



**LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION**

Audit Committee

Tuesday, 24 July 2018

The following reports were marked 'to follow' on the agenda. They are now enclosed, as follows:

Agenda Item Number	Page	Title
5	1 - 122	STATEMENT OF ACCOUNTS 2017/18
		Report of the Chief Officer (Resources)

**AUDIT COMMITTEE****Statement of Accounts 2017/18  
24 July 2018****Report of Chief Officer (Resources)****PURPOSE OF REPORT**

This report seeks Member approval for the 2017/18 audited accounts, to allow the completion of financial reporting for last year.

**This report is public.**

**RECOMMENDATIONS**

1. That the report for 2017/18 issued by the Council's External Auditors be noted, together with the letter of representation to be signed by the s151 Officer.
2. That the audited Statement of Accounts for the financial year ended 31 March 2018 be approved and that the Accounts be signed and dated by the Chairman.

**1 REPORT**

- 1.1 In accordance with the Accounts and Audit Regulations, the draft Accounts for 2017/18 were produced by 31 May 2018 and certified by the s151 Officer on that date. They were then made available for public inspection and they have also been externally audited.
- 1.2 The outcome of the external audit is set out in the Auditor's formal report at **Appendix A**. The External Audit Manager will be in attendance at the Committee meeting to present the report and answer any questions.
- 1.3 In summary, the results of the audit are as follows:
  - There was one adjustment to make in the accounts relating to the treatment of the pension fund up-front payment. This had been treated as a prepayment within the accounts and as such did not appear in the Comprehensive Income and Expenditure Statement (CIES). Authorities had taken different approaches regarding the accounting treatment, albeit that the 'bottom-line' line impact was the same, in that it provided for spreading the payment across the triennial review period. External Audit consider that the correct treatment should have been to recognise the full amount in the CIES with a corresponding reduction in the defined benefit pension liability. This is accepted, based on the overall impact on the

General Fund being nil, as the total payment will still be spread across the three years.

- There were a small number of other presentational adjustments required to the accounts.
- Subject to supporting documentation being completed and reviewed, an unqualified audit opinion is anticipated.
- An unqualified Value for Money (VFM) conclusion is also expected.

1.4 In terms of the Committee's responsibilities, prior to publication of the Accounts the Council must:

- consider the Accounts;
- following that consideration, approve the Accounts; and
- following approval, ensure that the Accounts are signed and dated by the Chairman.

1.5 Accordingly, the adjusted audited Accounts are attached at **Appendix B** for the Committee's consideration and approval. As required under Regulations, the updated Accounts have been re-confirmed by the s151 Officer as presenting a true and fair view of the authority's finances for 2017/18. As background, the financial outturn has previously been reported to both Cabinet and Budget and Performance Panel, and that outturn position remains unchanged following audit.

1.6 In support of completing the audit, the Auditor requires a 'letter of representation', a draft form of which is included at **Appendix C**. The letter will be finalised and signed by the s151 Officer but the Committee is also requested to note it. This is on the basis that those charged with governance should be aware of the representations on which the auditor relies, in expressing his opinion on the Accounts. If there are any substantive changes to the wording of the final letter, the Committee will be advised at the meeting.

1.7 Once the Accounts have been approved, the letter of representation forwarded and any other outstanding matters resolved, it is expected that the Auditor will issue his opinion on the accounts and on VFM arrangements, with conclusion of the audit following in due course.

1.8 As a general rule the audited Accounts should be published by 31 July 2018. This simply involves a copy being made available at the Town Halls and through the Council's website. Normally, the audit should be concluded prior to the publication and although this may not be the case this year, Regulations also provide for the Accounts to be published once the Auditor has made his final report on the findings of the audit, ahead of the formal conclusion.

## 2 **Options and Options Analysis (including risk assessment)**

The Accounts approval process represents an opportunity for the City Council to consider the outcome of external audit, to ensure that its financial reporting is appropriate and take any action as needed. Given the results of the audit, no alternative options are presented, but the Committee could make supplementary recommendations regarding any matters arising.

**3 Conclusion**

Subject to the outcome of the objection to the Accounts, so far the findings of the audit have been positive and reaffirm the soundness of the Council's financial reporting and VFM arrangements. The approval of the Accounts by the Committee would ensure that the relevant statutory deadline is met.

<p><b>CONCLUSION OF IMPACT ASSESSMENT</b>  <b>(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</b>                  No implications directly arising.</p>	
<p><b>FINANCIAL IMPLICATIONS</b>                  There are no changes to the financial outturn from that previously reported to Members.</p>	
<p><b>SECTION 151 OFFICER'S COMMENTS</b>                  This report forms part of the Chief Officer (Resources)' responsibilities, under her role as s151 Officer.</p>	
<p><b>LEGAL IMPLICATIONS</b>                  Legal requirements are as referred to in the report.</p>	
<p><b>MONITORING OFFICER'S COMMENTS</b>                  The Monitoring Officer has been consulted and has no further comment.</p>	
<p><b>BACKGROUND PAPERS</b>                  None.</p>	<p><b>Contact Officer:</b> Nadine Muschamp  <b>Telephone:</b> 01524 582117  <b>E-mail:</b> nmuschamp@lancaster.gov.uk  <b>Ref:</b></p>





# External Audit ISA260 Report 2017/18 DRAFT

**Lancaster City Council**

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July 2018





# Summary for Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at Lancaster City Council ('the Authority').

This report covers both our on-site work which was completed in March and June 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

## Financial statements

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018. These outstanding items include:

- Completion of audit work on pensions, staff costs and journals.
- Final procedures regarding the allocation of pension fund assets;
- Final review of the financial statements, including the adjustment in respect of pension deficit contributions;
- Finalisation of queries relating to PPE valuation;
- Receipt of the management representation letter; and
- Completion of our Whole of Government Account work, which does not prevent us from issuing our audit opinion on the financial statements.

Based upon our initial assessment of risks to the financial statements (as reported to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 8):

- **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated. We have not identified any material misstatements arising from this significant risk for 2017/18.
- **Pensions Liabilities** – The valuation of the Authority's net pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation. We have identified an adjustment relating to the treatment of the pension deficit contributions at Appendix 2.

We have identified one audit adjustment with a total value of £7.9 million. See pages 13 and 23 for details. These adjustments result in a net decrease of £1.9 million in the reported deficit on provision of services, but no impact on the General Fund balance.

We are now in the completion stage of the audit and anticipate being able to issue our completion certificate and Annual Audit letter by 31 July 2018.

# Summary for Audit Committee (cont.)

## Value for money arrangements

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **We therefore anticipate issuing an unqualified value for money opinion.**

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risk:

#### — **Canal Corridor North project and the impact on reserves**

See further details on page 19.

## Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help.

**Section one**

# Control Environment





# Organisational and IT control environment

**We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.**

## Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

[The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

## Key findings

We consider that your organisational and IT controls are effective overall. We have concluded that in respect of controls around property, plant and equipment – as outlined overleaf – there were deficiencies in previous years in the selection of appropriate valuation methodology. This has resulted in an adjustment to a prior-period adjustment to correct this error within the opening balances as at 1 April 2016. As the error was identified by the Authority and a full review of valuation methodologies has taken place, we have not raised any recommendations within this report in respect of this issue.

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	3
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

### Key

1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

# Controls over key financial systems (cont.)

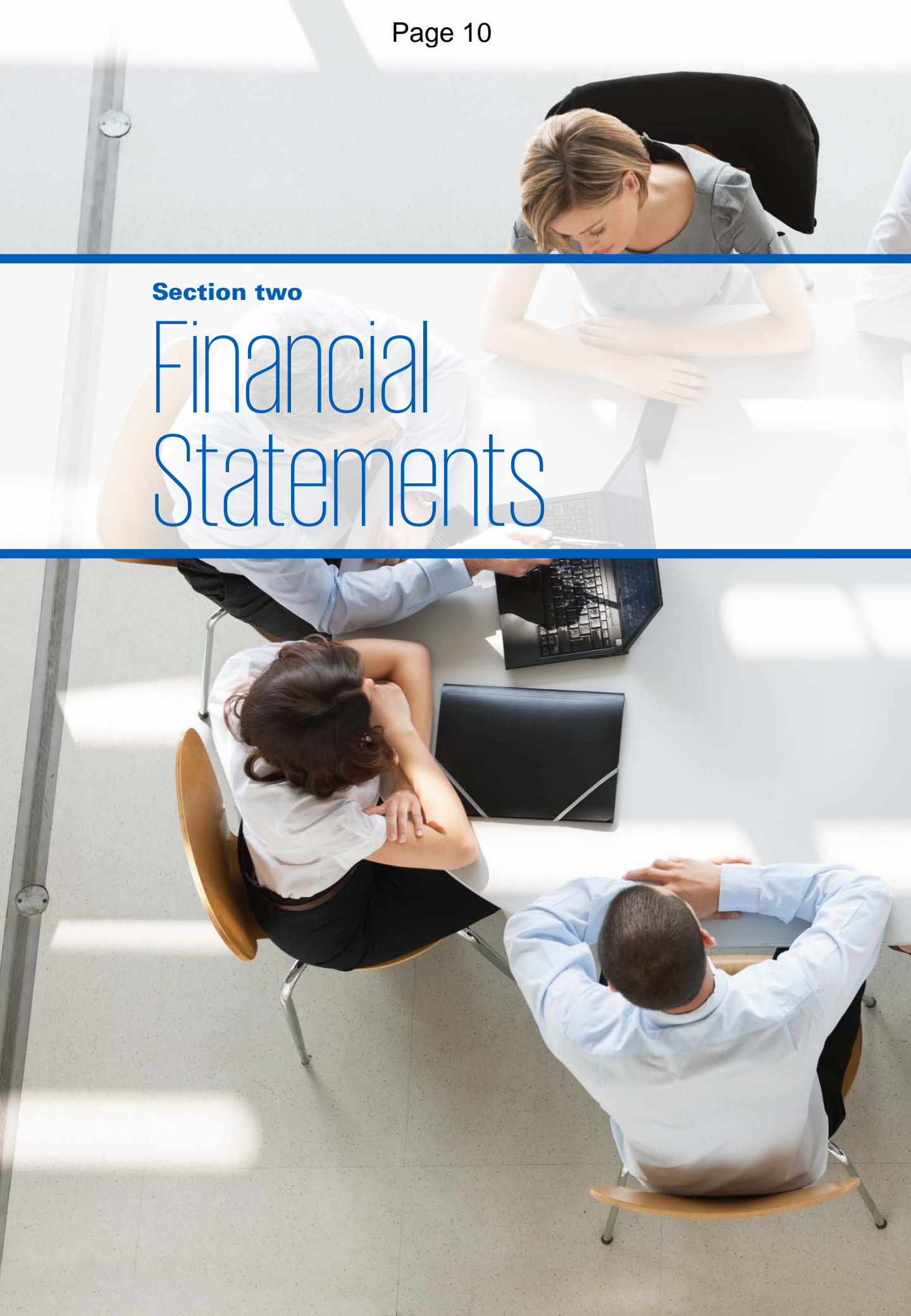
Aspect of controls	Assessment
Property, Plant and Equipment (including valuation controls)	2
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	3
Housing benefits expenditure	3
Business rates income	3
Council tax income	3
HRA rental income	3

Key	
1	Significant gaps in the control environment
2	Deficiencies in respect of individual controls
3	Generally sound control environment



**Section two**

# Financial Statements





# Accounts production and audit process

**Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.**

**We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.**

**The Authority's overall process for the preparation of the financial statements is good.**

**The Authority has implemented all of the recommendations in our *ISA 260 Report 2016/17*.**

## Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We also consider the Authority's accounting practices appropriate.

## Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the to continue as a going concern.

## Implementation of recommendations

We raised a total of four recommendations in our ISA 260 Report 2016/17. The Authority has implemented all of the recommendations relating to the financial statements in line with the timescales of the action plan. Further details are included in Appendix 1.

## Completeness of draft accounts

We received a complete set of draft accounts on 31<sup>st</sup> May 2018, which was the statutory deadline.

## Quality of supporting working papers

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

## Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance team.

# Specific audit areas

**We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.**

**For the year ending 31 March 2018, the Authority has reported a deficit on provision of services of £1.9m. The impact on the General Fund has been an increase of £342k.**

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

## 01

### Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

## 02

### Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

# Specific audit areas

## Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

<p><b>Risk:</b></p>	<p><b>Valuation of PPE</b></p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a three year cycle. As a result of this, however, individual assets may not be revalued for two years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.</p>
<p><b>Our assessment and work undertaken:</b></p>	<p>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. This is partly in response to the identification and correction by the Authority of a prior period error regarding the valuation methodology selected in respect of a specific asset.</p> <p>In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.</p> <p>We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).</p> <p>As a result of this work we have not identified any significant issues or material misstatements.</p> <p>We have set out our view of the judgements and estimates used in relation to accounting for Property, Plant &amp; Equipment at page 12.</p>



# Specific audit areas (cont.)

## Significant Audit Risks (cont.)

<p><b>Risk:</b></p>	<p><b>Pension Liabilities</b></p> <p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Lancashire County Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p>
<p><b>Our assessment and work undertaken:</b></p>	<p>As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the administering authority. Administering authority is responsible for submitting the information to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. We also assessed the controls with respect to the management review of assumptions used in the valuation report and accounts. We also evaluated the competency, objectivity and independence of Mercers, the Scheme Actuary.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Mercers.</p> <p>In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors (Grant Thornton) over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and re-performed this allocation.</p> <p>As a result of this work we have identified an adjustment relating to the treatment of the up-front payment of contributions at Appendix 2.</p> <p>Further, we are awaiting confirmation from the scheme actuary of the procedures used to roll forward the valuation of pension fund assets, and any differences between the amounts estimated as at month 11 and the actual return on assets for the year to 31 March 2018. We are in the process of considering the information shared with the actuary around any special events or arrangements which may have impacted on this roll-forward process.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 12.</p>

# Specific audit areas (cont.)

## Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

### Issue:

#### Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers and actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is the potential that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

### Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.





# Proposed opinion and audit differences

**Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 24<sup>th</sup> July 2018.**

## Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 3) for this year's audit was set at £2.9 million. Audit differences below £145 thousand are not considered significant.

Our audit identified a total of one significant audit difference, which we set out in Appendix 2. It is our understanding that these will be adjusted in the final version of the financial statements.

The tables below illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2018. There is no net impact on the General Fund as a result of audit adjustments. This is the result of the following amendments:

- The Authority took the option of making an up-front payment of pension contributions (both deficit reduction payments and ongoing service contributions) at the start of 2017/18. The effect of two-thirds of this up-front contribution was excluded from the actuarial valuation of the defined benefit pension liability, and instead a prepayment was recognised on the Balance Sheet. The appropriate treatment is to recognise in full the contributions in both the CIES and through the reduction to the defined benefit pension liability. Costs in the CIES are then reversed out and replaced by the current service cost calculated by the actuary. The effect of the change on the General Fund is nil, as the impact of the up-front contributions on the General Fund is under the revised accounting treatment is still able to be spread across the three years to which the up-front payment relates.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

Movement on the General Fund 2017-18				Balance Sheet as at 31 March 2018			
£m	Pre-Audit	Post-Audit	Ref <sup>1</sup>	£m	Pre-Audit	Post-Audit	Ref <sup>1</sup>
Deficit on the provision of services	1,969	96	1	Current assets	19,192	13,193	1
Adjustments between accounting basis and funding basis under regulations	7,602	5,729	1	Long term liabilities	59,197	51,324	1
				Unusable reserves	143,424	145,297	1
				<b>Total Reserves</b>	<b>173,041</b>	<b>174,914</b>	<b>1</b>
<b>Increase in General Fund and Housing Revenue Account (before transfers to earmarked reserves)</b>	<b>5,633</b>	<b>5,633</b>					

<sup>1</sup> See referenced adjustments in Appendix 3.

# Proposed opinion and audit differences (cont.)

## Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

## Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.



# Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.**

## Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Lancaster City Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Lancaster City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

## Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

## Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

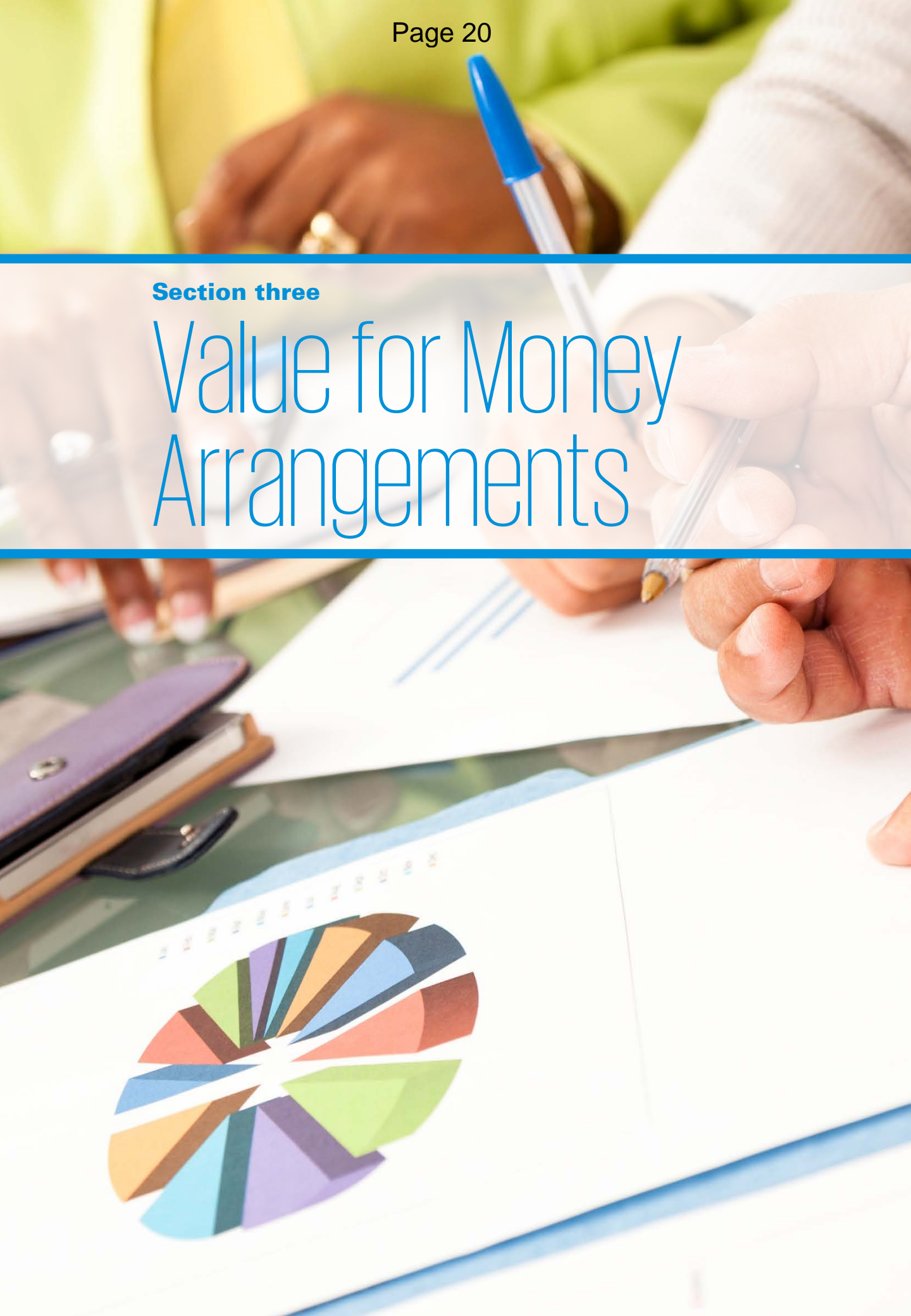
- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.



