Debt Provision	75
Increased Rental Income from tenants	114
Reduced use of Reserves	(216)
Net reduction in Capital funded from Revenue	937
Other minor variances	12
	<u>1,019</u>

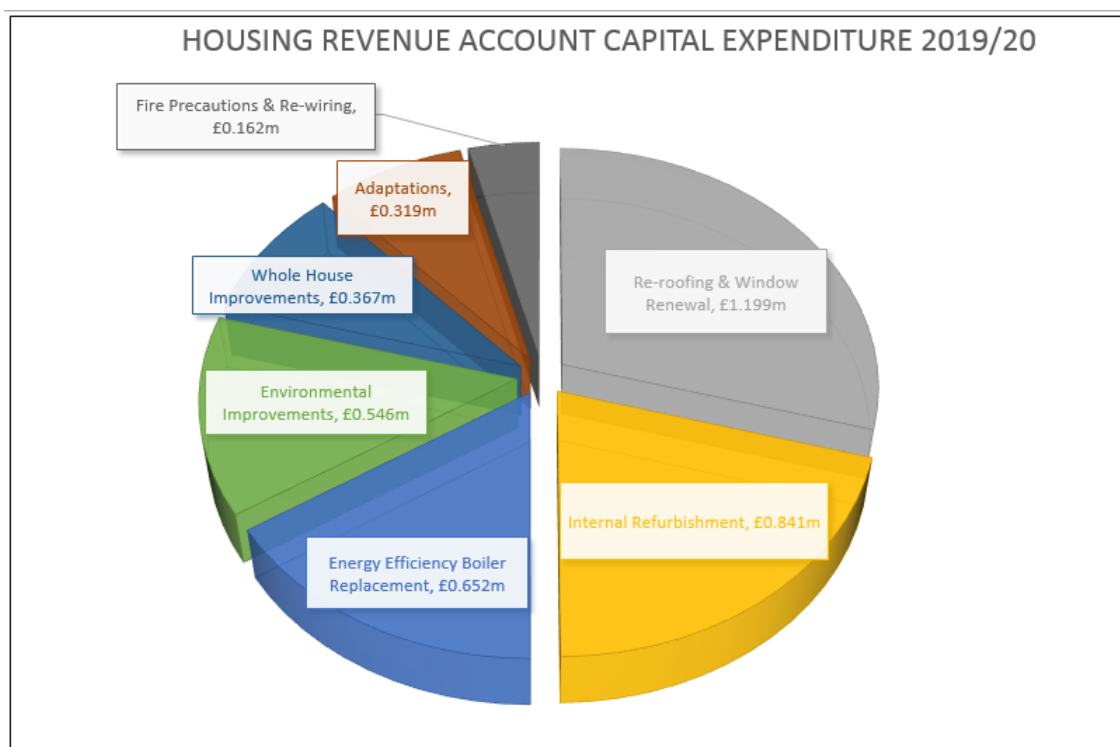
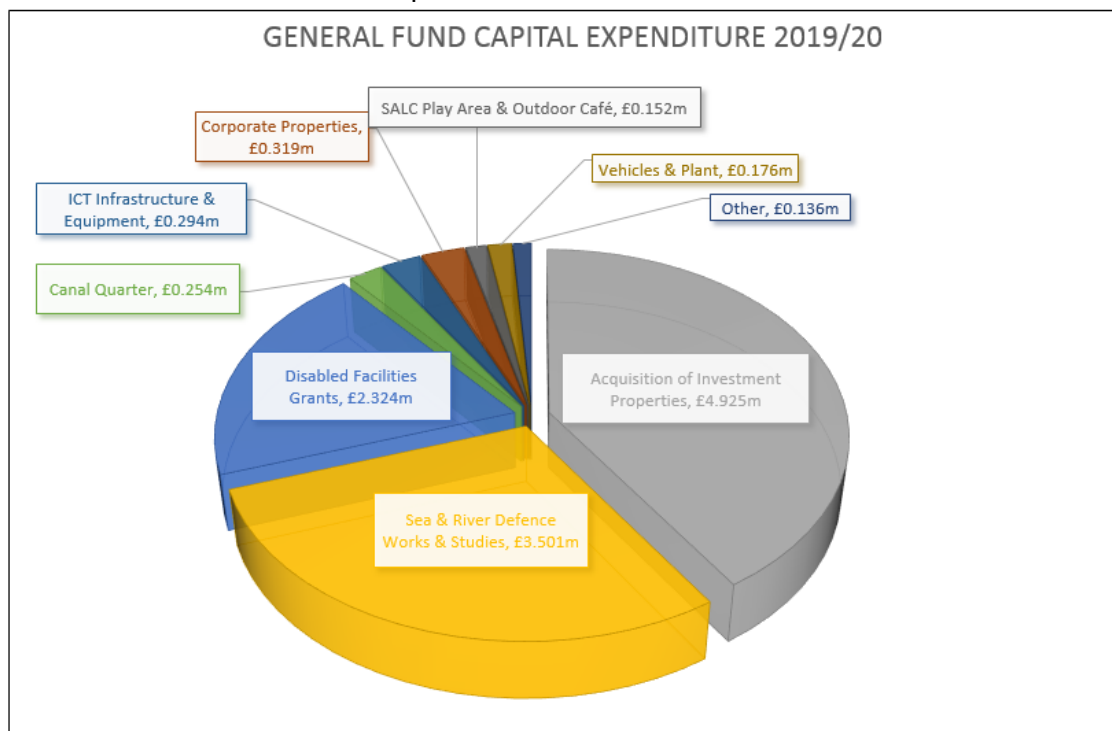
As at 31 March 2020 the HRA's unallocated reserve balance stands at £2.859M which is £2.359M above the £500K minimum recommended level. Expenditure within the HRA is supported by a 30 year business plan and the council is planning to spend £16.6M over the next four years to improve its social housing stock.



### Capital Investment

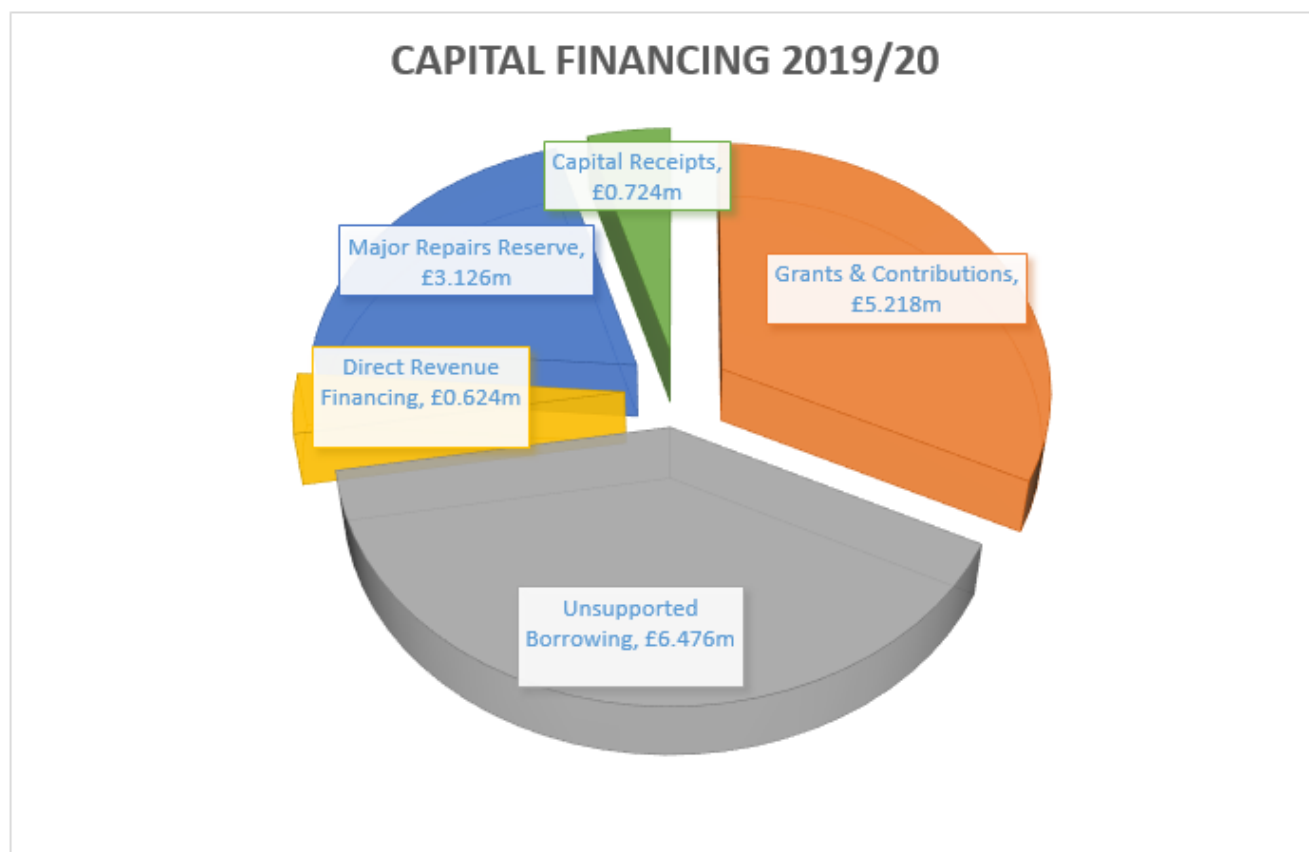
In 2019/20 the Council spent £16.167M in total on capital schemes (£11.259M 2018/19). Total spend on the General Fund was £12.081M against a budget £22.976M, with the HRA spending being £4.086M against a budget of £4.841M.

The chart below summarises expenditure:



This expenditure is financed from a combination of capital receipts, grant funding and the Council's own internal financial resources. The Council can borrow money for capital purposes provided it can demonstrate it is able to meet certain criteria linked to affordability, sustainability and prudence, as determined by the Prudential Code Framework.

The chart below summarises how this capital investment was financed:



The Council's total Capital Programme for 2019/20 was £27.817M and it is planned that net slippage of £1.047M will be been rolled forward into 2020/21 to reflect programming delays on some schemes. A provision of £15M included in the General Fund Capital Programme to facilitate the purchase of investment properties should the opportunity arise within 2019/20 had been made. The expenditure on such properties was £4.925M, the £10.075M has been reflected as an underspend. The approved capital programme for 2020/21 is £49.364M (General Fund £45.244M and HRA £4.120M) which will increase to £50.411M after slippage.

### **Treasury Management**

The Council's treasury operations are conducted in accordance with its annual Treasury Management Strategy, which was approved by Council 27 February 2019. This document identifies the investment and borrowing policies of the Council specifying various criteria for investment counterparties, maximum duration and the amount of investments together with the framework for any future borrowing.

### **Investments**

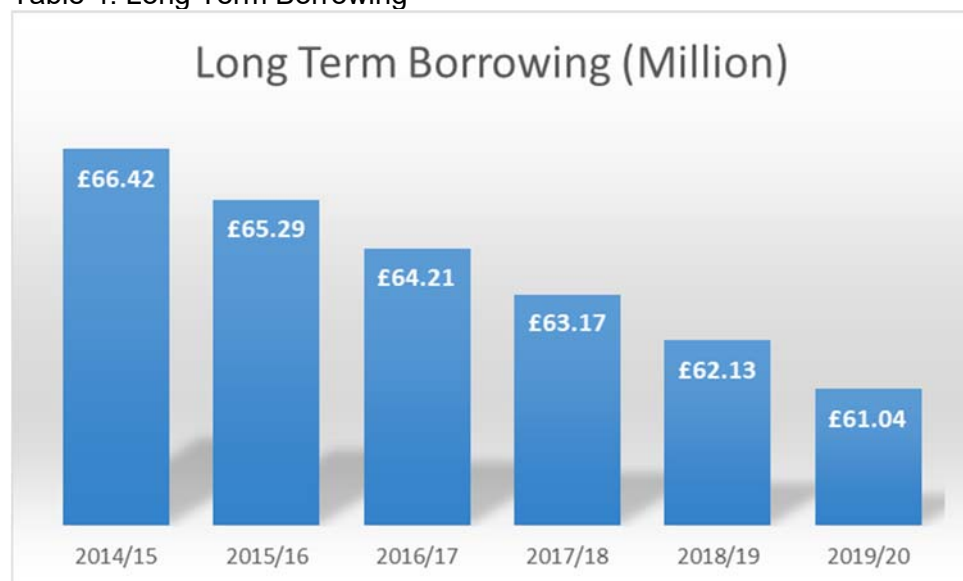
In 2019/20 the Council had a comparatively low risk appetite towards investments. The average daily amount invested increased slightly to £36.829M (£34.62M 2018/19) with short term investments on 31 March 2020 (all held in the balance sheet as cash and cash equivalents) totalling £40.000M (£16.000M 2018/19). The overall return on investments was £0.273M at an average interest rate of 0.74% (£0.211M and 0.61% 2018/19).

### **Borrowing**

The Council undertook a limited amount of short term borrowing in 2019/20 to facilitate prepayments of the Governments Small Business Fund Grant scheme ahead of the receipt of funding. Two loans totalling £15M were undertaken 24 March 2020, these were fully repaid April 2020 incurring a total interest charge of approximately £8K.

Total long-term debt at 31 March 2020 amounted to £61.08M (£63.239M 2018/19) all of which relates to PWLB borrowing. A further £1.04M is included within short term liabilities as payment falls due within 12 months. Table 4 below provides historic analysis of the levels of long-term borrowing.

Table 4: Long Term Borrowing

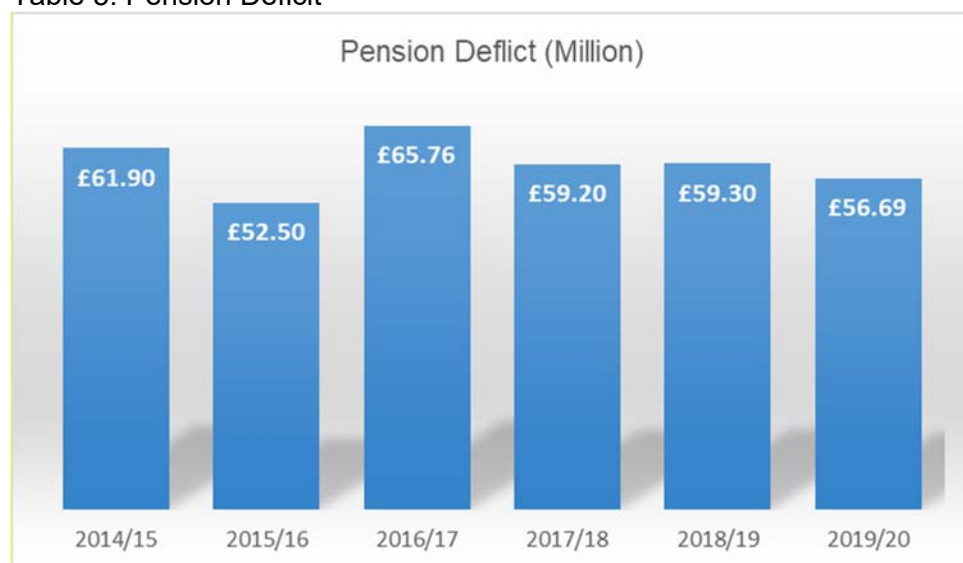


In determining its Council Tax charges Councils must make a specific provision for the financing of capital expenditure known as Minimum Revenue Provision (MRP). The outstanding amount for which MRP has to be made is known as the Capital Financing Requirement (CFR). At 31 March 2020 the Councils CFR was £86.70M (£82.88M 2018/19) a increase of £3.82M. The amount of MRP charged in 2019/20 totalled £2.640M (£2.703M 2018/19).

### **Pension Fund Liability**

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 2019. The Council's deficit position share of the Pension Fund has decreased by £2.61M to £56.694M (£59.302M 2018/19).

Table 5: Pension Deficit



The movement in net liabilities is attributable to several changes to the actuarial assumptions over the financial year.

The deficit figure is very much an estimate and will not become due immediately, or all at once. They relate to the actuary's estimated pensions payable to current scheme members on their normal retirement dates. The position represents 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 considerably from one year to the next.

In April 2017 the Council paid £8.915M based on an estimated pensionable payroll of £17.8M per annum in order to make a budget saving. In line with the Council's accounting policies, in 2017/18 the amounts relating to 2018/19 and 2019/20 were offset against the pension liability on the balance sheet. These amounts were then reflected in the pension reserve in the years to which they related.

As 2019/20 was the final year of the up-front payment period, all amounts have now been reflected in the pension reserve which is aligned to the pension liability. For further details see Note 41 Defined Benefit Pension Schemes.