**Section three**

# Value for Money Arrangements



# Specific value for money risk areas

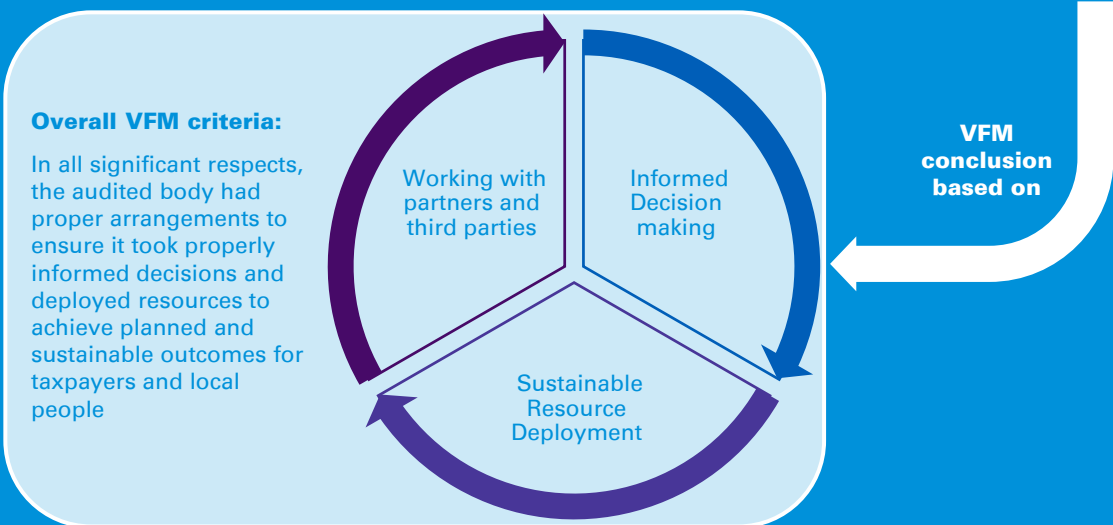
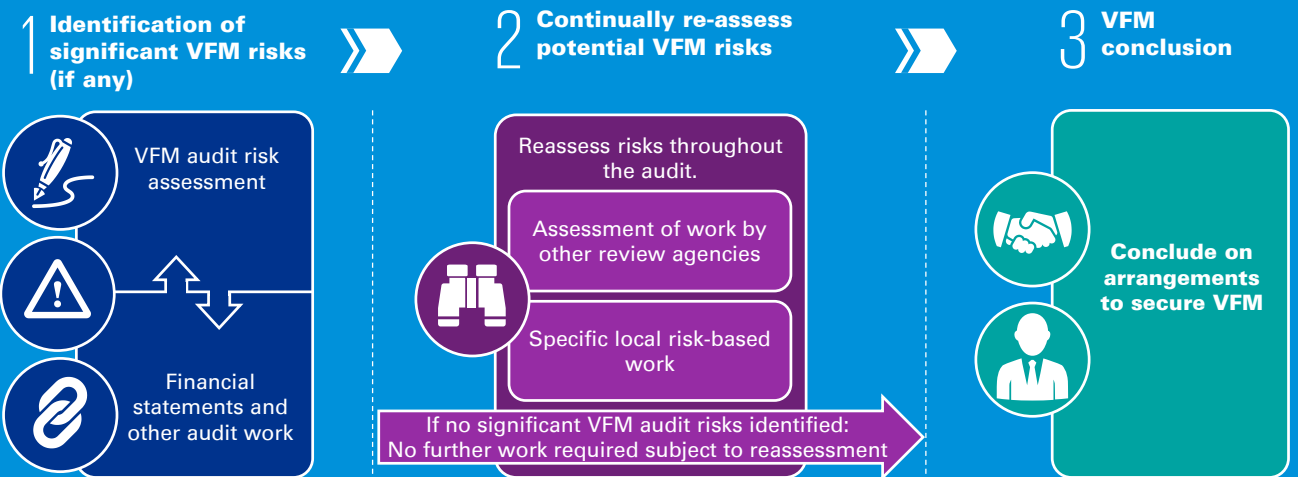
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



# Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria					
VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties		
Canal Corridor North project and impact on reserves					

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.



# Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18*, we have identified one risk requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk area identified, our work undertaken and the conclusions reached.

<b>Risk:</b>	<p><b>Canal Corridor North and impact on reserves</b></p> <p>Lancaster City Council were working with developer British Land to bring forward options to deliver a new retail and leisure quarter for the city of regional importance. Lancaster University is also a key partner in this project, as part of the development is likely to centre on an innovative offer to prospective students.</p> <p>The City Council were working with British Land, Lancaster University and other key partners to agree final proposals which achieve the best for the city and the wider district.</p> <p>The original timetable for the project included agreement on heads of terms in early 2018 with a planning application by the end of the year. This project, if it goes ahead, will require a significant investment from all parties, and thus impact the reserves of the Council. Therefore appropriate risk analysis and scrutiny of the financial implications of the project are crucial to the decision making process of the Council.</p>
<b>Our assessment and work undertaken:</b>	<p>The Canal Corridor North project has not progressed in line with the timescales indicated during our planning. No formal agreements have been made and therefore there has been no formal sign off or agreement of heads of terms.</p> <p>We are aware that British Land are no longer involved in the project and the development agreement has been terminated. There were no outstanding liabilities associated with this termination of contract.</p> <p>The Council will now continue to work to establish a master plan for the area of land later this year.</p> <p>As a result of our work we have not identified any issues that would impact on our VFM conclusion.</p>



# Appendices



# Follow-up of prior year recommendations

The Authority has implemented all of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

## Number of recommendations that were

Included in the original report	4
Implemented in year or superseded	4

No.	Risk	Issue & Recommendation	Status as at July 2018
1	2	<p>Our testing of controls over non-pay expenditure identified two instances where purchase orders were not matched to a purchase order, despite an approved purchase order existing within the system.</p> <p>Purchase orders should be matched to an approved purchase order, as this represents the strongest possible control of non-pay expenditure. While the invoices in question were approved by the appropriate member of staff, controls are strengthened when a full three-way match process is followed, whereby: a purchase requisition is approved and a purchase order created; the goods or services are receipted on the purchasing system; and purchase invoices are matched to the approved purchase order.</p> <p><b>Recommendation</b> We recommend that:</p> <ul style="list-style-type: none"> <li>— Wherever possible, an approved purchase order is in place for all non-pay expenditure; and</li> <li>— Purchase invoices are matched to the associated purchase order within the system prior to payment.</li> </ul>	<p>Our testing of controls over non-pay expenditure for the 17/18 year has not identified any instances of this happening.</p> <p><b>Implemented</b></p>

# Follow-up of prior year recommendations

No.	Risk	Issue & Recommendation	Status as at July 2018
2	3	<p>Our controls audit identified that monthly reconciliations between the Academy system and VOA property schedules were signed as reviewed but not by the individual preparing the reconciliation. Therefore, while we had evidence that the control had been conducted appropriately, we did not have adequate evidence that segregation of duties between the preparation and review of the reconciliation was in place during the year.</p> <p>While the risk around control failure is, in this instance, limited, a valid audit trail for the separate preparation and review of reconciliations should be maintained.</p> <p><b>Recommendation</b></p> <p>We recommend that all reconciliations are signed by both the individual preparing and reviewing the reconciliations, in order to maintain an effective audit trail of segregation of duties in the operation of reconciliation controls.</p>	<p>Our testing of monthly reconciliations for 17/18 year has not identified any instances of this happening.</p> <p><b>Implemented</b></p>
3	2	<p>Our related parties testing identified seven current members who did not have an updated Declaration of Interests form for 2016/17. In all cases, the most recent signed declaration was completed during the 2015/16 financial year.</p> <p>There is a risk that if the Council does not maintain an adequate and timely record of member interests, that material related party transactions are not identified and reported in the Council's Statement of Accounts.</p> <p><b>Recommendation</b></p> <p>We recommend that all members complete an updated Declaration of Interest at least annually.</p>	<p>Our testing of related party declarations for the 17/18 year has not identified any instances of this happening.</p> <p><b>Implemented</b></p>
4	2	<p>Our year-end financial statements audit identified that the Social Housing Local Adjustment Factor adopted in establishing the valuation of HRA properties at the year-end was not updated for the latest guidance issued by DLG in November 2016. Consequently, an adjustment factor of 35% was used, rather than the 40% as per the updated guidance for 2016/17. This has resulted in an adjusted audit difference in the Statement of Accounts for 2016/17.</p> <p>This indicates that there is a risk around updates to valuation methodologies in accordance with latest national guidance.</p> <p><b>Recommendation</b></p> <p>We recommend that all revaluation work undertaken by the Council's expert valuation specialist is conducted after thorough review of available national and local guidance. The outcome of the revaluation exercise should be reviewed closely by senior Finance officers with reference to the extant guidance, to ensure that further misstatements of this nature do not occur.</p>	<p>Our testing identified that the Authority used an appropriate Social Housing Local Adjustment Factor for the 17/18 year.</p> <p><b>Implemented</b></p>

# Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

## Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Lancaster City Council's financial statements for the year ended 31 March 2018.

**Table 1: Adjusted audit differences (£'000)**

N o.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Cost of Services Expenditure £1,642	Cr Comprehensive income and expenditure £1,873	Cr Short Term Debtors 5,999	Dr Other Long Term Liabilities £7,872	Cr Unusable Reserves £1,873	Relates to the recording of up-front pension contributions. See commentary on Page 13.
	Cr Cost of Services Income £3,515	Dr Adjustments between accounting basis and funding basis £1,873				
	<b>Cr 1,873</b>	<b>Dr/Cr Nil</b>	<b>Cr 5,999</b>	<b>Dr 7,872</b>	<b>Cr 1,873</b>	<b>Total impact of adjustments</b>

## Unadjusted audit differences

We are pleased to report that there are no unadjusted audit differences.

## Presentational adjustments

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code').

# Materiality and reporting of audit differences

**The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.**

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in February 2018.

Materiality for the Authority's accounts was set at £2.9 million which equates to around 2.0% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £145 thousand for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified one adjusted audit differences with a total value of £6.2 million. See page 23 for details. These adjustments result in a net decrease of £1.9 million in the reported deficit provision of services. See page 23 for further details.
Unadjusted audit differences	We are pleased to report that there are no unadjusted audit differences..
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in Section one of this report (see pages 3 to 5).  We have identified no any deficiencies in internal control of a lesser magnitude than significant deficiencies.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

# Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	<p>No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement.</p> <p>These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.</p>
Our declaration of independence and any breaches of independence	<p>No matters to report.</p> <p>The engagement team have complied with relevant ethical requirements regarding independence.</p> <p>See Appendix 5 for further details.</p>
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 12.</p>
Significant matters discussed or subject to correspondence with management	<p>There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.</p>



# Declaration of independence

## ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LANCASTER CITY COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

### Independence and objectivity considerations relating to the provision of non-audit services

#### *Summary of fees*

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period.

We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed overleaf.

## Declaration of independence (cont.)

	2017-18 £	2016-17 £
Audit of the Authority	58,388	58,388
<b>Total audit services</b>	<b>58,388</b>	<b>58,388</b>
Audit related assurance services	3,000	3,000
Mandatory assurance services	9,573	7,740
<b>Total Non Audit Services</b>	<b>12,573</b>	<b>10,740</b>

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.22:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

#### **Independence and objectivity considerations relating to other matters**

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

#### **Confirmation of audit independence**

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.



**KPMG LLP**



# Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
<b>Audit-related assurance services</b>				
Assurance report for grant claim no longer within the PSAA regime – Pooling of Housing Capital Receipts	<p><b>Self-interest:</b> This engagements is entirely separate from the audit through separate contracts. The fee rate is low in comparison to the audit fees and is not contingent on any outcomes from the assurance work.</p> <p><b>Self-review:</b> The nature of this work is to provide an independent assurance report to the relevant external body. This does not impact on our other audit responsibilities and there is no threat of our work under this engagement being reviewed through our audit.</p> <p><b>Management threat:</b> This work provides a separate assurance report and does not impact on any management decisions.</p> <p><b>Familiarity:</b> This threat is limited given the scale, nature and timing of the work.</p> <p><b>Advocacy:</b> We will not act as advocates for the Council in any aspect of this work. The output is an independent assurance report to the relevant external body applying an approach issued by that body.</p> <p><b>Intimidation:</b> not applicable to these areas of work.</p>	Fixed daily rate	0	3,000
<b>Mandatory assurance services</b>				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	0	9,573

# Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £58,388 plus VAT (£58,388 in 2016/17), which is consistent with the prior year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is planned for August 2018. The planned scale fee for this is £9,573 plus VAT (£7,740 in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements amount to £3,000 plus VAT (£3,000 in 2016/17), see further details below.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
<b>Accounts opinion and value for money work</b>		
PSAA Scale fee (Lancaster City Council)	58,388	58,388
Additional fee for work in response to elector challenge (relating to 2015/16 financial statements)	-	5,000
<b>Total audit services</b>	<b>58,388</b>	<b>63,388</b>
<b>Mandatory assurance services</b>		
Housing Benefits Certification (work planned for August)	9,573	7,740
<b>Total mandatory assurance services</b>	<b>9,573</b>	<b>7,740</b>
<b>Audit-related assurance services</b>		
Pooling of Housing Capital Receipts (work planned for September)	3,000	3,000
<b>Total audit-related assurance services</b>	<b>3,000</b>	<b>3,000</b>
<b>Total non-audit services</b>	<b>12,573</b>	<b>10,740</b>
<b>Grand total fees for the Authority</b>	<b>70,961</b>	<b>74,128</b>

*All fees quoted are exclusive of VAT.*





The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact [...], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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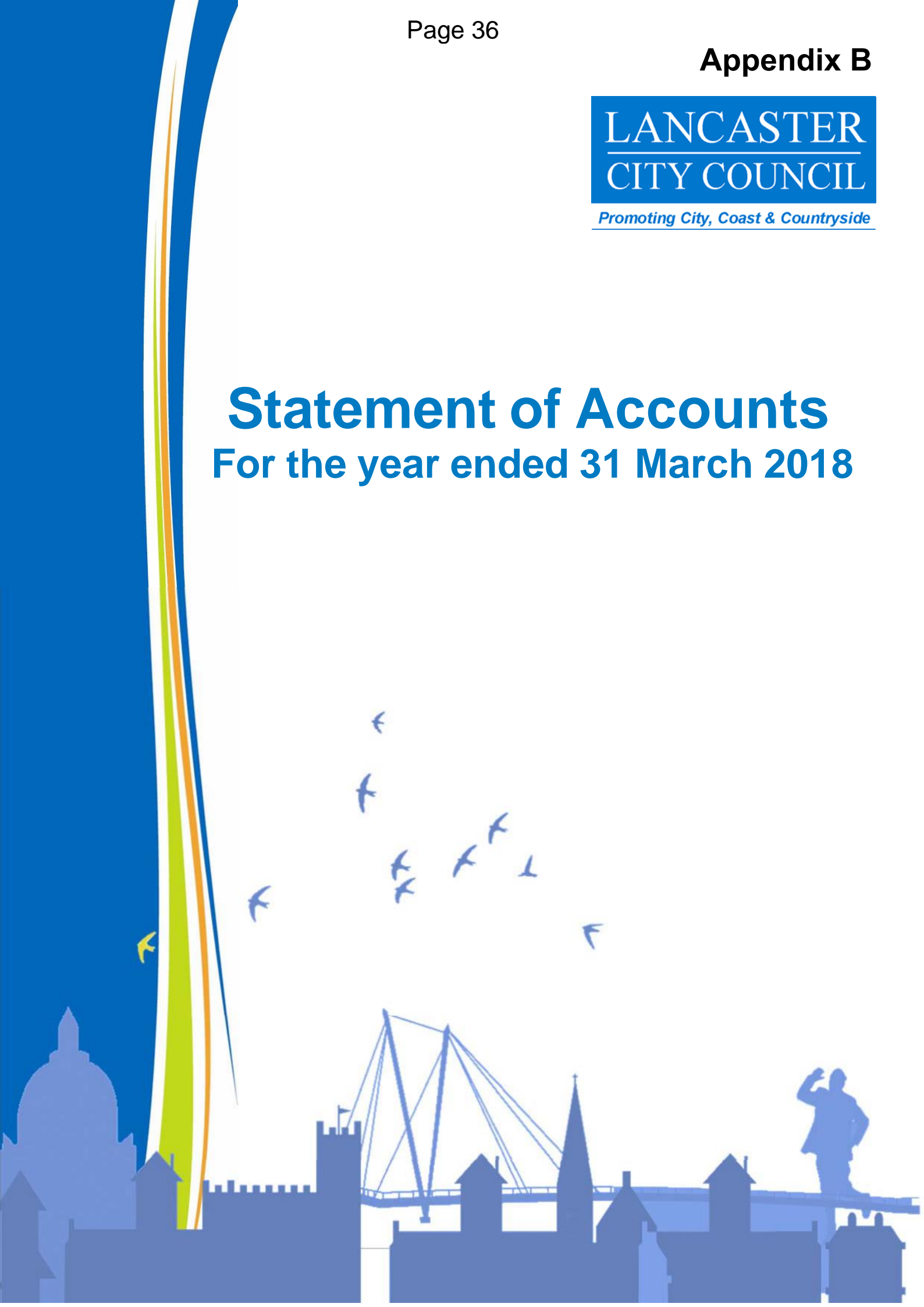
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LANCASTER  
CITY COUNCIL

*Promoting City, Coast & Countryside*

# Statement of Accounts

## For the year ended 31 March 2018





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

This booklet includes the following documents produced by the Council in relation to financial year 2017/18:

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



Signed by:

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

Date: 19 July 2018

# Narrative Report

## 1 Introduction

This Narrative Report provides headline and other supporting information about the City Council's performance in 2017/18, in both financial and operational/service delivery terms, to give an overview of the Authority's economy, efficiency and effectiveness in its use of resources during the last year. The topics covered include the following:

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

This is followed by an explanation of the Financial Statements.

## 2 An Introduction to Lancaster City Council

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



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

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



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

### 3 Financial Performance

#### 3.1 Context

The financial performance of the Council is set against a background of continuing significant financial challenges, due to reductions in funding from Central Government along with cost pressures within services and continued volatility in respect of business rates income. This position is likely to continue until at least 2021/22, in particular in respect of government funding, which will see Revenue Support Grant dropping from £1.605M in 2017/18 to nil by 2020/21. In addition, there is still much uncertainty surrounding the proposed move to 75% business rates retention, and how the outcome of the Government's Fair Funding review will impact on the Council from around 2020 onwards.

Whilst the Council has balanced its budget for 2018/19 without drawing on Balances, the prospects for the following three years (2019-2022) are not as healthy. The Medium Term Financial Strategy projects an estimated annual budget deficit rising to just over £2.4M by 2021/22. Indicative savings options have been identified and are being developed to go towards meeting that deficit, although more work is still needed. Contingency plans are being developed to identify more savings or income generation opportunities, for consideration as part of the forthcoming 2019/20 budget setting process and beyond.

#### 3.2 General Fund

The General Fund accounts for income and expenditure associated with the day to day running of all the services that the Council provides, with the exception of council housing. The General Fund Revenue Budget for 2017/18 (including parish precepts) was originally approved by Council on 01 March 2017 at £16.425M (£16.803M in 2016/17). It assumed that Balances would be just over £4.6M at 31 March 2018, though these were increased by a further £249K following the 2016/17 outturn.

Between 2016/17 and 2017/18 the General Fund budget reduced by £419K or 2.6%, primarily as a result of Government funding reductions. Despite this challenging climate the financial standing of the Council remains robust.

The table below summarises the General Fund revenue income and expenditure for 2017/18. It shows the actual variances for each service area.

	2017/18		Variance from	
	Original Budget	Revised Budget	Actual	Revised Budget
	£000	£000	£000	£000
<b>Expenditure:</b>				
Management Team	-	-	-	-
Environmental Services	4,011	4,336	4,929	593
Governance	1,731	1,773	2,059	286
Health & Housing	3,786	4,114	4,726	612
Regeneration & Planning	6,320	5,864	7,260	1,396
Resources	1,176	1,070	1,301	231
Central Services	1,762	1,761	2,071	310
Other Corporate Income and Expenditure Items	(3,477)	(4,007)	(4,145)	(138)
Interest Payable & Similar Charges	1,080	1,086	1,100	14
General Government Grants	(1,191)	(1,165)	(1,889)	(724)
Contributions to/(from) Usable Earmarked Reserves	1,053	455	1,139	684
Contributions to/(from) Unusable Reserves	(196)	990	(2,673)	(3,663)
Contribution to General Fund Balance	165	(57)	342	399
<b>NET REVENUE EXPENDITURE</b>	<b>16,220</b>	<b>16,220</b>	<b>16,220</b>	<b>-</b>
Parish Precepts	586	586	586	-
<b>TOTAL BUDGET</b>	<b>16,806</b>	<b>16,806</b>	<b>16,806</b>	<b>-</b>
<b>Funded by:</b>				
Revenue Support Grant	(1,605)	(1,605)	(1,605)	-
Retained Business Rates	(5,992)	(5,992)	(5,992)	-
Council Tax Payers	(9,209)	(9,209)	(9,209)	-
<b>TOTAL FUNDING</b>	<b>(16,806)</b>	<b>(16,806)</b>	<b>(16,806)</b>	<b>-</b>

The table shows two significant variances which are explained below:

*Regeneration & Planning £1.396M*

There is one main variance of £1.1M relating to a downward revaluation of properties associated with the Morecambe Area Action Plan scheme, in line with the disposal and transfer of properties to the regeneration property developer taking forward the Chatsworth Gardens scheme. As revaluations are not carried out until the year end and it is inappropriate to estimate their impact, variances will inevitably arise.

*Contributions from Unusable Reserves (£3.663M)*

The majority of this variance (£2.9M) relates to the net impact of transfers from the Pension Reserve, which cannot impact on council tax.

At outturn for 2017/18 there was a net underspending of £399K (£249K for 2016/17) against the Revised Budget. The main areas where variances occurred are as follows:

	£000
Employee savings	(41)
Transport & Premises savings (Net)	(212)
Supplies & Services savings	(69)
Net Additional Income	(230)
Extra contribution to Reserves	130
Net extra contribution to Provisions	55
Other minor variances	(32)
	(399)

As a result of the outturn, General Fund unallocated Balances stand at £5.067M as at 31 March 2018, which is well in excess of the minimum level of £1.5M. 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.

### 3.3 Housing Revenue Account (HRA)

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

The net underspending on the HRA for 2017/18 was £301K (£112K in 2016/17), which has been transferred into HRA unallocated Balances. The main areas where variances have occurred are shown below:

	£000
Premises savings	(18)
Reduced contribution to Bad Debt Provision	(19)
Increased Rental Income from tenants	(78)
Additional use of Reserves	110
Net reduction in Capital funded from Revenue	(249)
Other minor variances	(47)
	(301)

As at 31 March 2018 the HRA's unallocated Balances amount to £2.018M, which is £1.518M above the £500K minimum recommended level.

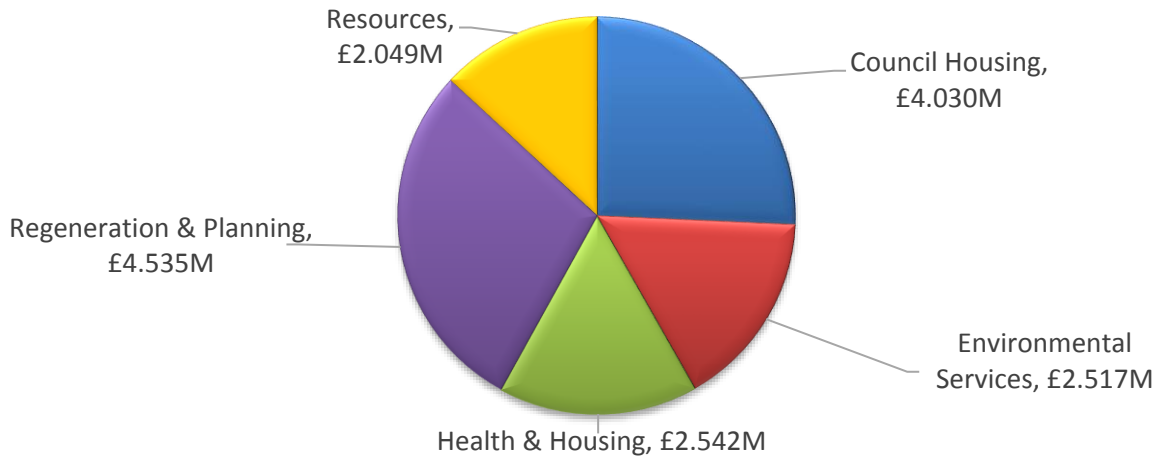


**4 Capital Position**

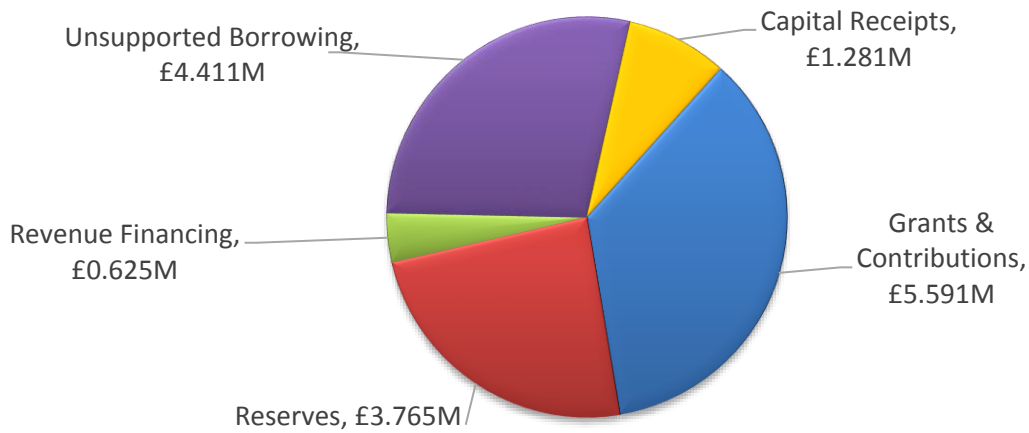
In 2017/18 the City Council spent £15.673M on capital schemes (*£16.709M in 2016/17*), which is summarised on the following page together with headline information on how that investment was financed.

**Summary of Capital Expenditure and its Financing**

**CAPITAL EXPENDITURE**



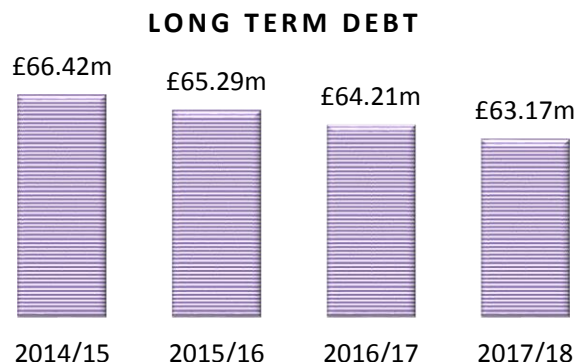
**CAPITAL FINANCING**



The Council's revised Capital Programme for 2017/18 was £16.350M (*£18.810M in 2016/17*), and net slippage of £201K (*£1.924M in 2016/17*) has been rolled forward into 2018/19 to reflect programming delays on some schemes. The approved capital programme for 2018/19 is £15.821M, which will rise to £16.022M after slippage from 2017/18. The main schemes for 2018/19 include £1.2M of vehicle replacements, £3.2M for Disabled Facilities Grants, £1.2M for Sea & River Defences, £2.8M on Corporate Property Works and £4.4M on Council Housing schemes.

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

In 2017/18 the cost of financing long term debt (i.e. interest charges) was £3.007M, and the value of long term debt owed as at 31 March 2018 amounted to £63.167M (*£64.208M in 2016/17*), of which all relates to PWLB long term borrowing. A further £1.041M is included within short term liabilities as it is due for repayment over the next 12 months. The overall level of debt should be viewed in relation to the Council's long term assets, which had a net book value of around £283M as at 31 March 2018.



## 5 Non-Financial Performance

The Council's non-financial performance for 2017/18 is mapped out below against each of its Corporate Plan priorities.

### Priority: Community Leadership



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

- ✓ Established a dedicated and highly flexible Anti-Social Behaviour team taking on a wide range of cases
- ✓ Established in partnership a Lancaster district integrated Early Action team across a range of agencies and with community involvement to tackle problems at an early stage
- ✓ Responded to an extreme weather event in November 2017, working alongside our partners to support communities through the immediate recovery and beyond
- ✓ Continued to support the Communities Together group in promoting community cohesion
- ✓ Continued to fund Voluntary, Community and Faith Sector groups in meeting local needs

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

- ✓ Commenced a review of our Constitution to ensure it enables us to meet the needs of our communities
- ✓ Won the iNetwork Innovation award for Connected Procurement and Commissioning in respect of the Salt Ayre Leisure Centre redevelopment project
- ✓ Launched the commercial trading arm of our Pest Control service, Unbugged, with the aim of helping to subsidise the cost of our residents' pest control needs
- ✓ Restructured our Property Service to increase capacity for asset management and hospitality and facilitate income generation
- ✓ Established Key Performance Indicators for quarterly reporting

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

- ✓ Begun working with local partners on a bid for a Local Full Fibre Network

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

- ✓ Commenced development of a new Customer Experience Platform using the Microsoft Dynamics 365 platform
- ✓ Continued to develop online self-service solutions for residents

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

- ✓ Set a balanced budget for 2018-19
- ✓ Secured funding for short-term implementation of projects to make savings and/or generate income during 2018-19, and longer-term capacity-building to deliver transformation and innovation in the coming years

## Priority: Health and Wellbeing



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

- ✓ Published our Local Plan in February 2018
- ✓ Helped people find affordable homes in social housing developments and the council's housing stock through the Ideal Choice Homes Scheme
- ✓ Continued to provide our Warm Homes series during the winter months which has enabled vulnerable residents to stay warm over the winter, typical works include provision of new windows/doors, boiler repairs and replacements.
- ✓ Maintained homeless acceptances at the lowest level since 2004/05 by increasing focusing on prevention work and early help for those at risk of homelessness.
- ✓ Following the Grenfell fire, we have worked with Lancashire Fire and Rescue to identify all residential high rise blocks in the district, and ensure they are safe.
- ✓ Based on the feedback from an extensive public consultation on whether to introduce a licensing scheme for private landlords in Morecambe, we decided to pilot an intelligence led enforcement approach concentrating on dealing with problems associated with rogue landlords

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

- ✓ Opened the Tranquil Spa facility in Salt Ayre Leisure Centre, which completed the vast majority of the transformation of the leisure centre
- ✓ Increased Health and Fitness membership numbers at Salt Ayre Leisure Centre from approximately 700 to 2,860, with an increase in active female members of 78%
- ✓ Invested in extra staff support to over 100 families in our council houses to cope with increasing financial hardship, Anti-Social Behaviour, worklessness and the impact of universal credit.
- ✓ Took enforcement action against businesses failing to meet standards of food safety and worked proactively to help others to achieve and maintain high standards
- ✓ Revoked 3 taxi driver licenses due to serious matters putting public health at risk and carried out 180 unannounced taxi vehicle compliance inspections of vehicles resulting in issuing 75 defect notices and 2 vehicle suspensions

## Priority: Clean and Green



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

- ✓ Approved purchase of electric vehicles and installation of charging points
- ✓ Continued our programme of energy efficiency across our buildings and operations
- ✓ Secured funding to explore feasibility of two solar farms

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

- ✓ Won Green Flag awards for Williamson Park and Happy Mount Park, with improved satisfaction rates at each
- ✓ Reviewed our Cleansing service delivery to increase capacity over 7 days
- ✓ Took firm action against proven acts of deliberate litter dropping and fly-tipping and invested more resources in tackling fly tipping

## Priority: Sustainable Economic Growth



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

- ✓ Begun developing an Economic Growth Plan
- ✓ Supported local food businesses with start-up advice and improvements audits and delivered specialist food hygiene training all generating additional income to reinvest back into services.
- ✓ Continued to develop plans for the Heysham Gateway site, working with major occupiers such as Peel Ports and EDF Energy to facilitate their future needs
- ✓ Commenced discussions with partners around a Place Board to help put the district on the map as a place to invest, do business and work as well as visit
- ✓ Supported the North Lancs Expo
- ✓ Allocated resource to work with partners on skills development for the district

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

- ✓ Launched standalone visitor websites for Lancaster and Morecambe Bay
- ✓ Promoted Lancaster and Morecambe Bay as part of the national Heritage Open Days Campaign
- ✓ Relunched our Visit Card available through Visitor Information Centres encouraging local people and visitors to explore the district

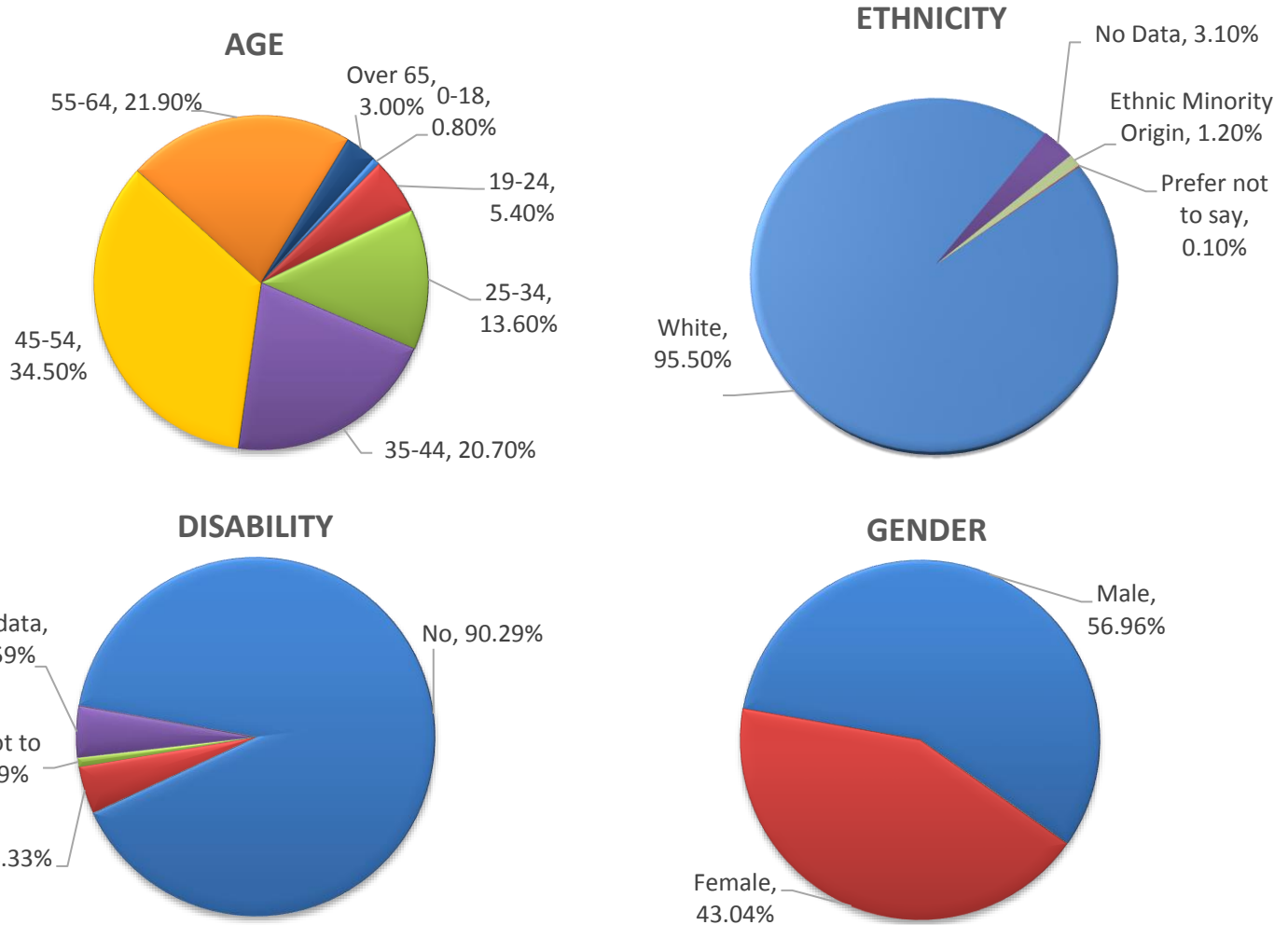
**Outcome: Lancaster and Morecambe Bay will be recognised as important visitor destinations**

- ✓ Begun developing our narrative for the district

- ✓ Presented the district as a destination for visitors and investors at MIPIM UK 2017
- ✓ Committed to bringing the Museums service back in-house to play a central role in the heritage and culture of the district
- ✓ Continued to support successful festivals such as Vintage by the Sea, Light Up Lancaster and Catch the Wind

## 6 People

At the end of 2017/18 Lancaster City Council employed 762 staff (751 in 2016/17) in a mixture of full time and part time roles. The Council collects information on its workforce in respect of age, disability, ethnicity and gender profiles, summaries of which are shown in the following diagrams. Development of the Council's workforce strategy continues, with a particular focus on the recognised need to review pay and grading.