## **Local Taxation**

### **Collection Fund**

The Collection Fund accounts for all the Council Tax and Business Rates income for the district with the Council acting as billing authority. Income is collected by the Council (Council Tax £77.402M and Business Rates £68.792M) and redistributed to the Council's General Fund, Central Government, Lancashire County Council, Lancashire Combined Fire Authority and the Police and Crime Commissioner for Lancashire.

### **Council Tax**

Council Tax is the largest single revenue stream used to support the Council's revenue budget. In 2019/20 Council Tax was increased by 2.99% the maximum amount allowable by the Government to £226.95 for a Band D equivalent property, representing an increase of £6.59 from 2018/19.

On 31 March 2020 there was a small in-year surplus of £22K (Deficit £560K 2018/19) in relation to Council Tax. This represents the actual tax base being slightly higher than estimated. As the Council funds approximately 13% of any deficit this would mean a potential credit of £3K against the 2020/21 revenue budget.

### **Business Rates**

The Council also benefited from £3.004M (£0.997M for 2018/19) of rating income from renewable energy schemes within the district. Such income currently falls outside of the main rate retention scheme, and so the Council retains the full benefit from it.

The Council has provided £4.775M to cover outstanding appeals arising from challenges to the 2010 and 2017 valuation lists. The provision is calculated using both analysis of historical data and external professional advice.

The Council is not a member of the Lancashire Business Rates Pool. Given the nature of the scheme and the significant risk of high value appeals and loss of income from unplanned outages at the Heysham Power Stations would have fallen on the Council we will continue to benefit from the protection of the current Safety Net arrangements put in place by the Government.

### **Collection Rates**

Table 6: below shows the in-year collection rates for both Council Tax and Business Rates

Table 6: Collection Rates

	2016/17	2017/18	2018/19	2019/20
Council Tax	96.40%	96.10%	96.40%	95.90%
Business Rates	99.00%	98.70%	98.40%	98.90%

## **Strategic Risk Register**

The Strategic Risk Register (SRR) is how the Council aims to identify and address any potential risks to the organisation and the delivery of its functions which, therefore, need to be managed strategically. The Council exists in an ever changing political, economic, and financial environment and so the SRR is a live document and needs to be updated to reflect any new or emerging strategic risks facing the Council.

In previous years, the Council's key corporate risks centred on balancing the needs and demands of the district and its citizens against ongoing reductions in local government funding. Over the medium to longer term the Council has ambitious plans to bridge its funding gap and recognises that its appetite to risk must increase significantly.

A review of risk management was undertaken in 2019/20 with the Council purchasing new risk management software "Grace ". Whilst the Council recognises there is some work still to do, there are clearly defined steps to support the Council's decision making through the better understanding of risk and the likely impact. The risk register was presented to Audit Committee in February 2019 and will continue to be reviewed and monitored.

## **Political Structure in 2019/20**

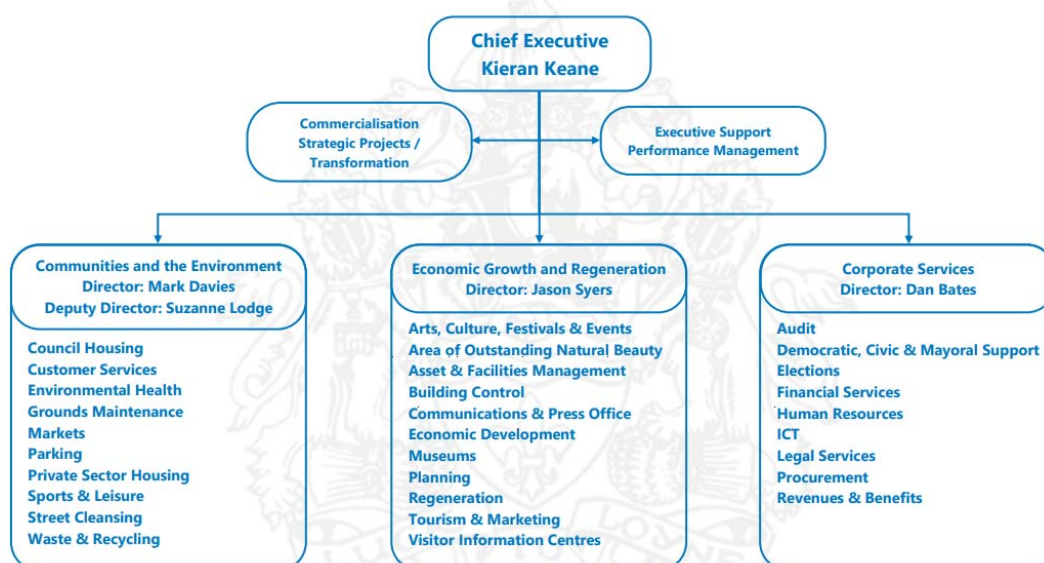
The Council is made up of 60 councillors for 27 wards. Following the local elections in May 2019 the political make-up of the Council was:

Labour Party	20 Councillors
Morecambe Bay Independents	14 Councillors
Conservative Party	12 Councillors
The Green Party	10 Councillors
Liberal	3 Councillors
Labour and Co-operative	1 Councillors

The Council elected a new leader in May 2019 – Cllr Dr Erica Lewis, who subsequently appointed Cabinet Members for various portfolios and the delegation of executive functions.

## **Chief Officer Structure**

Councillors are supported by Executive Team, which is headed by the Council's Chief Executive, Kieran Keane. Executive Team are responsible for the overall management of the Council, for setting and monitoring overall direction and ensuring high performance in the delivery of council services. Along with the Chief Executive, the team is made up of three Directors, Mark Davies, Director for Communities and the Environment, Jason Syers, Director for Economic Growth and Regeneration and Dan Bates, Director for Corporate Services.



## **Strategic and Transformational Initiatives**

Alongside the Funding the Future Strategy, the Council is also engaged in a number of significant initiatives which will have a long-term positive impact on the district:

### **Climate Emergency**

In January 2019, the Council declared a climate emergency and is committed to working towards reducing carbon emissions to net-zero by 2030, bringing forward the previously agreed goal of 2050. As part of its priorities the Council recognised that addressing the climate emergency was a central theme. During 2020/21 the Council is committed to several ambitious plans to support this key priority, these include:-

- Moving to an electric pool car fleet and encouraging staff to move away from using their own vehicles
- Switching its refuse collection vehicle fleet from diesel to electric power
- Implementation of route optimisation software

In addition to these, detailed feasibility work has commenced into the development of green energy with several sites currently under consideration.

### **Eden North**

The Eden Project recently unveiled its vision for Eden Project North, a visitor attraction situated on the former Bubbles swimming pool and Dome theatre site on Morecambe seafront.

The multi-million-pound project will deliver a world class internationally recognised destination drawing visitors from a national and international stage. The attraction will combine indoor and outdoor experiences, connecting people with the natural environment of Morecambe Bay whilst also enhancing well-being. Initial estimates suggest that, once up and running, the Eden Project North could attract between 500,000 and one million visitors a year. This will not only provide a catalyst for the new vision and regeneration of Morecambe but will also contribute significantly to the local and regional visitor economies.

Plans for the attraction are currently in the late stages of development and the Council continues to work with its strategic partners Lancashire Enterprise Partnership, Lancaster University and Lancashire County Council to ensure that this transformational project delivers significant benefits for the district.

### **Canal Quarter**

Regeneration of this partly derelict and under-utilised city centre location will be mixed-use, rather than retail focused, creating an inclusive, accessible city centre experience, and supporting the development of a vibrant evening and night-time economy. This will include new uses for historic buildings, opportunities to enhance Lancaster University's physical footprint in the City Centre and to deliver an arts village, new homes, and business space.

The aim is that the development of creative business space will encourage digital sector businesses and provide opportunities for enhanced collaborative working, whilst an arts village will further enhance the reputation of Lancaster and the wider area. This facility will provide a focus for the arts within the wider city region and will assist in making Lancaster the North West's primary cultural centre outside of Manchester and Liverpool.

### **Heysham Gateway**

The completion of the Bay Gateway link road from the M6 to Heysham in 2016 radically improved accessibility to Morecambe and key employment sites. Heysham Gateway is located in the South Heysham area and comprises predominantly industrial land. The area includes major economic assets such as the Port of Heysham and Heysham Nuclear Power Station. The area also includes several industrial sites such as Lancaster West Business Park, Heysham Business Park and Major Industrial Estate. With the Bay Gateway, Port of Heysham, grid connection and nuclear expertise, the Council has ambitious plans to facilitate the further development of areas around the Port and is looking to maximize the growth opportunities provided by the enhanced access to the site.



### **Accounting Policy Changes**

This set of Accounts is prepared under International Financial Reporting Standards (IFRS) as set out in the Code of Practice on Local Authority Accounting in the United Kingdom - A Statement of Recommended Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The IFRS requires that accounting policies be applied retrospectively.

Accounting policies are defined by the Code of Practice as "the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements". The starting premise is that accounting policies prescribed by the Code should be followed but need not be applied if the effect of applying them is not material.

Changes in accounting policies are only permitted if the change is required by the Code or where the change results in the financial statements providing more reliable and relevant information. A change in circumstances or adoption of policies for "new" transactions, events or conditions that did not occur or were not material previously are not classed as changes in accounting policies.

The accounting policies have been reviewed for ongoing compliance with IFRS and amended as required. Approved by the Council's Audit Committee 22 July 2020.

There have been no significant changes in accounting policies for the 2019/20 accounts.

### **Prior Period Adjustment**

In 2019/20 the Council restructured its services into 3 directorates. As a result, it has been necessary to restate the 2018/19 values where applicable. Note 45 contains further details of the restatement and the impact on the comparative values.

### **Explanation of Accounting 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.



# **Independent Auditor's Report to Members of Lancaster City Council**

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**



# Annual Governance Statement 2019/20

## 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.

### The Council, Cabinet and Leader

- Provide leadership, develop strategy and set policy
- Engage with and support the Council'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 to deliver the strategies within the policy framework set by Elected Members
- The Council's Section 151 Officer is responsible for safeguarding the Council's financial position and ensuring value for money
- The 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

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

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

- 2.1 Set out below is how the Council has complied with the seven core principles set out in the CIPFA / SOLACE framework during 2019/20.

## **PRINCIPLE A**

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

- A Code of Conduct for both members and staff is in place
- The Council has a 'values and behaviours framework' in place
- Members values and behaviours are encompassed in the members Code of Conduct
- A register of interest policy is in place for both staff and members
- Council meeting minutes show any declarations made and declarations at meetings are also viewable on each Councillor's record on the website
- An electronic Gifts and Hospitality register is in place for both staff and Members
- There is a Standards Committee in place
- Effective counter fraud policies are in place and are monitored and reviewed annually by the Corporate Enquiry Team to ensure they are applied consistently
- A comprehensive review of the Council's Constitution was completed in 2019
- The Council has a 'Raising Concerns' Policy in place which sits with the Council's Monitoring Officer
- Annual Performance Appraisals take place
- A two stage corporate complaints procedure is in place
- Guidance procedures for external funding and accountable bodies are documented within the Financial Regulations
- The Council's 'Statement of Business Ethics' communicates commitment to ethical values to external suppliers
- The Procurement strategy has been revised to reflect Council priorities which is awaiting Council approval
- There are policies and procedures in place for dealing with unacceptable behaviours for both officers and Members
- All allegations concerning breaches of the code of conduct by members are investigated by the Monitoring Officer
- The Council has an agreed overview and scrutiny work programme
- The Council complies with CIPFA's Role of the Chief Financial Officer and the role of the Head of Audit in Local Government
- The Constitution includes terms of references, defines decision making powers and describes roles and functions
- Up-to-date job descriptions are in place for key roles, i.e. Chief Executive, Section 151 officer and the Monitoring Officer
- Training is provided for regulatory committees on a regular basis.
- Legal and financial advice is given in advance of decision making
- Compliance with specific legislation, law or guidance is documented in decision making documents
- The Council strives to comply with published advice and guidance on the publicity restrictions during the pre-election period (purdah)
- Limits of lawful activity are recognised by the ultra vires doctrine

## **PRINCIPLE B**

### **Ensuring openness and comprehensive stakeholder engagement**

- The Council Plan (Ambitions document/emerging priorities) is published to all staff, elected members, partners and the community
- An annual 'Narrative Report' is published and accompanies the Statement of Accounts
- The Section 151 Officer publishes annual accounts within statutory deadlines to the community to report on the organisation's activities, achievements and its financial position and performance
- The Council is compliant with the Local Government Transparency Code 2015
- An Overview and Scrutiny and Budget and Performance Panel report is published annually
- The Council publishes all key decisions on its website
- A Freedom of Information publication scheme is in place
- Standardised report pro-formas for decision making are in place and a published timetable of reporting deadlines for committees is published on-line

- The Council is committed to ensuring that appropriate consultation and engagement takes place e.g. Canal corridor development
- The Council publishes all current and closed consultations on its website
- Customer feedback forms are in place in key outlets e.g. Salt-Ayre Leisure Centre
- The Council has a Consultation Strategy 2018 – 2022 and an annual consultation plan
- Participative democracy (People's jury) is being used to inform the Council's strategy for dealing with climate change
- Cabinet has a portfolio holder assigned to overseeing the Council's approach to community engagement
- The Council has a community connector team whose role is to engage and connect with partners, communities and elected members
- Key partnerships are reviewed as and when required through the audit plan
- Internal Audit are invited to sit on project working groups to ensure key risks are identified and mitigated where possible
- The Council has several communication guidance documents in place e.g. the Intranet Policy and the Plain English and Style Guide
- The Council complies with publication dates for reports and the 'forthcoming decisions list (forward plan)
- An up-to-date stakeholder database is in place
- Robust arrangements are in place for both the shared service arrangements with Revenue and Benefits and the Corporate Enquiry Team
- The Budget and Performance Panel was fully consulted in relation to the Council's budget
- The Council's vision, strategic plans, priorities and targets are developed in consultations with the local community and other key stakeholders
- In 2018 the Council completed a resident's survey to monitor satisfaction in the local area and the Council's website includes a 'have your say section'.
- A Landlord Forum and a Council Housing Tenants forums are in place to encourage public participation

## **PRINCIPLE C**

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

- The Council Plan (Ambitions document/Emerging priorities) 2018-22 was approved by Full Council in July 2018 and contains a clear statement of the council's vision
- Corporate key performance indicators (currently under review in line with new emerging priorities) are reported quarterly to Cabinet and the Budget and Performance Panel
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- There are effective arrangements in place to deal with failure in service delivery via the Council's corporate complaints procedure
- The Medium-Term Financial Plan, Revenues Estimates and Capital Programme are designed to deliver the strategic priorities
- The Council has a capital programme of works
- The Council has an approved Capital Investment Strategy
- Individual capital projects are equality impact assessed
- All key decisions are required to consider fair access to services
- The development and delivery of the local plan has been subject to external consultation
- Procedures are in place to address conflicting interests e.g. the call-in procedure
- The Council has declared a climate change emergency and has committed to becoming net carbon zero by 2030. A strategy has been developed to deliver on this
- Formal decisions take into the account the environmental impact

## **PRINCIPLE D**

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

- Effective mechanisms are in place for documenting evidence for decisions and recording the criteria, rationale and consideration on which decisions are based
- Limits of lawful activity are recognised by the ultra vires doctrine and managers strive to use their powers under the council's scheme of delegation to the full benefit of the community
- Proper, professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making
- Member and Officer briefings take place for more complex areas of decision making e.g. Canal Quarter, Eden Project and the Local Plan
- The Council's Plan and priorities document is refreshed annually and reviewed by the Cabinet with the advice of Council's Executive Team
- The Council considers public surveys, demographic information and public health reports when developing the Council Plan
- The MTFS, Revenue Estimates and Capital Programme are soundly configured to meet the requirements of the Council Plan and Ambitions document and are published annually. They are key documents for forecasting budget requirements and planning ahead
- The MTFS sets out the framework for corporately managing the Council's resources in the years ahead and an efficiency programme compliments the MTFS ensuring sustainability going forward
- Corporate Key Performance Indicators are in place and are reported quarterly to Cabinet and the Budget and Performance Panel
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- The Statement of Accounts which include the Annual Governance Statement is reported to the Audit Committee
- Budgeting guidance and protocols are in place and reviewed annually by the Audit Committee
- Both Capital and Revenue bids considered 'social value'

## **PRINCIPLE E**

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

- The Council is member of APSE and regularly benchmarks several key Council services e.g. Street Cleansing, Council Housing, Internal Audit, Waste Management, Pest Control and Leisure
- The Council has received both blue and green flag status for its clean beaches and parks and open spaces
- The Council has been successful in securing numerous Local Government achievement awards during 2019/20 in relation to effective service delivery e.g. Leisure, Pest Control, Home Improvement Agency, Management of AONB
- The Chief Executive and Section 151 Officer regular attend Lancashire Leaders and Lancashire Chief Finance Officer meetings
- The Chief Executive is responsible and accountable to the Authority for all aspects of operational management and has regular meetings/1-1's with the Leader, Cabinet and the Senior Leadership Team.
- In March 2020 a cross-party group was formed to provide information and seek advice regarding Covid related activities
- The Section 151 Officer is responsible to the Authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control
- There is an established pay and grading structure in place for employees. This has been recently reviewed and agreed by the Council
- There is a clearly defined management structure and a scheme of delegation to officers, which is underpinned by the Members' Code of Conduct and a Protocol for Officer and Member relations
- All new members receive a full corporate induction, ongoing support and role-specific training
- The Authority ensures that statutory officers have the skills, resources and support necessary to effectively perform their roles

- An induction programme is provided for all new staff and Members
- All staff have attended mandatory 'Our Values training' to ensure the Council delivers top quality services
- Human Resources Business Partners work with Service Managers to ensure adequate succession planning takes place
- Staff have had an annual performance appraisal which is linked to corporate and service priorities
- The Council has several policies and incentives to support the Health and Wellbeing agenda e.g. Agile Working, Absence Management, discounted gym membership and the Cycle to Work Scheme.