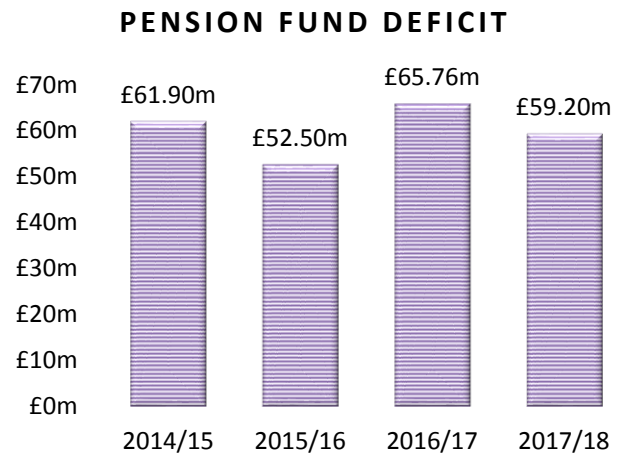
## 7 Pension Liabilities

In accordance with accounting practice, the Council must show the present surplus or deficit position for its share of the Pension Fund. The Local Government Pension Scheme administered by Lancashire County Council underwent a full valuation as at March 2016, the results of which were published in March 2017. This valuation saw an increase in net deficit on the Fund to £1.377BN (£993M in 2010).



For the City Council, the net position as at 31 March 2018 showed a net liability of £57.324M compared to £65.763M for the previous financial year. This represents a reduction in net liabilities of £8.439M. The reduction in the deficit is attributable to an increase in the discount rate of around 0.1% and a fall in inflation assumptions over the year. These two factors account for a reduction in liabilities of £3.5M, and an increase in assets of £4.9M.

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



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

## 8 Local Taxation

### Collection Fund

The Collection Fund accounts for all the Council Tax and Business Rates income for the district with the City Council acting as billing authority. Income is collected by the City Council (Council Tax £68M and Business Rates £67M) and redistributed to the City Council's General Fund, Central Government, Lancashire County Council, Lancashire Combined Fire Authority and the Police and Crime Commissioner for Lancashire.

### Council Tax

At the end of the financial year there was a comparatively small deficit of £94K (*£197K for 2016/17*) in relation to council tax, it being a slight deterioration from the balanced position forecast back in January of this year. The deficit represents the tax base being only 47 (*or 0.1%*) Band D chargeable dwellings less than estimated. As the City Council funds 13% of any deficit, this would mean a potential additional charge of £12K against the revenue budget in 2019/20, if no further changes were to arise in the meantime.

### Retained Business Rates

On 01 April 2017 the latest revaluation by the Valuation Office Agency came into effect, resulting in a district increase in Rateable Value of 4%, from £153.637M (2010 List) to £159.981M (2017 List). Since the new list became effective, no appeals have been made against it in this area. This has made estimating the provision for appeals more complicated, and as a result an historic average loss of 5.7% has been assumed. The overall business rate position has moved from an opening deficit of £1.8M to a final surplus of £9.3M at the end of 2017/18. Of the £9.3M surplus, the City Council's share is £3.7M but if realised, this would not be for some time and it will therefore not immediately impact directly on the Council's budget.

In addition, in 2017/18 the City Council also benefited from £954K (*£918K for 2016/17*) of rating income from renewable energy schemes within the district. Effectively such income currently falls outside of the main rate retention scheme, and so the Council retains full benefit from it.

## 9 Treasury Management

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

In 2017/18 the Council continued to have a comparatively low risk investment appetite with focus on high quality deposits.

Short term investments at 31 March 2018 were £25.100M (*£30.281M for 2016/17*), and the average interest earned over the year was down by 0.04% to 0.33% (*0.37% for 2016/17*).

## 10 Changes in Accounting Policies

A number of new standards and technical guidance notes have been issued and have been reflected in the accounting policies for 2017/18, where applicable. These are as follows:

- IFRS 9 Financial Instruments,
- IFRS 15 Revenue from Contracts with Customers,
- amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*,
- amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative*, and;
- Department for Communities and Local Government (DCLG): The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017 – for English Authorities.

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

## 11 Corporate Risk

Over the course of last year, the Council's key corporate risks centred around balancing the needs and demands of the district and its communities, in the context of substantial ongoing reductions in local government funding and significant national policy changes coming through.

Over the medium to longer term, the Council is still currently planning to do more than it can afford to do. The Council acknowledges that its risk appetite must increase, as it simply cannot expect to maintain or improve service delivery whilst managing down its annual spending (and/or increasing charging for specific services), and promoting innovation and transformation inevitably increases the inherent risks facing the Authority. Managing communities' and other stakeholders' expectations in light of this approach remains challenging, and this will grow as the impact of the City Council's (and other public sector organisations') budget decisions continue to bite. The Council's key strategic risks are due to be considered in June by Members, alongside the new Council Plan.

With regard to managing such corporate and other risks, the Council adopted a pragmatic approach some years ago, and moved away from seeking to maintain all-encompassing 'risk registers'. Instead, it seeks to ensure that alongside consideration of strategic risk, appropriate risk management is actively undertaken through decision-making and day to day operations. A review of that approach is still due to be completed over the coming year.

More contextual information relating to aspects of risk is included in the Council's Annual Governance Statement (AGS).

## 12 Conclusion

Although the Council's General Fund budget and associated Government funding reduced again in 2017/18, it has managed those reductions and has again strengthened its financial standing as at 31 March 2018. Balances are therefore again higher than forecast, and the Council still has other substantial earmarked reserves to help respond to the ongoing financial challenges expected over the coming years, in delivering against its corporate priorities. These challenges include the extent of future Government funding reductions.

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

In terms of Council Housing provision the HRA remains in a strong position financially. Whilst it is still facing some challenge regarding its financial sustainability as a result of earlier national policy and associated regulatory changes, particularly regarding rent setting, it is likely that in the longer term, those policy constraints will ease.

## Summary of Financial Statements

### THE CORE FINANCIAL STATEMENTS

#### **Movement in Reserves Statement**

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

#### **Comprehensive Income and Expenditure Statement**

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

#### **Balance Sheet**

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

#### **Cash Flow Statement**

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

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

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

### THE SUPPLEMENTARY FINANCIAL STATEMENTS

#### **Housing Revenue Account Income and Expenditure Account**

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

#### **Collection Fund**

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

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

**Group Accounts**

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

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

**Bequests, Endowments and Trust Funds**

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

# STATEMENT OF ACCOUNTS

## Statement of Responsibilities for the Statement of Accounts

### 1 The Authority's Responsibilities

The authority is required to:

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

### 2 The Chief Officer (Resources)' Responsibilities

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

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

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

The Chief Officer (Resources) has also:

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

### 3 Chief Officer (Resources)' Certificate

I certify that the Statement of Accounts give a true and fair view of the financial position of the authority as at 31 March 2018 and the income and expenditure for the year then ended.



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

Date: 31 May 2018



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

Date: 19 July 2018

### 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 24 July 2018.

Cllr Abbott Bryning

Date:



## 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.

2017/18	General Fund		HRA		Major Repairs Reserve	Usable Capital Receipts	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
	Balance	Earmarked Reserves	Balance	Earmarked Reserves						
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31/03/2017</b>	<b>4,725</b>	<b>6,510</b>	<b>1,937</b>	<b>10,709</b>	-	-	<b>103</b>	<b>23,984</b>	<b>134,940</b>	<b>158,924</b>
<b>Movements in 2017/18</b>										
Total Comprehensive Income and Expenditure	1,728	-	(1,824)	-	-	-	-	(96)	16,086	15,990
Adjustments between accounting & funding basis under regulations	3,973	-	1,756	-	-	-	-	5,729	(5,729)	-
Net Increase/(Decrease) before transfers to earmarked reserves	5,701	-	(68)	-	-	-	-	5,633	10,357	15,990
Transfers (to)/from earmarked reserves	(5,359)	5,359	148	(148)	-	-	-	-	-	-
<b>Increase/(decrease) in 2017/18</b>	<b>342</b>	<b>5,359</b>	<b>80</b>	<b>(148)</b>	-	-	-	<b>5,633</b>	<b>10,357</b>	<b>15,990</b>
<b>Balance at 31/03/2018</b>	<b>5,067</b>	<b>11,869</b>	<b>2,017</b>	<b>10,561</b>	-	-	<b>103</b>	<b>29,617</b>	<b>145,297</b>	<b>174,914</b>

2016/17	General Fund		HRA		Major Repairs Reserve	Usable Capital Receipts	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
	Balance	Earmarked Reserves	Balance	Earmarked Reserves						
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31/03/2016</b>	<b>4,460</b>	<b>6,405</b>	<b>1,691</b>	<b>10,567</b>	-	-	<b>103</b>	<b>23,226</b>	<b>120,770</b>	<b>143,996</b>
<b>Movements in 2016/17</b>										
Total Comprehensive Income and Expenditure	2,505	-	4,239	-	-	-	-	6,744	8,184	14,928
Adjustments between accounting & funding basis under regulations	(2,135)	-	(3,851)	-	-	-	-	(5,986)	5,986	-
Net Increase/(Decrease) before transfers to earmarked reserves	370	-	388	-	-	-	-	758	14,170	14,928
Transfers (to)/from earmarked reserves	(105)	105	(142)	142	-	-	-	-	-	-
<b>Increase/(decrease) in 2016/17</b>	<b>265</b>	<b>105</b>	<b>246</b>	<b>142</b>	-	-	-	<b>758</b>	<b>14,170</b>	<b>14,928</b>
<b>Balance at 31/03/2017</b>	<b>4,725</b>	<b>6,510</b>	<b>1,937</b>	<b>10,709</b>	-	-	<b>103</b>	<b>23,984</b>	<b>134,940</b>	<b>158,924</b>

## Comprehensive Income and Expenditure Statement

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

The CIES has two sections:

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

2016/17				2017/18			
Gross Exp	Gross Inc	NET		Gross Exp	Gross Inc	NET	
£000	£000	£000	NOTES	£000	£000	£000	
<i>Continuing Operations:</i>							
665	(665)	-	Management Team	923	(923)	-	
23,899	(19,024)	4,875	Environmental Services	28,825	(24,512)	4,313	
2,614	(955)	1,659	Governance	2,938	(987)	1,951	
8,527	(3,912)	4,615	Health & Housing	9,577	(5,208)	4,369	
11,120	(17,319)	(6,199)	Housing Revenue Account	16,818	(16,997)	(179)	
14,700	(2,786)	11,914	Regeneration & Planning	9,617	(2,639)	6,978	
43,483	(42,541)	942	Resources	38,724	(37,510)	1,214	
3,354	(1,030)	2,324	Central Services	4,845	(2,928)	1,917	
<b>108,362</b>	<b>(88,232)</b>	<b>20,130</b>	<b>Cost of Services</b>	<b>112,267</b>	<b>(91,704)</b>	<b>20,563</b>	
2,090	(1,263)	827	Other Operating Expenditure	10	2,204	(1,540)	664
11,777	(11,662)	115	Financing and Investment Income and Expenditure	11	10,691	(7,498)	3,193
-	-	-	(Surplus) / Deficit on discontinued operations	29	-	-	-
25,138	(52,954)	(27,816)	Taxation and Non Specific Grant Income and Expenditure	12	21,642	(45,966)	(24,324)
		<b>(6,744)</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>96</b>	
		(19,476)	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment Assets			(6,164)	
		11,292	Actuarial (Gains)/Losses on Pension Assets/Liabilities	41		(9,922)	
		<b>(8,184)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(16,086)</b>	
		<b>(14,928)</b>	<b>Comprehensive Income and Expenditure</b>			<b>(15,990)</b>	

The net expenditure of £15.990M in year corresponds to the movement between years in net worth on the Balance Sheet.

## Balance Sheet

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

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

01 April 2016 Restated £000	31 March 2017 Restated £000		NOTES	31 March 2018 £000
215,125	236,216	Property, Plant & Equipment	13	241,032
8,291	8,291	Heritage Assets	14	8,684
26,036	31,200	Investment Property	15	33,158
71	305	Intangible Assets	16	352
57	57	Assets Held for Sale	21	-
373	1	Long Term Debtors	17	-
<b>249,953</b>	<b>276,070</b>	<b>Long Term Assets</b>		<b>283,226</b>
39,247	30,281	Short Term Investments	17	25,100
352	369	Inventories	18	412
38,325	10,503	Short Term Debtors	19	13,193
-	-	Cash & Cash Equivalents	20	9,084
<b>77,924</b>	<b>41,153</b>	<b>Current Assets</b>		<b>47,789</b>
(2,122)	(3,385)	Bank Overdraft	20	-
(1,130)	(1,080)	Short Term Borrowing	17	(1,041)
(48,126)	(21,065)	Short Term Creditors	22	(37,307)
<b>(51,378)</b>	<b>(25,530)</b>	<b>Current Liabilities</b>		<b>(38,348)</b>
(174)	(224)	Long Term Creditors	17	(225)
(14,545)	(2,574)	Provisions	23	(3,036)
(65,288)	(64,208)	Long Term Borrowing	17	(63,167)
(52,496)	(65,763)	Other Long Term Liabilities	25	(51,325)
<b>(132,503)</b>	<b>(132,769)</b>	<b>Long Term Liabilities</b>		<b>(117,753)</b>
<b>143,996</b>	<b>158,924</b>	<b>Net Assets</b>		<b>174,914</b>
23,226	23,984	Usable Reserves	24	29,617
120,770	134,940	Unusable Reserves	25	145,297
<b>143,996</b>	<b>158,924</b>	<b>Total Reserves</b>		<b>174,914</b>

The net movement between years is £15.990M 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.

2016/17 £000		NOTES	2017/18 £000
	Money (Out) / In		Money (Out) / In
(6,744)	Net surplus or (deficit) on the provision of services		(96)
8,678	Adjustments to net surplus or deficit on the provision of services for non-cash movements		15,400
3,193	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(1,996)
<b>5,127</b>	<b>Net cash flows from Operating Activities</b>		<b>13,308</b>
(8,012)	Investing Activities	<b>27</b>	(5,842)
1,622	Financing Activities	<b>28</b>	5,003
<b>(1,263)</b>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>12,469</b>
(2,122)	Cash and cash equivalents at the beginning of the reporting period		(3,385)
<b>(3,385)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>9,084</b>

## Notes to the Accounts

The notes to the accounts have three significant roles:

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

A list of the notes provided is as follows:

<b>Note 1</b>	Accounting Policies
<b>Note 2</b>	Accounting Standards that have been issued but have not yet been adopted
<b>Note 3</b>	Critical Judgements in Applying Accounting Policies
<b>Note 4</b>	Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty
<b>Note 5</b>	Events After the Balance Sheet Date
<b>Note 6</b>	Notes to the Expenditure and Funding Analysis
<b>Note 7</b>	Expenditure and Income Analysed by Nature
<b>Note 8</b>	Adjustments between Accounting Basis and Funding Basis under Regulations
<b>Note 9</b>	Transfers to/from Earmarked Reserves
<b>Note 10</b>	Other Operating Expenditure
<b>Note 11</b>	Financing and Investment Income and Expenditure
<b>Note 12</b>	Taxation and Non-Specific Grant Income and Expenditure
<b>Note 13</b>	Property, Plant and Equipment
<b>Note 14</b>	Heritage Assets
<b>Note 15</b>	Investment Properties
<b>Note 16</b>	Intangible Assets
<b>Note 17</b>	Financial Instruments
<b>Note 18</b>	Inventories
<b>Note 19</b>	Short Term Debtors
<b>Note 20</b>	Cash and Cash Equivalents
<b>Note 21</b>	Assets Held for Sale
<b>Note 22</b>	Short Term Creditors
<b>Note 23</b>	Provisions
<b>Note 24</b>	Usable Reserves
<b>Note 25</b>	Unusable Reserves
<b>Note 26</b>	Operating Activities
<b>Note 27</b>	Investing Activities
<b>Note 28</b>	Financing Activities
<b>Note 29</b>	Acquired and Discontinued Operations
<b>Note 30</b>	Trading Operations
<b>Note 31</b>	Agency Services
<b>Note 32</b>	Members' Allowances
<b>Note 33</b>	Officers' Remuneration
<b>Note 34</b>	External Audit Costs
<b>Note 35</b>	Grant Income
<b>Note 36</b>	Related Parties
<b>Note 37</b>	Capital Expenditure and Capital Financing
<b>Note 38</b>	Leases
<b>Note 39</b>	Impairment Losses
<b>Note 40</b>	Termination Benefits
<b>Note 41</b>	Defined Benefit Pension Schemes
<b>Note 42</b>	Contingent Liabilities
<b>Note 43</b>	Contingent Assets
<b>Note 44</b>	Nature and Extent of Risks Arising from Financial Instruments
<b>Note 45</b>	Prior Period Adjustments



## 1 ACCOUNTING POLICIES

### 1.1 General

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at 31 March 2018. The accounts of the Council have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), taking account of the supplementary guidance notes issued by CIPFA on the application of the Code to local authorities, supported by International Financial Reporting Standards.

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

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

### 1.2 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 1.3 Acquisitions and Discontinued Operations

#### Acquired operations

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

#### Discontinued operations

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

### 1.4 Cash and Cash Equivalents

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

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of the transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

The Council has recently revised its rolling revaluation model from a five to a three year cycle. As part of this revision the Council discovered it had incorrectly applied Alternative Use Value (AUV) when valuing its Municipal Building rather than its stated policy of Depreciated Replacement Cost (DRC). The impact of this change on the comparative figures for 2016/17 is shown in Note 45.

## 1.6 Charges to Revenue for Non-Current Assets

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

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

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

## 1.7 Council Tax and Non-Domestic Rates

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

### Accounting for Council Tax and NDR

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

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

## 1.8 Employee Benefits

### Benefits Payable during Employment

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

### Termination Benefits

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

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

### The Local Government Pension Scheme

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

- The liabilities of the Lancashire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.5%.
- The assets of Lancashire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - **quoted securities** – current bid price
  - **unquoted securities** – professional estimate
  - **unitised securities** – current bid price
  - **property** – market value
- The change in the net pensions liability is analysed into seven components:
  - **current service cost** – the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - **interest cost** - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - **expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- **gains or losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
- **contributions paid to the Lancashire County Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or directly to the pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners on any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

#### **Discretionary Benefits**

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

### **1.9 Events After the Balance Sheet Date**

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

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

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

### **1.10 Financial Instruments**

#### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured by fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The

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

## Financial Assets

Financial assets are classified into two types:

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

## Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

## Available-for-Sale Assets

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

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

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

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

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

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



loss for the asset accumulated in the Available-for-Sale Reserve.

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

Any gains or losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

## 1.11 Foreign Currency Translation

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

## 1.12 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the authority when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or the future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants or contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

## 1.13 Business Improvement Districts

A Business Improvement District (BID) scheme applies to Lancaster City Centre 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 North & Western Lancashire Chamber of Commerce as managing body for the Scheme.

## 1.14 Heritage Assets

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

charges where relevant, in line with the Code.

### 1.15 Intangible Assets

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

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment

### 1.16 Inventories and Long term Contracts

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

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

### 1.17 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement dated. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

### 1.18 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

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

the specific assets.

### ***The Council as Lessee***

#### **Finance Leases**

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down for lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairments losses are therefore substituted by revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference.

#### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### ***The Council as Lessor***

#### **Finance Leases**

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premium received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

## **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid on the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **1.19 Overheads and Support Services**

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

## **1.20 Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for the administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### **Recognition**

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

### **Measurement**

Assets are initially measured at cost, comprising:

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

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

The costs of assets acquired other than by purchase are deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially by fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until the conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated

replacement cost which is used as an estimate of current value.

- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly (but as a minimum every 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.

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

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

The Revaluation Reserve contains revaluation gains recognised since 01 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

## Impairment

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

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

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

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

## Depreciation

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

Depreciation is calculated on the following basis:

- **dwelling and other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer;
- **vehicles, plant, furniture and equipment** – straight-line allocation over 10 to 15 years depending on the type of asset;



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

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on the historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continual use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant or Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

## **1.21 Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

### **Contingent Liabilities**

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

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

### **Contingent Assets**

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

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

## **1.22 Reserves**

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

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

## **1.23 Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **1.24 Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **1.25 Fair Value Measurement**

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

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

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

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

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

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

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

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

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

There are two new standards that have been issued but will not be adopted by the Code until 01 April 2018. These are as follows:

- IFRS 9 – Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

It is not expected that these new standards will have any material impact on the information provided in the financial statements, i.e. there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services.

**3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

- There is still a high degree of uncertainty about future levels of funding for local government, the impact of the 100% 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.

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

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

The items in the Balance Sheet at 31st March 2018 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 – valuation	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 five year rolling programme.	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 £0.4M, with a corresponding increase in the level of unusable

	<p>HRA assets are subject to a full revaluation every five years, following DCLG 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 property valuations are not materially different to the carrying amount in the Balance Sheet.</p>	<p>reserves.</p> <p>A fall in value of the Councils Investment Properties would result in a charge to the CIES. A 10% fall in the total value could result in a charge to the CIES of £3.3M</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>A number of 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 NNDR 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 2017/18 and earlier financial years in proportion to their share.</p> <p>The Authority has made a provision of £6.145M, based on the best estimate of the amount that businesses have been overcharged up to 31 March 2018. 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 £4.127M to the provision needed.</p>
Debtors / Arrears	<p>Note 19 shows non-public sector debtors of £4.2M. This total debtors figure includes Housing benefit debtors of £2M (i.e. recovery of overpayments).</p> <p>The level of required provision is based on various assumptions and estimates,</p>	<p>If collection rates were to deteriorate, then the level of bad debt provisions would need to be increased. A 10% increase in impairment of doubtful debts would require an additional £381K to be set aside.</p>

	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.	
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## 5 EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Chief Officer (Resources) on 31 May 2018. Events taking place after this date are not reflected in the financial statements or notes.

Where events have taken place before 31 May 2018 and they provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted as appropriate in all material respects to reflect the impact of this information.

## 6 THE EXPENDITURE AND FUNDING ANALYSIS

2016/17			2017/18		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000	£000	£000	£000
<i>Continuing Operations:</i>					
(1)	(1)	-	17	17	-
3,410	(1,465)	4,875	2,807	(1,506)	4,313
1,656	(3)	1,659	1,957	6	1,951
3,818	(797)	4,615	4,699	330	4,369
(7,176)	(977)	(6,199)	(7,767)	(7,588)	(179)
3,227	(8,687)	11,914	4,279	(2,699)	6,978
295	(647)	942	(960)	(2,174)	1,214
2,256	(68)	2,324	1,820	(97)	1,917
<b>7,485</b>	<b>(12,645)</b>	<b>20,130</b>	<b>6,852</b>	<b>(13,711)</b>	<b>20,563</b>
			<b>Net Cost of Services</b>		
(8,243)	18,631	(26,874)	Other Income and Expenditure	(12,485)	(20,467)
<b>(758)</b>	<b>5,986</b>	<b>(6,744)</b>	<b>(Surplus) or Deficit</b>	<b>(5,633)</b>	<b>96</b>
23,123			Opening General Fund & HRA Balances & Reserves	23,881	
758			Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	5,633	
<b>23,881</b>			<b>Closing General Fund and HRA Balance &amp; Reserves at 31/3/2018</b>	<b>29,514</b>	

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



<b>Adjustments between Funding and Accounting Basis 2017/18</b>				
<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts</b>	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	£000	£000	£000	£000
Management Team	-	12	5	17
Environmental Services	(1,600)	99	(5)	(1,506)
Governance	-	8	(2)	6
Health & Housing	304	38	(12)	330
Housing Revenue Account	(7,616)	33	(5)	(7,588)
Regeneration & Planning	(2,723)	30	(6)	(2,699)
Resources	(2,206)	33	(1)	(2,174)
Central Services	-	(97)	-	(97)
<b>Net Cost of Services</b>	<b>(13,841)</b>	<b>156</b>	<b>(26)</b>	<b>(13,711)</b>
Other income and expenditure from the Expenditure and Funding Analysis	12,526	(1,640)	(2,904)	7,982

<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(1,315)</b>	<b>(1,484)</b>	<b>(2,930)</b>	<b>(5,729)</b>
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<b>Adjustments between Funding and Accounting Basis 2016/17</b>				
<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts</b>	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	£000	£000	£000	£000
Management Team	-	(2)	1	(1)
Environmental Services	(1,431)	(18)	(16)	(1,465)
Governance	-	(3)	-	(3)
Health & Housing	(794)	(9)	6	(797)
Housing Revenue Account	(963)	(8)	(6)	(977)
Regeneration & Planning	(8,681)	(7)	1	(8,687)
Resources	(639)	(8)	-	(647)
Central Services	-	(68)	-	(68)
<b>Net Cost of Services</b>	<b>(12,508)</b>	<b>(123)</b>	<b>(14)</b>	<b>(12,645)</b>
Other income and expenditure from the Expenditure and Funding Analysis	14,969	(1,852)	5,514	18,631

<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>2,461</b>	<b>(1,975)</b>	<b>5,500</b>	<b>5,986</b>
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**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:

	2016/17	2017/18
	£000	£000
Employee benefits expenses	18,368	21,661
Other services expenses	65,181	60,480
Support service recharges	13,367	17,327
Depreciation, amortisation, impairment	13,541	15,395
Interest payments	3,047	3,016
Precepts and levies	5,249	1,566
Payments to Housing Capital Receipts Pool	745	603
Gain on the disposal of assets	(463)	(524)
<b>Total Expenditure</b>	<b>119,035</b>	<b>119,524</b>
Fees, charges and other service income	(53,273)	(65,709)
Interest and investment income	(5,032)	(1,605)
Income from council tax, non domestic rates, district rate income	(22,349)	(14,902)
Government grants and contributions	(45,125)	(37,212)
<b>Total Income</b>	<b>(125,779)</b>	<b>(119,428)</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>(6,744)</b>	<b>96</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.

	2016/17 Comparative Figures						2017/18					
	Usable Reserves						Usable Reserves					
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Earmarked Reserves £000	Capital Grants Unapplied £000
<b>Adjustments to the Revenue Resources:</b>												
<b>Amounts by which income and expenditure included in the Comprehensive income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements.</b>												
Pensions costs (transferred to (or from) the Pensions Reserve)	(1,705)	(270)	-	-	-	-	(1,294)	(189)	-	-	-	-
Financial instruments (transferred to the Financial instruments Adjustments Account)	-	-	-	-	-	-	-	-	-	-	-	-
Council tax and NDR (transfers to or from Collection Fund)	5,514	-	-	-	-	-	(2,904)	-	-	-	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	(8)	(6)	-	-	-	-	(22)	(5)	-	-	-	-
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)	(3,434)	(1,710)	-	-	-	-	(1,876)	(7,196)	-	-	-	-
<b>Total Adjustments to Revenue Resources</b>	<b>367</b>	<b>(1,986)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,096)</b>	<b>(7,390)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Adjustments between Revenue and Capital Resources</b>												
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts reserve	31	1,215	(1,246)	-	-	-	473	1,067	(1,540)	-	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	(25)	25	-	-	-	-	(27)	27	-	-	-
Payments to the government housing receipts pool funded by a transfer from the Capital Receipts Reserve	(745)	-	745	-	-	-	(603)	-	603	-	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	3,450	-	(3,450)	-	-	-	3,279	-	(3,279)	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,208	1,041	-	-	-	-	1,416	1,041	-	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,273	156	-	-	-	-	837	274	-	-	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>1,767</b>	<b>5,837</b>	<b>(476)</b>	<b>(3,450)</b>	<b>-</b>	<b>-</b>	<b>2,123</b>	<b>5,634</b>	<b>(910)</b>	<b>(3,279)</b>	<b>-</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>												
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	849	-	-	-	-	-	1,281	-	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	3,450	-	-	-	-	-	3,279	-	-
Application of capital grants to finance capital expenditure	-	-	-	-	-	-	-	-	-	-	-	-
Cash payments in relation to deferred capital receipts	-	-	(372)	-	-	-	-	-	(371)	-	-	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>477</b>	<b>3,450</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>910</b>	<b>3,279</b>	<b>-</b>	<b>-</b>
<b>Total Adjustments</b>	<b>2,134</b>	<b>3,851</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,973)</b>	<b>(1,756)</b>	<b>-</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 2017/18.

	Balance at 31 March 2016	Transfers Out	Transfers In	Balance at 31 March 2017	Transfers Out	Transfers In	Balance at 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund:</b>							
Corporate Property Reserve	328	(14)	104	418	(105)	99	412
Open Spaces Commuted Sums	105	(23)	-	82	(21)	-	61
Other Commuted Sums	1,106	(670)	128	564	(1)	569	1,132
Restructuring Reserve	603	(386)	333	550	(1)	17	566
Renewals	813	(358)	402	857	(889)	483	451
Capital Support	527	(249)	174	452	(12)	45	485
Canal Corridor	-	-	-	-	(186)	400	214
Budget Support	-	-	-	-	(289)	1,000	711
Economic Growth	-	-	-	-	(141)	500	359
Invest to Save Reserve	1,469	-	351	1,820	(314)	-	1,506
Business Rates Retention Reserve	381	-	-	381	(3,133)	7,354	4,602
Welfare Reforms Reserve	396	(190)	60	266	(172)	130	224
MAAP Implementation Reserve	115	(86)	-	29	(2)	-	27
Highways Reserve	219	(219)	-	-	-	-	-
Other Reserves £100K and under	343	(127)	138	354	(26)	47	375
<b>Total</b>	<b>6,405</b>	<b>(2,322)</b>	<b>1,690</b>	<b>5,773</b>	<b>(5,292)</b>	<b>10,644</b>	<b>11,125</b>
<b>HRA:</b>							
Hsg Mgt System Replacement	591	(46)	57	602	(36)	57	623
Flats Planned Maintenance	691	(156)	133	668	(215)	133	586
Sheltered Housing Reserves	812	(16)	168	964	(107)	124	981
Business Support Reserve	8,437	-	-	8,437	(105)	-	8,332
Other Reserves £100K and under	36	-	3	39	-	-	39
<b>Total</b>	<b>10,567</b>	<b>(218)</b>	<b>361</b>	<b>10,710</b>	<b>(463)</b>	<b>314</b>	<b>10,561</b>

## 10 OTHER OPERATING EXPENDITURE

	2016/17	2017/18
	£000	£000
Parish council precepts	545	586
Payments to the Government Housing Capital Receipts Pool	745	603
(Gains)/losses on the disposal of non-current assets	(463)	(525)
	<b>827</b>	<b>664</b>

## 11 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2016/17	2017/18
	£000	£000
Interest payable and similar charges	3,047	3,016
Pensions interest cost and expected return on pensions	2,096	1,778
Interest receivable and similar income	(189)	(116)
Income and expenditure in relation to investment properties and changes in their fair value	(4,840)	(1,486)
Other investment income and expenditure	1	1
	<b>115</b>	<b>3,193</b>

## 12 TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

	2016/17	2017/18
	£000	£000
Council tax income	(8,884)	(9,195)
Non domestic rates	(11,044)	(7,323)
Non-ringfenced government grants	(4,590)	(3,494)
Capital grants and contributions	(3,298)	(4,312)
	<b>(27,816)</b>	<b>(24,324)</b>

## 13 PROPERTY, PLANT AND EQUIPMENT

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost/Valuation</b>								
<b>Balance as at 1 April 2017</b>	<b>184,141</b>	<b>104,331</b>	<b>17,955</b>	<b>43,322</b>	<b>8,533</b>	<b>2,222</b>	<b>5,462</b>	<b>365,966</b>
additions	4,030	2,260	2,919	142	80		4,170	13,601
revaluation increases/(decreases) recognised in the Revaluation Reserve	6,433	(665)	-	-	-	3	-	5,771
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	(3,710)	(1,023)	-	-	(120)	(1,138)	-	(5,991)
derecognition - disposals	(854)	-	(608)	-	-	(105)	-	(1,567)
assets reclassified (to)/from Assets Held for Sale	-	-	-	-	-	57	-	57
other transfers	-	-	-	728	121	-	(728)	121
<b>Balance as at 31 March 2018</b>	<b>190,040</b>	<b>104,903</b>	<b>20,266</b>	<b>44,192</b>	<b>8,614</b>	<b>1,039</b>	<b>8,904</b>	<b>377,958</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>Balance as at 1 April 2017</b>	<b>(60,432)</b>	<b>(38,768)</b>	<b>(11,619)</b>	<b>(18,671)</b>	<b>(19)</b>	<b>(241)</b>	<b>-</b>	<b>(129,750)</b>
depreciation charge	(2,785)	(2,047)	(1,511)	(1,376)	(5)	(31)	-	(7,755)
derecognition - disposals	35	-	544	-	-	-	-	579
<b>Balance as at 31 March 2018</b>	<b>(63,182)</b>	<b>(40,815)</b>	<b>(12,586)</b>	<b>(20,047)</b>	<b>(24)</b>	<b>(272)</b>	<b>-</b>	<b>(136,926)</b>
<b>Net Book Value</b>								
<b>at 31 March 2017</b>	<b>123,709</b>	<b>65,563</b>	<b>6,336</b>	<b>24,651</b>	<b>8,514</b>	<b>1,981</b>	<b>5,462</b>	<b>236,216</b>
<b>at 31 March 2018</b>	<b>126,858</b>	<b>64,088</b>	<b>7,680</b>	<b>24,145</b>	<b>8,590</b>	<b>767</b>	<b>8,904</b>	<b>241,032</b>

**Depreciation**

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

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

**Capital Commitments**

At 31 March 2018, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018/19 anticipated to cost £3.610M. Similar commitments at 31 March 2017 were £2.814M. The major commitments are:

- Sea and Flood Defence £2,253K
- Municipal Building Works £334K
- Disabled Facilities Grants £939K
- Regeneration £11K
- ICT Equipment & Software £73K

**Revaluations**

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

The significant assumptions applied in estimating the fair values are:

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

	Council Dwellings	Other Land and Buildings	Total
	£000	£000	£000
Adjustments to fair value by year:	Increase / (Decrease)		
31 March 2018	2,723	(1,688)	1,035
31 March 2017	20,600	(88)	20,512
31 March 2016	2,932	3,890	6,822
31 March 2015	76	10,156	10,232
31 March 2014	3,358	5,430	8,788
<b>Net valuation over 5 year cycle</b>	<b>29,689</b>	<b>17,700</b>	<b>47,389</b>

## 14 HERITAGE ASSETS

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

	2016/17	2017/18
	£000	£000
<b>Opening Balance</b>		
Civic Regalia and other donated items	607	607
Museum Collections	7,567	7,567
Public Art Works	100	100
Art Collection	17	17
	<b>8,291</b>	<b>8,291</b>
<b>Disposals</b>	-	-
<b>Revaluations</b>	-	393
<b>Closing Balance</b>		
Civic Regalia and other donated items	607	832
Museum Collections	7,567	7,567
Public Art Works	100	100
Art Collection	17	185
	<b>8,291</b>	<b>8,684</b>



### Civic Regalia and other donated assets

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

### Museums' Collections

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

### Public Artwork

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

### Works of Art

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

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

The Council is not actively seeking material additions to the collections; material additions would need to be considered on a case by case basis as part of the wider capital programme. The museums partnership makes



additions in accordance with its development policy although these have been below de-minimis for recognition as non-current assets in recent years.