## **PRINCIPLE F**

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

- The Council refreshed its Risk Management Policy in 2019 and procured risk management software to assist with the administration of strategic and operational risk
- Information asset registers and privacy notices are now in place for most the council's service areas and are reviewed by Internal Audit as part of individual service reviews
- The Council has an Overview and Scrutiny Committee and a Budget and Performance Panel which have been set clear roles and responsibilities
- Agreed Key Performance Indicators are reported quarterly to Cabinet and the Budget and Performance Panel and a 'Narrative Report' is published within the Statement of Accounts. These are being reviewed to ensure alignment with key priorities
- There are effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based
- There is a calendar of dates for submitting, publishing and distributing timely reports to the Council's committees
- An effective Internal Audit Service is resourced and maintained, and all Audit reviews are conducted under the Auditing Practices Board Guidelines and in line with Public Sector Internal Audit Standards (PSIAS)
- In accordance with the Accounts and Audit Regulations 2015, an annual assessment of the Council's systems of internal audit is carried out each year using the PSIAS and the checklist provided in the Local Government Application Note published by CIPFA. A recent PSIAS peer review resulted in a full compliance opinion being given
- The Head of Internal Audit and Assurance has developed a Quality Assurance Improvement Programme to ensure the continual improvement of the Internal Audit Service
- An Audit Committee is in place, which is independent of the Executive and the Overview and Scrutiny function
- The Head of Internal Audit and Assurance is a certified and chartered auditor (CIA, CMIIA) and also holds a Qualification in Internal Audit Leadership (QIAL)
- The implementation of internal audit report recommendations is monitored by the Head of Internal Audit and Assurance and the Audit Committee
- The Council has several counter-fraud policies in place which assist against fighting fraud and corruption
- The Council has a Money Laundering Policy in place which is reviewed by the Audit Committee and has recently appointed a new 'Money Laundering Reporting Officer'
- The Council's Annual Governance Statement is prepared in compliance with CIPFA's 'delivering good governance in Local Government'
- The Council uses an on-line e-learning portal to promote the General Data Protection Regulations (GDPR) and information security and is mandatory for all new starters
- The Council has a designated Data Protection Officer and continues to work towards ensuring it is fully compliant with GDPR. A recent DP Audit has provided a detailed action plan of areas for improvement.
- Secure arrangements are in place for the transfer of sensitive data (SFTP and encryption tools available within Office 365)
- The Council has both a records management policy and a confidential waste policy in place
- Key performance data is reviewed for accuracy by Internal Audit as part of individual service reviews

- The Revenue and Benefit software has been upgraded to re-in force GDPR principles and automate a deletion process
- Those making decisions are provided with information that is fit for purpose, relevant, timely and gives clear explanations of technical and financial issues and their implications
- Budget monitoring reports are issued to budget holders on a regular basis
- Registers of interests are maintained for both officers and elected Members
- The External Auditors issued an unqualified value for money conclusion for the 2019/20 financial year

## PRINCIPLE G

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

- The Council is compliant with the Local Government Transparency Code 2015
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- The Council's website is comprehensive, accurate and user friendly
- The Council has an on-line Planning Application Policy
- Annual presentations are delivered for elected Members concerning the Council's finances as part of the production of the Revenue Estimates, the Capital Programme and the update of the MTFS
- The Council published a Funding the Future Strategy
- The Annual Governance Statement is collated by Internal Audit and is supported by relevant officers. An action plan is monitored by the Executive Team and the Audit Committee
- An effective internal audit function is resourced and maintained enabling them to deliver an annual internal audit opinion
- The Council ensures that all audit recommendations are subject to a follow-up audit ensuring that recommendations are acted upon
- The Council complies with both the Public Sector Internal Audit Standards and CIPFA's Statement on the role of the Head of Audit (2010)
- In accordance with the Audit and Account Regulations 2015, an annual assessment of the effectiveness of the internal audit function is completed annually
- The Audit Committee work programme provides the opportunity for the Head of Internal Audit and Assurance to have a private and confidential discussion with the Audit Committee Members
- The council has a RIPA Policy in place and officers who use social media to carry out surveillance have received relevant training
- Key partnerships are periodically reviewed through the Internal Audit Plan
- Arrangements for accountability and prevention of corruption when working with suppliers and partners are documented within the Council's Contract Procedure Rules

## 3.0 REVIEW OF EFFECTIVENESS

- 3.1 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

#### Internal Audit Assurance

One of the key assurances the Council receives is the Internal Audit Annual Report. In this report, the Internal Audit and Assurance Manager gives an opinion on the Council's internal control, risk management and governance framework.

The 2019/20 Internal Audit Annual Report stated that whilst there are a number of audits that have still to be finalised owing to the delays caused by the Covid-19 pandemic the council has satisfactory controls in place to be able to maintain an adequate and effective internal control environment. It was reported that there were several areas where a 'limited assurance' opinion was given, however mitigating action plans and follow-up reviews have been scheduled and once the actions have been addressed it should result in substantial assurance being provided in those areas.



As in 2018/19, this year's report also referred to the concerns around risk management again. Whilst recognising that significant progress has been made during 2019 with the development and approval of a Risk Management Policy, the procurement and implementation of risk management software and the production of a strategic risk register; it was noted that owing to the Covid-19 pandemic, embedding risk management will now be further delayed. The report also stated that it is unknown what resources will be available going forward to dedicate to risk management given both the Internal Audit and Assurance Manager and the Principal Auditor have been redeployed during the Covid-19 pandemic.

#### External Audit Assurance

The Council's external auditor 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 external audit report issued by Deloitte in March 2020, the auditor issued an unqualified opinion on the Council's financial statements for 2018/19 and reported the Council's Annual Governance Statement complied with the guidance issued by CIPFA / SOLACE ('Delivering Good Governance in Local Government') published in April 2016. In addition, they concluded that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

The external auditors did however make several observations as a result of their 2018/19 audit work with significant issues raised regarding property valuations and deficiencies in the financial reporting and close process. The Authority plan to address weaknesses and ensure continuous improvement is in place going forward.

#### **A review of key performance indicators**

The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2019/20 is set out in the table below.

<b>Indicator</b>	<b>Performance in 2019/20</b>
Formal reports issued by the Section 151 Officer or Monitoring Officer	No formal reports have been issued by the Section 151 Officer or the Monitoring Officer.
Number of data incidents reported to the Data Protection Officer (DPO)	16 incidents were reported to the DPO in 2019/20
Number of Data Breaches reported to the Information Commissioner's Office (ICO)	Of the 16 incidents reported to the DPA, only one incident was reported to the ICO
Outcomes from Standards Committee or Monitoring Officer investigations	3 breaches of the code of conduct were reported to the Standards Committee in 2019/20
Proven frauds carried out by councillors or members of staff	There have been no proven frauds carried out by councillors or members of staff in 2019/20
Objections received from local electors	There have been no objections to registrations received from local electors in 2019/20
Local Government Ombudsman (LGO) referrals upheld	No referrals have been upheld by the LGO or the Housing Ombudsman in 2019/20

## **4.0 CONCLUSION AND SIGNIFICANT GOVERNANCE ISSUES**

- 4.1 Risk management and information governance were both raised in 2017/18 and 2018/19 as being significant governance issues, and whilst progress has been made over the last two years, both areas still require a significant amount of work.
- 4.2 Further work is required to strengthen implementation of risk management practice and reporting across the Council's operations. Work completed in 2019 has included, the development and approval of a Risk Management Policy, the procurement and implementation of risk management software and the production of a strategic risk register. The next steps would have included the roll out of the policy and corporate risk management training, followed by the production of operational risk registers. However, owing to the Covid-

19 pandemic it is not known what resources will be available going forward to dedicate to embedding risk management.

- 4.3 The Council works to ensure it complies with the General Data Protection Regulations which came into force on the 25 May 2018. Following a data breach in January 2017 the Council commissioned an external company; Baker Lomax Services (BLS) to undertake a review of the council's policy and procedures. An extensive action plan was formulated and since this time the Information Governance (IG) Team have struggled to keep on top of implementing the action plan with having to respond to numerous requests for assistance with essential project work across the council, in addition to a significant amount of resources on the management of the Council's Freedom of information Requests. Following discussions with the IG Manager (Data Protection Officer), it was agreed that Merseyside Internal Audit Service, who specialise in data protection work would carry out an audit to document the progress made and give an independent opinion of where the council was in relation to GDPR compliance. Whilst the original work was completed during the 2019/20, owing to the Covid-19 pandemic, the draft report has only just been received. The draft report recognised that significant work has been made in some areas, however there was still a number of areas that required immediate attention, therefore only 'limited' assurance has been provided.

## **5.0 MINOR GOVERNANCE ISSUES**

- 5.1 Several minor governance issues have been identified during the production of this Annual Governance Statement and following a review of the minor issues raised in the 2018/19 AGS. These have been documented in an action plan which will be monitored by Internal Audit and reported to the Executive Team on a quarterly basis and the Audit Committee as part of the six-monthly progress report.

## **6.0 REVIEWING AND REPORTING ARRANGMENTS**

- 6.1 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.
- 6.2 Owing to the Covid-19 pandemic and key staff being redeployed to work in other areas, the Annual Governance Statement for 2019/20 has not been pulled together in the usual way. However, all key officers, who have the most appropriate knowledge, expertise and levels of seniority have had the opportunity to provide information and key evidence to support how the organisation has complied with the principles set out in guidance.
- 6.3 As well as demonstrating 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.
- 6.4 The AGS 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.

## **7.0 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 2020 is satisfactory.

**Councillor Erica Lewis**

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 2020 is satisfactory.

**Kieran Keane**

Chief Executive of Lancaster City Council



# Statement of Responsibilities for the Statement of Accounts

## 1 The council's Responsibilities

The council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In line with statute, this is the 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 Section 151 Officer's Responsibilities

The Section 151 Officer is responsible for the preparation of the council's Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), are required respectively to present fairly the financial position of the council and of the Pension Fund at the accounting date and the income and expenditure for the year then ended.

In preparing this Statement of Accounts, the Section 151 Officer 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

Section 151 Officer 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 Section 151 Officer 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 2020 and the income and expenditure for the year then ended.



Paul Thompson LLB (Hons) CPFA  
Chief Finance Officer and Section 151 Officer

Date 28 August 2020

Paul Thompson LLB (Hons) CPFA  
Chief Finance Officer and Section 151 Officer

Date

## 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 25 November 2020.

Cllr Paul Stubbins

Date



## Statement of Accounts

### 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.

2019/20	General Fund Balance £000	General Fund Earmarked Reserves £000	HRA Earmarked Balance £000	HRA Earmarked Reserves £000	Major Repairs Reserve £000	Usable Capital Receipts £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31/03/2019</b>	<b>5,714</b>	<b>14,843</b>	<b>2,235</b>	<b>10,537</b>	<b>-</b>	<b>-</b>	<b>103</b>	<b>33,432</b>	<b>129,564</b>	<b>162,996</b>
<b>Movements in 2019/20</b>										
Total Comprehensive Income and Expenditure	(5,252)		(1,251)					(6,503)	12,344	5,841
Adjustments between accounting & funding basis under regulations (Note 8)	5,060		1,916			36		7,012	(7,012)	-
Net Increase/(Decrease) before transfers to earmarked reserves	(192)	-	665	-	-	36	-	509	5,332	5,841
Transfers (to)/from earmarked reserves (Note 9)	(477)	477	(42)	42				-	-	-
<b>Increase/(decrease) in 2019/20</b>	<b>(669)</b>	<b>477</b>	<b>623</b>	<b>42</b>	<b>-</b>	<b>36</b>	<b>-</b>	<b>509</b>	<b>5,332</b>	<b>5,841</b>
<b>Balance at 31/03/2020</b>	<b>5,045</b>	<b>15,320</b>	<b>2,858</b>	<b>10,579</b>	<b>-</b>	<b>36</b>	<b>103</b>	<b>33,941</b>	<b>134,896</b>	<b>168,837</b>
2018/19	General Fund Balance £000	General Fund Earmarked Reserves £000	HRA Earmarked Balance £000	HRA Earmarked Reserves £000	Major Repairs Reserve £000	Usable Capital Receipts £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31/03/2018</b>	<b>5,067</b>	<b>11,869</b>	<b>2,017</b>	<b>10,561</b>	<b>-</b>	<b>-</b>	<b>103</b>	<b>29,617</b>	<b>143,424</b>	<b>173,041</b>
<b>Movements in 2018/19</b>										
Total Comprehensive Income and Expenditure	(14,553)		(2,106)					(16,659)	6,614	(10,045)
Adjustments between accounting & funding basis under regulations (Note 8)	18,174	-	2,300					20,474	(20,474)	0
Net Increase/(Decrease) before transfers to earmarked reserves	3,621	-	194	-	-	-	-	3,815	(13,860)	(10,045)
Transfers (to)/from earmarked reserves (Note 9)	(2,974)	2,974	24	(24)				-	-	-
<b>Increase/(decrease) in 2018/19</b>	<b>647</b>	<b>2,974</b>	<b>218</b>	<b>(24)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,815</b>	<b>(13,860)</b>	<b>(10,045)</b>
<b>Balance at 31/03/2019</b>	<b>5,714</b>	<b>14,843</b>	<b>2,235</b>	<b>10,537</b>	<b>-</b>	<b>-</b>	<b>103</b>	<b>33,432</b>	<b>129,564</b>	<b>162,996</b>





## Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement (CIES) records all of the council's revenue income and expenditure for the year. Expenditure represents a combination of statutory duties and discretionary spend focused on local priorities and needs. 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 CIPFA Code of Local Authority Accounting regulates how expenditure and income relating to services is classified in the CIES.

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.

2018/19 Restated			2019/20				
Gross Exp £000	Gross Inc £000	NET £000		NOTES	Gross Exp £000	Gross Inc £000	NET £000
Continuing Operations:							
210	-	210	Central Services		1,509	-	1,509
25,580	(14,444)	11,136	Communities & Environment		24,426	(16,558)	7,868
15,813	(15,462)	351	Housing Revenue Account		15,087	(15,455)	(368)
11,020	(4,344)	6,676	Economic Growth & Regeneration		11,182	(3,849)	7,333
35,385	(29,986)	5,399	Corporate Services		37,353	(27,673)	9,680
88,008	(64,236)	23,772	Cost of Services		89,557	(63,535)	26,022
1,995	(996)	999	Other Operating Expenditure	10	2,502	(1,516)	986
14,485	(234)	14,251	Financing and Investment Income and Expenditure	11	4,433	(420)	4,013
-	-	-	(Surplus) / Deficit on discontinued operations	29	-	-	-
19,547	(41,910)	(22,363)	Taxation and Non Specific Grant Income and Expenditure	12	19,949	(44,467)	(24,518)
		16,659	(Surplus)/Deficit on Provision of Services				6,503
		(3,566)	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment Assets				(3,399)
		(3,048)	Actuarial (Gains)/Losses on Pension Assets/Liabilities	41			(8,945)
		(6,614)	Other Comprehensive Income and Expenditure				(12,344)
		10,045	Comprehensive Income and Expenditure				(5,841)

The net income of £5.841M in year corresponds to the movement between years in net worth on the Balance Sheet.

For further detail of restated balances, refer to Note 45 – Prior Period Adjustment.