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

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.

	2016/17 £000	2017/18 £000
Rental income from investment property	(880)	(954)
Direct operating expenses arising from investment	726	622
<b>Net (gain)/loss</b>	<b>(154)</b>	<b>(332)</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.

	2016/17 £000	2017/18 £000
<b>Balance as at 1 April</b>	<b>26,036</b>	<b>31,200</b>
Additions:		
- Construction	837	513
Disposals:	-	-
Net gains/losses from fair value adjustments	4,834	1,565
Transfers:		
- to/from Property, Plant & Equipment	(507)	(120)
<b>Balance as at 31 March</b>	<b>31,200</b>	<b>33,158</b>

### Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy at 31 March 2018 are as follows:

2017/18	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 2018
<i>Recurring fair value measurements using</i>	£000	£000	£000	£000
Office	-	-	3,952	3,952
Retail	-	-	2,769	2,769
Agriculture & Allotments	-	5,089	867	5,956
Commercial Land	-	7,031	3,050	10,081
Commercial Buildings	-	203	1,866	2,069
Mixed Commercial	-	-	8,331	8,331
<b>Total</b>	<b>-</b>	<b>12,323</b>	<b>20,835</b>	<b>33,158</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 £12.3m 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**

	2017/18
	£000
<b>Balance as at 1 April</b>	<b>19,095</b>
Transfers in	
Transfers out	(315)
Total gains/losses for the period included in Surplus or Deficit on the Provision of Services resulting from changes in fair value	1,542
Additions	513
Disposals	-
<b>Balance as at 31 March</b>	<b>20,835</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.

	2016/17	2017/18
	£000	£000
<b>Balance at start of year:</b>		
- Gross carrying amounts	361	688
- Accumulated amortisation	(290)	(383)
<b>Net carrying amount at start of year</b>	<b>71</b>	<b>305</b>
Additions:		
- Purchases	327	161
Amortisation for the period	(93)	(114)
<b>Net carrying amount at the end of year</b>	<b>305</b>	<b>352</b>
<b>Comprising:</b>		
- Gross carrying amounts	688	849
- Accumulated amortisation	(383)	(497)
<b>Balance as at 31 March</b>	<b>305</b>	<b>352</b>

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

## 17 FINANCIAL INSTRUMENTS

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

	31 March 2017	31 March 2018	31 March 2017	31 March 2018
	£000	£000	£000	£000
<b>Investments</b>				
Loans and receivables	-	-	30,281	25,100
<b>Total investments</b>	<b>-</b>	<b>-</b>	<b>30,281</b>	<b>25,100</b>
<b>Debtors</b>				
Loans and receivables	1	-	10,503	19,192
<b>Total Debtors</b>	<b>1</b>	<b>-</b>	<b>10,503</b>	<b>19,192</b>
<b>Total assets</b>	<b>1</b>	<b>-</b>	<b>40,784</b>	<b>44,292</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	(64,208)	(63,167)	(1,041)	(1,041)
Finance lease liabilities	-	-	(39)	-
<b>Total borrowings</b>	<b>(64,208)</b>	<b>(63,167)</b>	<b>(1,080)</b>	<b>(1,041)</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	(224)	(225)	(21,065)	(37,307)
<b>Total Creditors</b>	<b>(224)</b>	<b>(225)</b>	<b>(21,065)</b>	<b>(37,307)</b>
<b>Bank (Overdraft) / Cash in Hand</b>	<b>-</b>	<b>-</b>	<b>(3,385)</b>	<b>9,084</b>
<b>Total liabilities</b>	<b>(64,432)</b>	<b>(63,392)</b>	<b>(25,530)</b>	<b>(29,264)</b>

## Income, Expenses, Gains and Losses

	2016/17					2017/18				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest payable	3,047	-	-	-	3,047	3,016	-	-	-	3,016
Losses on derecognition	-	-	-	-	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>3,047</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,047</b>	<b>3,016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,016</b>
Interest income	-	(189)	-	-	(189)	(116)	-	-	-	(116)
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>-</b>	<b>(189)</b>	<b>-</b>	<b>-</b>	<b>(189)</b>	<b>(116)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(116)</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>3,047</b>	<b>(189)</b>	<b>-</b>	<b>-</b>	<b>2,858</b>	<b>2,900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,900</b>

## Fair Values of Assets and Liabilities

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

	31 March 2017		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	89,738	142,158	101,515	153,380
Long-term creditors & provisions	2,798	2,798	3,261	3,261
<b>Total</b>	<b>92,536</b>	<b>144,956</b>	<b>104,776</b>	<b>156,641</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 2017		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and receivables	30,281	30,281	34,184	34,184
Long-term debtors	1	1	-	-
<b>Total</b>	<b>30,282</b>	<b>30,282</b>	<b>34,184</b>	<b>34,184</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	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
<b>Balance as at 1 April</b>	24	33	234	247	94	89	352	369
Purchases	41	64	957	960	332	446	1,330	1,470
Recognised as an expense in the year	(32)	(35)	(920)	(925)	(334)	(445)	(1,286)	(1,405)
Written off balances	-	-	(24)	(22)	(3)	-	(27)	(22)
Reversals of write-offs in previous years	-	-	-	-	-	-	-	-
<b>Balance as at 31 March</b>	<b>33</b>	<b>62</b>	<b>247</b>	<b>260</b>	<b>89</b>	<b>90</b>	<b>369</b>	<b>412</b>

## 19 SHORT TERM DEBTORS

	31 March 2017 £000	31 March 2018 £000
Council Taxpayers	667	727
Central Government Bodies	2,641	4,539
Housing Rents	647	756
Other Local Authorities	3,776	4,428
Commercial Ratepayers	174	434
Other entities and individuals	2,598	2,309
	<b>10,503</b>	<b>13,193</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 2017 £000	31 March 2018 £000
Bank current account	(3,385)	9,084

## 21 ASSETS HELD FOR SALE

	Current		Non Current	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
<b>Balance as at 1 April</b>	-	-	57	57
Assets newly declassified as held for sale:				
- Property, plant and equipment	-	-	-	(57)
Impairment losses	-	-	-	-
<b>Balance as at 31 March</b>	<b>-</b>	<b>-</b>	<b>57</b>	<b>-</b>

**22 SHORT TERM CREDITORS**

	31 March 2017	31 March 2018
	£000	£000
Council Taxpayers	(144)	(156)
Central Government Bodies	(12,027)	(12,537)
Housing Rents	(165)	(218)
Other Local Authorities	(1,816)	(1,097)
Commercial Ratepayers	(1,559)	(12,945)
Other entities and individuals	(5,354)	(10,354)
	<b>(21,065)</b>	<b>(37,307)</b>

**23 PROVISIONS**

	Business Rate				Total £000
	Insurance £000	Appeals £000	Back Pay £000	Legal £000	
<b>Balance as at 1 April 2017</b>	<b>(365)</b>	<b>(2,070)</b>	<b>-</b>	<b>(139)</b>	<b>(2,574)</b>
Contribution to Provision	(149)	(388)	(100)	(37)	(674)
Amounts Paid	36	-	-	3	39
New Liabilities	-	-	-	-	-
Reassessment of Provision	-	-	-	173	173
<b>Balance as at 31 March 2018</b>	<b>(478)</b>	<b>(2,458)</b>	<b>(100)</b>	<b>-</b>	<b>(3,036)</b>

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

The Business Rates (NDR) 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.

A new provision for Back Pay has been established. This follows a ruling by the Employment Appeal Tribunal in 2017 whereby employers must now include overtime in the calculation for holiday pay, and that it must be back dated. At present, negotiations are ongoing with Unions to agree a settlement position.

The legal provision provided cover for settlements and legal costs associated with known litigation cases but is no longer required and has therefore been closed.

**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 2017 £000	31 March 2018 £000
General Fund Balance	4,725	5,067
HRA Balance	1,937	2,017
HRA Business Plan Reserve	8,437	8,332
Housing Mgt System Replacement Reserve	602	623
Flats Planned Maintenance	668	586
Sheltered Equipment	304	331
Sheltered Planned Maintenance	215	174
Sheltered Support Grant Maintenance	445	476
Renewals Reserve	711	293
Capital Support	452	485
Other Commuted Sums	564	1,132
Corporate Property Reserve	417	412
Restructuring Reserve	550	566
Welfare Reforms Reserve	266	224
Invest to Save Reserve	1,820	1,506
Capital Grants Unapplied	102	102
Other Reserves under £100K	300	319
Business Rates Retention Reserve	381	4,602
Local Plan Reserve	150	125
Car Parks Renewals Reserve	106	115
Revenue Grants Unapplied	737	744
Budget Support Reserve	-	711
Canal Corridor Reserve	-	214
Economic Growth Reserve	-	359
Homelessness Support Reserve	95	102
<b>Total usable reserves</b>	<b>23,984</b>	<b>29,617</b>

## 25 UNUSABLE RESERVES

	31 March 2017 Restated £000	31 March 2018 £000
Revaluation Reserve	69,897	73,531
Financial Instruments Adjustment Account	(143)	(143)
Capital Adjustment Account	124,100	125,686
Pensions Reserve	(65,763)	(57,324)
Deferred Credits	371	-
Accumulated Absences Account	(163)	(190)
Collection Fund Adjustment Account	6,641	3,737
<b>Total unusable reserves</b>	<b>134,940</b>	<b>145,297</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.

	2016/17	2017/18
	Restated	
	£000	£000
<b>Balance as at 1 April</b>	<b>44,427</b>	<b>69,897</b>
Restatement Adjustment	7,717	-
<b>Total Restated Balance as at 1 April</b>	<b>52,144</b>	<b>69,897</b>
Upwards revaluation of assets	19,499	7,206
Downwards revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(22)	(1,042)
Surplus or deficit on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	19,477	6,164
Difference between fair value depreciation and historical cost depreciation.	(1,585)	(2,193)
Accumulated gains on assets sold or scrapped	(139)	(337)
Amount written off to the Capital Adjustment Account	(1,724)	(2,530)
<b>Balance as at 31 March</b>	<b>69,897</b>	<b>73,531</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.

	2016/17	2017/18
	£000	£000
<b>Balance as at 1 April</b>	<b>119,543</b>	<b>124,100</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non current assets	(6,905)	(7,737)
- Revaluation losses on Property, Plant and Equipment	(4,817)	(5,990)
- Amortisation of Intangible Assets	(93)	(114)
- Revenue Expenditure funded from Capital under statute.	(1,921)	(1,398)
- 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	(775)	(988)
<b>Sub total</b>	<b>106,073</b>	<b>108,914</b>
Adjusting amounts written out of the Revaluation Reserve	1,724	2,529
<b>Net written out amount of the cost of non current assets consumed in the year.</b>	<b>107,797</b>	<b>111,443</b>
Capital financing applied in the year:		
- Use of Capital Receipts Reserve	849	1,281
- Use of the Major Repairs Reserve	3,450	3,279
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement (including those in respect of donated assets)	4,526	5,591
- Application of grants to capital financing from the Capital Grants Unapplied Account.	1	-
- Statutory provision for the financing of capital investment charged against General Fund and HRA balances	1,208	1,416
- Capital expenditure charged against the General Fund and HRA balances	1,429	1,111
<b>Sub total</b>	<b>119,260</b>	<b>124,121</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure statement	4,840	1,565
<b>Balance as at 31 March</b>	<b>124,100</b>	<b>125,686</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.

	2016/17	2017/18
	£000	£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.

	2016/17	2017/18
	£000	£000
<b>Balance as at 1 April</b>	<b>(52,496)</b>	<b>(65,763)</b>
Actuarial gains or (losses) on pensions assets and liabilities	(11,292)	9,922
Reversal of items relating to the retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(5,172)	(6,657)
Employer's pension contribution and direct payments to pensioners payable in the year	3,197	5,174
<b>Balance as at 31 March</b>	<b>(65,763)</b>	<b>(57,324)</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.

	2016/17	2017/18
	£000	£000
<b>Balance as at 1 April</b>	<b>1,128</b>	<b>6,641</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	5,513	(2,904)
<b>Balance as at 31 March</b>	<b>6,641</b>	<b>3,737</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.

	2016/17	2017/18
	£000	£000
<b>Balance as at 1 April</b>	<b>(149)</b>	<b>(163)</b>
Settlement or cancellation of accrual made at the end of the preceding year	149	163
Amounts accrued at the end of the current year	(163)	(190)
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	(14)	(27)
<b>Balance as at 31 March</b>	<b>(163)</b>	<b>(190)</b>

## 26 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2016/17	2017/18
	£000	£000
Interest received	(218)	(88)
Interest paid	3,053	3,021

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

	2016/17	2017/18
	£000	£000
Depreciation	6,660	7,737
Impairment & downward valuations	8,558	6,008
Amortisation	-	114
Increase/(decrease) in creditors	(10,059)	7,408
(Increase)/decrease in debtors	7,489	(1,194)
(Increase)/decrease in inventories	(17)	(43)
Movement in pension liability	1,975	(4,516)
Carrying amount of non-current assets and assets held for sale sold or derecognised	775	988
Other non-cash items charged to the net surplus of deficit on the provision of services	(16,812)	(1,103)
	<b>(1,431)</b>	<b>15,399</b>

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

	2016/17	2017/18
	£000	£000
Proceeds from short-term and long-term investments	8,966	5,181
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,246)	(1,586)
Any other items for which the cash effects are investing or financing cash flows	(4,527)	(5,591)
	<b>3,193</b>	<b>(1,996)</b>

## 27 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2016/17	2017/18
	£000	£000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(14,350)	(14,486)
Receipts from sale of Property, Plant and Equipment, investment property and intangible assets	1,619	1,586
Other payments from investing activities	628	551
Acquisition of short and long term borrowing	-	-
Other receipts from investing activities	4,091	6,507
<b>Net cash flows from investing activities</b>	<b>(8,012)</b>	<b>(5,842)</b>

**28 CASH FLOW STATEMENT – FINANCING ACTIVITIES**

	2016/17	2017/18
	£000	£000
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(88)	(38)
Repayment of short-term and long-term borrowing	(1,091)	(1,041)
Payments and receipts relating to NNDR	2,801	6,082
<b>Net cash flows from financing activities</b>	<b>1,622</b>	<b>5,003</b>

**29 ACQUIRED AND DISCONTINUED OPERATIONS**

There were no acquisitions during 2017/18. However, the On-Street Pay & Display and Residents Parking functions within Car Parking (Public Realm) ceased to be carried out by the Council on 31 March 2018 with the operation transferring back to Lancashire County Council.

**30 TRADING OPERATIONS**

Trading services cover undertakings with the public or with other third parties, and include such activities as garden waste collection (commenced January 2017), 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.

	2013/14	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000
<b>Highways</b>					
Turnover	(820)	(1,178)	(1,043)	-	-
Expenditure	836	1,104	1,103	-	-
(Surplus)/Deficit	16	(74)	60	-	-
<b>Trade Waste</b>					
Turnover	(1,104)	(1,275)	(1,241)	(1,241)	(1,378)
Expenditure	843	824	929	1,104	1,124
(Surplus)/Deficit	(261)	(451)	(312)	(137)	(254)
<b>Garden Waste</b>					
Turnover	-	-	-	(258)	(990)
Expenditure	-	-	-	396	1,190
(Surplus)/Deficit	-	-	-	138	200
<b>Markets</b>					
Turnover	(407)	(394)	(404)	(419)	(414)
Expenditure	333	321	319	310	318
(Surplus)/Deficit	(74)	(73)	(85)	(109)	(96)
<b>Commercial Properties / Industrial Units</b>					
Turnover	(941)	(888)	(946)	(1,062)	(1,208)
Expenditure	748	729	797	872	898
(Surplus)/Deficit	(193)	(159)	(149)	(190)	(310)
<b>Consolidated</b>					
<b>Turnover</b>	<b>(3,272)</b>	<b>(3,735)</b>	<b>(3,634)</b>	<b>(2,980)</b>	<b>(3,990)</b>
<b>Expenditure</b>	<b>2,760</b>	<b>2,978</b>	<b>3,148</b>	<b>2,682</b>	<b>3,530</b>
<b>(Surplus)/Deficit</b>	<b>(512)</b>	<b>(757)</b>	<b>(486)</b>	<b>(298)</b>	<b>(460)</b>

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.

	2013/14	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000
Net (surplus)/deficit on trading operations	(512)	(757)	(486)	(298)	(460)
Trading expenditure and income included within Surplus or Deficit on the Provision of Services	-	-	-	-	-
<b>Net (surplus)/deficit</b>	<b>(512)</b>	<b>(757)</b>	<b>(486)</b>	<b>(298)</b>	<b>(460)</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.

	2016/17 £000	2017/18 £000
Expenditure on agency arrangement	192	204
Income on agency arrangement	(139)	(153)
<b>Net deficit arising on agency arrangements</b>	<b>53</b>	<b>51</b>

### 32 MEMBERS' ALLOWANCES

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

	2016/17 £000	2017/18 £000
Basic Allowances	199	200
Special Responsibility Allowances	81	83
Expenses	3	2
<b>Total</b>	<b>283</b>	<b>285</b>

### 33 OFFICERS' REMUNERATION

Remuneration in respect of the Council's senior employees is as follows:

	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)
	£000	£000	£000	£000	£000	£000
<b>2017/18</b>						
Chief Executive	109	-	-	109	14	123
Assistant Chief Executive (New from 31/07/17)	55	-	-	55	7	62
Chief Officer (Environmental)	67	-	-	67	9	76
Chief Officer (Resources)	67	-	-	67	9	76
Legal Services Manager (Interim to 24/09/17) <sup>1</sup>	62	-	-	62	-	62
Chief Officer (Legal & Governance (07/09/17 to 23/02/18))	32	-	-	32	4	36
Legal Services Manager (Interim from 15/02/18) <sup>2</sup>	15	-	-	15	-	15
Chief Officer (Health & Housing)	67	-	-	67	9	76
Chief Officer (Regeneration & Planning)	66	1	35	102	9	111
<b>2016/17</b>						
Chief Executive (Previous to 30/06/16)	27	-	-	27	3	30
Chief Executive (New from 01/07/16)	81	-	-	81	11	92
Chief Officer (Environmental)	66	-	-	66	9	75
Chief Officer (Resources)	66	-	-	66	9	75
Chief Officer (Governance)	-	-	-	-	-	-
Legal Services Manager (Interim from 21/6/16) - RESTATED <sup>1</sup>	54	-	-	54	-	54
Chief Officer (Health & Housing)	66	-	-	66	9	75
Chief Officer (Regeneration & Planning)	66	-	-	66	9	75

<sup>1</sup> Following the retirement of the Chief Officer (Governance), the Legal Services Manager post was held by an external consultant who was appointed from June 2016 to September 2017 on an interim basis to cover some of the duties of the former Chief Officer post including the role of Monitoring Officer and reported directly to the Head of Paid Service. Payments totalling £54,422 excluding VAT were made to Venn Group Limited in 2016/17 and £62,227 excluding VAT in 2017/18. The table has been restated in 2016/17 to include this.