## 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 2019 £000		NOTES	31 March 2020 £000
238,375	Property, Plant & Equipment	13	238,963
9,518	Heritage Assets	14	9,518
23,328	Investment Property	15	28,362
299	Intangible Assets	16	183
-	Assets Held for Sale	21	-
-	Long Term Debtors	17	-
<b>271,520</b>	<b>Long Term Assets</b>		<b>277,026</b>
16,000	Short Term Investments	17	-
430	Inventories	18	448
9,526	Short Term Debtors	19	12,163
9,110	Cash & Cash Equivalents	20	40,893
<b>35,066</b>	<b>Current Assets</b>		<b>53,504</b>
(2,207)	Bank Overdraft	20	-
(1,041)	Short Term Borrowing	17	(16,041)
(16,560)	Short Term Creditors	22	(21,416)
<b>(19,808)</b>	<b>Current Liabilities</b>		<b>(37,457)</b>
(225)	Long Term Creditors	17	(225)
(4,043)	Provisions	23	(6,233)
(63,239)	Long Term Borrowing	17	(61,084)
(56,274)	Other Long Term Liabilities	41	(56,694)
<b>(123,781)</b>	<b>Long Term Liabilities</b>		<b>(124,236)</b>
<b>162,997</b>	<b>Net Assets</b>		<b>168,837</b>
33,432	Usable Reserves	24	33,941
129,564	Unusable Reserves	25	134,896
<b>162,996</b>	<b>Total Reserves</b>		<b>168,837</b>

The net movement between years is £5.841M 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.

2018/19 £000		NOTES	2019/20 £000
Cash (Out) / In			Cash (Out) / In
(16,659)	Net surplus or (deficit) on the provision of services		(6,503)
26,374	Adjustments to net surplus or deficit on the provision of services for non-cash movements		24,356
(5,752)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(6,710)
<b>3,963</b>	<b>Net cash flows from Operating Activities</b>		<b>11,143</b>
5,064	Investing Activities	<b>27</b>	7,540
(5,617)	Financing Activities	<b>28</b>	15,307
<b>3,410</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>33,990</b>
3,493	Cash and cash equivalents at the beginning of the reporting period		6,903
<b>6,903</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>40,893</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>	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
<b>Note 45</b>	Prior Period Adjustments

## **1. ACCOUNTING POLICIES**

### **1.1 Basis of Preparation**

The Statement of Accounts summarises the council's transactions for the 2019/20 financial year and its position on 31 March 2020. 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 (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

Unless otherwise stated the convention used in this document is to round to amounts to the nearest thousand pounds. All totals are the rounded totals of unrounded figures and, therefore, may not be the strict sums of the figures presented in the text or tables. Throughout the Statements all credit balances are shown with parentheses e.g. (£1,234).

### **1.2 Revenue Recognition and Accruals of Income and Expenditure**

Revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient.

Revenue is measured as the amount of the transaction price which is allocated to that performance obligation. Where the Council is acting as an agent of another organisation the amounts collected for that organisation are excluded from revenue.

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Interest receivable on investments is accounted for as income based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income has been recognised but cash has not been received, a debtor 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.
- 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 expenditure has been recognised but cash has not been paid, a creditor for the relevant amount is recorded in the Balance Sheet.

### **1.2 Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or are available for recall in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This category includes cash on call and 3 months or less term deposit and instant access money market funds.

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.

### **1.3 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.

#### **1.4 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 which is calculated on a prudent basis in accordance with statutory guidance. This contribution is known as the minimum revenue provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **1.5 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 (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.

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

#### **1.6 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.

Defined benefit scheme - 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.

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.

The liabilities of the Lancashire County Pension Fund attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method. Liabilities are discounted to their value at current prices using a discount rate.

The assets of Lancashire Pension Fund attributable to the council are included in the Balance Sheet at their fair value:

<b>Quoted securities</b>	Current bid price
<b>Unquoted securities</b>	Professional estimate
<b>Unitised securities</b>	Current bid price
<b>Property</b>	Market value

The change in the net pension's liability is analysed into the following components:

<b>Component</b>	<b>Description</b>	<b>Treatment</b>
<b>Service Costs</b>		
Current service costs	Measures the future service cost to the employer estimated to have been generated in the year.	Charged to the comprehensive income and expenditure statement to the services for which employees worked.
Past service costs	The increase in liabilities as a result of a current year scheme amendment or curtailment whose effect relates to years of service earned in earlier years.	Charged to comprehensive income and expenditure statement as part of non-distributed costs.
Interest costs	The expected increase in the present value of liabilities as members of the plan are one year closer to receiving their pension. The provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.	Charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.
<b>Re-measurements</b>		
Return on plan assets	This is a measure of the return on the investment assets held by the plan for the year.	Charged to the pensions reserve as other comprehensive income and expenditure.
Actuarial gains and losses	These arise where actual events have not coincided with the actuarial assumptions made for the last valuations or the actuarial assumptions have been changed.	Charged to the pensions reserve as other comprehensive income and expenditure.

<b>Contributions</b>		
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities.	These are 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.

## **1.7 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.

## **1.8 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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised cost.
- Fair value through other comprehensive income (FVOCI), and.
- Fair value through profit or loss (FVPL).

The council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. Most of the council's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

### Financial Assets measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, 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.

There is no recognition of gains or losses on fair value until reclassification or derecognition of the asset.

### Financial assets measured at fair value through other comprehensive income (FVOCI)

The council also holds investments with the objective of collecting contractual cash flows and selling assets in order to meet long term investments requirements while ensuring the council is not subject to a high degree of credit risk. These assets are measured at FVOCI.

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 these financial assets held by the council, this means that the amount presented in the balance sheet is the fair value of the financial instrument and the interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

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

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

Any changes in the fair value of the assets are charged to other comprehensive income and expenditure in the comprehensive income and expenditure statement and balanced by an entry in the financial instrument's revaluation reserve.

Any gains or losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement, along with any accumulated gains or losses previously recognised in the financial instruments revaluation reserve.

#### Financial assets measured at fair value through profit of loss (FVPL)

Financial assets that are measured at FVPL are recognised on the balance sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

Fair value gains and losses are recognised in the surplus or deficit on the provision of services as they arise.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments - discounted cash flow analysis.

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

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

#### Expected credit loss model

The council recognises expected credit losses on its financial assets held at amortised cost or FVOCI (subject to materiality) either on a 12-month or lifetime basis.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed based on 12-month expected losses.

Lifetime losses are recognised for trade receivables (debtors) held by the council.

### **1.10 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-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

### **1.11 Business Improvement Districts**

Business Improvement District (BID) schemes apply to Lancaster City Centre and Morecambe Town 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 Lancaster BID Ltd and Morecambe BID Ltd CIC as managing bodies for the Scheme.

### **1.12 Heritage Assets**

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental



qualities that are held and maintained principally for their contribution to knowledge and culture. The collection has an indeterminate life and is subject to appropriate conservation measures, therefore, depreciation is not charged on heritage assets.

The valuation of the council's heritage assets has included a degree of estimation. With respect to the museum's collection, those assets considered to have a value of £10,000 or over have been identified and valued as separate items. The rest of the collection involves a large quantity of small value items for which it is not considered to be economic to value each item separately. Therefore, a sample of items was valued by the museums staff. The resulting value was then used to give an estimated value of the whole collection. It is considered that the result provides a fair reflection of the value of the council's holding.

The council has a detailed acquisitions and disposal policy, further information on which can be obtained from the council. Disposals will not be made with the principal aim of generating funds. It is considered that the collection has a long-term purpose and, therefore, there is a strong presumption against disposal. If any items are thought to be appropriate for rationalisation, the Museums Association Code of Practice for the review of collections is followed. This is a lengthy process that allows for efforts to find an alternative home/location for an item before any consideration of final disposal is made.

### **1.13 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.

### **1.14 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.

### **1.15 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.

## **1.16 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.

## **1.17 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.

## **1.18 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.

### **Componentisation**

Where a property, plant and equipment asset have major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

### **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.

Assets that are being constructed by the council will initially be recognised at cost. 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:

Category	Measurement Basis
Infrastructure and community assets	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	Fair value – highest and best
All other assets	Existing use value

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

Where non-property assets that have short useful lives or low values (or both), depreciated 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 three 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.

Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains, unless the gain reverses a loss previously charged to a service. 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.

Valuations are undertaken internally by Lancaster City Council's Property Service department in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS).

### 1.19 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.

## 1.20 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.

Depreciation is calculated on the following basis:

Category	Method and period over which assets depreciated
Land	Not depreciated
Council Dwellings	Straight-line allocation on a componentised bases over the useful life of the property as estimated by the Valuer; (5 - 80 years)
Other buildings	Straight-line allocation on a componentised bases over the useful life of the property as estimated by the Valuer; (5 - 40 years)
Vehicles, plant 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.
Community Assets	Not depreciated
Assets under construction	Not depreciated
Assets held for sale	Not depreciated
Heritage assets	Not depreciated

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.
- 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 notes.

### **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.

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

CIPFA are considering the implications of adopting IFRS16 - Leases. This standard was originally expected to be adopted in the Statements of Accounts for 2020/21 but this has been deferred as a result of measures to address the demands placed on local authorities supporting the nation's response to the Covid-19 pandemic. IFRS16 will not be adopted until 2021/22.

Other standards that have been issued but not yet adopted by the CIPFA Code of Practice include:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

It is not expected that these new standards will have any material impact on the information provided in the financial statements, i.e. there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services. However, a formal assessment will be undertaken at the time of adoption by the CIPFA Code of Practice.

## **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:

### Local Government Funding

There is still a high degree of uncertainty about future levels of funding for local government, the full impact of the revisions to the Business Rate Retention scheme is unknown and also the impact of the decision to leave the European Union remains unclear. 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.

### Pension Prepayment

The Council is liable to make contributions towards the cost of post-employment benefits. For the 3-year period 2017/18 – 2019/20, the Council agreed with the Lancashire County Pension Fund that the employer contributions payable to the Local Government Pension Scheme (LGPS) could be paid as a single up-front payment.

Subsequently, in April 2017 the Council paid £8.915M based on an estimated pensionable payroll of £17.8M per annum to make a budget saving. In line with the Council's accounting policies, in 2017/18 the amounts relating to 2018/19 and 2019/20 were offset against the pension liability on the balance sheet. These amounts were then reflected in the pension reserve in the years to which they related.

As 2019/20 was the final year of the up-front payment period, all amounts have now been reflected in the pension reserve which is aligned to the pension liability. For further details see note 41 Defined Benefit Pension Schemes.

For the 3-year period 2020/21 – 2022/23, the Council has again agreed with the Lancashire County Pension Fund that the employer contributions payable to the Local Government Pension Scheme (LGPS) can be paid as a single up-front payment. The payment and associated transactions will be accounted for in the same way

as the 2017/18 – 2019/20 payment.

#### Property Plant & Equipment

The Council's non-current assets within its general fund are valued on the balance sheet in accordance with the statement of asset valuation principles and guidance notes issued by the Royal Institute of Chartered Surveyors. The council carries out a rolling programme that ensures all Plant, Property and Equipment required to be measured at fair value is revalued within a three-year cycle. All assets reviewed had a valuation date of 1 April 2019. Any material changes after the valuation date have been accounted for.

#### Council Dwellings

The Council's Housing Stock is valued on the balance sheet at Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards January 2014. Council dwellings are formally revalued every 5 years in accordance with MHCLG's the "Beacon Principal" with desktop reviews in the intervening years.

#### Investment Properties

The Council has reviewed all assets in accordance with the accounting policy for investment properties confirming they are being held for rental income or for capital appreciation. Properties have been assessed using these criteria, which is subject to interpretation to determine if there is an operational reason for holding the property, such as regeneration.

#### Provisions

The Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties and legal claims that may result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending cases, experience in previous years or in other local authorities.

#### Going Concern

All Local Authorities are required by the Code of Practice on Local Authority Accounting 2019/20 to prepare their accounts on the going concern basis, that is that the functions of the council will continue in operational existence for the foreseeable future, as it can only be discontinued as a result of statutory prescription. At this stage estimates regarding the full impact of COVID – 19 are only indicative but at this stage we do not expect this to affect the overall financial sustainability, or the ability of the Council to remain a going concern.

## **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 considering 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 items in the Balance Sheet on 31st March 2020 for which there is a significant risk of material adjustment in the next financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment  Valuations	<p>The Code prescribes the detailed bases for measuring the different classes of property, plant and equipment (PPE). Valuations are undertaken by qualified valuers in accordance with Royal Institute of Chartered Surveyors Guidance on the basis of a three year rolling programme.</p> <p>HRA assets are subject to a full revaluation every five years, following MHCLG guidance, with a desktop review in the intervening years.</p> <p>Assets on which material capital work has been completed in year are also revalued, and an annual review is carried out to consider impairment of properties and to ensure that</p>	<p>For those assets not valued this year, an increase of 1% in the average valuation of assets that have not been amended for a variation in building indices would have the effect of increasing the carrying value of these assets by £348K, with a corresponding increase in the level of unusable reserves.</p> <p>A fall in value of the council's Investment Properties would result in a charge to the CI&amp;ES. A 10% fall in the total value could result in a charge to the CI&amp;ES of £2.836M</p>

	property valuations are not materially different to the carrying amount in the Balance Sheet.	
Property, plant and equipment  Depreciation	<p>Assets are depreciated over their assessed useful lives, considering assumptions about the level of repairs and maintenance that will be undertaken. The current economic climate makes it uncertain that current spending on repairs and maintenance can be sustained, bringing into doubt the useful lives of its assets will be incurred in relation to individual assets.</p> <p>If the useful life of assets is reduced depreciation increases and the carrying amount of assets falls. However, due to capital regulations, there would be no impact on the general fund balance.</p>	<p>If the useful economic life (UEL) of assets is reduced, depreciation will increase and the carrying value of assets will decrease.</p> <p>Had the council assumed a UEL of one year less in 2019/20 for all assets with a UEL of 20 years or more, depreciation charges would have been higher.</p>
Pensions Liability	<p>Estimation of the liability to pay pensions within the Local Government Pension Scheme depends on a number of complex judgements relating to: the rate for discounting scheme liabilities; the rate at which salaries are projected to increase; changes in retirement ages and mortality rates; and expected returns on pension fund assets. A firm of actuaries is engaged by the Lancashire County Pension Fund to provide all the authorities within that fund with expert advice about the assumptions to be applied in calculating the IAS19 figures for accounting purposes.</p>	<p>Several factors can impact on the valuation of the scheme liability. A sensitivity analysis of the factors is set out in more detail in Note 41 of these financial statements.</p>
Fair Value Measurements	<p>When the fair value of assets and liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk.</p>	<p>The significant unobservable inputs used in the fair value measurement include management assumptions about rent growth, vacancy levels (for investment properties) and discount rates.</p> <p>Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in Note 15.</p>
Provision for Business Rate Appeals	<p>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 2019/20 and earlier financial years in proportion to their share.</p> <p>The Authority has made a provision of £5.611M, based on the best estimate of the amount that businesses have been overcharged up to 31 March 2020. The estimate has been calculated using data provided by an external software provider who utilises the Valuation Office Agency (VOA) ratings list of appeals and its own extensive property list and historic rating information.</p>	<p>An increase in the estimated settlement rate of 10% would have the effect of adding £561K to the provision needed.</p>
Debtors/ Arrears	<p>Note 19 shows non-public sector debtors of £5.77M</p>	<p>If collection rates were to deteriorate, then the level of bad debt provisions would need to be increased. A 10%</p>



	The level of required provision is based on various assumptions and estimates, such as the national and local economic outlook and previous collection rates. Given the current economic climate, there is some uncertainty as to whether collection rates will be sustained and therefore as to the required level of bad debt provision.	increase in impairment of doubtful debts would require an additional £577K to be set aside.
Britain leaving the European Union: asset values and pension liability	There is a high level of uncertainty about the implications of Britain leaving the European Union. At the current time there are three possible scenarios: a 'no deal' Brexit, an agreement with a transition period and an extension to EU membership of unknown length. It is not possible to predict which path will be taken and whether asset values and the discount rate will consequently change. The assumption has been made that this will not significantly impair the value of the council's assets or change the discount rate. However, this assumption needs to be revisited and reviewed regularly.	Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.

## 5 EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts were authorised for issue by the Chief Finance Officer on 28 August 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

It has been agreed that there are no non-adjusting events after the Balance Sheet date.

## 6 THE EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis demonstrates how the council has used available funding for the year (i.e. government grants, rents, council tax and business rates) in providing services, in comparison with those resources that the council has consumed or earned in accordance with generally accepted accounting practices. It also shows how the council has allocated this expenditure for decision making purposes between the council's Executive Management Teams. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2018/19			2019/20			
Restated						
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	
Continuing Operations:						
142	(68)	210	Central Services	1,425	(84)	1,509
6,541	(4,595)	11,136	Communities & Environment	4,569	(3,299)	7,868
(6,507)	(6,858)	351	Housing Revenue Account	(6,631)	(6,263)	(368)
3,800	(2,876)	6,676	Economic Growth & Regeneration	4,529	(2,804)	7,333
4,793	(606)	5,399	Corporate Services	6,541	(3,139)	9,680
8,769	(15,003)	23,772	Net Cost of Services	10,433	(15,589)	26,022
(12,583)	(5,470)	(7,113)	Other Income and Expenditure	(10,907)	8,612	(19,519)
(3,814)	(20,473)	16,659	(Surplus) or Deficit	(474)	(6,977)	6,503
			Opening General Fund & HRA Balances & Reserves	33,328		
			Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	474		
33,328		Closing General Fund and HRA Balance & Reserves at 31/3/2020		33,802		

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.

Adjustments between Funding and Accounting Basis 2019/20				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Central Services	-	(84)	-	(84)
Communities & Environment	(1,896)	(1,403)	(1)	(3,300)
Housing Revenue Account	(6,135)	(127)	-	(6,262)
Economic Growth & Regeneration	(2,353)	(450)	(1)	(2,804)
Corporate Services	(348)	(2,791)	-	(3,139)
<b>Net Cost of Services</b>	<b>(10,732)</b>	<b>(4,855)</b>	<b>(2)</b>	<b>(15,589)</b>
Other income and expenditure from the Expenditure and Funding Analysis	9,056	(1,481)	1,037	<b>8,612</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>(1,676)</b>	<b>(6,336)</b>	<b>1,035</b>	<b>(6,977)</b>



<b>Adjustments between Funding and Accounting Basis 2018/19</b>				
<b>Restated</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>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Central Services	-	(68)	-	<b>(313)</b>
Communities & Environment	(3,642)	(950)	(4)	<b>(3,344)</b>
Housing Revenue Account	(6,769)	(88)	(1)	<b>(6,858)</b>
Economic Growth & Regeneration	(2,571)	(303)	(2)	<b>(2,205)</b>
Corporate Services	(318)	(286)	(1)	<b>(890)</b>
<b>Net Cost of Services</b>	<b>(13,300)</b>	<b>(1,695)</b>	<b>(8)</b>	<b>(15,003)</b>
Other income and expenditure from the Expenditure and Funding Analysis	(847)	(1,458)	(3,165)	<b>(5,470)</b>
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement</b>	<b>(14,147)</b>	<b>(3,153)</b>	<b>(3,173)</b>	<b>(20,473)</b>
<b>Surplus or Deficit on the Provision of Services</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:

	2018/19 £000	2019/20 £000
Employee benefits expenses	28,294	32,611
Other services expenses	58,638	59,780
Support service recharges	9,545	1,332
Depreciation, amortisation, impairment	13,252	11,426
Interest payments	2,977	2,951
Precepts and levies	1,318	1,333
Payments to Housing Capital Receipts Pool	603	698
Gain on the disposal of assets	(222)	(375)
<b>Total Expenditure</b>	<b>114,405</b>	<b>109,756</b>
Fees, charges and other service income	(51,893)	(47,292)
Interest and investment income	9,817	(420)
Income from council tax, non domestic rates, district rate income	(16,145)	(17,951)
Government grants and contributions	(39,525)	(37,590)
<b>Total Income</b>	<b>(97,746)</b>	<b>(103,253)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>16,659</b>	<b>6,503</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.

	2018/19 Comparative Figures						2019/20					
	Usable Reserves						Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Emarked Reserves £000	Capital Grants Unapplied £000	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Emarked 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)	(2,729)	(424)	-	-	-	-	(5,801)	(536)	-	-	-	-
Financial instruments (transferred to the Financial instruments Adjustments Account)	-	-	-	-	-	-	-	-	-	-	-	-
Council tax and NDR (transfers to or from Collection Fund)	(3,165)	-	-	-	-	-	1,037	-	-	-	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	(7)	(1)	-	-	-	-	(2)	-	-	-	-	-
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)	(14,170)	(7,482)	-	-	-	-	(1,623)	(7,201)	-	-	-	-
<b>Total Adjustments to Revenue Resources</b>	<b>(20,071)</b>	<b>(7,907)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,389)</b>	<b>(7,737)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Adjustments between Revenue and Capital Resources													
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts reserve	39	955	(993)	-	-	-		11	1,480	(1,491)	-	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	(18)	18	-	-	-		-	(34)	34	-	-	
Payments to the government housing receipts pool funded by a transfer from the Capital Receipts Reserve	(603)	-	603	-	-	-		(698)	-	698	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	3,487	-	(3,487)	-	-		-	3,126	-	(3,126)	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,662	1,041	-	-	-	-		1,599	1,041	-	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	799	142	-	-	-	-		416	208	-	-	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>1,897</b>	<b>5,607</b>	<b>(372)</b>	<b>(3,487)</b>	<b>-</b>	<b>-</b>		<b>1,328</b>	<b>5,821</b>	<b>(759)</b>	<b>(3,126)</b>	<b>-</b>	<b>-</b>
Adjustments to Capital Resources													
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	372	-	-	-		-	-	723	-	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	3,487	-	-		-	-	-	3,126	-	-
Application of capital grants to finance capital expenditure	-	-	-	-	-	-		-	-	-	-	-	-
Cash payments in relation to deferred capital receipts	-	-	-	-	-	-		-	-	-	-	-	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>372</b>	<b>3,487</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>-</b>	<b>723</b>	<b>3,126</b>	<b>-</b>	<b>-</b>
<b>Total Adjustments</b>	<b>(18,174)</b>	<b>(2,300)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>(5,061)</b>	<b>(1,916)</b>	<b>(36)</b>	<b>-</b>	<b>-</b>	<b>-</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 2019/20.

	Balance at 31 March 2018	Transfers Out	Transfers In	Balance at 31 March 2019	Transfers Out	Transfers In	Balance at 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund:</b>							
Corporate Property Reserve	412	(40)		372	(33)	-	339
Open Spaces Commuted Sums	61	(17)		44	(16)	-	28
Other Commuted Sums	1,132	(172)	143	1,103	(342)	415	1,176
Restructuring Reserve	566	(35)		531	-	-	531
Renewals	451	(606)	485	330	(434)	485	381
Capital Support	485	(223)		262	(4)	-	258
Canal Quarter	214	(163)	186	237	(168)	-	69
Corporate Priorities (Budget Support)	711	(845)	2,666	2,532	(379)	-	2,153
Economic Growth	359	(155)		204	(445)	367	126
Invest to Save Reserve	1,506	(56)		1,450	(53)	-	1,397
Business Rates Retention Reserve	4,602	(2,666)	4,348	6,284	(367)	1,460	7,377
Welfare Reforms Reserve	224	(29)	154	349	(24)	-	325
MAAP Implementation Reserve	27			27	-	-	27
Planning Fee Income	-	(78)	153	75	-	-	75
Revenue Grants Unapplied	744	(84)	34	694	(121)	254	827
Other Reserves £100K and under	375	(112)	86	349	(173)	55	231
<b>Total</b>	<b>11,869</b>	<b>(5,281)</b>	<b>8,255</b>	<b>14,843</b>	<b>(2,559)</b>	<b>3,036</b>	<b>15,320</b>
<b>HRA:</b>							
Hsg Mgt System Replacement	623	(105)	57	575	(49)	57	583
Flats Planned Maintenance	586	(107)	133	612	(53)	133	692
Sheltered Housing Reserves	981	(54)	119	1,046	(70)	191	1,167
Business Support Reserve	8,332	(67)		8,265	(168)	-	8,097
Other Reserves £100K and under	39			39	-	-	39
<b>Total</b>	<b>10,561</b>	<b>(333)</b>	<b>309</b>	<b>10,537</b>	<b>(340)</b>	<b>381</b>	<b>10,578</b>

### General Fund Earmarked Reserves

#### **Corporate Property**

To provide for feasibility studies, surveys and repair works to municipal buildings and facilities (in particular, for those that cannot be capitalised as part of the current works programme or are not otherwise budgeted for).

#### **Open Spaces Commuted Sums**

This reserve receives all sums paid to the Council from third parties for the maintenance of open spaces adopted by the City Council.

#### **Other Commuted Sums**

This reserve receives all sums paid to the Council from third parties.

#### **Restructuring**

To fund the costs associated with early termination of staff / Pay and Grading Review.

#### **Renewals**

Contributions are made into the fund to provide for the renewal of facilities and infrastructure needed for service delivery, such as vehicles, plant and equipment.

#### **Capital Support**

To cover contractual liabilities on West End properties and to provide cover for any revenue costs arising through shortfalls in capital financing.

#### **Canal Corridor**

To cover commissioning costs relating to external support and advice for the CCN development.

**Budget Support**

To provide resources to help finance capacity / feasibility / review and other development work in support of the overhaul of the Council's corporate planning and budgeting arrangements, including any transformation or modernisation plans etc.

**Economic Growth**

To support economic growth activities in the district.

**Invest to Save**

The reserve has been established to finance any Invest to Save initiatives.

**Business Rates Retention**

This reserve has been established to support the budget in the event that Business Rates Income does not reach budgeted levels.

**Welfare Reforms**

To help manage the cost pressures of any welfare reforms (in particular, localisation of council tax support).

**Morecambe Area Action Plan (MAAP)**

To support implementation of the MAAP.

**Planning Fee Income**

To hold surplus income generated as a result of the Government's 20% increase in planning fee income. To be used to fund additional costs/growth relating to Planning functions (in line with any regulatory guidance).

**Revenue Grants Unapplied**

This reserve holds the revenue grants income which have no claw-back conditions attached and are yet to be applied to matching expenditure.

**Housing Revenue Account Earmarked Reserves****Housing Management System Replacement**

Established to fund future major IT systems replacement.

**Flats – Planned Maintenance Reserve**

Established to smooth the costs of major revenue and capital works to flats funded from Service Charge.

**Sheltered Housing Reserves**

To fund purchases of equipment for sheltered schemes and to smooth the costs of major revenue and capital works to flats funded from Service Charges.

**Business Support Reserve**

To support existing commitments over the lifetime of the 30-year business plan, and secondly to help fund any new build, subject to viability.

**10 OTHER OPERATING INCOME & EXPENDITURE**

The council's various income streams have been assessed and classified in line with Chapter 2 of the 2019/20 Code of Practice and revenue has been recognised accordingly, with specific consideration given to:

- implied or stated contractual terms for exchange transactions.
- obligating events and/or conditions attached to non-exchange transactions, where a party receives something of value without directly giving value in exchange.
- the significance of the income stream to the council.

Government grants and third party contributions are recognised when there is reasonable assurance that the council will comply with any conditions attached to the payments, and that grant monies and contributions will be received. Where conditions attached to grants and contributions remain outstanding, monies received to date are carried forward in the Balance Sheet as creditors (receipts in advance) until the conditions have been satisfied.

Other operating expenditure reported includes all levies payable, total payments made to the Government Housing Receipts Pool in line with statutory arrangements for certain property sales within the Housing Revenue Account and gains/losses generated from in year disposals of non-current assets.

	2018/19	2019/20
	£000	£000
Parish council precepts	619	663
Payments to the Government Housing Capital Receipts Pool	603	698
(Gains)/losses on the disposal of non-current assets	(223)	(375)
	<b>999</b>	<b>986</b>

## 11 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

Financing and investment income and expenditure includes interest receivable and payable on the council's investment portfolio. The council's net rental income on the properties it holds purely for investment purposes is also included. It also includes the interest element of the pension fund liability.

	2018/19	2019/20
	£000	£000
Interest payable and similar charges	2,976	2,951
Pensions interest cost and expected return on pensions	1,458	1,481
Interest receivable and similar income	(233)	(288)
Income and expenditure in relation to investment properties and changes in their fair value	10,049	(132)
Other investment income and expenditure	1	1
	<b>14,251</b>	<b>4,013</b>

## 12 TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

This note consolidates all non-specific grants and contributions receivable that cannot be identified with individual service expenditure and therefore cannot be credited to the gross income amount relevant to the service area. All capital grants and contributions are credited to non-specific grant income even if service-specific. The note also identifies the council's proportion of council tax and business rates used to fund in-year service activities.

	2018/19	2019/20
	£000	£000
Council tax income	(9,625)	(10,063)
Non domestic rates	(5,821)	(7,219)
Non-ringfenced government grants	(4,440)	(4,355)
Capital grants and contributions	(2,477)	(2,881)
	<b>(22,363)</b>	<b>(24,518)</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>								
Balance as at 1 April 2019	132,731	63,067	21,291	55,375	8,614	1,158	545	282,781
additions	4,086	231	732	24		255	3,473	8,801
revaluation increases/(decreases) recognised in the Revaluation Reserve	707	399				(381)		725
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	(3,500)	678				(51)		(2,873)
derecognition - disposals	(1,156)		(143)					(1,299)
assets reclassified (to)/from Assets Held for Sale								-
other transfers								-
Balance as at 31 March 2020	132,868	64,375	21,880	55,399	8,614	981	4,018	288,135
<b>Accumulated Depreciation and Impairment</b>								
Balance as at 1 April 2019	(2,961)	(5,769)	(14,228)	(21,362)	(29)	(57)	-	(44,406)
depreciation charge	(3,126)	(2,184)	(1,536)	(1,412)	(5)	(30)		(8,293)
depreciation on revaluations written back recognised in the Revaluation Reserve	2,330	340				5		2,675
depreciation on revaluations written back recognised in the Surplus/Deficit on Provision of Services	606	2				52		660
derecognition - disposals	49		143					192
Balance as at 31 March 2020	(3,102)	(7,611)	(15,621)	(22,774)	(34)	(30)	-	(49,172)
<b>Net Book Value</b>								
at 31 March 2019	129,770	57,298	7,063	34,013	8,585	1,101	545	238,375
at 31 March 2020	129,766	56,764	6,259	32,625	8,580	951	4,018	238,963

#### 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 2020, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 anticipated to cost £5.325M. Similar commitments at 31 March 2019 were £0.904M. The major commitments are:

- Sea and Flood Defence £5.325M

#### 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 three 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 by the council's Property Services Team. 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>Vehicles, Plant Furniture &amp; Equipment</b>	<b>Surplus Assets</b>	<b>Total</b>
	£000	£000	£000	£000	£000
Carried at historical cost			6,259		6,259
Valued at current value as at:					
31 March 2020	129,766	21,962		951	152,679
31 March 2019	-	1,806	-	-	1,806
31 March 2018	-	32,996	-	-	32,996
31 March 2017	-	-	-	-	-
31 March 2016	-	-	-	-	-
<b>Total Cost or Valuation</b>	<b>129,766</b>	<b>56,764</b>	<b>6,259</b>	<b>951</b>	<b>193,740</b>

Due to the global outbreak of Covid-19, the Council's Valuer issued the following statement within their report: "The outbreak of the Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case"

## 14 HERITAGE ASSETS

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

	<b>2018/19</b>	<b>2019/20</b>
	£000	£000
<b>Opening Balance</b>		
Civic Regalia and other donated items	832	832
Museum Collections	7,567	8,400
Public Art Works	100	100
Art Collection	185	185
	<b>8,684</b>	<b>9,517</b>
<b>Disposals</b>	-	-
<b>Revaluations</b>	<b>833</b>	-
<b>Closing Balance</b>		
Civic Regalia and other donated items	832	832
Museum Collections	8,400	8,400
Public Art Works	100	100
Art Collection	185	185
	<b>9,517</b>	<b>9,517</b>

### Civic Regalia and other donated assets

There are over 80 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. 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.

The paintings in the museum collection were valued by Bonhams on 28 March 2019. The medals in the collection were valued by Chris Dixon during 2018/19. The remainder of the collection was valued for insurance purposes by the Museums' Curator, Carolyn Dalton during 2018/19. Carolyn holds an M.A. in Museums Studies together with a B.A (hons) in History and has 27 years' experience working as a curator at a variety of Councils in addition to Lancaster. These include Doncaster, Poole and Norfolk Councils.

### **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.

### **Art Collection**

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

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

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

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

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

## **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.

	2018/19	2019/20
	£000	£000
Rental income from investment property	(940)	(1,784)
Direct operating expenses arising from investment property	599	942
<b>Net (gain)/loss</b>	<b>(341)</b>	<b>(842)</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 carry out repairs, maintenance or enhancement.