<sup>2</sup> Following the resignation of the Chief Officer (Legal and Governance), the Legal Services Manager post was held by an external consultant who was appointed from February 2018 on an interim basis to cover some of the duties of the former Chief Officer post including the role of Monitoring Officer and reported directly to the Head of Paid Service. Payments totalling £15,250 excluding VAT were made to Venn Group Limited in 2017/18.

In addition to above, the post of Human Resources (HR) Manager was also held by an external consultant who was appointed from January 2018 and also reported directly to the Head of Paid Service. Payments totalling £30,150 excluding VAT were made to Hays Office Support in 2017/18.

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	
	2016/17	2017/18	2016/17	2017/18	RESTATED		RESTATED	
					2016/17	2017/18	2016/17	2017/18
						£	£	
£0 - £20,000	-	-	18	8	18	8	118,984	36,673
£20,001 - £40,000	-	-	2	2	2	2	42,123	72,906
£40,001 - £60,000	-	-	2	-	2	-	83,010	-
£60,001 - £80,000	-	-	1	-	1	-	63,578	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>23</b>	<b>10</b>	<b>23</b>	<b>10</b>	<b>307,695</b>	<b>109,579</b>

The 2016/17 numbers and costs have been restated to adjust for packages that were agreed during that year but subsequently updated or not required.

### 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.

	2016/17	2017/18
	£000	£000
	Restated	
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	58	58
Public Sector Audit Appointments (PSAA) previous years' rebate		(9)
Fees payable in respect of other PSAA agreed work	8	
Fees payable for the certification of grant claims and returns for the year	11	13
<b>Total</b>	<b>77</b>	<b>62</b>

Note that the 2016/17 restatement relates to £8K PSAA agreed additional fees relating to 2016/17 that were charged in 2017/18.

### 35 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18.

	2016/17	2017/18
Credited to Taxation and Non Specific Grant Income	£000	£000
Revenue Support Grant	2,652	1,605
New Homes Bonus	1,928	1,867
ERDF Lancaster Square Routes	68	-
Environment Agency Wave Reflection Wall Construction	3,132	4,170
Other Grants Under £50K	108	164
<b>Total</b>	<b>7,888</b>	<b>7,806</b>

	2016/17	2017/18
<b>Credited to Services</b>	£000	£000
MHCLG (formerly DCLG) Disabled Facilities Grant	997	1,240
Morecambe TH12 Heritage Lottery Grant	229	29
Discretionary Housing Payments	127	187
Supporting People	222	201
Active Lives: Other Grants	145	189
Parliamentary/European/Police/Individual Elections	355	410
Arnsdale & Silverdale AONB Grants	136	138
Benefits DWP grant	234	368
Storm Relief	358	455
Transformation Change	61	99
Lancashire County Council - Syrian Refugees	-	158
Homes & Communities Agency - Bailrigg Garden Village	-	88
Standard Rent Allowances: Government Grants	27,957	22,608
EA Flood Management - Caton Road	-	71
MHCLG Community Housing	737	61
Rent Rebates - Council Housing: Government Grants	8,591	7,146
NNDR Administration: Government Grants	225	350
Other Grants Under £50K	269	361
<b>Total</b>	<b>40,643</b>	<b>34,159</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:

	2016/17	2017/18
<b>Capital Grants Receipts in Advance</b>	£000	£000
DFG Grant	902	1,440
Environment Agency	265	247
Other Grants Under £50K	96	127
<b>Total</b>	<b>1,263</b>	<b>1,814</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 2018 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 2017/18 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 Councillors as trustees of the Dukes Playhouse Ltd, however as there was no trustee representation made by the Council during 2017/18 there is no further disclosure requirement for the Dukes.



### Operating Leases

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

	Minimum lease payments	
	31 March 2017	31 March 2018
	£000	£000
Not later than 1 year	545	622
Later than 1 year and not later than 5 years	1,215	1,273
Later than 5 years	1,483	2,103
<b>Minimum lease payments</b>	<b>3,243</b>	<b>3,998</b>

### 39 IMPAIRMENT LOSSES

During 2017/18 the Council has not recognised any impairment losses in relation to non-current asset valuations.

### 40 TERMINATION BENEFITS

The Council approved the early retirement / voluntary redundancy (ER/VR) of a number of employees in 2017/18, incurring liabilities of £72K (£215K in 2016/17 – reduced from £237K in restatement) in respect of redundancy costs. This was paid to 9 officers from 3 different services whose applications for ER/VR were approved as part of the Council's overall review of services.

### 41 DEFINED BENEFIT PENSION SCHEMES

#### Participation in Pension Schemes

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

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

#### 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:

	Local Government Pension Scheme	
	2016/17	2017/18
Comprehensive Income and Expenditure Statement	£000	£000
<i>Cost of services:</i>		
Current service cost	3,252	4,944
Past Service cost	-	-
Administration expenses	69	72
Settlements and curtailments	68	97
<i>Financing &amp; Investment Income &amp; Expenditure:</i>		
Interest costs	6,405	5,488
Expected return on scheme assets	(4,622)	(3,944)
<b>Total Post Employment Benefit Charged to Provision of Services</b>	<b>5,172</b>	<b>6,657</b>
<i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:</i>		
Actuarial gains and losses	11,292	(9,922)
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>16,464</b>	<b>(3,265)</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for net Provision of Services for post employment benefits in accordance with the Code	(5,172)	(6,657) *
Reversal of actuarial gains and losses recognised in other Comprehensive Income and Expenditure	(11,292)	9,922 *
<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	3,197	5,174 *
<i>* Net Movement on Pension Fund Reserve</i>	<i>(13,267)</i>	<i>8,439</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:

	Funded Liabilities		Unfunded Liabilities	
	2016/17	2017/18	2016/17	2017/18
	£000	£000	£000	£000
Present value of the defined benefit obligation	218,391	215,117	4,039	3,798
Fair value of plan assets	(156,667)	-	-	-
<b>Net liability arising from defined benefit obligation</b>	<b>61,724</b>	<b>215,117</b>	<b>4,039</b>	<b>3,798</b>

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

	Local Government Pension Scheme	
	2016/17	2017/18
	£000	£000
<b>Opening fair value of scheme assets</b>	<b>133,261</b>	<b>156,667</b>
Interest income	4,622	3,944
Remeasurement gain/(loss)	21,236	1,722
Administration expenses	(69)	(72)
Employer contributions	3,197	5,174
Contributions by scheme participants	886	924
Benefits paid	(6,466)	(6,768)
<b>Closing fair value of scheme assets</b>	<b>156,667</b>	<b>161,591</b>

## Reconciliation of Present Value of the Scheme Liabilities:

	Funded Liabilities		Unfunded Liabilities	
	2016/17	2017/18	2016/17	2017/18
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	182,213	218,391	3,544	4,039
Current service cost	3,252	4,944	-	-
Interest cost	6,287	5,390	118	98
Contributions from scheme participants	886	924	-	-
Remeasurement (gains) and losses	31,893	(8,113)	635	(87)
Past service cost	-	-	-	-
Curtailments	68	97	-	-
Benefits paid	(6,208)	(6,516)	(258)	(252)
<b>Closing balance at 31 March</b>	<b>218,391</b>	<b>215,117</b>	<b>4,039</b>	<b>3,798</b>

## Local Government Pension Scheme assets comprised

	2016/17	2017/18
	£000	£000
<b>Bonds:</b>		
UK corporate	571	921
Overseas corporate	2,002	1,919
UK Fixed gilts	300	-
UK index linked	2,800	3,856
Overseas Fixed Interest	-	156
<b>Property:</b>		
Offices	2,891	3,138
Offices/Warehouse	289	338
Industrial/Warehouse	3,868	4,482
Shops	1,362	1,309
Retail Warehouse	2,270	2,513
Shopping Centre	632	622
Multi let Commercial Building	2,489	2,795
<b>Alternatives:</b>		
UK private equity	1,776	-
Overseas private equity	8,307	11,730
Infrastructure	18,904	20,478
Credit funds	35,107	29,775
Pooled Fixed Income	-	3,987
Indirect Property Funds	2,209	2,454
Overseas Pooled Equity Funds	69,264	71,794
<b>Cash:</b>		
Cash and cash equivalents	1,626	(3,906)
Cash accounts	-	6,819
Net current assets	-	(3,589)
<b>Closing fair value of scheme assets</b>	<b>156,667</b>	<b>161,591</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

	£000	+0.1% p.a. discount rate	+0.1% p.a. inflation	+0.1% p.a. pay growth	+1 year life expectanc v
		£000	£000	£000	£000
Liabilities	218,915	215,311	222,579	219,457	223,297
Assets	-	(161,591)	(161,591)	(161,591)	(161,591)
Deficit/(Surplus)	57,324	53,720	60,988	57,866	61,706
Projected Service Cost for next year	4,601	4,471	4,736	4,601	4,697
Projected Net Interest Cost for next year	1,458	1,417	1,557	1,476	1,575



## Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. The most recent valuation carried out was at 31 March 2016 which determines contribution rates effective from 01 April 2017 to 31 March 2020.

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 £5.174M expected contributions to the scheme in 2017/18 (£3.197M in 2016/17). The weighted average duration of the defined benefit obligation for scheme members is 17 years, 2017/18, (17 years 2016/17).

## 42 CONTINGENT LIABILITIES

The following material contingent liabilities existed as at 31 March 2018:

**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.

Furthermore the Council has accounted for European Regional Development Funding of £2.5M in connection with this project to date, for which clawback liabilities may arise if the scheme does not achieve the set outcomes, in particular concerning 'Business Space' created. The Council transferred Phase 1 land to its development partner (Luneside East Limited) on 02 April 2012 and the developer has recently received planning permission and board approval to develop out the student element, which will include around 1,000 metres of commercial floor space, expected to be complete by September 2020. It is still uncertain as at 31 March 2018 whether all outputs will be achieved, however, and whether any subsequent clawback will fall upon the Council. No provision has been made for any such clawback liabilities arising.

**NNDR Appeals** – The Council has made provision for NNDR appeals based on its best estimate of the actual liability as at 31 March 2018. 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 2018.

## 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 2017/18 approved Treasury Management Policy, the credit criteria in respect of financial assets held by the Council are as detailed in the following table:

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour
	<b>Colour (and long term rating where applicable)</b>	<b>Money Limit</b>	<b>Time Limit</b>					
<b>Banks /UK Govt. backed instruments*</b>	yellow	£12m	≤1 year					
<b>Banks</b>	purple	£6m	≤1 year					
<b>Banks</b>	orange	£6m	≤1 year					
<b>Banks – part nationalised</b>	blue	£12m	≤1 year					
<b>Banks</b>	red	£6m	≤6 mths					
<b>Banks</b>	green	£3m	≤100 days					
<b>Banks</b>	No colour	Not to be used						
<b>Limit 3 category – Council's banker (for non-specified investments)</b>	n/a	£500K	1 day					
<b>DMADF</b>	AAA	unlimited	≤6 months					
<b>Local authorities**</b>	n/a	£12m	≤1 year					
	<b>Fund rating</b>	<b>Money and/or % Limit</b>	<b>Time Limit</b>					
<b>Money market funds</b>	AAA	£6m	liquid					
<b>Enhanced money market funds with a credit score of 1.25</b>	Dark pink / AAA	£6m	liquid					
<b>Enhanced money market funds with a credit score of 1.5</b>	Light pink / AAA	£6m	liquid					

The Council's maximum exposure to credit risk in relation to its investments of £25.100M 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 £25.100M, there was no evidence at 31 March 2018 that this was likely to materialise.

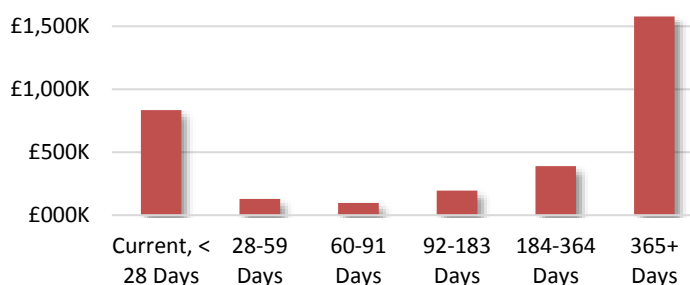
The following analysis summarises the Council's potential maximum exposure to credit risk on other financial assets, based on past experience of default and non-collectability, adjusted to reflect current market conditions.

	Balance 31/03/18	Historical experience of default	Exposure at 31/03/18	Exposure at 31/03/17
	£000	%	£000	£000
	(a)	(b)	(a * b)	
AAA rated counterparties	25,100	-	-	-
Trade debtors	2,309	Bad debt provision	2,547	2,366
<b>Total</b>	<b>27,409</b>		<b>2,547</b>	<b>2,366</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 £2.389M of the £3.223M sundry debt balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31/03/17	31/03/18
	£000	£000
Current, < 28 Days	1,777	834
28-59 Days	131	129
60-91 Days	106	97
92-183 Days	203	195
184-364 Days	352	390
365+ Days	1,468	1,578
<b>Total</b>	<b>4,037</b>	<b>3,223</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.

	31/03/17	31/03/18
	£000	£000
Less than 1 Year	1,041	1,041
1-2 Years	1,041	1,041
3-5 Years	3,124	3,124
6-10 Years	5,207	5,207
11-20 Years	10,414	10,414
21-30 Years	5,207	4,166
More than 30 Years	39,215	39,215
<b>Total</b>	<b>65,249</b>	<b>64,208</b>

### Market Risk

#### Interest Rate Risk

The Council has a small exposure to interest rate risk on its borrowings as all borrowings are taken at fixed interest rates and mostly over long periods. No new long or short term loans were taken out during 2017/18.

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 0.25%, meaning that returns have remained at very low levels during the year. Had the prevailing rates been higher, it would have seen a corresponding increase in income. The overall rate of return on the council's portfolio was 0.33%, an increase of 1% on interest rates during 2017/18 would have had the following marginal effect:

	Actual	+1%
	£000	£000
<b>New or variable investments:</b>		
Call accounts	113	346
<b>Total</b>	<b>113</b>	<b>346</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 Adjustments

The Council has recently revised its rolling revaluation model for non HRA assets from a five to a three year cycle. As part of this revision the Council it was discovered it had incorrectly applied Alternative Use Value (AUV) when valuing its Municipal Building rather than its stated policy of Depreciated Replacement Cost (DRC) since 2013/14. This meant that the Council's assets were understated in the financial statements by £9.097m. The Council has since reviewed its processes and introduced additional internal controls to ensure that such events are unlikely to occur again.

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom requires that an authority present a Balance Sheet at the beginning of the preceding period when an authority makes a retrospective restatement.

The impact of this change on the comparative balance sheet and supporting Property Plant & Equipment note for 2016/17 is shown below.

### Effect on line items in the Balance Sheets 31 March 2016 and 31 March 2017

	31 March 2016 £000	Adjustment £000	1 April 2016 £000	31 March 2017 £000	Adjustment £000	31 March 2017 £000
Property, Plant & Equipment	206,028	9,097	215,125	227,119	9,097	236,216
<b>Long Term Assets</b>	<b>240,856</b>	<b>9,097</b>	<b>249,953</b>	<b>266,973</b>	<b>9,097</b>	<b>276,070</b>
<b>Current Assets</b>	<b>77,924</b>	<b>0</b>	<b>77,924</b>	<b>41,153</b>	<b>0</b>	<b>41,153</b>
<b>Current Liabilities</b>	<b>(51,378)</b>	<b>0</b>	<b>(51,378)</b>	<b>(25,530)</b>	<b>0</b>	<b>(25,530)</b>
<b>Long Term Liabilities</b>	<b>(132,503)</b>	<b>0</b>	<b>(132,503)</b>	<b>(132,769)</b>	<b>0</b>	<b>(132,769)</b>
<b>Net Assets</b>	<b>134,899</b>	<b>9,097</b>	<b>143,996</b>	<b>149,827</b>	<b>9,097</b>	<b>158,924</b>
Unusable Reserves	111,673	9,097	120,770	125,843	9,097	134,940
<b>Total Reserves</b>	<b>134,899</b>	<b>9,097</b>	<b>143,996</b>	<b>149,827</b>	<b>9,097</b>	<b>158,924</b>

### Restated Property, Plant and Equipment 2016/17

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Cost/Valuation</b>								
<b>Balance as at 1 April 2016</b>	<b>160,269</b>	<b>91,063</b>	<b>15,667</b>	<b>41,795</b>	<b>8,315</b>	<b>257</b>	<b>11,585</b>	<b>328,951</b>
<b>Restatement Adjustment</b>	<b>0</b>	<b>9,097</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,097</b>
<b>Total Restated Balance</b>	<b>160,269</b>	<b>100,160</b>	<b>15,667</b>	<b>41,795</b>	<b>8,315</b>	<b>257</b>	<b>11,585</b>	<b>338,048</b>
additions	4,077	3,686	2,354	0	4	0	3,503	13,624
donations	0	0	0	0	0	0	0	0
revaluation increases/(decreases) recognised in the Revaluation Reserve	18,844	(88)	0	0	65	655	0	19,476
revaluation increases/(decreases) recognised on the Surplus/Deficit on the Provision of Services	1,756	0	0	0	(185)	(6,390)	0	(4,819)
derecognition - disposals	(805)	0	(66)	0	0	0	0	(871)
derecognition - other	0	0	0	0	0	0	0	0
assets reclassified (to)/from Assets Held for Sale	0	0	0	0	0	0	0	0
other transfers	0	573	0	1,527	334	699	(2,625)	508
<b>Balance as at 31 March 2017</b>	<b>184,141</b>	<b>104,331</b>	<b>33,622</b>	<b>85,117</b>	<b>16,848</b>	<b>(4,522)</b>	<b>24,048</b>	<b>365,966</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>Balance as at 1 April 2016</b>	<b>(57,749)</b>	<b>(37,349)</b>	<b>(10,387)</b>	<b>(17,309)</b>	<b>(14)</b>	<b>(115)</b>	<b>0</b>	<b>(122,923)</b>
depreciation charge	(2,718)	(1,419)	(1,292)	(1,362)	(5)	(126)	0	(6,922)
derecognition - disposals	35	0	60	0	0	0	0	95
<b>Balance as at 31 March 2017</b>	<b>(60,432)</b>	<b>(38,768)</b>	<b>(11,619)</b>	<b>(18,671)</b>	<b>(19)</b>	<b>(241)</b>	<b>0</b>	<b>(129,750)</b>
<b>Net Book Value</b>								
at 31 March 2016 (Original)	102,520	53,714	5,280	24,486	8,301	142	11,585	206,028
at 31 March 2016 (Restated)	102,520	62,811	5,280	24,486	8,301	142	11,585	215,125
at 31 March 2017	123,709	65,563	22,003	66,446	16,829	(4,763)	24,048	236,216

The following restatement was also required for the Movement in Reserves Statement for Unusable Reserves. The restated (for the relevant line items) prior period Movement in Reserves Statement is provided with the current year information on pages 51 - 53 of the financial statements.