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

	2018/19 £000	2019/20 £000
<b>Balance as at 1 April</b>	<b>33,158</b>	<b>23,328</b>
Additions:		
- Purchases	-	4,925
- Construction	79	91
Disposals:		
Net gains/losses from fair value adjustments	(9,909)	18
Transfers:		
- to/from Property, Plant & Equipment	-	-
<b>Balance as at 31 March</b>	<b>23,328</b>	<b>28,362</b>

### Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy at 31 March 2020 are as follows:

2019/20	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 2020
<i>Recurring fair value measurements using:</i>	£000	£000	£000	£000
Office	-	-	4,137	4,137
Retail	-	-	2,850	2,850
Agriculture & Allotments	-	1,062	416	1,478
Commercial Land	-	1,474	3,352	4,826
Commercial Buildings	-	4,935	1,826	6,761
Mixed Commercial	-	-	8,310	8,310
<b>Total</b>	<b>-</b>	<b>7,471</b>	<b>20,891</b>	<b>28,362</b>

2018/19	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 2019
<i>Recurring fair value measurements using:</i>	£000	£000	£000	£000
Office	-	-	3,955	3,955
Retail	-	-	2,767	2,767
Agriculture & Allotments	-	1,018	411	1,429
Commercial Land	-	1,511	3,204	4,715
Commercial Buildings	-	207	1,996	2,203
Mixed Commercial	-	-	8,259	8,259
<b>Total</b>	<b>-</b>	<b>2,736</b>	<b>20,592</b>	<b>23,328</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, Commercial Buildings on Dorrington Road and King George Playing Fields, Commercial Land on York Road, Blackberry Hall Lane, Lansil Estate 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 £2.5M 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

	2019/20
	£000
<b>Balance as at 1 April</b>	<b>20,592</b>
Transfers in	
Transfers out	
Total gains/losses for the period included in Surplus or Deficit on the Provision of Services resulting from changes in fair value	208
Additions	91
Disposals	-
<b>Balance as at 31 March</b>	<b>20,891</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 licenses 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.

	2018/19 £000	2019/20 £000
<b>Balance at start of year:</b>		
- Gross carrying amounts	849	926
- Accumulated amortisation	(497)	(627)
<b>Net carrying amount at start of year</b>	<b>352</b>	<b>299</b>
Additions:		
- Purchases	77	8
Amortisation for the period	(130)	(124)
<b>Net carrying amount at the end of year</b>	<b>299</b>	<b>183</b>
<b>Comprising:</b>		
- Gross carrying amounts	926	934
- Accumulated amortisation	(627)	(751)
<b>Balance as at 31 March</b>	<b>299</b>	<b>183</b>

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

## 17 FINANCIAL INSTRUMENTS

Financial instruments are recognised on the Balance Sheet when the council becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cash flow characteristics.

### Financial Liabilities

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest).

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

### Financial Assets

To meet new Code requirements, financial assets are now classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of derecognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

The value of debtors and creditors reported in the table opposite are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet and Notes 19 and 22 also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

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

	Non Current		Current	
	31 March 2019	31 March 2020	31 March 2019	31 March 2020
	£000	£000	£000	£000
<b>Investments</b>				
Amortised Cost	0	0	16,000	0
Fair value through profit or loss	0	0	0	0
Fair value through other comprehensive income - designated equity	0	0	0	0
Fair value through other comprehensive income - other	0	0	0	0
<b>Total investments</b>	<b>0</b>	<b>0</b>	<b>16,000</b>	<b>-</b>
<b>Debtors</b>				
Amortised Cost	0	0	9,526	12,163
Fair value through profit or loss	0	0	0	0
Fair value through other comprehensive income - designated equity	0	0	0	0
Fair value through other comprehensive income - other	0	0	0	0
<b>Total Debtors</b>	<b>0</b>	<b>0</b>	<b>9,526</b>	<b>12,163</b>
<b>Bank account</b>	<b>0</b>	<b>0</b>	<b>6,903</b>	<b>40,893</b>
<b>Total assets</b>	<b>0</b>	<b>0</b>	<b>32,429</b>	<b>53,056</b>
<b>Borrowings</b>				
Amortised Cost	(63,239)	(61,084)	(1,041)	(16,041)
Fair value through profit or loss	0	0	0	0
Lease liabilities	0	0	0	0
<b>Total borrowings</b>	<b>(63,239)</b>	<b>(61,084)</b>	<b>(1,041)</b>	<b>(16,041)</b>
<b>Creditors</b>				
Amortised Cost	(225)	(225)	(16,561)	(21,416)
Fair value through profit or loss	0	0	0	0
<b>Total Creditors</b>	<b>(225)</b>	<b>(225)</b>	<b>(16,561)</b>	<b>(21,416)</b>
<b>Bank (Overdraft) / Cash in Hand</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total liabilities</b>	<b>(63,464)</b>	<b>(61,309)</b>	<b>(17,602)</b>	<b>(37,457)</b>

## Income, Expenses, Gains and Losses

	2018/19					2019/20				
	Financial Assets measured at amortised cost £000	Financial Assets measured at Fair value through profit or loss £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 Liabilities measured at Fair value through profit or loss £000	Financial Assets Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest payable	2,976	-	-	-	2,976	2,951	-	-	-	2,951
Losses on derecognition	-	-	-	-	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>2,976</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,976</b>	<b>2,951</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,951</b>
Interest income	(233)	-	-	-	(233)	(288)	-	-	-	(288)
Interest income accrued on impaired financial assets	-	-	-	-	-	-	-	-	-	-
Increases in fair value	-	-	-	-	-	-	-	-	-	-
Gains and derecognition	-	-	-	-	-	-	-	-	-	-
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>(233)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(233)</b>	<b>(288)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(288)</b>
Gains on revaluation	-	-	-	-	-	-	-	-	-	-
Losses on revaluation	-	-	-	-	-	-	-	-	-	-
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	-	-	-	-	-	-	-	-	-
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net (gain)/loss for the year</b>	<b>2,743</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,743</b>	<b>2,663</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,663</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 1.71% and 3.33%.

	31 March 2019		31 March 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	83,048	136,759	98,541	167,533
Long-term creditors & provisions	4,268	4,268	6,458	6,458
<b>Total</b>	<b>87,316</b>	<b>141,027</b>	<b>104,999</b>	<b>173,991</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 2019		31 March 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and receivables	34,636	34,636	53,056	53,056
Long-term debtors	-	-	-	-
<b>Total</b>	<b>34,636</b>	<b>34,636</b>	<b>53,056</b>	<b>53,056</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		Total	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance as at 1 April</b>	<b>62</b>	<b>58</b>	<b>260</b>	<b>269</b>	<b>90</b>	<b>102</b>	<b>412</b>	<b>429</b>
Purchases	64	56	976	1,019	432	450	1,472	1,525
Recognised as an expense in the year	(68)	(98)	(934)	(947)	(419)	(458)	(1,421)	(1,503)
Written off balances	-	-	(33)	(2)	(1)	(1)	(34)	(3)
Reversals of write-offs in previous years	-	-	-	-	-	-	-	-
<b>Balance as at 31 March</b>	<b>58</b>	<b>16</b>	<b>269</b>	<b>339</b>	<b>102</b>	<b>93</b>	<b>429</b>	<b>448</b>

## 19 SHORT TERM DEBTORS

	31 March 2019 £000	31 March 2020 £000
Council Taxpayers	746	861
Central Government Bodies	1,001	1,118
Housing Rents	554	754
Other Local Authorities	4,636	5,274
Commercial Ratepayers	516	389
Other entities and individuals	2,073	3,767
	<b>9,526</b>	<b>12,163</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 2019 £000	31 March 2020 £000
Bank current account	(2,207)	-
Investments < 3 months	9,110	40,893
	<b>6,903</b>	<b>40,893</b>

## 21 ASSETS HELD FOR SALE

The Council currently has no assets held for sale

## 22 SHORT TERM CREDITORS

	31 March 2019 £000	31 March 2020 £000
Council Taxpayers	(161)	(196)
Central Government Bodies	(9,578)	(12,921)
Housing Rents	(289)	(311)
Other Local Authorities	(2,030)	(2,608)
Commercial Ratepayers	(145)	(80)
Other entities and individuals	(4,358)	(5,300)
	<b>(16,561)</b>	<b>(21,416)</b>

## 23 PROVISIONS

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

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

	Insurance	Business Rate Appeals	Back Pay	Total
	£000	£000	£000	£000
<b>Balance as at 1 April 2019</b>	<b>(293)</b>	<b>(3,701)</b>	<b>(49)</b>	<b>(4,043)</b>
Contribution to Provision	(147)	(1,910)	-	(2,057)
Amounts Paid	(133)	-	-	(133)
<b>Balance as at 31 March 2020</b>	<b>(573)</b>	<b>(5,611)</b>	<b>(49)</b>	<b>(6,233)</b>

### Insurance Provision

The closing balance on the 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.

### Business Rates

Due to the localisation of Business Rates, which became effective from 1 April 2013, the council has set aside a provision for any potential liabilities as a result of Business Rate payers' appeals against rateable valuations. The provision includes an amount for appeals lodged to date but yet to be determined by the Valuation Office Agency (VOA) plus an amount for appeals expected but not yet lodged with VOA which has been estimated based on experience and analysis of the appeals listing from the VOA together with external advice.

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.

### Back Pay

A Back Pay provision was established in 2018/19, following a ruling by the Employment Appeal Tribunal in 2017/18 requiring employers to include overtime in the calculation for holiday pay. Some amounts are still outstanding.



## 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 2019 £000	31 March 2020 £000
General Fund Balance	5,714	5,045
HRA Balance	2,235	2,859
HRA Business Plan Reserve	8,265	8,097
Housing Mgt System Replacement Reserve	575	583
Flats Planned Maintenance	612	692
Sheltered Equipment	344	375
Sheltered Planned Maintenance	196	283
Sheltered Support Grant Maintenance	506	509
Renewals Reserve	183	211
Capital Support	262	258
Other Commuted Sums	1,103	1,176
Corporate Property Reserve	372	339
Restructuring Reserve	531	531
Welfare Reforms Reserve	349	325
Invest to Save Reserve	1,450	1,397
Capital Grants Unapplied	102	102
Business Rates Retention Reserve	6,283	7,377
Revenue Grants Unapplied	694	827
Corporate Priorities (Budget Support) Reserve	2,532	2,153
Economic Growth Reserve	204	126
Homelessness Support Reserve	101	111
City Council Election Reserve	109	-
Car Parks Reserve	99	111
Other Reserves under £100K	611	454
<b>Total usable reserves</b>	<b>33,432</b>	<b>33,941</b>

## 25 UNUSABLE RESERVES

	31 March 2019 £000	31 March 2020 £000
Revaluation Reserve	74,412	74,804
Financial Instruments Adjustment Account	(143)	(143)
Capital Adjustment Account	114,223	115,520
Pensions Reserve	(59,302)	(56,694)
Deferred Credits	-	-
Accumulated Absences Account	(198)	(200)
Collection Fund Adjustment Account	572	1,609
<b>Total unusable reserves</b>	<b>129,564</b>	<b>134,896</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.

	2018/19 £000	2019/20 £000
<b>Balance as at 1 April</b>	<b>73,531</b>	<b>74,412</b>
Upwards revaluation of assets	4,211	6,795
Downwards revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(646)	(3,396)
Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	3,565	3,399
Difference between fair value depreciation and historical cost depreciation.	(2,445)	(2,591)
Accumulated gains on assets sold or scrapped	(239)	(416)
Amount written off to the Capital Adjustment Account	(2,684)	(3,007)
<b>Balance as at 31 March</b>	<b>74,412</b>	<b>74,804</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.

	2018/19 £000	2019/20 £000
<b>Balance as at 1 April</b>	<b>125,686</b>	<b>114,223</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	(8,126)	(8,274)
- Revaluation gains/(losses) on Property, Plant and Equipment	(4,975)	(2,214)
- Amortisation of Intangible Assets	(130)	(124)
- Revenue Expenditure funded from Capital under statute.	(2,615)	(2,341)
- 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	(755)	(1,107)
<b>Sub total</b>	<b>110,126</b>	<b>101,204</b>
Adjusting amounts written out of the Revaluation Reserve	2,685	3,007
<b>Net written out amount of the cost of non current assets consumed in the year.</b>	<b>112,811</b>	<b>104,211</b>
Capital financing applied in the year:		
- Use of Capital Receipts Reserve	372	723
- Use of the Major Repairs Reserve	3,487	3,126
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement (including those in respect of donated assets)	4,859	5,219
- Application of grants to capital financing from the Capital Grants Unapplied Account.	-	-
- Statutory provision for the financing of capital investment charged against General Fund and HRA balances	1,662	1,599
- Capital expenditure charged against the General Fund and HRA balances	941	624
<b>Sub total</b>	<b>124,132</b>	<b>115,502</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure statement	(9,909)	18
<b>Balance as at 31 March</b>	<b>114,223</b>	<b>115,520</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.

	2018/19 £000	2019/20 £000
<b>Balance as at 1 April</b>	<b>(143)</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	-	-
<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.

	2018/19	2019/20
	£000	£000
<b>Balance as at 1 April</b>	<b>(59,197)</b>	<b>(59,302)</b>
Actuarial gains or (losses) on pensions assets and liabilities	3,048	8,945
Reversal of items relating to the retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(6,439)	(9,556)
Employer's pension contribution and direct payments to pensioners payable in the year	3,286	3,219
<b>Balance as at 31 March</b>	<b>(59,302)</b>	<b>(56,694)</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.

	2018/19	2019/20
	£000	£000
<b>Balance as at 1 April</b>	<b>3,737</b>	<b>572</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	(3,165)	1,037
<b>Balance as at 31 March</b>	<b>572</b>	<b>1,609</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.

	2018/19	2019/20
	£000	£000
<b>Balance as at 1 April</b>	<b>(190)</b>	<b>(198)</b>
Settlement or cancellation of accrual made at the end of the preceding year	190	198
Amounts accrued at the end of the current year	(198)	(200)
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	(8)	(2)
<b>Balance as at 31 March</b>	<b>(198)</b>	<b>(200)</b>

## 26 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2018/19 £000	2019/20 £000
Interest received	246	294
Interest paid	(1,865)	(4,064)

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

	2018/19 £000	2019/20 £000
Depreciation	8,126	8,274
Impairment & downward valuations	4,994	2,233
Amortisation	130	124
Increase/(decrease) in creditors	(5,065)	2,804
(Increase)/decrease in debtors	413	(1,710)
(Increase)/decrease in inventories	(18)	(18)
Movement in pension liability	6,124	9,369
Carrying amount of non-current assets and assets held for sale sold or derecognised	755	1,107
Other non- cash items charged to the net surplus of deficit on the provision of services	10,915	2,172
	<b>26,374</b>	<b>24,355</b>

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities.

	2018/19 £000	2019/20 £000
Proceeds from short-term and long-term investments	100	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(993)	(1,491)
Any other items for which the cash effects are investing or financing cash flows	(4,859)	(5,219)
	<b>(5,752)</b>	<b>(6,710)</b>

## 27 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2018/19 £000	2019/20 £000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(9,121)	(13,953)
Purchase of short-term and long-term investments	(15,000)	(10,000)
Receipts from sale of Property, Plant and Equipment, investment property and intangible assets	993	1,491
Other payments from investing activities	(584)	(431)
Proceeds from short-term and long-term investments	24,000	26,000
Other receipts from investing activities	4,776	4,433
<b>Net cash flows from investing activities</b>	<b>5,064</b>	<b>7,540</b>

## 28 CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2018/19 £000	2019/20 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases	-	
Repayment of short-term and long-term borrowing	(1,041)	(1,041)
Cash receipts of long and short term borrowing	-	15,000
Other payments for financing activities	(4,576)	1,348
<b>Net cash flows from financing activities</b>	<b>(5,617)</b>	<b>15,307</b>

## 29 ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations in 2019/20.

## 30 TRADING OPERATIONS

Trading services cover undertakings with the public or with other third parties, and include such activities as garden waste collection, 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.

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
<b>Highways</b>					
Turnover	(1,043)	-	-	-	-
Expenditure	1,103	-	-	-	-
(Surplus)/Deficit	60	-	-	-	-
<b>Trade Waste</b>					
Turnover	(1,241)	(1,241)	(1,378)	(1,435)	(1,493)
Expenditure	929	1,104	1,124	1,275	1,015
(Surplus)/Deficit	(312)	(137)	(254)	(160)	(478)
<b>Garden Waste</b>					
Turnover	-	(258)	(990)	(911)	(901)
Expenditure	-	396	1,190	1,378	1,064
(Surplus)/Deficit	-	138	200	467	163
<b>Markets</b>					
Turnover	(404)	(419)	(414)	(397)	(400)
Expenditure	319	310	318	389	340
(Surplus)/Deficit	(85)	(109)	(96)	(8)	(60)
<b>Commercial Properties / Industrial Units</b>					
Turnover	(946)	(1,062)	(1,208)	(1,246)	(1,400)
Expenditure	797	872	898	923	700
(Surplus)/Deficit	(149)	(190)	(310)	(323)	(700)
<b>Consolidated</b>					
Turnover	(3,634)	(2,980)	(3,990)	(3,989)	(4,194)
Expenditure	3,148	2,682	3,530	3,965	3,119
(Surplus)/Deficit	(486)	(298)	(460)	(24)	(1,075)

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.