#### Restated Movement in Reserves Statement 31st March 2017

2016/17	General Fund Balance	General Fund Earmarked Reserves	HRA Balance	HRA Earmarked Reserves	Major Repairs Reserve	Usable Capital Receipts	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31/03/2016	4,460	6,405	1,691	10,567	0	0	103	23,226	111,673	134,899
	0	0	0	0	0	0	0	0	9,097	9,097
<b>Total Restated Balance</b>	<b>4,460</b>	<b>6,405</b>	<b>1,691</b>	<b>10,567</b>	<b>0</b>	<b>0</b>	<b>103</b>	<b>23,226</b>	<b>120,770</b>	<b>143,996</b>
<b>Movements in 2016/17</b>										
Increase/(decrease) in 2016/17	265	105	246	142	0	0	0	758	14,170	14,928
Balance at 31/03/2017	4,725	6,510	1,937	10,709	0	0	103	23,984	134,940	158,924

Although the charge to the Comprehensive Income & Expenditure for depreciation will have been understated, no adjustments have been made, as this was over a 4 year period, and so would not be appropriate to show this as a one off charge within the Financial Statements. In addition the cumulative difference between Current Cost and Historic Cost depreciation net off resulting in entries within both the Revaluation Reserve and Capital Adjustment Account being materially correct.

## 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.

2016/17		NOTES	2017/18	
£000			£000	£000
<b>Expenditure</b>				
5,116	Repairs and maintenance		5,394	
3,007	Supervision and management		2,872	
184	Rent, rates, taxes and other charges		191	
988	Depreciation and impairment of non-current assets	4&5	6,435	
1	Debt management costs		1	
161	Movement in the allowance for bad debts	8	177	
-	Sums Directed by the Secretary of State that are Expenditure in accordance with UK GAAP	9	-	
<b>9,457</b>	<b>Total Expenditure</b>			<b>15,070</b>
<b>Income</b>				
(13,656)	Dwelling rents		(13,409)	
(227)	Non-dwelling rents		(254)	
(1,662)	Charges for services and facilities		(1,470)	
(8)	Contributions towards expenditure		(8)	
(103)	Sums Directed by the Secretary of State that are Income in accordance with UK GAAP		(108)	
<b>(15,656)</b>	<b>Total Income</b>			<b>(15,249)</b>
<b>(6,199)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b>			<b>(179)</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>(6,199)</b>	<b>Net Cost for HRA Services</b>			<b>(179)</b>
<b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</b>				
(421)	Gain or Loss on sale of HRA non-current assets			(221)
1,954	Interest payable and similar charges			1,916
(57)	Interest and investment income			(36)
506	Pension interest cost and expected return on pension assets	7		384
(22)	Capital grants and contributions receivable			(40)
<b>(4,239)</b>	<b>(Surplus) or deficit for the year on HRA Services</b>			<b>1,824</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.

2016/17 £000		2017/18 £000
(1,691)	<b>Balance on the HRA at the end of the previous year</b>	(1,937)
(4,239)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	1,824
313	Adjustments between accounting basis and funding basis under statute	311
<b>(3,926)</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>	<b>2,135</b>
3,680	Transfers to or (from) reserves	(2,215)
<b>(246)</b>	<b>(Increase) or decrease in year on the HRA</b>	<b>(80)</b>
<b>(1,937)</b>	<b>Balance on the HRA at the end of the year</b>	<b>(2,017)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1 NUMBER AND VALUES OF DWELLINGS

As at 31 March 2018 the Council held the following number of dwellings, noting that during the year 21 properties were disposed of under the Right to Buy Scheme and there was some minor re-classification of property types:

	2016/17	2017/18
Bedsits	93	93
1 Bedroom		
Houses & Bungalows	654	654
Flats & Maisonettes	533	533
2 Bedroom		
Houses & Bungalows	490	487
Flats & Maisonettes	675	669
3 Bedroom		
Houses & Bungalows	1,198	1,186
Flats & Maisonettes	8	8
4 or more bedroomed dwellings	87	87
<b>TOTAL DWELLINGS</b>	<b>3,738</b>	<b>3,717</b>



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

	Value as at 1 April 2017 £000	Value as at 31 March 2018 £000
<b>Operational Assets:</b>		
Council Dwellings	123,709	126,858
Other land and buildings	85	82
	<b>123,794</b>	<b>126,940</b>
<b>Non-operational Assets</b>	1,447	1,525
<b>TOTAL</b>	<b>125,241</b>	<b>128,465</b>



Dwellings are valued on the basis of Existing Use Value for Social Housing (EUV-SH). This basis was first introduced on 01 April 2001, following the introduction of Resource Accounting in the HRA, with values then being rebased annually, with periodic full revaluation exercises every 5 years, the third of which has now updated all values to 01 April 2015. This has resulted in a net increase in asset values of £6.753M in the year, which forms part of the net movement in asset values shown above in the recent full revaluation. Non-dwelling assets were also revalued as at 01 April 2015.

The vacant possession value of dwellings held on 01 April 2017 was £316.037M. The difference between this and the EUV-SH valuation of £129.643M (i.e. the update figure after the valuation exercise effective as of 01 April 2017 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:

	2016/17	2017/18
	£000	£000
<b>Opening Balance 01 April</b>	-	-
Transfer to HRA – Depreciation	2,738	2,804
Transfer to HRA - Depreciation Adjustment	(18)	(18)
Transfer to HRA - Additional Capital Financing	730	493
Capital Expenditure - Houses	(3,450)	(3,279)
<b>Closing Balance 31 March</b>	-	-

## 3 CAPITAL EXPENDITURE

Capital expenditure of £4.030M was incurred during the year relating to works on improvements to dwellings. This was financed as follows:

	2016/17	2017/18
	£000	£000
Usable Capital Receipts	448	437
Earmarked Reserves	156	274
Majors Repairs Reserve	3,450	3,279
Grants and Contributions	23	40
<b>Total Capital Financing</b>	<b>4,077</b>	<b>4,030</b>

Capital receipts totaling £1.068M were received during the year from the following sources:

	2016/17	2017/18
	£000	£000
Sale of dwellings	1,215	1,067
Repayment of Principal on Mortgages	2	1
<b>Total Capital Receipts</b>	<b>1,217</b>	<b>1,068</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:

	2016/17	2017/18
	£000	£000
Council Dwellings	2,720	2,785
Other land and buildings	-	-
Non-operational Assets	18	18
Deferred Charges on Intangible Assets	-	-
<b>TOTAL</b>	<b>2,738</b>	<b>2,803</b>

## 5 IMPAIRMENT CHARGES

No impairment charges in respect of Council Dwellings was made to the HRA for the financial year 2017/18. There was, however, a revaluation downwards of £4.030M in respect of non-enhancing capital expenditure on Council Housing stock. This was offset by £6.753M upward revaluation as a result of the full revaluation exercise. There was a revaluation upward of £0.079M in respect of non-dwelling assets.

**6 INTANGIBLE ASSETS**

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

**7 CONTRIBUTIONS TO/FROM PENSIONS RESERVE**

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

**8 RENT ARREARS**

Total arrears of rent at 31 March 2018 amounted to £939K (£808K for 2016/17). An amount of £555K (£522K for 2016/17) 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**

	2016/17 £000	2017/18 £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.	6	5
Gain or loss on sale of HRA non-current assets.	421	221
HRA share of contributions to or from the Pension Reserve.	(270)	(189)
Capital Expenditure funded by the Housing Revenue Account	156	274
	<b>313</b>	<b>311</b>
<b>Transfers to or (from) reserves</b>		
Transfer to/(from) Major Repairs Reserve	730	493
Transfer to/(from) Earmarked Reserves	142	(148)
Transfer to/(from) the Capital Adjustment Account	2,808	(2,560)
	<b>3,680</b>	<b>(2,215)</b>

## Collection Fund

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

2016/17 £000	NOTES	2017/18 £000
<b>INCOME</b>		
<b>Council Tax</b>		
(64,769)	Income from Council Tax	1 (68,330)
<b>Business Rates</b>		
(78,541)	Income from Business Ratepayers	2 (66,898)
-	Transitional Protection Payments	2 -
<b>Contributions towards previous year's estimated Collection Fund deficit</b>		
(14,333)	Business Rates	(6,964)
<b>(157,643)</b>	<b>TOTAL INCOME</b>	<b>(142,192)</b>
<b>EXPENDITURE</b>		
<b>Precepts and Demands</b>		
46,642	Lancashire County Council	49,236
8,841	Lancaster City Council (including parish precepts)	9,209
6,440	Lancashire Police Authority	6,668
2,600	Lancashire Fire Authority	2,639
<b>Business Rates</b>		
30,092	Shares of non-domestic rating income to major preceptors and the billing authority	2 28,309
30,092	Payments made to central government in respect of central share	28,309
23,311	Transitional Protection Payments	4,904
223	Cost of Collection Allowance	217
351	Write-offs of uncollectable amounts	107
(29,445)	Allowance for Impairment	2 894
<b>Council Tax Bad and Doubtful Debts</b>		
294	Write-offs of uncollectable amounts	144
148	Allowance for Impairment	332
<b>Contribution towards previous year's estimated Collection Fund surplus</b>		
504	Council Tax	-
-	Business Rates	-
<b>120,093</b>	<b>TOTAL EXPENDITURE</b>	<b>130,968</b>
<b>(37,550)</b>	<b>(SURPLUS) / DEFICIT ON FUND</b>	<b>(11,224)</b>
<b>MOVEMENT ON THE FUND</b>		
<b>Opening Balances</b>		
(503)	Council Tax	197
40,035	Business Rates	1,785
<b>Closing Balances</b>		
197	Council Tax	94
1,785	Business Rates	(9,336)
<b>Movement on Fund</b>		
700	Council Tax	(103)
(38,250)	Business Rates	(11,121)
<b>(37,550)</b>	<b>TOTAL MOVEMENT ON FUND</b>	<b>(11,224)</b>

## 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 2017/18 the numbers are as follows:-

	Chargeable Dwellings	Band D Equivalents
Band A	15,854	8,570
Band B	13,524	9,517
Band C	10,906	8,855
Band D	6,002	5,661
Band E	3,744	4,306
Band F	1,887	2,570
Band G	799	1,274
Band H	46	87
<b>Total</b>	<b>52,762</b>	<b>40,840</b>
<i>Collection Rate</i>		98.68%
<b>Council Tax Base</b>		<b>40,300</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 47.9p per £ for 2017/18 (49.7p for 2016/17). For local businesses with a rateable value of less than £18,000, a discount of 1.3p was allowed giving a rate of 46.6p per £. The total rateable value for the district at 31 March 2018 was £156,523,011 (£153,979,216 for 2016/17).

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

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates, allowing for any top up amount to ensure that all authorities receive their baseline income. Tariffs payable to Government are used to finance such top ups to those authorities who do not achieve their targeted baseline funding. The tariff payable by the Council during 2017/18 was £18.589M (£20.216M in 2016/17).

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 2017/18, however it received £4.856M in 2016/17. 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 2018. Appeals are charged and provided for in proportion to the precepting shares. The total provision as at 31 March 2018 has been estimated at £6.145M (£5.176M in 2016/17), the Council's share of which is £2.458M (as shown in Note 23). It should be noted that since the 2017 Revaluation came into effect on 01 April 2017 there have been no appeals made in respect of

Lancaster hereditaments. As such it has been necessary to base the estimated value of potential appeal losses on the historical average loss (5.7%) rather than on a property by property basis.

### 3 MAJOR PRECEPTORS

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

	Council Tax		Business Rates		Total
	Precept	Surplus Allocation	Precept	Deficit Recovery	
	£000	£000	£000	£000	
Lancashire County Council	49,236	-	5,096	(627)	53,705
Lancashire Police Authority	6,668	-	-	-	6,668
Lancashire Fire Authority	2,639	-	566	(70)	3,135
Lancaster City Council	9,209	-	22,647	(2,786)	29,070
	<b>67,752</b>	<b>-</b>	<b>28,309</b>	<b>(3,483)</b>	<b>92,578</b>



## Bequests, Endowments and Trust Funds

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

At 31 March 2018 the Council was responsible for 12 of these Trust Funds, the balances of which are shown in the tables below:

Revenue Accounts	Balance b/f 01/04/17	Income	Transfers Out	Expenditure	Balance c/f 31/03/18
	£	£	£	£	£
<b>Bequests and Endowments</b>					
(a) Council sole trustee	(4,388)	(3,918)	3,753	-	(4,553)
(b) Council not sole trustee	(137)	-	-	-	(137)
<b>School etc. Prize Funds</b>					
(a) Council sole trustee	(4,245)	(295)	-	-	(4,540)
(b) Council not sole trustee	-	-	-	-	-
<b>TOTAL</b>	<b>(8,770)</b>	<b>(4,213)</b>	<b>3,753</b>	<b>-</b>	<b>(9,230)</b>

	2016/17	2017/18
	£	£
<b>Bequests and Endowments</b>		
<b>(a) Council sole trustee</b>		
Capital	-	-
Revenue	-	-
Cash and Debtors	52,288	52,452
<b>(b) Council not sole trustee</b>		
Capital	-	-
Revenue	646	646
Cash and Debtors	491	492
<b>School etc. Prize Funds</b>		
<b>(a) Council sole trustee</b>		
Capital	-	-
Revenue	4,245	4,540
Cash and Debtors	-	-
<b>(b) Council not sole trustee</b>		
Capital	-	-
Revenue	-	-
Cash and Debtors	-	-
<b>TOTAL</b>	<b>57,670</b>	<b>58,130</b>

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

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

Income & Expenditure Account	2016/17	2017/18
	£	£
<b>Income</b>		
Interest	(4,993)	(4,213)
Capital	-	-
	<b>(4,993)</b>	<b>(4,213)</b>
<b>Expenditure</b>		
Ashton Memorial	1,078	1,076
William Smith Festival	152	151
Whalley Playground	658	658
Lune Bank Gardens	8	7
Williamson Park	1,861	1,860
War Memorial Fund	1	1
Crook of Lune	-	-
William Briggs	-	-
Transfers Out	-	-
	<b>3,758</b>	<b>3,753</b>
<b>Excess (Income)/Expenditure</b>	<b>(1,235)</b>	<b>(460)</b>
<b>Balance Sheet</b>	<b>2016/17</b>	<b>2017/18</b>
	£	£
<b>Assets</b>		
Investments	4,891	5,186
Debtors	2,021	2,021
Bank	50,758	50,923
<b>TOTAL ASSETS</b>	<b>57,670</b>	<b>58,130</b>
<b>Represented by:</b>		
Reserves as at 31st March	56,434	57,670
Income in year	1,236	460
<b>TOTAL FINANCING</b>	<b>57,670</b>	<b>58,130</b>

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

#### **Ashton Memorial**

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

#### **Williamson Park**

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

#### **William Smith Festival**

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

#### **Whalley Playground**

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

#### **Lune Bank Gardens**

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

#### **Crook of Lune**

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

## Glossary of Terms used in the Accounting Statements

### Accounting Policies

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

- recognising
- selecting measurement bases for, and
- presenting

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

Accounting policies do not include estimation techniques.

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

### Acquired Operations

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

### Actuarial Gains and Losses

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

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

### Capital Expenditure

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

### Class of Tangible Fixed Assets

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

Property, plant and equipment  
Investment property  
Assets held for sale

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

### Consistency

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

### Constructive Obligation

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

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

### Contingent Asset

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

### **Contingent Liability**

A contingent liability is either:

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

### **Corporate and Democratic Core**

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

### **Current Service Cost (Pensions)**

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

### **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 or 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.





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24 July 2018

KPMG LLP  
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 Manchester  
 M2 3AE

## Resources

**Nadine Muschamp**  
**Chief Officer (Resources)**

Town Hall  
 Dalton Square  
 LANCASTER LA1 1PJ

DX63531 Lancaster

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Lancaster City Council ("the Authority"), for the year ended 31 March 2018, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

### Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and
  - ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. There are no uncorrected audit misstatements greater than £145,000 arising from the 2017/18 audit.
5. In respect of the restatement of the Balance Sheet and Movement in Reserves Statement as at 01 April 2016, made to correct a material misstatement in the prior period financial statements regarding the valuation basis of certain Property, Plant and Equipment, the Authority confirms that the restatement is appropriate.

### Information provided

6. The Authority has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Authority for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
7. All transactions have been recorded in the accounting records and are reflected in the financial statements.
8. The Authority confirms the following:

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

9. The Authority has disclosed to you all information in relation to:
  - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

10. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
11. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
12. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

13. The Authority confirms that:
  - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
  - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
14. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) *Employee Benefits*.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
  - statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and noted at the meeting of the Audit Committee on 24 July 2018.

Yours faithfully

**Nadine Muschamp**  
**Chief Officer (Resources) and Section 151 Officer**  
**On behalf of Lancaster City Council**



**Appendix to the Authority Representation Letter of Lancaster City Council: Definitions**

**Financial Statements**

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

**Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

**Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

## Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

## Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

## Related Party and Related Party Transaction

### Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.