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Net (surplus)/deficit on trading operations	(486)	(298)	(460)	(24)	(1,075)
Trading expenditure and income included within Surplus or Deficit on the Provision of Services	-	-	-	-	-
<b>Net (surplus)/deficit</b>	<b>(486)</b>	<b>(298)</b>	<b>(460)</b>	<b>(24)</b>	<b>(1,075)</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.

	2018/19 £000	2019/20 £000
Expenditure on agency arrangement	220	184
Income on agency arrangement	(162)	(162)
<b>Net deficit arising on agency arrangements</b>	<b>58</b>	<b>22</b>

### 32 MEMBERS' ALLOWANCES

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

	2018/19 £000	2019/20 £000
Basic Allowances	202	216
Special Responsibility Allowances	81	95
Expenses	2	2
<b>Total</b>	<b>285</b>	<b>313</b>

### 33 OFFICERS' REMUNERATION

The remuneration of senior employees, defined as those who are members of the Executive Team, those holding statutory posts, or those whose remuneration is £150,000 or more per year, was as set out below.

	Salary, Fees and allowances	Expenses & Benefits in Kind	Compensation for Loss of Office	Total Remuneration (excluding pension contributions)	Employer Pension contribution	Total Remuneration (including pension contributions)
2019/20	£000	£000	£000	£000	£000	£000
Interim Chief Executive	120	1	-	121	19	140
Director Corporate Services	90	-	-	90	14	104
Director for Economic Growth & Regeneration	82	-	-	82	13	95
Director Communities & Environment	83	-	-	83	13	96
Deputy Director Communities & Environment	71	-	-	71	11	82
Head of Financial Services & Section 151 Officer	54	-	-	54	8	62
Head of Public Realm	51	-	-	51	8	59
Head of Planning & Place	50	-	-	50	8	58
Senior Property Officer	50	-	-	50	8	58
Head of Economic Development	49	-	-	49	8	57
Head of Community Involvement & Leisure	48	-	-	48	7	55
Democratic Services Manager	56	-	-	56	9	65
Acting Head of Legal Services	46	-	-	46	7	53
Repairs and Maintenance Manager	44	-	-	44	7	51
Business Support Manager	43	-	-	43	7	50
Interim Regeneration Manager	61	-	-	61	-	61

	Salary, Fees and Allowances	Expenses & Benefits in Kind	Redundancy Payments	Total Remuneration (excluding pension contributions)	Employer Pension Contribution	Total Remuneration (including pension contributions)
2018/19						
Chief Executive (to 24/3/19)	109	2	-	111	16	127
Assistant Chief Executive / Interim Chief Executive (from 24/3/19)	84	-	-	84	13	97
Chief Officer (Resources) / Section 151 Officer (to 31/8/18)	29	-	67	96	4	100
Section 151 Officer (1/9/18 to 14/10/18)	7	-	-	7	1	8
Section 151 Officer (15/10/18 to 28/02/19)	57	-	-	57	1	58
Section 151 Officer (from 1/3/19)	4	-	-	4	1	5
Director Corporate Services (from 1/3/19)	7	-	-	7	1	8
Chief Officer (Governance) / Monitoring Officer	115	-	-	115	-	115
Chief Officer (Economic Development) to 1/1/19	43	-	-	43	4	47
Chief Officer (Development Management) to 1/1/19	43	-	-	43	5	48
Chief Officer (Regeneration) to 5/8/18	20	-	-	20	2	22
Chief Officer (Regeneration) 28/8/18 to 1/1/19	47	-	-	47	-	47
Director for Economic Growth & Regeneration (from 2/1/19)	20	-	-	20	3	23
Chief Officer (Environmental Services) to 31/10/18	45	-	-	45	6	51
Director Communities & Environment (from 1/11/18)	37	-	-	37	6	43
Chief Officer (Health & Housing) to 31/10/18	45	-	-	45	7	52
Deputy Director Communities & Environment (from 1/11/18)	32	-	-	32	5	37
Human Resources Manager	110	-	-	110	-	110

The post of Regeneration Manager was covered by agency in 2019/20 and payments of £60,845 were made to Hays Office Support up to 29 November 2019.



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	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19 £	2019/20 £
£0 - £20,000	-	-	10	3	10	3	64,382	18,362
£20,001 - £40,000	-	-	1	3	1	3	35,000	100,450
£40,001 - £60,000	-	-	-	-	-	-	-	-
£60,001 - £80,000	-	-	1	-	1	-	65,940	-
£80,001 - £100,000	-	-	1	-	1	-	87,659	-
£100,001 - £150,000	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>13</b>	<b>6</b>	<b>13</b>	<b>6</b>	<b>252,981</b>	<b>118,812</b>

Termination benefits are payable following a decision by the council to terminate an officer's employment before their normal retirement date, or an officer's decision to accept voluntary redundancy in exchange for those benefits. Costs are charged on an accruals basis to the respective Service line in the Comprehensive Income and Expenditure Statement at the earlier of when the council can no longer withdraw the offer of the benefits or when the council recognises costs for a restructuring.

Where termination benefits include the enhancement of pension benefits, regulations require the General Fund to be charged with the amount payable to the pension fund rather than the amount calculated under accounting standards. Entries are made in the Movement in Reserves Statement to transfer the accounting standards based entries to the Pension Reserve and replace these with the amount payable to the pension fund.

### 34 EXTERNAL AUDIT COSTS

The following costs relate 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.

	2018/19 £000	2019/20 £000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	45	60
Fees payable in respect of other services provided by external auditors for the year	10	11
PSAA prior years refund	-	(5)
<b>Total</b>	<b>55</b>	<b>66</b>

In both 2018/19 and 2019/20 Deloitte performed the main audit and KPMG provided other services.

### 35 GRANT INCOME

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

	2018/19	2019/20
	£000	£000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	941	200
New Homes Bonus	1,650	1,672
S31 Business Rates Grants	1,736	2,309
DCLG Levy Account Surplus	87	-
Environment Agency Wave Reflection Wall Construction	2,359	-
Environment Agency Caton Road Flood Relief Scheme	-	2,734
DCLG COVID19 Grant	-	101
Other Grants Under £50K	143	220
<b>Total</b>	<b>6,916</b>	<b>7,236</b>

	2018/19	2019/20
	£000	£000
<b>Credited to Services</b>		
MHCLG (formerly DCLG) Disabled Facilities Grant	2,369	2,324
Morecambe TH12 Heritage Lottery Grant	12	-
Discretionary Housing Payments	183	227
Supporting People	235	257
Active Lives: Other Grants	176	191
Parliamentary/European/Police/Individual Elections	-	379
Arnsdale & Silverdale AONB Grants	140	143
Benefits DWP grant	566	439
DCLG Local Council Tax Support Grant	171	173
DCLG EU Exit Grant	-	150
Transformation Change	333	578
Lancashire County Council - Syrian Refugees	155	92
Homes & Communities Agency - Bailrigg Garden Village	190	64
Standard Rent Allowances: Government Grants	20,199	18,301
EA Flood Management - Caton Road	626	-
MHCLG Community Housing	74	-
MHCLG Homelessness	85	230
Rent Rebates - Council Housing: Government Grants	6,599	6,200
NNDR Administration: Government Grants	215	213
Other Grants Under £50K	281	392
<b>Total</b>	<b>32,609</b>	<b>30,353</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:

	2018/19	2019/20
	£000	£000
<b>Capital Grants Receipts in Advance</b>		
DFG Grant	1,026	596
MHCLG Coastal Revival Fund	-	103
Other Grants Under £50K	204	100
<b>Total</b>	<b>1,230</b>	<b>799</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 2020 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 2019/20 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 previously nominated four of its City Councillor's as trustees of the Dukes Playhouse Ltd, however as there was no trustee representation made by the council during 2019/20 there is no further disclosure requirement for the Dukes.

### 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.

	2018/19	2019/20
	£000	£000
<b>Opening Capital Financing Requirement</b>	<b>84,009</b>	<b>82,885</b>
<i>Capital investment:</i>		
Property, Plant and Equipment	8,485	8,548
Investment Properties	79	5,270
Intangible Assets	77	8
Revenue Expenditure Funded from Capital Under Statute	2,615	2,341
<i>Sources of financing:</i>		
Capital receipts	(372)	(723)
Government Grants and other contributions	(4,858)	(5,219)
Direct revenue contributions	(1,450)	(624)
Minimum Revenue Provision	(2,703)	(2,640)
Depreciation of HRA non dwellings	(19)	(19)
Major Repairs Reserve	(2,978)	(3,126)
<b>Closing Capital Financing Requirement</b>	<b>82,885</b>	<b>86,701</b>
<i>Explanation of movements in year:</i>		
Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	(1,124)	3,816
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(1,124)</b>	<b>3,816</b>

### 38 LEASES

#### Finance Leases

The council has no finance lease obligations

#### Operating Leases

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 2019	31 March 2020
	£000	£000
Not later than 1 year	542	957
Later than 1 year and not later than 5 years	1,199	3,041
Later than 5 years	1,866	4,078
<b>Minimum lease payments</b>	<b>3,607</b>	<b>8,076</b>

### **39 IMPAIRMENT LOSSES**

During 2019/20 the council has not recognised any impairment losses in relation to non-current asset valuations.

### **40 TERMINATION BENEFITS**

The council terminated the contracts of 5 employees in 2019/20 incurring liabilities of £118,812 (£253K in 2018/19). Of this total £2,717 (£67K in 2018/19) was payable in enhanced pension benefits.

### **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.

#### **Early Payment of 3 Years LGPS Deficit Lump Sum and Annual Contributions**

Every three years the pension scheme undertakes a valuation process which establishes each employer's deficit in respect of previous years and the period over which this is to be repaid, as well as the required percentage to be applied for on-going contributions and their value. As part of the 2016 Valuation, employers were offered the opportunity to make these payments in one discounted lump sum in 2017/18 rather than paying each year. The benefit to the council was that the value of the lump sum was less than the on-going annual cost even after allowing for potential interest losses by prepaying and as a result the offer was taken up by the council.

The value of the lump sum is greater to the Pension Fund as it can make great returns on its investments than the council can make on its deposits. For council investments, as dictated by the Prudential Code, the primary driver is capital preservation while for the Pension Fund, which has a much longer time horizon and therefore relatively higher risk tolerance, the drivers are financial return and diversification.

#### **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>2018/19</b>	<b>2019/20</b>
Comprehensive Income and Expenditure Statement	£000	£000
<i>Cost of services:</i>		
Current service cost	4,885	5,559
Past Service cost	-	2,512
Administration expenses	76	97
Settlements and curtailments	96	4
<i>Financing &amp; Investment Income &amp; Expenditure:</i>		
Interest costs	5,613	5,594
Expected return on scheme assets	(4,231)	(4,210)
<b>Total Post Employment Benefit Charged to Provision of Services</b>	<b>6,439</b>	<b>9,556</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:</i>		
Actuarial gains and losses	(3,048)	(8,945)
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>3,391</b>	<b>611</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	(6,439)	(9,556) *
Reversal of actuarial gains and losses recognised in other Comprehensive Income and Expenditure	3,048	8,945 *
<b>Net charge in relation to pension adjustments</b>	<b>-</b>	<b>-</b>
Actual amount charged against Funds for pensions in the year - employers contributions	3,286	3,219 *
<i>* Net Movement on Pension Fund Reserve</i>	<i>(105)</i>	<i>2,608</i>

### 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:

	<b>Funded Liabilities</b>		<b>Unfunded Liabilities</b>	
	<b>2018/19</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2019/20</b>
	£000	£000	£000	£000
Present value of the defined benefit obligation	230,913	228,776	3,772	2,966
Fair value of plan assets	(178,411)	(175,048)	-	-
<b>Net liability arising from defined benefit obligation</b>	<b>52,502</b>	<b>53,728</b>	<b>3,772</b>	<b>2,966</b>

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

	Local Government Pension Scheme	
	2018/19	2019/20
	£000	£000
<b>Opening fair value of scheme assets</b>	<b>165,717</b>	<b>178,411</b>
Interest income	4,231	4,210
Remeasurement gain/(loss)	14,351	(1,548)
Administration expenses	(76)	(97)
Employer contributions	315	191
Contributions by scheme participants	980	1,028
Benefits paid	(7,107)	(7,147)
<b>Closing fair value of scheme assets</b>	<b>178,411</b>	<b>175,048</b>

## Reconciliation of Present Value of the Scheme Liabilities:

	Funded Liabilities		Unfunded Liabilities	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	<b>215,117</b>	<b>230,913</b>	<b>3,798</b>	<b>3,772</b>
Current service cost	4,885	5,559	-	-
Interest cost	5,517	5,506	96	88
Contributions from scheme participants	980	1,028	-	-
Remeasurement (gains) and losses	11,177	(9,844)	126	(649)
Past service cost	-	2,512	-	-
Curtailments	96	4	-	-
Benefits paid	(6,859)	(6,902)	(248)	(245)
<b>Closing balance at 31 March</b>	<b>230,913</b>	<b>228,776</b>	<b>3,772</b>	<b>2,966</b>

## Local Government Pension Scheme assets comprised

	2018/19	2019/20
	£000	£000
<b>Bonds:</b>		
UK corporate	1,211	2,100
Overseas corporate	881	2,276
UK Fixed gilts	-	-
UK index linked	6,271	-
Overseas Fixed Interest	-	-
<b>Property:</b>		
Offices	3,488	-
Offices/Warehouse	461	-
Industrial/Warehouse	5,390	700
Shops	1,288	-
Retail Warehouse	2,402	175
Shopping Centre	605	-
Multi let Commercial Building	2,996	1,575
<b>Alternatives:</b>		
UK private equity	-	-
Overseas private equity	13,712	14,004
Infrastructure	25,220	24,157
Credit funds	12,668	27,658
Pooled Fixed Income	19,406	9,278
Indirect Property Funds	2,730	12,428
Overseas Pooled Equity Funds	78,645	78,772
<b>Cash:</b>		
Cash and cash equivalents	-	-
Cash accounts	910	4,901
Net current assets	127	(2,976)
<b>Closing fair value of scheme assets</b>	<b>178,411</b>	<b>175,048</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	231,742	228,011	235,534	232,199	238,100
Assets	(175,048)	(175,048)	(175,048)	(175,048)	(175,048)
Deficit/(Surplus)	56,694	52,963	60,486	57,151	63,052
Projected Service Cost for next year	5,150	5,010	5,295	5,150	5,302
Projected Net Interest Cost for next year	1,323	1,285	1,417	1,337	1,479

### Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Lancashire County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. The most recent valuation carried out was at 31 March 2019 which determines contribution rates effective from 01 April 2020 to 31 March 2023.

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 £3.219M expected contributions to the scheme in 2019/20 (£3.286M in 2018/19). The weighted average duration of the defined benefit obligation for scheme members is 16 years, 2019/20, (17 years 2018/19).

## 42 CONTINGENT LIABILITIES

The following material contingent liabilities existed as at 31 March 2020:

**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. The Administrator's latest progress report dated December 2017 states that they are considering assigning the Company's claim to a third party for a nominal fee. It is unclear whether or not the Administrators will assign the Company's claim and whether a third party will pursue any claim against the council, although it is considered unlikely.

**NNDR Appeals** – The council has made provision for NNDR appeals based on its best estimate of the actual liability as at 31 March 2020. 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. This is an ongoing major national issue and has been taken up by the Local Government Association on behalf of councils. As the legality of such a claim is complex, no provision has been made.



#### **43 CONTINGENT ASSETS**

There are no material contingent assets as at 31 March 2020.

#### **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 2019/20 approved Treasury Management Policy, the credit criteria in respect of financial assets held by the council are as detailed in the following table:

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

	Colour (and long term rating where applicable)	Money Limit	Time Limit
Banks /UK Govt. backed instruments*	yellow	£12M	≤1 year
Banks	purple	£6M	≤1 year
Banks	orange	£6M	≤1 year
Banks – part nationalised	blue	£12M	≤1 year
Banks	red	£6M	≤6 mths
Banks	green	£3M	≤100 days
Banks	No colour	Not to be used	
Limit 3 category – council's banker (for non-specified investments)	n/a	£500K	1 day
DMADF	AAA	unlimited	≤6 months
Local authorities**	n/a	£13M	≤1 year
	Fund rating	Money and/or % Limit	Time Limit
Money market funds	AAA	£6M	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£6M	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£6M	liquid

The council's maximum exposure to credit risk in relation to its investments of £40.000M 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 £40.000M, there was no evidence at 31 March 2020 that this was likely to materialise.

The following analysis 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 31/03/20	Historical experience of default	Exposure at 31/03/20	Exposure at 31/03/19
	£000	%	£000	£000
	(a)	(b)	(a * b)	
AAA rated counterparties	-	0%	0%	-
Trade debtors	3,767	Bad debt provision	2,764	2,467
<b>Total</b>	<b>3,767</b>		<b>2,764</b>	<b>2,467</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 £2.207M of the £3.347M sundry debt balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31/03/19	31/03/20
	£000	£000
Current, < 28 Days	633	1,140
28-59 Days	80	264
60-91 Days	66	90
92-183 Days	188	179
184-364 Days	217	221
365+ Days	1,563	1,453
<b>Total</b>	<b>2,747</b>	<b>3,347</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.

	31/03/19	31/03/20
	£000	£000
Less than 1 Year	1,041	17,082
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	3,124	1,041
More than 30 Years	39,216	39,216
<b>Total</b>	<b>63,167</b>	<b>77,125</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. New short term loans of £15m were taken out during 2019/20.

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 0.10%, returns being 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 0.74%, an increase of 1% on interest rates during 2019/20 would have had the following marginal effect:

	Actual £000	+1% £000
<b>New or variable investments:</b>		
Call accounts	272	640
<b>Total</b>	<b>272</b>	<b>640</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.

#### 45 Prior Year Adjustment

During 2019/20 the Directorate management structure of the authority was revised down to four directorates. Both the Comprehensive Income & Expenditure Statement and the Expenditure and Funding Analysis have, therefore, been restated to take account of the restructure as follows:-

##### Effect on line items in the Comprehensive Income and Expenditure Statement

	2018/19			Restructure		2018/19 Restated			New Directorate
	Gross Exp £000	Gross Inc £000	NET £000	Gross Exp £000	Gross Inc £000	Gross Exp £000	Gross Inc £000	NET £000	
<b>Old Directorate</b>									
Office of the Chief Executive	109	-	109	101	-	210	-	210	Central Services
Environmental Services	14,861	(7,867)	6,994	10,719	(6,577)	25,580	(14,444)	11,136	Communities & Environment
Governance	2,380	(539)	1,841	(2,380)	539	-	-	-	
Health & Housing	11,249	(6,979)	4,270	(11,249)	6,979	-	-	-	
Housing Revenue Account	15,815	(15,464)	351	-	-	15,815	(15,464)	351	Housing Revenue Account
Regeneration & Planning	9,706	(2,724)	6,982	1,314	(1,620)	11,020	(4,344)	6,676	Economic Growth & Regeneration
Resources	31,798	(30,446)	1,352	3,587	460	35,385	(29,986)	5,399	Corporate Services
Central Services	2,090	(217)	1,873	(2,090)	217	-	-	-	
<b>Cost of Services</b>	<b>88,008</b>	<b>(64,236)</b>	<b>23,772</b>	<b>2</b>	<b>(2)</b>	<b>88,010</b>	<b>(64,238)</b>	<b>23,772</b>	

##### Effect on line items in the Expenditure & Funding Analysis

	2018/19			Restructure			2018/19 Restated			New Directorate
	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000	Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000	
<b>Old Directorate</b>										
<i>Continuing Operations:</i>										
Office of the Chief Executive	(204)	(313)	109	346	245	101	142	(68)	210	Central Services
Environmental Services	3,650	(3,344)	6,994	2,891	(1,251)	4,142	6,541	(4,595)	11,136	Communities & Environment
Governance	1,792	(49)	1,841	(1,792)	49	(1,841)	-	-	-	
Health & Housing	3,022	(1,248)	4,270	(3,022)	1,248	(4,270)	-	-	-	
Housing Revenue Account	(6,507)	(6,858)	351	-	-	-	(6,507)	(6,858)	351	Housing Revenue Account
Regeneration & Planning	4,777	(2,205)	6,982	(977)	(671)	(306)	3,800	(2,876)	6,676	Economic Growth & Regeneration
Resources	462	(890)	1,352	4,331	284	4,047	4,793	(606)	5,399	Corporate Services
Central Services	1,777	(96)	1,873	(1,777)	96	(1,873)	-	-	-	
<b>Net Cost of Services</b>	<b>8,769</b>	<b>(15,003)</b>	<b>23,772</b>				<b>8,769</b>	<b>(15,003)</b>	<b>23,772</b>	
Other Income and Expenditure	(12,583)	(5,470)	(7,113)				(12,583)	(5,470)	(7,113)	
<b>(Surplus) or Deficit</b>	<b>(3,814)</b>	<b>(20,473)</b>	<b>16,659</b>				<b>(3,814)</b>	<b>(20,473)</b>	<b>16,659</b>	
Opening General Fund & HRA Balances & Reserves	29,514						29,514			
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	3,814						3,814			
<b>Closing General Fund and HRA Balance &amp; Reserves at 31/3/2019</b>	<b>33,328</b>						<b>33,328</b>			

## 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.

2018/19 £000		NOTES	2019/20 £000	£000
<b>Expenditure</b>				
5,192	Repairs and maintenance		5,124	
3,436	Supervision and management		3,695	
179	Rent, rates, taxes and other charges		160	
6,812	Depreciation and impairment of non-current assets	4&5	6,154	
-	Debt management costs		-	
75	Movement in the allowance for bad debts	8	109	
-	Sums Directed by the Secretary of State that are	9	-	
	Expenditure in accordance with UK GAAP			
<b>15,694</b>	<b>Total Expenditure</b>			<b>15,242</b>
<b>Income</b>				
(13,480)	Dwelling rents		(13,643)	
(255)	Non-dwelling rents		(276)	
(1,497)	Charges for services and facilities		(1,596)	
(8)	Contributions towards expenditure		(8)	
(104)	Sums Directed by the Secretary of State that are Income in		(86)	
	accordance with UK GAAP			
<b>(15,344)</b>	<b>Total Income</b>			<b>(15,609)</b>
<b>350</b>	<b>Net Cost of HRA Services as included in the</b>			<b>(367)</b>
	<b>Comprehensive Income and Expenditure Statement</b>			
-	HRA services' share of Corporate and Democratic Core		-	
-	HRA share of other amounts included in the whole authority		-	
	Cost of Services but not allocated to specific services			
<b>350</b>	<b>Net Cost for HRA Services</b>			<b>(367)</b>
<b>HRA share of the operating income and expenditure</b>				
<b>included in the Comprehensive Income and Expenditure</b>				
<b>Statement</b>				
(223)	Gain or Loss on sale of HRA non-current assets		(339)	
1,878	Interest payable and similar charges		1,889	
(70)	Interest and investment income		(90)	
196	Pension interest cost and expected return on pension assets	7	199	
(25)	Capital grants and contributions receivable		(41)	
<b>2,106</b>	<b>(Surplus) or deficit for the year on HRA Services</b>			<b>1,251</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.

2018/19 £000		2019/20 £000
(2,017)	<b>Balance on the HRA at the end of the previous year</b>	(2,235)
2,106	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	1,251
(2,300)	Adjustments between accounting basis and funding basis under statute	(1,917)
(194)	<b>Net (increase) or decrease before transfers to or from reserves</b>	(666)
(24)	Transfers to or (from) reserves	42
(218)	<b>(Increase) or decrease in year on the HRA</b>	(624)
(2,235)	<b>Balance on the HRA at the end of the year</b>	(2,859)

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2020 the council held the following number of dwellings, noting that during the year 26 properties were disposed of under the Right to Buy Scheme, two flats were combined to form one house and two houses were converted to form four flats. Also, there was some minor re-classification of property types:

	2018/19	2019/20
Bedsits	77	77
1 Bedroom		
Houses & Bungalows	654	654
Flats & Maisonettes	547	548
2 Bedroom		
Houses & Bungalows	483	480
Flats & Maisonettes	669	665
3 Bedroom		
Houses & Bungalows	1,178	1,163
Flats & Maisonettes	7	6
4 or more bedroomed dwellings	87	84
<b>TOTAL DWELLINGS</b>	<b>3,702</b>	<b>3,677</b>



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

	Value as at 1 April 2019 £000	Value as at 31 March 2020 £000
<b>Operational Assets:</b>		
Council Dwellings	129,770	129,766
Other land and buildings	94	101
	<b>129,864</b>	<b>129,867</b>
<b>Non-operational Assets</b>	1,665	1,551
<b>TOTAL</b>	<b>131,529</b>	<b>131,418</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 fourth of which updated all values to 01 April 2015. This has resulted in a net increase in asset values of £4.229M in the year, which forms part of the net movement in asset values shown above. Non-dwelling assets were also revalued as at 01 April 2015.

The vacant possession value of dwellings held on 01 April 2019 was £331.960M. The difference between this and the EUV-SH valuation of £132.892M (i.e. the update figure after the valuation exercise effective as of 01 April 2019 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:

	2018/19 £000	2019/20 £000
<b>Opening Balance 01 April</b>	-	-
Transfer to HRA – Depreciation	2,995	3,145
Transfer to HRA - Depreciation Adjustment	(19)	(19)
Transfer to HRA - Additional Capital Financing	509	-
Capital Expenditure - Houses	(3,485)	(3,126)
<b>Closing Balance 31 March</b>	-	-

## 3 CAPITAL EXPENDITURE

Capital expenditure of £4.086M was incurred during the year relating to works on improvements to dwellings. This was financed as follows:

	2018/19 £000	2019/20 £000
Usable Capital Receipts	334	711
Earmarked Reserves	142	208
Majors Repairs Reserve	3,485	3,126
Grants and Contributions	25	41
<b>Total Capital Financing</b>	<b>3,986</b>	<b>4,086</b>

Capital receipts totalling £1.480M were received during the year from the following sources:

	2018/19 £000	2019/20 £000
Sale of dwellings	955	1,480
Repayment of Principal on Mortgages	-	-
<b>Total Capital Receipts</b>	<b>955</b>	<b>1,480</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:

	2018/19	2019/20
	£000	£000
Council Dwellings	2,976	3,126
Other land and buildings	-	-
Non-operational Assets	19	19
Deferred Charges on Intangible Assets	-	-
<b>TOTAL</b>	<b>2,995</b>	<b>3,145</b>

#### 5 IMPAIRMENT CHARGES

No impairment charges were made to the HRA for the financial year 2019/20. There was, however, a revaluation downwards of £4.045M in respect of non-enhancing capital expenditure on Council Housing stock. This was offset by £4.229M upward revaluation as a result of the full revaluation exercise.

#### 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 2020 amounted to £933K (£906K for 2018/19). An amount of £612K (£630K for 2018/19) 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

### Statement of Movement on the HRA Balance

	2018/19 £000	2019/20 £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.	-	-
Difference between any other item of income & expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements.	1	-
Gain or loss on sale of HRA non-current assets.	223	339
HRA share of contributions to or from the Pension Reserve.	(424)	(537)
Capital Expenditure funded by the Housing Revenue Account	142	208
Transfer to/(from) Major Repairs Reserve	509	-
Transfer to/(from) the Capital Adjustment Account	(2,751)	(1,927)
	<b>(2,300)</b>	<b>(1,917)</b>
<b>Transfers to or (from) reserves</b>		
Transfer to/(from) Earmarked Reserves	(24)	42
	<b>(2,324)</b>	<b>(1,875)</b>



## Collection Fund

The Collection Fund shows the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from local taxpayers, and its subsequent distribution to local authorities and the Government. There is no requirement for a separate Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies concerned (i.e. major preceptors, the billing authority and the Government). The council's share of council tax and business rates income is reflected in the Comprehensive Income and Expenditure Statement on an accruals basis in line with the Code. Income due from council tax and business ratepayers is recognised in full at 1 April i.e. the start of the financial year.

The council's share of council tax and business rates income is reflected in the Comprehensive Income and Expenditure Statement on an agency basis in line with the Code. However, the amount to be reflected in the General Fund is determined by regulation. Therefore, there is an adjustment for the difference between the accrued income and the statutory credit made through the Movement in Reserves Statement and the Collection Fund Adjustment Account.

2018/19		NOTES	2019/20	
Business Rates £000	Council Tax £000		Business Rates £000	Council Tax £000
INCOME				
	(72,777)	Income from Council Tax		(77,402)
(66,113)		Income from Business Ratepayers	2	(68,792)
-		Transitional Protection Payments due from Central Government		(144)
-		Contributions towards previous year's estimated Collection Fund deficit		-
(66,113)	(72,777)	TOTAL INCOME		(68,936)
				(77,402)
EXPENDITURE				
Precepts and Demands				
53,351		Lancashire County Council	3	55,749
9,697		Lancaster City Council (including parish precepts)		10,059
7,311		Lancashire Police Authority		8,340
2,779		Lancashire Fire Authority		2,876
30,682		Shares of non-domestic rating income to major preceptors and the billing authority	2	31,092
30,682		Payments made to central government in respect of central share		31,092
379		Transitional Protection Payments due to Central Government		-
997		Renewable Energy Disregard		3,004
214		Cost of Collection Allowance		213
154	216	Write-offs of uncollectable amounts		95
300	(17)	Allowance for Impairment	2	410
3,107		Adjustment to Provision for alteration of lists & appeals		4,775
7,430		Contribution towards previous year's estimated Collection Fund surplus		738
73,945	73,337	TOTAL EXPENDITURE		71,419
				77,380
7,832	560	(SURPLUS) / DEFICIT ON FUND		2,483
				(22)
MOVEMENT ON THE FUND				
(9,329)	94	Opening Balances		(1,497)
(1,497)	654	Closing Balances		986
				633
7,832	560	TOTAL MOVEMENT ON FUND		2,483
				(21)

## 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 2019/20 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	13,221	8,810
Band B	12,419	9,659
Band C	10,247	9,108
Band D	5,829	5,829
Band E	3,701	4,523
Band F	1,834	2,650
Band G	772	1,287
Band H	44	89
<b>Total</b>	<b>48,067</b>	<b>41,955</b>
<i>Collection Rate</i>		98.68%
<b>Council Tax Base</b>		<b>41,400</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 50.4p per £ for 2019/20 (49.3p for 2018/19). For local businesses with a rateable value of less than £18,000, a discount of 1.3p was allowed giving a rate of 49.1p per £. The total rateable value for the district at 31 March 2020 was £160,838,828 (£157,030,163 for 2018/19).

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 Lancaster 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 2019/20 was £19.280M (£18.848M in 2018/19).

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 no safety net was required for 2019/20. 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 2020. Appeals are charged and provided for in proportion to the precepting shares. The total provision as at 31 March 2020 has been estimated at £14.028M (£9.253M in 2018/19), the council's share of which is £5.611M (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	Surplus Allocation	
	£000	£000	£000	£000	
Lancashire County Council	55,749	-	5,597	66	61,412
Lancashire Police Authority	8,340	-	-	-	8,340
Lancashire Fire Authority	2,876	-	622	7	3,505
Lancaster City Council	10,059	-	24,873	296	35,228
	<b>77,024</b>	<b>-</b>	<b>31,092</b>	<b>369</b>	<b>108,485</b>





## 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

Acquired operations are those operations of the local authority that are acquired in the period.

### Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or
- (b) the actuarial assumptions have changed.

### Capital Expenditure

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

### Class of Tangible Fixed Assets

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

Property, plant and equipment  
Investment property  
Assets held for sale

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

### Consistency

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

### Constructive Obligation

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

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and
- (b) as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Contingent Asset**

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

**Contingent Liability**

A contingent liability is either:

- (a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control, or
- (b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

**Corporate and Democratic Core**

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

**Current Service Cost (Pensions)**

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

**Curtailment**

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

- (a) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business, and
- (b) termination, or amendment to the terms, of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

**Defined benefit Scheme**

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

**Defined Contribution Scheme**

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

**Depreciation**

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

**Discontinued Operations**

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

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



- (d) The assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

### **Discretionary benefits**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

### **Estimation Techniques**

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

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

### **Events After the balance Sheet Date**

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

### **Exceptional Items**

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

### **Expected Rate of Return on Pensions Assets**

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

### **Extraordinary Items**

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

### **Fair value**

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

### **Finance Lease**

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

### **Government Grants**

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

### **Impairment**

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

### **Infrastructure Assets**

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

**Interest Cost (Pensions)**

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

**Inventories**

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

**Long-term Contracts**

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

**Net book value**

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

**Net Current Replacement Cost**

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

**Net Debt**

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

**Non-operational Assets**

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

**Operating Leases**

A lease other than a finance lease.

**Past Service Cost**

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

**Prior Period Adjustments**

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

**Projected Unit Method**

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

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

## **Related Parties**

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

- (i) one party has direct or indirect control of the other party, or
- (ii) the parties are subject to common control from the same source, or
- (iii) one party has 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.